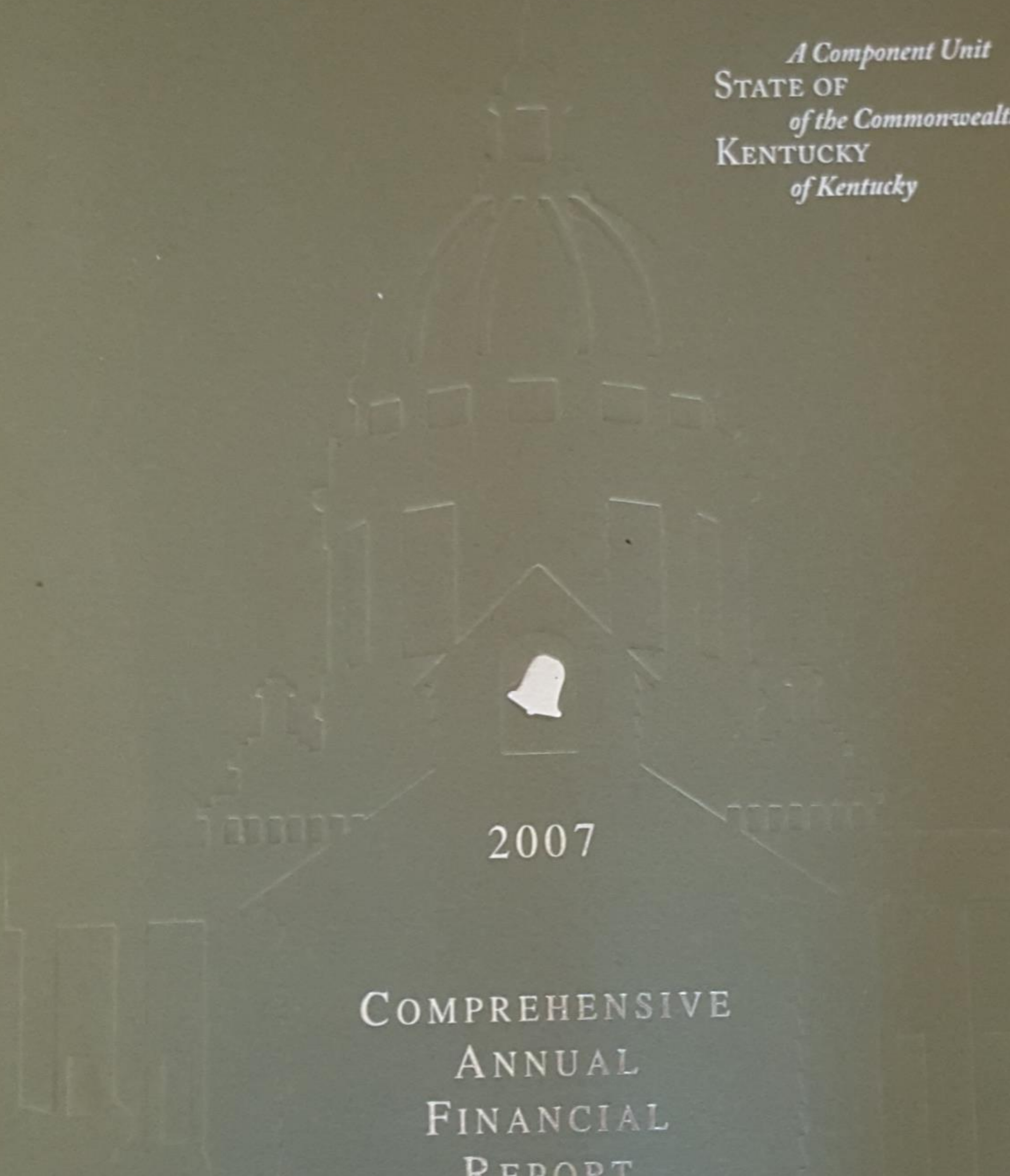
Teachers' Retirement System

STATE OF KENTUCKY

A Component Unit of the Commonwealth of Kentucky



2007

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2007

Teachers' Retirement System of the State of Kentucky

The 67th Comprehensive Annual Financial Report

A Component Unit of the Commonwealth of Kentucky
Fiscal Year Ended June 30, 2007

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

GARY L. HARBIN, C.P.A.
Executive Secretary

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

INTRODUCTORY SECTION

Chairperson's Letter 2
Letter of Transmittal 3
Board of Trustees 7
Administrative Staff and Professional Consultants 8
Organizational Chart 9
GFOA Certificate of Achievement 10
PPCC Achievement Award 11

FINANCIAL SECTION

Independent Auditor's Report 14
Management's Discussion & Analysis 15
Basic Financial Statements
  Statement of Plan Net Assets 19
  Statement of Changes in Plan Net Assets 20
  Notes to Financial Statements 21
Required Supplemental Information
  Schedule of Funding Progress 40-41
  Schedule of Employer Contributions 40-41
  Supporting Schedules 42
Independent Auditor's Report on Internal Control & Compliance 44

INVESTMENT SECTION

Investment Overview 46
Distribution of Investments 53
Investment Portfolio Growth 54
Investment Income Growth 54
Total Return on Investments 55
Investment Summary 56
Contracted Investment Management Expenses 56
Transaction Commissions 57
Ten Largest Stock Holdings Ranked by Market Value 59
Top Ten Fixed Income Holdings 59
Schedule of Investments 60

ACTUARIAL SECTION

Actuarial Annual Valuation
  Actuary's Certification Letter 62

Summary of Principal Results 63
Membership Data 64
Assets 65
Comments on Valuation 66
Contributions Payable Under the System 66
Comments on Level of Funding 68
Analysis of Financial Experience 69
Accounting Information 69
Results of the Valuation Prepared as of June 30, 2007 72
Solvency Test 72
Actuarial Value of Assets 73
Summary of Receipts and Disbursements 73
Life Insurance Fund 74
Outline of Actuarial Assumptions and Methods 74
Summary of Main System Provisions as Interpreted for Valuation Purposes 76
Schedule of Retirants, Beneficiaries, and Survivors
Added to and Removed from Rolls 79
Schedule of Active Member Valuation Data 80

Actuarial Medical Valuation
Actuary's Certification Letter 82
Summary of Principal Results 83
Membership Data 84
Assets 85
Comments on Valuation 85
Contributions Payable Under the System 85
Comments on Level of Funding 86
Accounting Information 86
Schedule of Funding Progress 87
Benefits of Pre-Funding 88
Summary of Receipts and Disbursements 88
Outline of Actuarial Assumptions and Methods 89
Summary of Main Plan Provisions as Interpreted for Valuation Purposes 92
Monthly Member Contributions for Single Coverage 93
Retirees Receiving Health Benefits as of June 30,2007 93

STATISTICAL SECTION

Defined Benefit Plan
Additions by Source 97
Deductions by Type 97
Changes in Net Assets 97
Medical Insurance Plan
Additions by Source 98
Deductions by Type 98
Changes in Net Assets 98
Distribution of Active Contributing Members 99
Principal Participating Employers 99
KTRS Schedule of Participating Employers 100
Geographical Distribution of Retirement Payments Worldwide 102

Geographical Distribution of Retirement Payments Statewide 103
Growth in Annuitants 106
Schedule of KTRS Annuitants by Type of Benefit 107
Defined Benefit Plan Average Benefit Payments for the Past Ten Years 108
Medical Insurance Plan Average Premium
Supplements for the Past Six Years 109
Summary of Retiree Sick Leave Payments 110
Funding of Additional Payments 110
Summary of State Match and Supplemental
Appropriations for Members 111

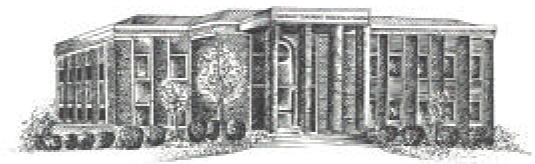
INTRODUCTORY SECTION

for Fiscal Year ending June 30, 2007

Chairperson's Letter

Teachers' Retirement System of the State of Kentucky

GARY L. HARBIN, CPA
Executive Secretary



December 11, 2007

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, 2007, the 67th 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 2006-2007 fiscal year with $15.6 billion net assets. The active membership totaled 75,144 and the retired membership was 39,506 with an annual payroll of $1.1 billion.

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.

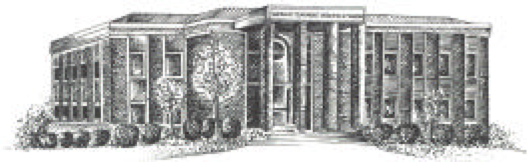
The Board of Trustees pledges to continue to administer the affairs of the Kentucky Teachers' Retirement System in the most competent and efficient manner possible.

Sincerely,

Zella Wells

Zella F. Wells
Chairperson
Board of Trustees

Letter of Transmittal



Teachers' Retirement System of the State of Kentucky

December 11, 2007

Honorable Steven L. Beshear, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601-3800

Dear Governor Beshear :

It is my pleasure to submit the 67th 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, 2007.

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 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, 2007. Discussion and analysis of net assets and related additions and deductions is presented in Management's Discussion and Analysis 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 Secretary.

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 KTRS 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 submitted to the Kentucky General Assembly for legal adoption. The KTRS investment earnings fund the budget appropriations.

Major Initiatives

The System continually seeks opportunities to better communicate with and serve its membership and several areas were enhanced during the year. The KTRS staff worked with a regional technology center to devise a pilot web conferencing project to deliver mid-career and pre-retirement seminar information. This technology is expected to expand the reach of KTRS seminars to its members. The Annual Statement of Member's Account was redesigned to assist the members in reviewing their account by emphasizing the importance of the accuracy of the information in determining the retirement benefit. Also, the KTRS web site was redesigned to give members and employers easier navigation to areas of interest.

Cost containment is always a consideration of the System, particularly in regards to the Medical Insurance Fund. In January, KTRS introduced a Medicare Advantage Private Fee-for-service Plan for membership age 65 and above. The Plan is projected to save $11 million annually in the KTRS Medical Insurance Fund.

Securing adequate funding for retiree health care provided by KTRS remains a major initiative of the System. The Board and Executive staff continue to educate the General Assembly on the negative impacts of borrowing from the pension fund to keep the health care fund solvent. KTRS will pursue legislation that will provide security to retiree health care benefits in the 2008 session of the General Assembly.

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 2006-2007 fiscal year. The portfolio's market value increased from $13,898,689,351 to $15,538,052,869. 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 2006-2007 fiscal year were $2,067,216,229. 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 $1,617,337,060. The second largest earnings component, $261,676,904 was the result of interest income. Other income of $188,202,265 was generated from dividends, rent and securities lending.

According to KRS 161.430 the KTRS Board of Trustees has the responsibility 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.

The investment objectives of the Board of Trustees are to ensure that funds shall be invested solely in the interest of its members and their beneficiaries and that investment income shall be used for the exclusive purpose of providing benefits to the members and their beneficiaries, while making payment of reasonable expenses in administering the Plan and its Trust Funds. Also, the investment program shall provide a reasonable rate of total return with major emphasis being placed upon the protection of the invested assets. The entire portfolio earned a total return of 15.3% in 2006-07 and the portfolio's ten-year annualized rate of return is 7.1% and the twenty-year annualized rate of return is 9.1%. During 2006-07, more than 74.7% of the fixed income investments were rated at least "AAA" in terms of credit quality.

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 more than $1.2 billion.

Funding

Based on recommendations of the Board of Trustees, the General Assembly establishes by statute the levels of contribution 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, 2007. This report reflects the System's assets, based on modified market value; totaled $15.3 billion and the liabilities totaled $21.3 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.

Annual required contributions of the employers are provided in the Schedule of Employer Contributions (on page 40). The 2007 employer shortfall of contributions created a net pension obligation of $149,410,401 (as detailed on page 71).

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 5%. An actuarial valuation of the Medical Insurance Plan for the fiscal year ended June 30, 2007 indicated that the fund has an unfunded liability of $5.8 billion for 2007. The KTRS 2006-2008 biennial budget requested additional funding from the Commonwealth, but sufficient funds were not available. The budget bill directs KTRS to allocate a portion of the state employer contribution in a sufficient amount to the Medical Insurance Fund instead of the Pension Fund to fund the Medical Insurance Fund Stabilization Contribution. The budget bill also includes a General Fund appropriation of $14.1 million in fiscal year 2007-2008 to amortize the cost of the State Medical Insurance Fund Stabilization Contribution with the remainder to be amortized under a schedule set forth by statute.

Effective January 1, 1999 KTRS eligible retirees and eligible 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 eligible retiree in purchasing health insurance. Retirees 65 and over remain in the Medicare eligible health plan administered by KTRS. These retirees also receive a supplement for the cost of their coverage.

The System realizes that the medical insurance fund is in crisis. To realize true cost containment, additional steps must be taken through legislation on both the state and national levels. Meanwhile, KTRS will address the problem by continuing to take 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.

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, 2006. 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 nineteen consecutive years (fiscal years ended 1988-2006). 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 of the State of Kentucky for 2007 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 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 serves as Secretary-Treasurer 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.

Public Sector HealthCare Roundtable

Mr. Harbin also serves on the Board of Directors and as Vice President of the Public Sector HealthCare Roundtable. The Roundtable is a national coalition of public sector health care purchasers that was formed to ensure that the interests of the public sector are properly represented during the formulation and debate of federal health care reform initiatives. Membership in the Roundtable is open to any statewide, regional or local governmental unit that provides health care coverage for public employees and retirees.

Acknowledgments

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

This report is located at the KTRS web address www.ktrs.ky.gov, and is being mailed to all employer members of the System whose cooperation continues to contribute significantly to our success, and who form the vital link between KTRS and its active members.

KTRS management and staff are committed to the continued operation of an actuarially sound retirement system. Your support is an essential part of this commitment, and we look forward to working with you.

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
Finance & Administration

ROBERT B. BARNES, JD
Deputy Executive Secretary
Operations

PAUL L. YANCEY, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

ACTUARY

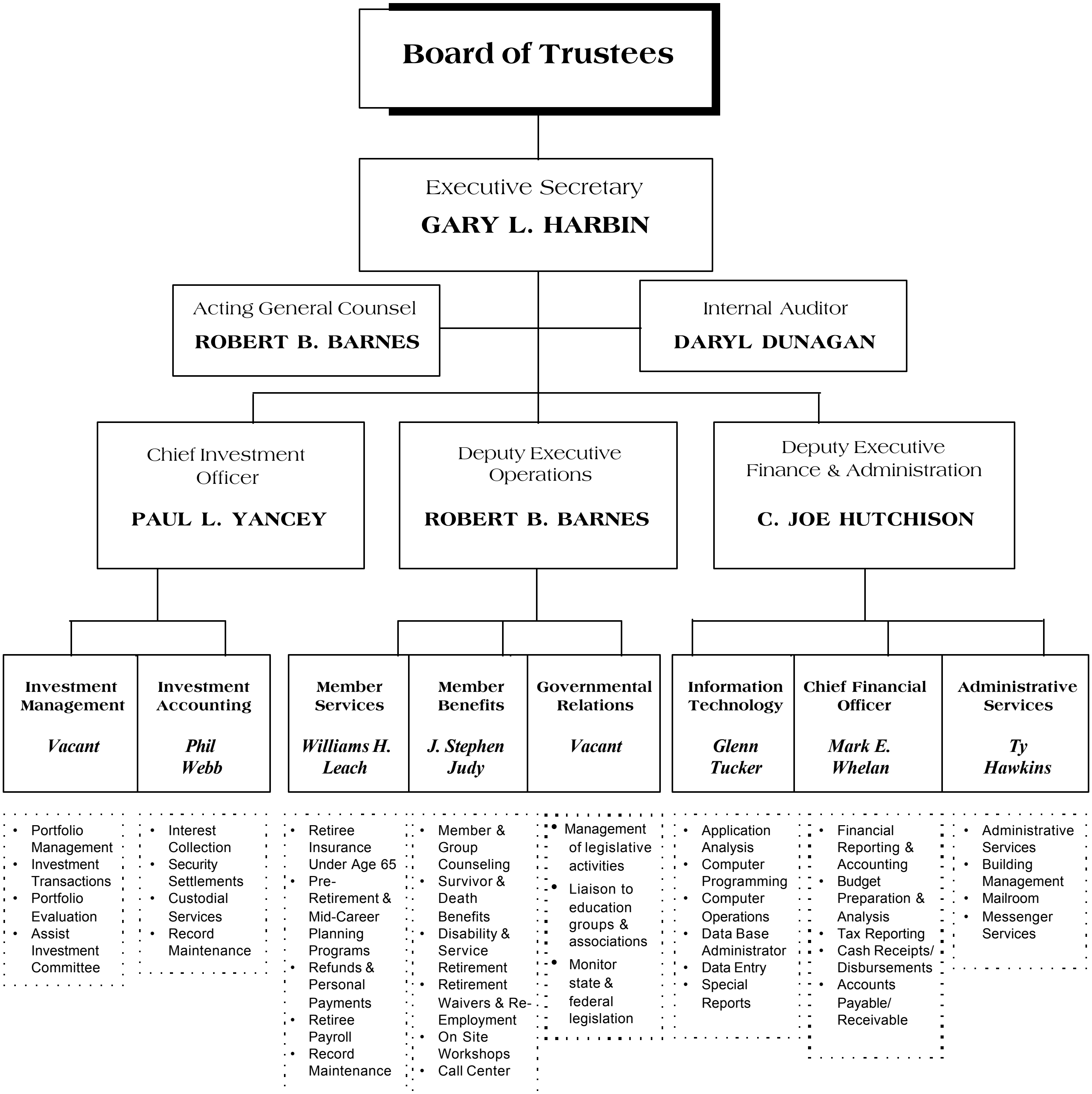
Cavanaugh Macdonald Consulting, LLC
3550 Busbee Parkway, Suite 250
Kennesaw, GA 30144

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, 2006

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

President

Executive Director

GOVERNMENT FINANCIAL OFFICERS ASSOCIATION (GFOA)

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky. The KTRS has received the Certificate of Achievement for the last nineteen consecutive years (fiscal years ended 1988-2006).

Public Pension Coordinating Council

Public Pension Standards

2007 Award

Presented to

Kentucky Teachers' Retirement System

In recognition of meeting professional standsards 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
ProgramAdministrator

PUBLIC PENSION COORDINATING COUNCIL
PUBLIC PENSION STANDARDS

The Public Pension Coordinating Council awarded a Certificate of Achievement to the Teachers' Retirement System of the State of Kentucky for 2007 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.

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Financial Section

for Fiscal Year ending June 30, 2007

Charles T. Mitchell Co. 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
Don C. Giles, C.P.A, Consulaant

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, 2007 and 2006 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, 2007 and 2006 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 5, 2007 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, 2007 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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

Charles T. Mitchell Co.

Frankfort, Kentucky
December 5, 2007

201 West Main Street, Frankfort, Kentucky 40601 | P.O. Box 698, Frankfort, Kentucky 40602-0698
(502) 227-7395 | Fax (502) 227-8005 | www.ctmcpa.com

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, 2007. 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 Schedules of Funding Progress (beginning on page 40) 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 Schedules of Employer Contributions (beginning on page 40) 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, 2007, Kentucky Teachers' Retirement System's combined plan net assets increased by $1,650.3 million - from $13,983.5 million to $15,633.8 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 2007	2006	2005	Medical Insurance Plan 2007	2006	2005	TOTAL* 2007	2006	2005
Cash & Investments	$16,273.6	$14,632.5	$14,144.4	$137.0	$132.1	$153.3	$16,410.6	$14,764.6	$14,297.7
Receivables	96.6	94.7	110.0	5.7	7.1	2.3	102.3	101.8	112.3
Capital Assets	3.1	3.2	3.3				3.1	3.2	3.3
Total Assets	$16,373.3	$14,730.4	$14,257.7	$142.7	$139.2	$155.6	$16,516.0	$14,869.6	$14,413.3
Total Liabilities	(880.8)	(879.0)	(737.7)	(1.9)	(7.6)	(8.3)	(882.7)	(886.6)	(746.0)
Plan Net Assets	$15,492.5	$13,851.4	$13,520.0	$140.8	$131.6	$147.3	$15,633.3	$13,983.0	$13,667.3

*For the 403(b) Tax Shelter Plan cash and investments were approximately $.5 million for the years ended 2007 and 2006 and 2005.

Summary of
Changes In Plan Net Assets
(In Millions)

Categories	Defined Benefit Plan 2007	2006	2005	Medical Insurance Plan 2007	2006	2005	TOTAL 2007	2006	2005
ADDITIONS									
Member Contributions	$269.7	$258.5	$247.0	$53.1	$51.7	$51.6	$322.8	$310.2	$298.6
Employer Contributions	439.9	410.9	388.3	113.2	89.3	79.0	553.1	500.2	467.3
Investment Income (net)	2,060.5	717.3	946.1	6.7	6.8	6.5	2,067.2	724.1	952.6
Other Income				10.4	6.1		10.4	6.1	
TOTAL ADDITIONS	$2,770.1	$1,386.7	$1,581.4	$183.4	$153.9	$137.1	$2,953.5	$1,540.6	$1,718.5
DEDUCTIONS									
Benefit Payments	$1,106.8	$1,035.6	$963.4				$1,106.8	$1,035.6	$963.4
Refunds	14.8	12.9	11.0				14.8	12.9	11.0
Administrative Expense	7.4	6.8	6.6	4.6	4.6	4.1	12.0	11.4	10.7
Insurance Expenses				169.6	165.0	142.3	169.6	165.0	142.3
TOTAL DEDUCTIONS	$1,129.0	$1,055.3	$981.0	$174.2	$169.6	$146.4	$1,303.2	$1,224.9	$1,127.4
Increase (Decrease) in Plan Net Assets	$1,641.1	$331.4	$600.4	$9.2	($15.7)	($9.3)	$1,650.3	$315.7	$591.1

Plan net assets of the defined benefit plan increased by 11.85% ($15,492.5 million compared to $13,851.4 million). The increase is primarily due to continued favorable market conditions which resulted in a net investment gain of $2,060.5 million. These assets are restricted to providing monthly retirement allowances to members and their beneficiaries.

Plan net assets of the medical insurance plan increased by 7% ($140.8 million compared to $131.6 million) primarily due to state allocations to fund the plan. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

DEFINED BENEFIT PLAN ACTIVITIES

Member contributions increased $11.2 million. Retirement contributions are calculated by applying a percentage factor to salary and are paid 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 $439.9 million, a net increase of $29 million over the 2006 fiscal year.

The System experienced strong returns in net investment, as the gain was greater than the previous year ($2,060.5 million gain at June 30, 2007 as compared to a $717.3 million gain at June 30, 2006). The increase in the fair value of investments is mainly due to continued favorable market conditions for the year ended June 30, 2007. This can be illustrated as follows:

(In Millions)	2007	2006	2005
Appreciation (depreciation) in fair value of investments – June 30, prior year	$ 690.4	$ 610.4	$ 171.4
Appreciation (depreciation) in fair value of investments – June 30, end of year	1,904.0	690.4	610.4
Change in net appreciation (depreciation) in fair value of investments	1,213.6	80.0	439.0
Net income (net of investment expense)	443.1	434.8	433.8
Net gain on sale of investments	403.8	202.5	73.3
Investment Income (net) – June 30, end of year	$2,060.5	$ 717.3	$ 946.1

Program deductions in 2007 increased $73.7 million. The increase was caused principally by an increase of $71.2 million in benefit payments. Members who were drawing benefits as of June 2006 received an increase of 2.3% (based on the amount of their retirement allowances) in July 2006. Also, there was an increase of 1,009 members and beneficiaries on the retired payroll as of June 30, 2007.

MEDICAL INSURANCE PLAN ACTIVITIES

During the 2007 fiscal year, member contributions increased $1.4 million and employer contributions increased by $23.9 million over fiscal year 2006. The employer contributions increased primarily because $73 million in stabilization funding was placed in the medical insurance fund from the pension fund as required by the 2006-2008 budget bill. The amount will be repaid over a ten-year period per KRS 161.553.

Program deductions increased $4.6 million, which represents only a 2.7% increase. The downward trend is a result of two federal programs, Medicare Part D and Medicare Advantage, which have reduced costs for our Medicare eligible population. The monthly premium subsidy for retirees under age 65 increased 6% effective January 1, 2007. The monthly premium subsidy for retirees age 65 and over decreased 11%.

Net investment income decreased $.1 million from $6.8 million in 2006 to $6.7 million in 2007. 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)	2007	2006	2005
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)	6.7	6.8	6.5
Net gain on sale of investments	0	0	0
Investment Income (net) – June 30	$ 6.7	$ 6.8	$ 6.5

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 40). 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.

The 2007 fiscal year reveals a decline in funding position of the pension plan due to an increase in the 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 are provided in the Schedule of Employer Contributions (on page 40). The 2007 employer shortfall of contributions created a net pension obligation of $149,410,401.

Statement of Plan Net Assets
As of June 30, 2007 and 2006

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2007	2006	2007	2006	2007	2006	2007	2006
ASSETS								
Cash	$ 5,387,902	$ 9,629,298					$ 5,387,902	$ 9,629,298
Prepaid expenses	86,043	96,544	$ 121,000				207,043	96,544
Receivables								
Contributions	29,275,912	29,953,514	2,240,981	$ 1,118,926			31,516,893	31,072,440
State of Kentucky	956,905	5,673,887					956,905	5,673,887
Investment income	65,559,291	58,321,829			$ 2,233	$ 71	65,561,524	58,321,900
Installment account receivable	777,938	734,673					777,938	734,673
Medicare D receivables			3,487,197	5,999,560			3,487,197	5,999,560
Other receivables		59,932					0	59,932
Total receivables	96,570,046	94,743,835	5,728,178	7,118,486	2,233	71	102,300,457	101,862,392
Investments, at fair value (See Note 4)								
Short term investments	429,051,771	661,700,340	136,896,316	132,083,928	509,798	515,732	566,457,885	794,300,000
Bonds and mortgages	4,470,207,027	4,185,201,899					4,470,207,027	4,185,201,899
Common stock	10,114,620,014	8,531,993,656					10,114,620,014	8,531,993,656
Private equity	5,074,147						5,074,147	
Real estate	381,693,796	387,193,796					381,693,796	387,193,796
Total investments	15,400,646,755	13,766,089,691	136,896,316	132,083,928	509,798	515,732	15,538,052,869	13,898,689,351
Invested security lending collateral	867,562,185	856,631,934					867,562,185	856,631,934
Capital assets, at cost net of accumulated depreciation of $1,871,494 (See Note 2)	3,085,129	3,180,032					3,085,129	3,180,032
Total assets	16,373,338,060	14,730,371,334	142,745,494	139,202,414	512,031	515,803	16,516,595,585	14,870,089,551
LIABILITIES								
Liabilities								
Accounts payable	2,819,398	1,713,031					2,819,398	1,713,031
Treasurer's unredeemed checks	2,217	13,823					2,217	13,823
Insurance claims payable			1,966,148	7,580,738			1,966,148	7,580,738
Compensated absences payable	636,201	601,135					636,201	601,135
Revenues collected in advance	9,799,500		7,112	7,391			9,806,612	7,391
Investment purchases payable		20,000,000					0	20,000,000
Obligations under securities lending	867,562,185	856,631,934					867,562,185	856,631,934
Total liabilities	880,819,501	878,959,923	1,973,260	7,588,129	0	0	882,792,761	886,548,052
Net assets held in trust for pension & post-employment healthcare benefits: (See Required Supplemental Schedule 1 for a schedule of funding progress.)	$15,492,518,559	$13,851,411,411	$140,772,234	$131,614,285	$512,031	$515,803	$15,633,802,824	$13,983,541,499

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

Statement of Changes in Plan Net Assets
For the Years Ended June 30, 2007 and 2006

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2007	2006	2007	2006	2007	2006	2007	2006
ADDITIONS								
Contributions								
Employer	$ 439,912,606	$ 410,920,969	$ 113,233,784	$ 89,319,498			$ 553,146,390	$ 500,240,467
Member	269,687,864	258,464,856	53,099,678	51,697,167			322,787,542	310,162,023
Total contributions	709,600,470	669,385,825	166,333,462	141,016,665	0	0	875,933,932	810,402,490
Other Contributions								
Recovery income			24,977	118,419			24,977	118,419
Medicare D receipts			10,312,361	5,999,560			10,312,361	5,999,560
Total other contributions			10,337,338	6,117,979			10,337,338	6,117,979
Investment Income								
Net Appreciation/(Depreciation) in FV of Investments	1,617,337,060	282,572,648					1,617,337,060	282,572,648
Interest	254,925,905	255,566,732	6,722,080	6,804,286	$ 28,919	$ 21,454	261,676,904	262,392,472
Dividends	165,183,866	153,566,960					165,183,866	153,566,960
Rental Income, Net	30,344,247	30,949,900					30,344,247	30,949,900
Securities Lending, Gross Earnings	52,672,196	28,464,668					52,672,196	28,464,668
Gross Investment Income	2,120,463,274	751,120,908	6,722,080	6,804,286	28,919	21,454	2,127,214,273	757,946,648
Less Investment Expense	(8,667,669)	(6,156,584)					(8,667,669)	(6,156,584)
Less Securities Lending Expense	(51,330,375)	(27,656,322)					(51,330,375)	(27,656,322)
Net Investment Income	2,060,465,230	717,308,002	6,722,080	6,804,286	28,919	21,454	2,067,216,229	724,133,742
Total additions	2,770,065,700	1,386,693,827	183,392,880	153,938,930	28,919	21,454	2,953,487,499	1,540,654,211
DEDUCTIONS								
Benefits	1,106,783,879	1,035,606,281			32,691	37,925	1,106,816,570	1,035,644,206
Refunds of contributions	14,822,827	12,834,222	5,834	5,143			14,828,661	12,839,365
Insurance expenses			169,577,773	165,006,322			169,577,773	165,006,322
Administrative expense	7,351,846	6,839,859					7,351,846	6,839,859
Medical administrative expense			4,651,324	4,624,074			4,651,324	4,624,074
Total deductions	1,128,958,552	1,055,280,362	174,234,931	169,635,539	32,691	37,925	1,303,226,174	1,224,953,826
Net increase (decrease)	1,641,107,148	331,413,465	9,157,949	(15,696,609)	(3,772)	(16,471)	1,650,261,325	315,700,385
Net assets held in trust for pension & post employment healthcare benefits								
Beginning of year	13,851,411,411	13,519,997,946	131,614,285	147,310,894	515,803	532,274	13,983,541,499	13,667,841,114
Ending of year	$15,492,518,559	$13,851,411,411	$140,772,234	$131,614,285	$512,031	$515,803	$15,633,802,824	$13,983,541,499

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

Notes to Financial Statements
Years Ended June 30, 2007 and 2006

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, 2007 a total of 198 employers participated in the plan. Employers are comprised of 175 local school districts, 17 Department of Education Agencies and other educational organizations, 5 universities and also the Kentucky Community and Technical College System.

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

Active contributing members:	2007	2006
Vested	42,300	41,656
Non-vested	32,844	32,084
Inactive members, vested	4,498	4,275
Retirees and beneficiaries currently receiving benefits	39,506	38,497
Total members, retirees, and beneficiaries	**119,148**	**116,512**

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, 2007, the pension cash account totaled $2,385,015 the administrative expense fund cash account was $2,247,837 and the life insurance cash account totaled $755,050 therefore, the carrying value of cash was $5,387,902 and the corresponding bank balance was $8,383,923. The variance is primarily due to outstanding checks and items not processed by the bank on June 30, 2007.

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, 2007 and 2006 accrued compensated absences were $636,201 and $601,135.

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, 2007 and 2006 installment contract receivables were $777,938 and $734,673.

H. USE OF ESTIMATES

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

I. INCOME TAXES

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

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

J. ACCOUNTING CHANGES

As required, the System has implemented GASB # 43 Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans. Also, the System has early implemented GASB #50 Pension 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 to the medical insurance fund. The post-retirement contribution of .75% from employee and employer contribution rates help finance KTRS' retiree 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 years 2007 and 2006 resulted in over-appropriations from the state, a receivable is still due from the state because prior years under-appropriations have not been paid to KTRS.

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. Investment income transferred to this fund from Unallocated Reserves is 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: Funded Status and Funding Progress

A. Description of Funding Progress

The funded status of the Defined Benefit Plan as of the most recent actuarial valuation date is as follows (dollar amount in 1000's):

Valuation Year June 30	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accured Liabilities (uaal)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
	A	B	B-A	(A/B)	C	[(B-A)/C]
2007	$15,284,955	$21,254,974	$5,970,019	71.9%	$2,975,289	200.7%

Note 4: Funded Status and Funding Progress continued . . .

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear funding trend information as obtained from the System's independent actuary's annual valuation report.

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.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

B. Methodologies

The promised benefits of the System are included in the actuarially calculated contribution rates, which are developed using the projected unit credit actuarial cost method. 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.

Note 4: Funded Status and Funding Progress continued . . .

Actuarial Value Assets

(1)	Actuarial Value of Assets on June 30, 2006	$	14,857,641,238
(2)	Market Value End of Year June 30, 2007	$	15,421,092,446
(3)	Market Value Beginning of Year June 30, 2006	$	13,783,830,173
(4)	Cash Flow		
	a. Contributions	$	704,578,332
	b. Benefit Payments		1,117,361,706
	c. Net	$	(412,783,374)
(5)	Investment Income		
	a. Market total: (2) - (3) - (4)c	$	2,050,045,647
	b. Assumed Rate		7.5%
	c. Amount for Immediate Recognition: [(1) x (5)b] + [(4)c * (5)b * 0.5]	$	1,098,843,716
	d. Amount for Phased-In Recognition: (5)a - (5)c	$	951,201,931
(6)	Phased-In Recognition of Investment Income		
	a. Current Year: 0.20*(5)d	$	190,240,386
	b. First Prior Year		(75,996,339)
	c. Second Prior Year		(23,843,540)
	d. Third Prior Year		(349,147,545)
	e. Fourth Prior Year		0
	f. Total Recognized Investment Gain	$	(258,747,038)
(7)	Actuarial Value End of Year (1) + (4)c + (5)c + (6)f	$	15,284,954,542
(8)	Difference Between Market & Actuarial Values (2) - (7)	$	136,137,904

C. Assumptions

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2007, the most recent updated actuarial information include:

* Assumed inflation rate	4%
* Assumed investment rate	7.5%
* Assumed projected salary increases	4.0% - 8.20
* Assumed post retirement benefit increase	1.5%

Note 5: 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 as 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 at book value shall be invested in any additional category or categories of investments. The Board of Trustees shall approve by resolution such additional category or categories of investments. Within this parameter, to further diversify the portfolio, the Board approved provisions that permit the limited ownership of foreign equities, timberland and private equity.

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 bank's total balance at June 30, 2007 was $8,383,923 of which $3,751,150 primarily 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. An additional amount of $2,247,837 represents funds held in the bank but their investment is controlled by the Commonwealth of Kentucky. The remaining bank balance amount of $2,384,936 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, 2007, the System's cash equivalents in the amount of $2,384,936 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 (stock) 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, 2007.

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

Schedule of Investments

		June 30, 2007		June 30, 2006
Short Term Investments				
Repurchase Agreements	$	566,457,885	$	794,300,000
Total Short Term Investments	$	566,457,885	$	794,300,000
Bonds and Mortgages				
U.S. Government Obligations				
Treasury Notes & Bonds	$	1,051,762,064	$	1,032,439,779
Agencies		1,286,289,341		1,039,092,693
GNMA (Single Family)		26,143,119		18,781,578
Other Miscellaneous		162,647,870		168,353,243
Total U.S. Government Obligations	$	2,526,842,394	$	2,258,667,293
Corporate Bonds				
Industrial	$	474,857,147	$	542,410,465
Finance		1,034,761,668		1,023,985,966
Utility Bonds (Except Telephone)		130,574,788		119,160,317
Telephone Bonds		40,739,639		46,512,518
Total Corporate Bonds	$	1,680,933,242	$	1,732,069,266
Other Fixed Income Investments				
FHA and VA Single Family Mortgages	$	0	$	1,904
Project Mortgages (FHA & GNMA)		10,094,638		13,687,213
State and Local Government Issues		252,336,753		180,776,223
Total Other Investments	$	262,431,391	$	194,465,340
Total Bonds and Mortgages	$	4,470,207,027	$	4,185,201,899
Stocks	$	10,114,620,014	$	8,531,993,656
Private Equity		5,074,147		0
Real Estate		381,693,796		387,193,796
TOTAL INVESTMENTS	**$**	**15,538,052,869**	**$**	**13,898,689,351**

This Schedule does not include $867,562,185 securities lending collateral.

Custodial Credit Risk

Custodial Credit Risk for an investment is the risk that, in the event of the failure of 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.

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' 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 $15.5 billion in investments at June 30, 2007, cash collateral reinvestment securities acquired through securities lending by the System's custodian, whom is also the lending agent/counterparty amounted to $867,562,185. 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, 2007 KTRS had the following investments and weighted average maturities:

Investment Type	Fair Value	Average Maturity (years)
U.S. Treasuries	$ 1,072,697,874	10.3
Agencies	1,286,289,341	9.6
Corporate Bonds	1,680,933,243	9.9
Mortgage Pass-Throughs	36,237,757	23.3
State & Local Govt Issues	252,336,753	15.4
Collateralized Mortgage Obligations	141,712,059	21.2
Totals	**4,470,207,027**	**10.7**

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

In addition to the above securities, Repurchase Agreements (short-term investments) had a total fair value of $566,457,885 with an average maturity of 2 days and other short-term notes/bonds had an average maturity of 26 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 $141.7 million in CMOs as of June 30, 2007.

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 that 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, 2007:

RATING	FAIR VALUE
Repurchase Agreements	$ 264,900,000
Treasury	1,072,697,874
Agency	1,765,797,042
AAA	659,775,773
AA	478,234,066
A	632,478,238
BAA	152,286,779
BA	2,700,000
B	7,795,140
Total	$ 5,036,664,912

Total market value of the short-term and the fixed income portfolio was $5,036,664,912 on June 30, 2007. The rating system used in the chart is the nationally recognized Moody's Investors Service 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 four (4) 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, 2007, KTRS exposure to foreign currency risk consisted of $522,413,573 of foreign equity investments through a commingled fund managed by UBS Global Asset Management. This amount represented the portion of market value of the total fund attributed to cash investments contributed to the Fund by KTRS.

In addition to the commingled fund allocation, stocks held associated with foreign interests were American Depositary 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 foreign equities, timberland and private equity."

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, 2007:

ITEM	EARNINGS
Gross Earnings (Interest and fees)	$ 52,672,196
Less: Gross Borrower Rebates	50,753,953
Bank Fees	565,230
Other	11,192
Net Earnings	$ 1,341,821

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, 2007 the loan average days to maturity was one day and the weighted average maturity of cash collateral investments was two days.

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

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, 2007:

Type of Security Lent	Fair Value	Cash Collateral Received Non-Cash Collateral Value*
U.S. Government and Agencies	$ 733,349,697	$ 744,180,424
U.S. Equities	119,825,017	123,381,761
TOTAL	$ 853,174,714	$ 867,562,185

**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 6: 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.

The System's annual required contributions for KTRS employee members for the fiscal years 2007, 2006 and 2005 were $388,973, $368,662, and $355,095 respectively. KTRS contributed 100% of the required contribution each year.

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

Members of KERS were required to contribute 5% of their annual creditable compensation for the fiscal years 2007, 2006, and 2005. As the employer, KTRS is required to contribute the annual actuarially determined rate of the creditable compensation (or the rate approved by legislators). The approved rate for the fiscal years 2007, 2006 and 2005 were 7.75%, 5.89% and 5.89%; and the System's annual required contributions to KERS were $114,711, $103,137 and $268,975 respectively. KTRS contributed 100% of the required contributions for each year.

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

Note 7: 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, 2007, the twenty-nine 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.

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

Method Used to Value Investments

The short-term investments are reported at cost, which approximates fair value.

Note 8: Medical Insurance Plan & Post-Employment Benefits

A. PLAN DESCRIPTION

In addition to pension benefits described in Note 1, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. KTRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. The Commonwealth of Kentucky bears no risk for excess claims expenses that exceed the premium equivalents charged for the Kentucky Employees Health Plan. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan. KTRS bears the risk for actual drug claims cost in the Medicare Eligible Health Plan.

At June 30, 2007, KTRS insurance covered 31,642 retirees and 6,674 dependents. There are 198 participating employers and 75,144 active members contributing to the Medical Insurance Fund.

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 and investment interest help meet the medical expenses of the plan.

Skyrocketing medical expenses have made it increasingly difficult to meet the expenses of the retiree health insurance program. To further fund the plan, the state legislature has directed a portion of the state employer contribution in a sufficient amount to be allocated to the Medical Insurance Fund instead of the pension fund. The system actuary calculated those amounts to be $85,000,000 and $125,000,000 for fiscal years 2007 and 2008 respectively. Funds allocated to KTRS from the general fund for the fiscal year ended June 30, 2007 reduced the $85 million allocation to $73 million. The remaining balances are to be amortized over a period of 10 years. The Legislature appropriated $14,133,200 in the fiscal year 2007-2008 to apply to amortization of the balances.

D. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Medical Insurance Plan as of the most recent actuarial valuation date is as follows (dollar amount in 1000's):

Valuation Year June 30	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accured Liabilities (uaal)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
	A	B	B-A	(A/B)	C	[(B-A)/C]
2007	$140,772	$5,928,761	$5,787,989	2.4%	$2,975,289	194.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methodologies and assumptions employed as of the June 30, 2007 valuation date include the following:

Actuarial cost method	Projected unit credit
Actuarial value of assets	Market value of assets
Assumed inflation rate	4.0%
Investment rate of return	4.5%
Projected salary increases	4.0%
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Healthcare trend rate	12.00%
Ultimate trend rate	5.00%
Year of Ultimate Pre-Medicare trend rate	2015

E. INCURRED BUT NOT REPORTED CLAIMS LIABILITIES

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, 2007 and 2006.

	Fiscal Year 2007	Fiscal Year 2006
Beginning Unpaid Claims Liability	$ 7,580,738	$ 8,312,898
Claims Incurred	174,350,593	166,148,844
Current Year	(4,847,798)	(1,142,811)
Increase (Decrease) in Prior Years		
Total Incurred Claims	$ 169,502,794	$ 165,006,034
Claims Paid		
Current Year	$ 169,765,533	$ 160,549,717
Prior Years	5,351,852	5,188,476
Total Payments	$ 175,117,385	$ 165,738,193
Ending Unpaid Claims Liability	$ 1,966,148	$ 7,580,738

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]**
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	80.8	2,641.5	127.3
2005	14,598.8	19,134.8	4,536.0	76.3	2,703.4	167.8
2006	14,857.6	20,324.7	5,467.1	73.1	2,859.5	191.2
2007	15,285.0	21,255.0	5,970.0	71.9	2,975.3	200.7

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
2002	$ 284,794,710	100 %
2003	322,046,968	100
2004	364,351,412	100
2005	383,776,826	100
2006	406,107,266	100
2007	494,565,369	85

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]**
2005	$ 147.3	$ 4,763.9	$ 4,616.6	3.1 %	$ 2,703.4	170.8%
2006	131.6	4,341.9	4,210.3	3.0	2,859.5	147.2
2007	140.8	5,928.8	5,788.0	2.4	2,975.3	194.5

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 Contributions from Employers and Other Contributing Entities

Fiscal Year Ending Date	Annual Required Contribution (ARC) (a)	Actual Employer Contribution (b)	Retiree Drug Subsidy Contribution (c)	Total Contribution (b) + (c)	Percentage of ARC Contributed (b) + (c)
6/30/2007	$231,473,321	$113,258,761	$10,312,361	$123,571,122	53.40%

Only one year of actuarial calculations of annual required contributions is available.

Supporting Schedule 1

Schedule of Administrative Expenses
Year Ended June 30, 2007

Salaries	$ 5,185,438
Other Personnel Costs	490,087
Professional Services & Contracts	289,581
Utilities	71,728
Rentals	13,564
Maintenance	64,315
Postage & Related Services	345,574
Printing	149,473
Insurance	93,732
Miscellaneous Services	94,097
Telecommunications	27,239
Computer Services	34,953
Computer & Software Maintenance	113,320
Supplies	53,604
Depreciation	106,897
Travel	42,966
Dues & Subscriptions	33,318
Miscellaneous Commodities	10,208
Furniture, Fixtures, & Equipment not Capitalized	96,686
Compensated Absences	35,066
TOTAL ADMINISTRATIVE EXPENSES	$ 7,351,846

Supporting Schedule 2

Schedule of Investment Expenses
(Contracted and Non-Contracted)
Year Ended June 30, 2007

BALANCED MANAGER		
Todd Investment Advisors		$ 1,285,000
FIXED INCOME MANAGERS		
Galliard Capital Management		288,002
EQUITY MANAGERS		
GE Asset Management Inc.	$ 800,000	
UBS Global Asset Management Corporation	2,655,658	
Wellington Management Company,LLP	2,730,000	
Total Equity Managers		6,185,658
CUSTODIAN		
Farmers Bank		517,199
PRIVATE EQUITY		
Kolberg Kravis Roberts Company		317,566
CONSULTANT		
Becker, Burke Associates		65,000
TOTAL CONTRACTED INVESTMENT MANAGEMENT EXPENSES		8,658,425
OTHER		
Misc Investment Expenses (noncontracted)		9,244
TOTAL INVESTMENT EXPENSES		$ 8,667,669

Supporting Schedule 3

Schedule of Professional Fees for Year Ended June 30, 2007

PROFESSIONAL	NATURE OF SERVICE	YEAR ENDED JUNE 30, 2007
Charles T. Mitchell Company, LLP	Auditing Services	$ 28,000
Cavanaugh Macdonald Consulting	Actuarial Services	232,380
Reed, Weitkamp, Schell &Vice,PLLC	Attorney Services	3,431
Office of Kentucky Attorney General	Attorney Services	1,669
Farmers Bank	Banking Services	15,820
International Claim Specialist	Investigative Services	8,281
	TOTAL	$ 289,581

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
Don C. Giles, C.P.A, Consulaant

Charles T. Mitchell Co. LLP
Certified Public Accountants

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

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

We have audited the general purpose financial statements of the 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, 2007, and have issued our report thereon dated December 5, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Charles T. Mitchell Co.

Frankfort, Kentucky
December 5, 2007

201 West Main Street, Frankfort, Kentucky 40601 | P.O. Box 698, Frankfort, Kentucky 40602-0698
(502) 227-7395 | Fax (502) 227-8005 | www.ctmcpa.com

INVESTMENT SECTION

for Fiscal Year ending June 30, 2007

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. Philip L. Webb
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 person 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 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 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

Fixed Income Manager
Galliard Capital Management
800 LaSalle Avenue
Suite 2060
Minneapolis, Minnesota 55502

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

Wellington Management Company
75 State Street
Boston, Massachusetts 02109

GE Asset Management
3001 Summer Street
Stamford, Connecticut 06904

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

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

The Bank of New York Mellon
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 2006-07 fiscal year as it has in several previous years. Becker, Burke Associates is familiar with the operation of the System's investment program as well as its performance. The investment program of the Retirement System is operated in a prudent manner that reflects a desire to preserve capital while maximizing returns. The assets of the Retirement System are assigned to various portfolios in order to diversify the System's investments and take advantage of opportunities in various asset classes and sectors. The System gravitates toward relatively conservative holdings in each asset class. The overall effect of diversification is to minimize risk. The manner in which the Retirement System operates and its investment results are commensurate with other risk-averse institutional investors in similar regulatory environments.

Edmund M Burke

Edmund M. Burke
President
Becker, Burke Associates
October 16, 2007

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 of 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 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 foreign equities, timberland, and private equity.

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year than it was on June 30, 2007. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2006-07 fiscal year, the market value of the stock position increased from 61% of assets the previous year to 65% of assets. The portion of the portfolio in Government securities increased from 16% to 18%. The cash position decreased during the year to 3.6% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 2.5%.

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 2006-07 as the System's principal investment counselor, providing assistance in the management of $3.3 billion of stocks and bonds. UBS Global Asset Management, Wellington Management Company, Galliard Capital Management, and GE Asset Management also were retained during the 2006-07 fiscal year to provide investment counseling services. Galliard Capital Management assisted in the management of approximately $851 million in bonds. GE Asset Management managed about $699 million in equity investments. UBS Global Asset

Management was responsible for managing approximately $1.9 billion in equities, and Wellington Management Company managed about $1.2 billion in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about $7.6 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. Five investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a $15.5 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2006-07 as the Custodian of Securities with the Bank of New York Mellon 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

Equity Market

Stocks produced strong returns in the fiscal year ended June 30, 2007, well above historical averages. The S&P 500, dominated by large cap U.S. stocks, returned 20.6%. The S&P 400 Midcap Index returned 18.5% and the S&P 600 Smallcap Index returned 16.0%. International equities were strong as well, with the EAFE Index returning 27.5%. The march upward in prices was notable for its steadiness, or unusually low volatility, interrupted only by a minor correction in late February and increasing volatility in June, 2007.

The markets flourished in an environment that was decidedly shareholder-friendly. After several years of healthy economic growth, most companies were flush with cash and had strong balance sheets. Companies' focus turned to raising dividends, buying back shares, and releveraging in other ways to boost return on equity. The period also saw the peak of a boom in leveraged buyouts by private equity firms. Fueled by an abundance of cheap credit with permissive terms, private equity firms acquired numerous publicly traded companies at substantial premiums to their pre-announcement public market prices. This trend only began to abate in the summer of 2007 as credit availability suddenly became much more restrictive.

This ebullient market environment played out against the backdrop of U.S. economic growth that was clearly moderating due to gradually weakening consumer spending and a severely slumping housing sector. Global growth remained strong, supporting the manufacturing sector. Gross domestic product, adjusted for inflation, grew 1.8% over the fiscal year, down from 3.2% growth over the previous twelve months. Year-over-year retail sales growth was 3.5% in June, 2007, down from 5.4% a year earlier. Adjusting for inflation, real retail sales growth was only 0.8%, down from 1.1% in June, 2006. Industrial production declined from 4.3% year-over-year growth to 1.5%. Inflation, as measured by the consumer price index, declined from 4.3% to 2.7%. Employment growth held up, with the unemployment rate falling from 4.6% to 4.5%. Housing was a major drag on the economy, with existing home sales in June, 2007 down 12.1% from a year earlier and the inventory of unsold homes at an 8.7 month supply, up from 6.8 months a year ago.

The strongest industry sectors over the fiscal year were telecommunications (+34.3%), materials

(+26.5%), and energy (+26.0%). The telecommunications sector was driven by a strong return by AT&T in the wake of its acquisition of Bellsouth. The materials sector benefited from a boom in commodity prices due to strong global demand from China and other emerging markets. Energy benefited from sustained high oil prices. Even the weakest relative sectors produced solid returns: financials (+11.8%), consumer staples (+12.2%), and industrials (+15.0%).

After several years of strong outperformance by mid cap and small cap stocks, large cap stocks outperformed modestly for the fiscal year. Lower relative valuations on large cap stocks augured well for continued outperformance. Among large cap and mid cap stocks, the "value" style of investing outperformed the "growth" style due to the strong performance of telecommunications, materials, and energy, which are considered value sectors. The large cap Russell 1000 Value Index returned 21.9% for the fiscal year versus 19.0% for the Russell 1000 Growth Index. Among small cap stocks the story was slightly different, with the Russell 2000 Growth Index returning 16.8% versus 16.1% for the Russell 2000 Value Index.

As the fiscal year came to an end, problems in the subprime mortgage market were causing widening financial market turmoil. A few years of excessively lax lending standards were coming to fruition with rising default rates on lower quality mortgages. There were failures among heavily leveraged hedge funds that had invested in such mortgages. A number of mortgage originators were forced out of business. A general increase in risk aversion tightened credit and raised interest rate risk spreads throughout the credit markets. The stock market responded with a sharp upsurge in volatility. The S&P 500 suffered a 10%correction in the summer of 2007. Tighter lending standards threatened to extend the housing slump indefinitely. The important question was how much the market turmoil and housing market slump would impact the wider economy going forward.

Fixed Income Market

Bonds generated relatively good inflation-adjusted returns in the fiscal year ended June 30, 2007. The Lehman Government/Credit Index returned 6.0% versus consumer price index inflation of 2.7% for a 3.3% real return. The Federal Reserve completed a tightening cycle in late June, 2006, leaving the short-term federal funds rate steady at 5.25% throughout the fiscal year. Longer-term rates fluctuated, but remained below short-term rates for most of the fiscal year. With default rates very low and balance sheets generally strong, yield spreads over safe government bonds remained historically thin over most of the period. This began to change in June, 2007, as contagion from the subprime mortgage market caused a general increase in risk aversion.

Long maturity bonds and lower credit quality bonds outperformed for the fiscal year as a whole. The Lehman 20+ year Treasury Bond Index returned 5.93%. Three-month Treasury bills, with no credit risk or price volatility, returned 5.24%. The Lehman Long Corporate Index returned 7.87% and the Lehman U.S. Corporate High Yield Index returned 11.55%. The Lehman Index of Fixed Rate Mortgage-Backed Securities returned a respectable 6.39%.

The Federal Reserve ended its tightening campaign in late June, 2006, acknowledging a softening economy. The market immediately began anticipating cuts in short-term rates in the foreseeable future. Yields across the Treasury maturity spectrum generally declined in the second half of 2006. The yield on the ten-year Treasury declined from 5.14% on June 30, 2006 to a low point of 4.43% on December 4. Despite below-trend economic growth and a worsening housing downturn, the Federal Reserve continued to signal that its primary concern was combating inflationary pressures and gave no hint of near-term easing. Yields settled into a trading range.

Yields then had a significant revaluation upward in May and June, 2007 due to a change in short-term and long-term sentiment. With regard to short-term sentiment, the market finally threw in the towel on the prospect of Federal Reserve easing in the near future. With regard to long-term sentiment, there was a wave of articles in the press suggesting that the global inflow of funds which had been depressing U.S. Treasury yields was in danger of abating. The focus shifted to concerns that strong global growth and tight capacity were causing global inflationary pressures. The yield on the ten-year Treasury moved up from 4.63% on April 30 to 5.30% on June 12.

The climate changed again suddenly in the summer of 2007 as widening effects of the subprime mortgage crisis caused the most serious credit market disruption since 1998. A "flight to quality" caused prices to rise and yields to drop sharply on U.S. Treasury securities. Yield spreads over Treasury bonds widened dramatically in all fixed income sectors and lending terms became more restrictive. Availability of short-term credit in the money markets was even threatened until the Federal Reserve stepped in to stabilize the situation by supplying credit to financial institutions through its discount window. A strong possibility of the Federal Reserve lowering the federal funds rate from 5.25% in the near future was back on the table. The timing and extent of any such monetary policy easing would depend upon the impact of the continued housing slump and the financial market turmoil on the broader economy. Hopefully, wider yield premiums for risky assets represented a healthy repricing of risk after years of excessively cheap and easy credit. A more pessimistic view would interpret the shift as a harbinger of economic weakness, rising default rates, and increased volatility in the credit markets.

PORTFOLIO CHARACTERISTICS

At year's end, the System's entire stock portfolios, exclusive of the stock index fund and the international portfolio, 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 1.03. The KTRS portfolio registered a price-earnings multiple that was slightly lower than the index. The price-earnings ratio for the portfolio at the end of the fiscal year was 17.03, compared to 17.46 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 22.19%. The average dividend growth rate for the past five years of the KTRS portfolio was 14.20%. At the end of the 2006-07 fiscal year, the yield level for the KTRS portfolio stood at 1.63%, which was lower than the index's yield of 1.81%.

The stock position, apart from the stock index fund and the international portfolio, began the 2006-07 fiscal year by being 31.9% of assets at market value, and by year-end, it constituted 32.9% of assets. In dollars, the value of the stock position increased from approximately $4.4 billion to about $5.1 billion in 2006-07. The three stock index funds represented another $4.0 billion that was invested in stocks at year end, while $1.0 billion was invested in international portfolios. At the end of 2006-07, 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, financials, and material sectors and overweightings in the consumer discretionary, health care, and information technology sectors.

On June 30, 2007, the System's entire bond portfolio had a duration of 5.3 years. The average coupon rate for the holdings was 5.5%. As of June 30, 2007, the average maturity of the fixed income portfolio was 7.9 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 71% of the fixed income investments, including short term cash equivalents, will mature by the end of 2019, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

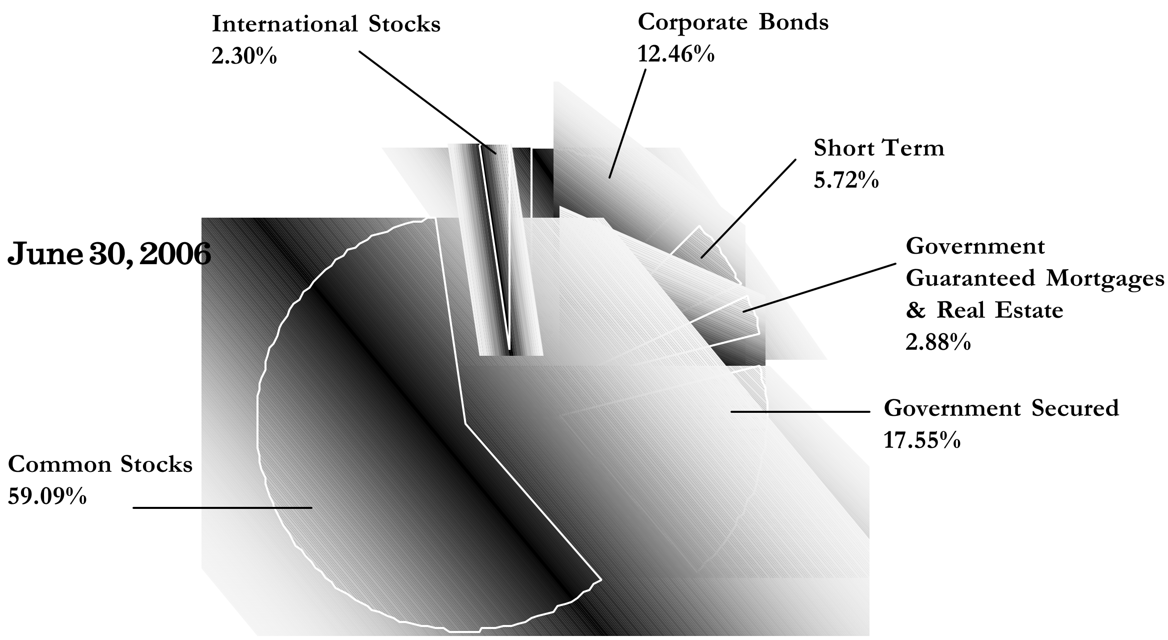
PORTFOLIO RETURNS

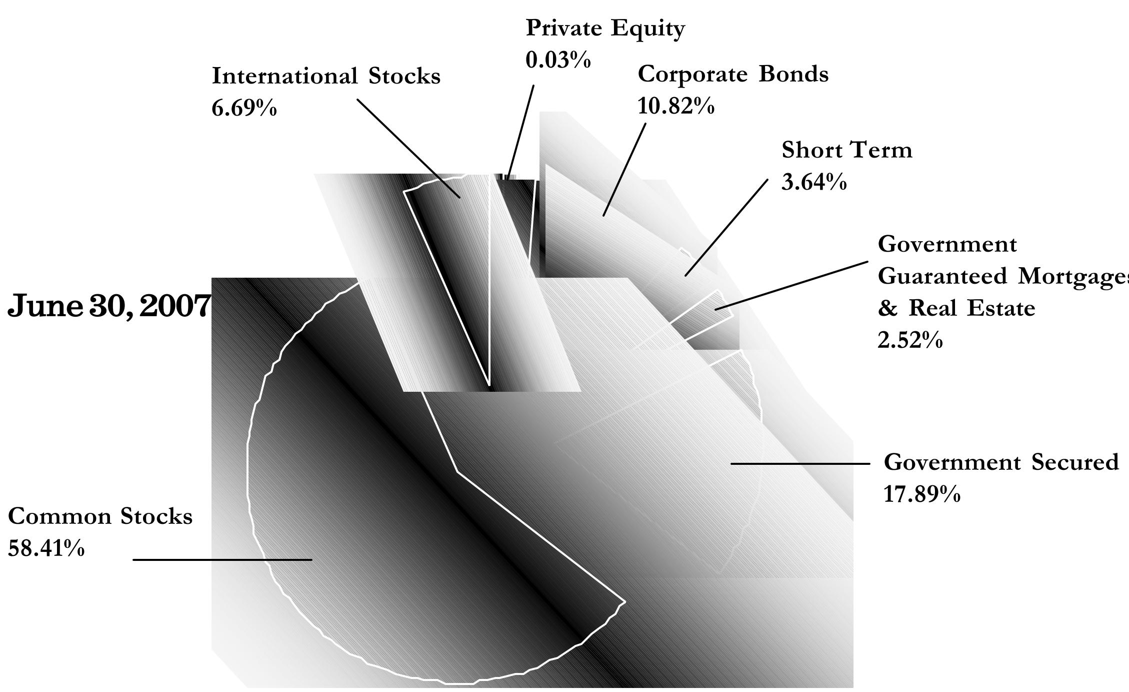
The investment portfolio experienced growth in book values and its market value during the 2006-07 year. The market value of the portfolio increased over $1.6 billion to a total of $15.5 billion at year-end. The book value of the fund increased $425.9 million during the year. The System accumulated in excess of $855 million of investment income during 2006-07; 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.

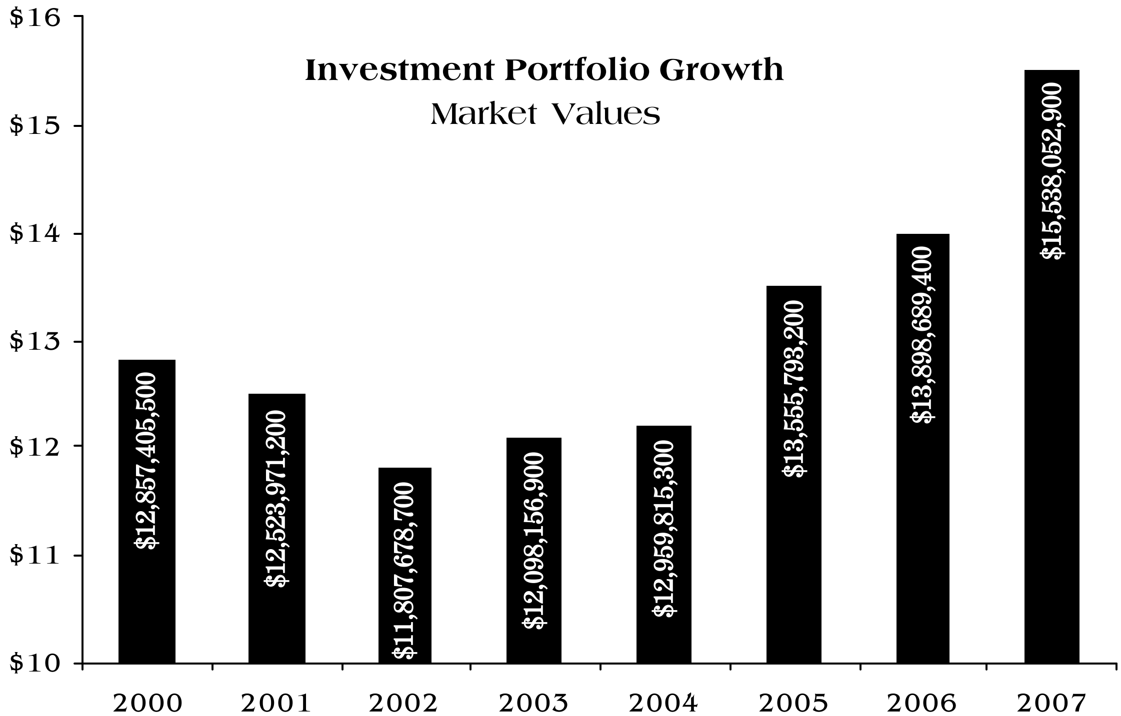
For the 2006-07 fiscal year, the total return earned by the System's stock position is equal to the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position and the stock index earned a total return of 20.6% in 2006-07. The ten year annualized return for the years 1998 through 2007 was 7.8% for the System's stock position and 7.1% for the stock index. The System's bond position earned a ten year annualized total return of 6.2%. This is slightly higher than the 6.0% return earned by the Lehman Government/Credit High Quality Index. In 2006-07, the System's bonds earned a total return of 6.3%, while the Lehman High Quality Index earned 5.7%. The entire portfolio earned a total return of 15.3% in 2006-07. The portfolio's ten year annualized rate of total return was 7.1%. The total return of the portfolio over ten years more than kept up with the rate of inflation and provided real growth. In 2006-07, the Consumer Price Index registered an inflation rate of 2.7%. The ten year annualized rate is 2.7%. The System's returns were generated by the Rogers Casey performance reporting system using a time-weighted rate of return calculation based upon the modified Dietz methodology.

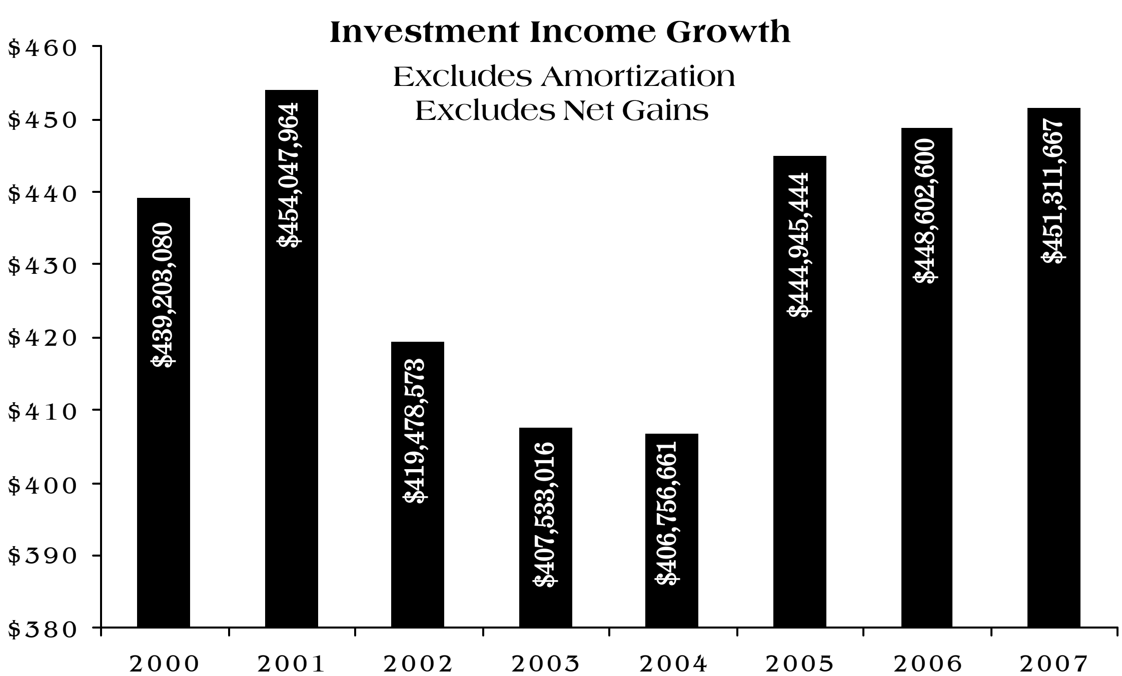
The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs. Following the charts is a summary description of investments held at June 30, 2007. The System annually produces a detailed investment report that is available on request.

Distribution of Investments
Market Values






Investment Portfolio Growth
Market Values
$16
$15
$14
$13
$12
$11
$10
$12,857,405,500
$12,523,971,200
$11,807,678,700
$12,098,156,900
$12,959,815,300
$13,555,793,200
$13,898,689,400
$15,538,052,900
2000
2001
2002
2003
2004
2005
2006
2007


Investment Income Growth
Excludes Amortization
Excludes Net Gains
$460
$450
$440
$430
$420
$410
$400
$390
$380
$439,203,080
$454,047,964
$419,478,573
$407,533,016
$406,756,661
$444,945,444
$448,602,600
$451,311,667
2000
2001
2002
2003
2004
2005
2006
2007

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
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
2005-06	8.6	9.0	(1.4)	(1.2)	4.3	5.0	11.3	5.4
2006-07	20.6	20.6	5.7	6.3	2.7	7.2	8.2	15.3
Three Year Annualized Rate	11.7	12.1	3.7	4.2	3.2	4.8	9.7	9.3
Five Year Annualized Rate	10.7	10.7	4.4	4.7	3.0	3.4	9.6	8.5
Eight Year Annualized Rate	2.8	3.8	5.7	6.1	2.9	3.9	9.2	5.1
Ten Year Annualized Rate	7.1	7.8	6.0	6.2	2.7	4.2	9.3	7.1
Fifteen Year Annualized Rate	11.2	11.5	6.3	6.6	2.7	4.5	9.3	8.8
Twenty Year Annualized Rate	10.8	11.2	--	7.5	3.1	5.4	9.0	9.1

** The performance calcuations presented above were generated by the Rogers Casey Performance reporting system using a time-weighted rate of return calculation based upon the Dietz methodology.*

Investment Summary
Fair Market Value
06/30/2007

Type of Investment	Fair Value 07/01/06	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/07
Short Term	794,300,000	41,636,178,100	11,320,700	41,875,340,900	566,457,900
Fixed Income	4,185,201,900	1,936,149,600	28,178,800	1,679,323,300	4,470,207,000
Equities	8,919,187,500	3,189,246,800	1,577,837,400	3,189,957,900	10,496,313,800
Alternative	-	5,666,000	100	591,900	5,074,200
TOTAL	**13,898,689,400**	**46,767,240,500**	**1,617,337,000**	**46,745,214,000**	**15,538,052,900**

Contracted Investment Management Expenses
($ Thousands) as of 06/30/2007

	Assets Under Management	Expenses	Basis Points (1)
INVESTMENT MANAGER FEES			
Fixed Income Managers	$ 850,880	$ 382	4.5
Equity Managers	3,833,887	6,186	16.1
Balanced Manager	3,273,551	1,285	3.9
			9.9
TOTALS	$ 7,958,318	$ 7,853	
OTHER INVESTMENT SERVICES			
Custodian Services	$ 15,538,053	$ 517	0.3
Private Equity Fees (2)	5,074	317	624.8
Investment Consultant		65	
TOTAL		$ 899	
GRAND TOTAL		$ 8,752	5.6

1 - One basis point is one hundredth of one percent or the equivalent of .0001.
2 - Private equity fees apply to Calendar Year 2007.

Transaction Commissions

06/30/2007

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
A.G. Edwards	19,600	784.00	0.0400
B Trade Services	16,023	80.12	0.0050
Bank of America	2,748,459	68,634.40	0.0250
Bass Trading	10,000	400.00	0.0400
BB & T Capital Markets	42,400	1,696.00	0.0400
Bear Stearns & Co., Inc.	494,225	29,475.50	0.0596
BMO Capital Markets	18,400	1,840.00	0.1000
BNY Brokerage	1,571,567	62,862.68	0.0400
Boenning & Scattergood	127,020	2,857.95	0.0225
Cantor Fitzgerald & Co	50,000	2,000.00	0.0400
CIBC Oppenheimer Worldmarket	72,000	2,560.00	0.0356
Citigroup Global	2,129,820	125,907.08	0.0591
Citigroup-Huntington	3,047,800	121,912.00	0.0400
Citigroup-Louisville	2,830,600	113,224.00	0.0400
Cowen & Co	32,600	1,304.00	0.0400
Credit Suisse Sec. LLC	3,769,800	176,693.40	0.0469
Deutsche Bank	4,413,849	215,832.75	0.0489
First Kentucky Securities Corp	2,231,325	89,253.00	0.0400
Fox Pitt Kelton Inc	12,100	484.00	0.0400
Freidman Billings	154,300	5,858.00	0.0380
Goldman Sachs	4,789,175	208,864.08	0.0436
Heflin & Co	173,600	6,944.00	0.0400
Howe Barnes Investment	18,800	752.00	0.0400
Instinet	27,100	274.75	0.0101
Investment Tech Grp Transition	25,353,182	134,675.02	0.0053
Investment Technology Grp	28,655,518	456,882.44	0.0159
ISI Group	2,779,203	111,168.12	0.0400
J.J.B. Hilliard, W.L. Lyons	2,942,500	117,700.00	0.0400
Jefferies & Co.	2,647,700	96,195.15	0.0363
JMP Securities	14,000	560.00	0.0400
Jones & Associates	49,700	1,988.00	0.0400
JP Morgan & Chase	25,100	1,227.00	0.0489
Keefe Bruyette & Woods	17,500	700.00	0.0400
Knight Equity Markets	124,079	4,782.53	0.0385
Lazard Freres & Co.	4,630,300	185,212.00	0.0400
Leerink Swann & Co.	6,900	276.00	0.0400
Lehman Brothers	3,095,640	100,448.50	0.0324
Lexington Investment Co.	1,690,900	67,636.00	0.0400
Liquidnet Inc	2,356,437	47,128.74	0.0200
Merrill Lynch	19,122,937	402,172.81	0.0210
MKM Partners	63,000	2,520.00	0.0400
Morgan Keegan	2,257,300	90,292.00	0.0400
Morgan Stanley	7,115,677	265,959.27	0.0374
Murphy & Durieu	27,400	616.50	0.0225

Transaction Commissions continued . . .

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
NYFIX Transaction Service	300	1.50	0.0050
Pipeline Trading	10,500	157.50	0.0150
Piper Jaffray	30,800	4,080.00	0.1325
Prudential Sec	34,000	1,571.00	0.0462
Pulse Trading	63,930	1,438.43	0.0225
R W Baird	13,500	540.00	0.0400
Raymond James & Assoc	4,936,461	197,458.44	0.0400
RBC Capital Markets	23,400	1,035.00	0.0442
Ross Sinclaire & Assoc	1,642,600	65,704.00	0.0400
Sandler O'Neill	35,600	1,424.00	0.0400
Sanford C Bernstein	85,900	429.50	0.0050
State Street Global	51,000	1,530.00	0.0300
Stifel, Nicolaus & Co	2,162,900	86,516.00	0.0400
Suntrust Robinson	2,400	85.00	0.0354
Susquehanna Brokerage	58,300	1,695.75	0.0291
Thomas Weisel Partners	16,831	1,642.69	0.0976
UBS/Paine Webber Securities	1,818,652	85,923.12	0.0472
UBS/Paine Webber-Louisville	5,288,600	211,544.00	0.0400
Wachovia / First Clearing Corp	2,990,850	119,594.00	0.0400
Weeden & Co	3,207,340	128,426.10	0.0400
TOTAL	**154,249,400**	**4,239,429.82**	**0.0275**

The over-the-counter commission rate on medium to large capitalization stocks is assumed to be $.04 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 2006-07, the System bought small capitalization IPOs that generated $67,324.93 in commissions. Although these commissions were not paid by the Retirement System, they resulted from the System's investment activities and are included in the total commissions of $4,239,429.82. Typical stock transactions occur at lower commission rates than IPO transactions, frequently $.04 per share or less. 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 Lynch Jones Ryan, Merrill Lynch and Lehman Brothers. Trading commissions of $62,799.00 were associated with third party research obligations. The primary research providers were: Bloomberg, Interactive Data, Rogers Casey, CMS Bondedge, ISS, QED Information Systems, and Vestek.

Ten Largest Stock Holdings Ranked* by Market Value 06/30/07

Rank	Name	Shares	Market Value
1	General Electric	5,002,074	191,479,393
2	Microsoft	6,420,997	189,226,782
3	Citigroup Inc	3,425,912	175,715,026
4	Exxon Mobil Corp	1,871,500	156,981,420
5	A T & T Inc	3,557,201	147,623,842
6	Bank of America	2,535,700	123,970,373
7	Cisco Systems Inc	4,229,546	117,792,856
8	Morgan Stanley	1,384,522	116,133,705
9	Wells Fargo & Co	3,269,350	114,983,040
10	Chevron Corp	1,358,167	114,411,988

Top Ten Fixed Income Holdings* 06/30/07

Rank	Description	Maturity	Coupon	Par	Market Value
1	US Treasury Bonds	8/15/2023	6.250	110,500,000.00	122,698,095.00
2	US Treasury Bonds	2/15/2021	7.875	46,500,000.00	58,513,740.00
3	US Treasury Notes	5/15/2015	4.125	59,500,000.00	56,073,990.00
4	US Treasury Bonds	8/15/2029	6.125	47,325,000.00	53,085,399.00
5	FHLB	9/4/2007	5.200	50,000,000.00	49,984,500.00
6	FHLB	4/3/2008	5.250	50,000,000.00	49,937,500.00
7	FHLB	4/9/2008	5.200	50,000,000.00	49,937,500.00
8	FHLB	2/4/2008	5.150	50,000,000.00	49,906,500.00
9	US Treasury Bonds	8/15/2021	8.125	29,815,000.00	38,426,466.45
10	Federal Home Loan Bank Bonds	10/16/2007	5.200	38,000,000.00	37,976,440.00

* *Detailed information concerning these values along with book values and cost values of all KTRS investments is available upon request.*

Schedule of Investments as of June 30, 2007

Investment			Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value
Cash Equivalents			567,500,000.00	566,457,884.77	3.65
Total Short Term			567,500,000.00	566,457,884.77	3.65
Treasury Notes and Bonds			992,170,000.00	1,051,762,064.23	6.77
Agencies			1,299,414,235.71	1,286,289,341.11	8.28
GNMA (Single Family)			26,130,984.38	26,143,119.20	0.17
Collateralized Mortgage Obligations			144,824,550.75	141,712,059.24	0.91
Treasury Strip Bonds			25,000,000.00	20,935,810.00	0.13
Total U.S. Government Obligations			2,487,539,770.84	2,526,842,393.78	16.26
Industrials			470,292,581.00	474,857,147.60	3.06
Finance			1,045,027,447.18	1,034,761,668.06	6.66
Utility Bonds (Except Telephone)			130,983,320.00	130,574,787.92	0.84
Telephone Bonds			39,287,200.00	40,739,638.80	0.26
Total Corporate Bonds			1,685,590,548.18	1,680,933,242.38	10.82
Project Mortgages (FHA & GNMA)			9,445,982.30	10,094,637.90	0.06
State and Local Government Issues			255,076,106.93	252,336,752.90	1.63
Total Other Fixed Income			264,522,089.23	262,431,390.80	1.69
Subtotal (Fixed Income)			5,005,152,408.25	5,036,664,911.73	32.42
Real Estate Equity			377,513,923.33	381,693,796.00	2.45
Total Real Estate Equity			377,513,923.33	381,693,796.00	2.45
Crysalis Venture			2,600,000.00	2,600,000.00	0.02
KKR Private Equity			2,474,147.00	2,474,147.00	0.01
Total Private Equity			5,074,147.00	5,074,147.00	0.03
UBS Alpha	9,310,640.20	Units	100,000,000.00	124,666,679.09	0.80
UBS Intl Collective	800,269.69	Units	450,000,000.00	522,413,572.80	3.36
International	15,041,017.00	Shares	431,139,807.64	517,002,575.06	3.33
Common Stocks	88,605,347.00	Shares	3,227,228,989.43	3,961,339,456.05	25.50
Small Cap Stocks	7,289,282.00	Shares	138,751,022.40	164,687,425.92	1.06
Wellington Large	14,239,728.00	Shares	675,580,846.91	744,880,496.31	4.79
600 Stock Index	9,887,648.00	Shares	233,961,647.73	295,565,411.05	1.90
400 Stock Index	7,244,437.00	Shares	233,707,710.24	252,238,791.87	1.62
Todd Alpha	1,209,400.00	Shares	50,711,464.28	55,166,653.00	0.36
Stock Index	78,818,635.00	Shares	2,664,900,111.67	3,476,658,952.60	22.38
Total Stocks	232,446,403.89	Shares	8,205,981,600.30	10,114,620,013.75	65.10
Subtotal (Equity)			8,588,569,670.63	10,501,387,956.75	67.58
Total Investments			**13,593,722,078.88**	**15,538,052,868.48**	**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, 2007. Detailed information concerning these values along with book value and cost values of all KTRS investments is available on request.*

ACTUARIAL SECTION

Report of the Actuary on the Annual Valuation

for Fiscal Year ending June 30, 2007

Cavanaugh Macdonald
CONSULTING, LLC

December 3, 2007

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, 2007. 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, 2010 at the rate of 25.07% of university members' salaries and 28.03% 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 0.61% of payroll for the 2009/2010 fiscal year. There has been a net increase in the expected state special appropriation from 4.25% to 4.28%, or 0.03% of payroll.

Therefore, for the 2009/2010 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 2.46%; 0.58% from this valuation and 1.88% from the previous valuation. In order to maintain the actuarial soundness of the retirement system, the entire required contributions will need to be made without any being used as a Stabilization Contribution for the Medical Insurance Fund.

The valuation takes into account the effect of amendments to the System enacted through the 2007 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.

The valuation reflects that a portion of the annual required contributions to the fund have been allocated to the Medical Insurance Fund and are being repaid over time. Therefore, there is a Net Pension Obligation (NPO) under GASB 27 for the fiscal year ending June 30, 2007.

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

Edward J. Koebel, EA, FCA, MAAA
Senior Actuary

3550 Busbee Pkwy, Suite 250, Kennesaw, GA 30144

Report of Actuary on the Valuation

Prepared as of June 30, 2007

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, 2007		June 30, 2006	
Number of active members	75,144		73,740	
Annual salaries	$ 2,975,289		$ 2,859,477	
Number of annuitants and beneficiaries	39,506		38,497	
Annual allowances	$ 1,135,635		$ 1,074,159	
Assets				
Market value	$ 15,421,092		$ 13,783,830	
Actuarial value	$ 15,284,955		$ 14,857,641	
Unfunded actuarial accrued liability	$ 5,970,019		$ 5,467,140	
Amortization period (years)	30		30	
	University	**Non-University**	**University**	**Non-University**
Pension Plan:				
Normal	13.82 %	17.34 %	13.91 %	17.22 %
Accrued liability	11.25	10.69	10.55	10.20
Total	25.07 %	28.03 %	24.46 %	27.42 %
Member	7.625 %	9.105 %	7.625 %	9.105 %
State (ARC)	17.445	18.925	16.835	18.315
Total	25.07 %	28.03 %	24.46 %	27.42 %
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:	26.74 %	29.70 %	26.13 %	29.09 %
Contribution rates for fiscal year ending:	**June 30, 2010**		**June 30, 2009**	
Member Statutory	8.375 %	9.855 %	8.375 %	9.855 %
State Statutory	11.625	13.105	11.625	13.105
Required Increase	2.46	2.46	1.88	1.88
State Special	4.28	4.28	4.25	4.25
Total	26.74 %	29.70 %	26.13 %	29.09 %

2. The valuation indicates that combined member and State contributions at the rate of 25.07% of salaries for university members and at 28.03% for non-university members are sufficient to support the current benefits of the System. Comments on the valuation results as of June 30, 2007 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.
4. The valuation takes into account the effect of amendments to the System enacted through the 2007 Session of the Legislature.
5. All amounts shown prior to the 2004/2005 fiscal year were developed and/or reported by the prior actuarial firm.

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, 2007 on the basis of which the valuation was prepared.

Group	Number	Annual Salaries ($1,000)
Full Time	57,192	$ 2,856,193
Part Time	17,952	119,096
Total	75,144	$ 2,975,289

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, 2007

Group	Number	Annual Retirement Allowances[1] ($1,000)
Service Retirements	34,530	$ 1,040,212
Disability Retirements	2,086	50,322
Beneficiaries of Deceased Members	2,890	45,101
Total	39,506	$ 1,135,635

[1] *Includes cost-of-living adjustments effective through July 1, 2007.*

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, 2007 the market value of Pension Plan assets for valuation purposes held by the System amounted to $15,421,092,446. 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, 2007 was $15,284,954,542. Schedule B shows the development of the actuarial value of assets as of June 30, 2007.
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 and the Life Insurance Fund.

Section IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation. 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 $8,411,311,840 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 $12,653,329,966 of which $1,095,890,755 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 $190,332,009. The total actuarial accrued liability of the System amounts to $21,254,973,815. Against these liabilities, the System has present assets for valuation purposes of $15,284,954,542. When this amount is deducted from the actuarial accrued liability of $21,254,973,815, there remains $5,970,019,273 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 13.82% of payroll for university members and 17.34% 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 2009/2010 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 2.46% 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 4.28% of total payroll will be made by the State. The total required employer contribution rate to the Pension Plan is, therefore, 17.445% for university members and 18.925% 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

Member	UNIVERSITY	NON-UNIVERSITY
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	2.46	2.46
Special Appropriation	4.28	4.28
Contribution to Pension Plan	17.445%	18.925%
Total Contribution to Pension Plan	25.07 %	28.03 %

4. The valuation indicates that normal contributions at the rate of 13.82% of active university members' salaries are required to meet the cost of benefits currently accruing. The normal rate for non-university members is 17.34%. 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 11.25% for university members and 10.69% for non-university members. These rates include special appropriations of 4.28% 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	13.82%	17.34 %
Accrued Liability*	11.25	10.69
Total	25.07%	28.03 %

** Includes special appropriations of 4.28% of payroll to be made by the State.*

5. The unfunded actuarial accrued liability amounts to $5,970,019,273 as of the valuation date. Accrued liability contributions at the rate of 11.25% of active university members' payroll and 10.69% 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 28.03% of payroll for non-university members. For university members the benefit percentage is 2.0% for all service and the contribution rate is 25.07%. 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 2.46%, 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. Since the 2005 fiscal year, a portion of the contributions required for the pension fund have been allocated as loans to the Medical Insurance Fund for Stabilization Funding. Payments are being made to repay these loans, but the borrowing is expected to continue in the future. The following table shows the amounts borrowed, annual payments and remaining balances as of July 1, 2007:

Medical Insurance Fund - Stabilization Funding

	Loan Amount	Annual Payment	Balances as of July 1, 2007
2004/2005	$ 29,169,700	$ 4,249,600	$ 24,891,315
2005/2006	62,294,800	9,075,500	57,891,410
2006/2007	73,000,000	14,133,200*	73,000,000
TOTAL	$ 164,464,500	$ 27,458,300	$ 155,782,725

** Amount shown is the first year payment. The payments will be $10,158,232 annually beginning July 1, 2008.*

4. There are no excess assets or contributions available to provide additional benefits, and there is a cumulative increase in the required employer contribution of 2.46% of payroll for the fiscal year ending June 30, 2010, as shown in the following table:

Valuation Date	Fiscal Year	Increase	Cumulative Increase
June 30, 2004	June 30, 2007	0.11%	0.11%
June 30, 2005	June 30, 2008	1.21	1.32
June 30, 2006	June, 30, 2009	0.56	1.88
June 30, 2007	June 30, 2010	0.58	2.46

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 $502,879,205 in the unfunded accrued liability from $5,467,140,068 to $5,970,019,273 during the year ending June 30, 2007.

(Dollar amounts in thousands) ITEM	Amount of Increase/(Decrease)
Interest (7.50%) added to previous unfunded accrued liability	$ 410,036
Expected accrued liability contribution	(242,414)
Contributions allocated to the Medical Insurance Fund (MIF) for Stabilization Funding during 2006/2007 fiscal year with interest	75,601
Repayment of prior year's MIF Stabilization Funding	(13,824)
Experience:	
Valuation asset growth	258,747
Pensioners' mortality	(8,309)
Turnover and retirements	(87,616)
New entrants	91,109
Salary increases	19,549
Amendments	0
Assumption and method changes	0
TOTAL	**$ 502,879**

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, 2007

GROUP	NUMBER
Retirees and Beneficiaries currently receiving benefits	39,506
Terminated employees entitled to benefits but not yet receiving benefits	4,498
Active Plan Members	75,144
TOTAL	**119,148**

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)
06/30/02	$ 13,588,847	$ 15,695,574	$ 2,106,727	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
06/30/06*	14,857,641	20,324,781	5,467,140	73.1	2,859,477	191.2
06/30/07	15,284,955	21,254,974	5,970,019	71.9	2,975,289	200.7

** 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, 2007. Additional information as of the latest actuarial valuation follows.

Valuation Date 06/30/2007

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 - 8.20%

Cost-of-Living Adjustments
1.50% Annually

**Includes Inflation at 4.00%*

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contributions	Increase
2002	$ 284,794,710	100 %
2003	322,046,968	100
2004	364,351,412	100
2005	383,776,826	100
2006	406,107,266	100
2007	494,565,369	85

4. Following is the calculation of the annual pension cost and net pension obligation for the fiscal year ending June 30, 2007:

Annual Pension Cost and Net Obligation for Fiscal Year Ending June 30, 2007

(a) Employer annual required contribution	$	494,565,369
(b) Interest on net pension obligation		0
(c) Adjustment to annual required contribution		18,021,094
(d) Annual pension cost: (a) + (b) - (c)		476,544,275
(e) Employer contributions made for fiscal year ending July 30, 2007		421,565,369
(f) Increase (decrease) in net pension obligation: (d) - (e)		54,978,906
(g) Net pension obligation beginning of fiscal year		0
(h) Adjustment to reflect prior shortfall in contributions*		94,431,495
(i) Net pension obligation end of fiscal year: (f) + (g) + (h)	$	149,410,401

* Formerly treated as short-term differences

TREND INFORMATION

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
June 30, 2005	$ 383,776,826	100 %	$ 0
June 30, 2006	406,107,266	100	0
June 30, 2007	476,544,275	88	149,410,401

SCHEDULE A
Results of the Valuation
Prepared as of June 30, 2007
($1,000's)

1. ACTUARIAL ACCRUED LIABILITY

Present value of prospective benefits payable in respect of:

(a) Present active members:		
• Service retirement benefits	$ 7,849,642	
• Disability retirement benefits	352,261	
• Death and survivor benefits	67,540	
• Refunds of member contributions	141,869	
Total		$ 8,411,312
(b) Present inactive members and members entitled to deferred vested benefits:		190,332
(c) Present annuitants and beneficiaries:		
• Service retirement benefits	$ 11,837,408	
• Disability retirement benefits	402,125	
• Death and survivor benefits	413,797	
Total		$ 12,653,330
(d) Total actuarial accrued liability		$ 21,254,974

2. PRESENT ASSETS FOR VALUATION PURPOSES	$ 15,284,955
3. Unfunded Actuarial Accrued Liability [(1) MINUS (2)]	$ 5,970,019

4. NORMAL CONTRIBUTION RATE	**UNIVERSITY**	**NON-UNIVERSITY**
(a) Actuarial present value of benefits accruing annually	$ 25,486	$ 483,858
(b) Annual payroll of active members	$ 184,399	$ 2,790,890
(c) Normal contribution rate [4(a) divided by 4(b)]	13.82%	17.34%

Solvency Test
(in millions of dollars)

Fiscal Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets
6/30/2002	$ 2,302.3	$ 8,816.9	$ 4,576.4	$ 13,588.8
6/30/2003	2,413.9	9,329.3	4,851.6	13,863.8
6/30/2004	2,546.1	9,906.2	5,165.3	14,255.1
6/30/2005	2,621.3	11,370.4	5,143.2	14,598.8
6/30/2006	2,615.8	12,216.6	5,492.4	14,857.6
6/30/2007	2,762.8	12,843.7	5,648.5	15,285.0

	Fiscal Year	(1)	(2)	(3)
Portion of	6/30/2002	100 %	100 %	54 %
Accrued	6/30/2003	100	100	44
Liabilities	6/30/2004	100	100	35
Covered	6/30/2005	100	100	12
by	6/30/2006	100	100	0
Assets	6/30/2007	100	97	0

SCHEDULE B
Development of Actuarial Value of Assets as of June 30, 2007

(1)	Actuarial Value Beginning of Year	$	14,857,641,238
(2)	Market Value End of Year	$	15,421,092,446
(3)	Market Value Beginning of Year	$	13,783,830,173
(4)	Cash Flow		
	a. Contributions	$	704,578,332
	b. Benefit Payments		1,117,361,706
	c. Net	$	(412,783,374)
(5)	Investment Income		
	a. Market total: (2) - (3) - (4)c	$	2,050,045,647
	b. Assumed Rate		7.50%
	c. Amount for Immediate Recognition [(1) x (5)b] + [(4)c x (5)bx 0.5]	$	1,098,843,716
	d. Amount for Phased-In Recognition (5)a - (5)c	$	951,201,931
(6)	Phased-In Recognition of Investment Income		
	a. Current Year: 0.20 x (5)d	$	190,240,386
	b. First Prior Year		(75,996,339)
	c. Second Prior Year		(23,843,540)
	d. Third Prior Year		(349,147,545)
	e. Fourth Prior Year		0
	f. Total Recognized Investment Gain	$	$(258,747,038)
(7)	Actuarial Value End of Year: (1) + (4)c + (5)c + (6)f	$	15,284,954,542
(8)	Difference Between Market & Actuarial Values (2) - (7)	$	136,137,904

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

	For the Year Ending June 30, 2007	For the Year Ending June 30, 2006
RECEIPTS FOR THE YEAR		
Contributions		
Members	$ 269,687,864	$ 258,464,856
Employers	434,890,468	406,107,266
Total	$ 704,578,332	$ 664,572,122
Net Investment Income	2,057,397,493	707,778,812
TOTAL	$ 2,761,975,825	$ 1,372,350,934
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	$ 1,102,538,879	$ 1,024,872,421
Refunds to Members	14,822,827	12,834,222
Medical Insurance Payments	0	0
Miscellaneous, including expenses	7,351,846	6,839,859
TOTAL	$ 1,124,713,552	$ 1,044,546,502
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ 1,637,262,273	$ 327,804,432
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	$ 13,783,830,173	$ 13,456,025,741
Excess of Receipts over Disbursements	1,637,262,273	327,804,432
Asset Balance as of End of the Year	$ 15,421,092,446	$ 13,783,830,173

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

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

	For the Year Ending June 30, 2007	For the Year Ending June 30, 2006
RECEIPTS FOR THE YEAR		
Contributions		
Members	$ 0	$ 0
Employers	5,022,137	4,813,703
Total	$ 5,022,137	$ 4,813,703
Net Investment Income	3,067,738	2,689,330
TOTAL	$ 8,089,875	$ 7,503,033
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	$ 4,245,000	$ 3,894,000
Refunds to Members	0	0
Medical Insurance Payments	0	0
Miscellaneous, including expenses	0	0
TOTAL	$ 4,245,000	$ 3,894,000
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ 3,844,875	$ 3,609,033
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	$ 67,581,237	$ 63,972,204
Excess of Receipts over Disbursements	3,844,875	3,609,033
Asset Balance as of End of the Year	$ 71,426,112	$ 67,581,237

* *The retiree portion of the Life Insurance Fund when allocated will be moved to the GASB 43 and 45 report next year.*

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, 2005 and adopted by the Board of Trustees on September 18, 2006.

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 0 - 4	WITHDRAWAL 5 - 9	WITHDRAWAL 10+	RETIREMENT Before 27 Years of Service	RETIREMENT After 27 Years of Service*
20	0.003 %	0.01%	9.00%				
25	0.010	0.01	9.00	1.50%			
30	0.016	0.02	9.00	3.00	3.00%		
35	0.032	0.05	10.00	3.25	1.50		
40	0.048	0.08	10.00	3.75	1.50		
45	0.064	0.22	9.50	2.50	1.50		25.0%
50	0.104	0.42	10.00	4.00	3.00		20.0
55	0.216	0.60	11.00	3.00	2.70	6.0%	35.0
60	0.375	0.79	11.00	3.00	2.70	14.0	25.0
62	0.438	0.83	11.00	3.00	2.70	14.0	23.0
65	0.566	0.90	11.00	3.00	2.70	22.5	35.0
70	0.905	0.00	0.00	0.00	0.00	100.0	100.0

** Plus 5% before age 55 and 15% after age 55 in year when first eligible for unreduced retirement with 27 years of service.*

FEMALES: Annual Rate of . . .

AGE	DEATH	DISABILITY	WITHDRAWAL 0 - 4	WITHDRAWAL 5 - 9	WITHDRAWAL 10+	RETIREMENT Before 27 Years of Service	RETIREMENT After 27 Years of Service*
20	0.002 %	0.03 %	6.00%				
25	0.007	0.03	8.50	3.00%			
30	0.014	0.04	9.00	4.00	1.50%		
35	0.026	0.11	8.50	4.00	2.00		
40	0.044	0.22	8.50	2.50	1.50		
45	0.055	0.38	7.00	2.50	1.50		25.0%
50	0.066	0.44	8.50	3.00	2.25		20.0
55	0.085	0.56	10.00	3.50	2.50	7.5%	35.0
60	0.122	0.85	11.00	3.50	2.50	16.5	30.0
62	0.137	0.85	11.00	3.50	2.50	12.5	25.0
65	0.159	0.85	11.00	3.50	2.50	26.0	30.0
70	0.195	0.00	0.00	0.00	0.00	100.0	100.0

** Plus 5% before age 55 and 20% after age 55 in year when first eligible for unreduced retirement with 27 years of service.*

Deaths After Retirement: According to the 1994 Group Annuity Mortality Table for the period after service retirement. Special rates are used for the period after disability 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	0.1578 %	0.0973 %	6.500%	6.500%
50	0.2579	0.1428	10.000	10.000
55	0.4425	0.2294	10.000	10.000
60	0.7976	0.4439	9.000	9.000
65	1.4535	0.8636	10.000	10.000
70	2.3730	1.3730	6.500	4.500
75	3.7211	2.2686	7.000	6.000
80	6.2027	3.9396	10.000	6.500
85	9.7240	6.7738	12.500	7.500
90	15.2931	11.6265	15.000	17.500
95	23.3606	18.6213	23.368	31.702

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, 2007. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

1. 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.

2. 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 23 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.

3. 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 Retirants, Beneficiaries and Survivors Added to and Removed from Rolls

	Add to Rolls		Remove from Rolls		Rolls End-of-Year	
Fiscal Year	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)
1998	2,500	$ 66.7	1,040	$13.4	27,744	$ 494.1
1999	2,415	73.9	998	13.9	29,161	554.0
2000	2,462	79.2	1,008	14.1	30,615	619.2
2001	2,410	77.0	1,128	16.5	31,897	679.8
2002	2,577	86.2	1,063	16.8	33,408	749.2
2003	2,252	86.7	1,015	16.9	34,645	819.0
2004	2,126	85.4	1,033	17.5	35,738	887.0
2005	2,644	105.1	1,036	18.9	37,346	973.1
2006	2,266	121.1	1,115	20.0	38,497	1,074.2
2007	2,050	82.1	1,041	20.7	39,506	1,135.6

Fiscal Year	% Increase in Annual Allowances	Average Annual Allowances
1998	12.1%	$ 17,809
1999	12.1	19,000
2000	11.8	20,226
2001	9.8	21,311
2002	10.2	22,425
2003	9.3	23,641
2004	8.3	24,819
2005	9.7	26,058
2006	10.4	27,902
2007	5.7	28,746

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
F	2002	54,175	$ 2,313,663,000	42,707	3.3
F	2003	54,048	2,394,436,000	44,302	3.7
P		17,049	103,295,000	6,059	N/A
F	2004	54,869	2,541,238,000	46,315	4.5
P		17,081	100,295,000	5,872	-3.1
F	2005	55,003	2,597,795,000	47,230	2.0
P		17,278	105,665,000	6,115	4.2
F	2006	56,115	2,745,474,000	48,926	3.6
P		17,625	114,003,000	6,468	5.8
F	2007	57,217	2,856,193,000	49,919	2.0
P		17,927	119,096,000	6,643	2.7

** Effective July 1, 2002, substitute and part-time teachers joined the field of membership.*

F: Full-time P: Part-time

ACTUARIAL SECTION

Report of the Actuary on the Retiree Medical Valuation

for Fiscal Year ending June 30, 2007

Cavanaugh Macdonald
CONSULTING, LLC

November 27, 2007

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

Members of the Board:

Governmental Accounting Standards Board Statements No. 43 and 45 require actuarial valuations of retiree medical and other post employment benefit plans. This report covers the Medical Insurance Fund only and does not incorporate any OPEB liabilities related to the Life Insurance Fund. We have submitted the results of the annual actuarial valuation prepared as of June 30, 2007. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that a total annual required contribution of 14.48% of active member payroll payable for the fiscal year ending June 30, 2010 is required to support the benefits of the Kentucky Employees Health Plan and the Medicare Eligible Health Plan ("Plans"). Of this amount, 0.75% of payroll is paid by the members leaving 13.73% as the State contribution. This required State contribution reflects the assets currently held in the Medical Insurance Fund ("Fund"). Since the State contributions are less than the required levels, the discount rate for valuing liabilities has been lowered to 4.5%. The impact of this change is shown on Schedule A. Since the full amount of the Annual Required Contribution (ARC) is not being contributed to the Fund each year, there will be a Net OPEB Obligation (NOO) for the fiscal year ending June 30, 2008.

The valuation takes into account the effect of amendments to the Plans enacted through the 2007 Session of the Legislature. The actuarial accrued liability increased from $4.3 billion in 2006 to $5.9 billion in 2007. This increase is primarily due to the change in discount rate from 7.5% in 2006 to 4.5% in 2007.

The promised benefits of the Plans are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. Market 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 Plans and to reasonable expectations of anticipated experience under the Plans and meet the parameters for the disclosures under GASB 43 and 45.

We have prepared the trend information shown in the Schedule of Funding Progress in the Financial Section of the Annual Report and Schedule A and Schedule C 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 medical plans and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the Plans.

In our opinion, if the State contributions are increased to the required levels, the Plans will begin to operate in an actuarially sound basis. Assuming that required contributions to the Fund are made by the employer from year to year in the future at the levels required on the basis of the successive actuarial valuations, the actuarial soundness of the Fund to provide the benefits called for under the Plans will improve.

Respectfully submitted,

Edward A. Macdonald, ASA, FCA, MAAA
President

Alisa Bennett, ASA, EA, FCA, MAAA
Senior Actuary

3550 Busbee Pkwy, Suite 250, Kennesaw, GA 30144

Report of Actuary on the Retiree Medical Valuation
Prepared as of June 30, 2007
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, 2007**	**June 30, 2006**
Number of active members	75,144	73,740
Annual salaries	$ 2,975,289	$ 2,859,477
Number of annuitants	31,642	30,977
Number of spouses and beneficiaries*	6,674	6,606
Total	38,316	37,583
Assets		
Market value	$ 140,772	$ 131,614
Unfunded actuarial accrued liability	$ 5,787,989	$ 4,210,349
Amortization period (years)	30	30
Discount rate	4.5%	7.5%

Contribution for fiscal year ending	**June 30, 2010**	**June 30, 2009**
Normal	7.53 %	3.69 %
Accrued liability	6.95	7.62
Total	14.48 %	11.31 %
Member	0.75 %	0.75 %
State (ARC)	13.73	10.56
Total	14.48 %	11.31 %

* Spouses of post-65 retirees, as well as surviving spouses of deceased retirees, pay 100% of the full contribution.

2. The valuation indicates that combined member and State contributions of 14.48% of active member payroll would be sufficient to support the current benefits of the Plans. Comments on the valuation results as of June 30, 2007 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.
3. Schedule C of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. Since the previous valuation, the discount rate has been lowered from 7.5% to 4.5% because the full amount of the ARC is not being contributed to the Fund each year. Also since the previous valuation, the medical trend assumption, the spouse participation assumption and the age adjustment methodology have been revised. As a result, the accrued liability increased by $1,730,574,828 and the Annual Required Contribution increased by $103,361,336 or 3.48% of payroll.
4. The valuation takes into account the effect of amendments to the Plans enacted through the 2007 Session of the Legislature. The decrease in monthly premium equivalent for Medicare-eligible retirees from $283 in calendar year 2007 to $278 in calendar year 2008 as a result of implementing a Fully Insured Medicare-Advantage Plan was recognized in this valuation.
5. All amounts shown prior to the 2005 valuation year were developed and/or reported by the prior actuarial firm.

Section II - MEMBERSHIP DATA

1. Data regarding the membership of the Plans 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, 2007 on the basis of which the valuation was prepared.

Group	Number	Annual Salaries ($1,000)
Full Time	57,192	$ 2,856,193
Part Time	17,952	119,096
Total	75,144	$ 2,975,289

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.

Section III - ASSETS

1. As of June 30, 2007 the market value of Medical Insurance Fund assets for valuation purposes held by the Plans amounted to $140,772,234.
2. Schedule B shows the receipts and disbursements for the year preceding the valuation date and a reconciliation of the asset balances for the Medical Insurance Fund.

Section IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation and illustrates the benefits of pre-funding the liability. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule C.
2. The valuation shows that the Plans have an actuarial accrued liability of $3,112,495,249 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 retirees and covered spouses amounts to $2,816,265,797. The total actuarial accrued liability of the Plans amounts to $5,928,761,046. Against these liabilities, the Plans have present assets for valuation purposes of $140,772,234. When this amount is deducted from the actuarial accrued liability of $5,928,761,046 there remains $5,787,988,812 as the unfunded actuarial accrued liability.
3. The normal contribution is equal to the actuarial present value of benefits accruing during the current year. The normal contribution is determined to be $223,929,121, or 7.53% of payroll.

Section V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

1. Section 161.420(5) of the Kentucky Revised Statutes provides that members and the State will each contribute 0.75% of salary to the Medical Insurance Fund. We recommend that the State contribution increase to the required amount of 13.73% of payroll.

Required Contribution Rates
For Fiscal Year Ending June 30, 2010

Normal	7.53 %	Member	0.75 %
Accrued liability	6.95	State (ARC)	13.73
Total	14.48 %	Total	14.48 %

2. The valuation indicates that a total normal contribution of 7.53% of payroll is required to meet the cost of benefits currently accruing. The difference between the total contribution and the normal remains to be applied toward the liquidation of the unfunded actuarial accrued liability. This accrued liability payment is 6.95% of payroll.
3. The unfunded actuarial accrued liability amounts to $5,787,988,812 as of the valuation date. An accrued liability contribution of 6.95% of payroll is 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 monthly contribution for retirees to opt into the medical plan is based on years of service at retirement, and can also vary by plan election, Medicare eligibility and tobacco use. Contributions for spouses of retirees is targeted to be 100% of the cost of expected claims. Historically, this target has been achieved for both Medicare and non-Medicare eligible spouses. Current employer contributions have been determined to be insufficient to fund the cost of the benefits to be provided. Benefits and contributions for university and non-university members are identical.
2. The valuation indicates that a significant increase in the employer contribution rate is required to fund the plans in an actuarially sound manner and to ensure the future solvency of the Medical Insurance Fund. A member contribution of 0.75% of payroll together with a state contribution of 13.73% of payroll is required 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.

Section VII - ACCOUNTING INFORMATION

1. 1. Governmental Accounting Standards Board Statements 43 and 45 set forth certain items of required supplementary information to be disclosed in the financial statements of the Plans and the employer.

Number of Active and Retired Members as of June 30, 2007

GROUP	NUMBER
Retirees currently receiving health benefits	31,642
Spouses of retirees currently receiving health benefits	6,674
Active plan members	75,144
Total	**113,460**

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)
6/30/2002	$ 146,045	$ 2,806,000	$ 2,659,955	5.2 %	$ 2,313,663	115.0%
6/30/2003	165,537	2,886,000	2,720,463	5.7	2,497,731	108.9
6/30/2004	158,862	3,166,568	3,007,706	5.0	2,641,533	113.9
6/30/2005	147,311	4,763,947	4,616,636	3.1	2,703,430	170.8
6/30/2006*	131,614	4,341,963	4,210,349	3.0	2,859,477	147.2
6/30/2007**	140,772	5,928,761	5,787,989	2.4	2,975,289	194.5

*Reflects change in decremental assumptions and plan design.
**Reflects change in discount rate to 4.5% and updating medical trend.

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

2. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2007. Additional information as of the latest actuarial valuation follows.

Valuation Date 06/30/2007

Actuarial cost method .... Projected unit credit

Amortization method .... Level percent of pay, open

Remaining amortization period ....30 years

Asset valuation method............................. Market Value of Assets

Actuarial Assumptions:

Investment Rate of Return*
4.50%

Healthcare Trend Rate*
12.00%

Ultimate Trend Rate
5.00%

Year of Ultimate Trend Rate
2015

Includes Inflation at 4.00%

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution (ARC) (a)	Actual Employer Contribution (b)	Retiree Drug Subsidy Contribution (c)	Total Contribution (b) + (c)	Percentage of ARC Contributed [(b) + (c)]/(a)
6/30/2007	$ 231,473,321	$ 113,258,761	$ 10,312,361	$123,571,122	53.4%

3. The full amount of the Annual Required Contribution (ARC) is not being contributed to the Medical Insurance Fund each year. Therefore, the Annual OPEB Cost (AOC) will be greater than the ARC and there will be a Net OPEB Obligation (NOO) for the fiscal year ending June 30, 2008.

SCHEDULE A
Benefits of Pre-Funding
(1,000's)

	Not Pre-Funding Discount Rate 4.50%	Pre-Funding Discount Rate 7.50%
PAYROLL	$ 2,975,289	$ 2,975,289
ACTUARIAL ACCRUED LIABILITY		
Present value of prospective benefits payable in respect of:		
(a) Present active members:	$ 3,112,495	$ 1,649,403
(b) Present retired members and covered spouses:	2,816,266	2,005,591
(c) Total actuarial accrued liability	$ 5,928,761	$ 3,654,994
PRESENT ASSETS FOR VALUATION PURPOSES	$ 140,772	$ 140,772
UNFUNDED ACTUARIAL ACCRUED LIABILITY	$ 5,787,989	$ 3,514,222
CONTRIBUTIONS FOR FISCAL YEAR ENDING JUNE 30, 2010:		
Normal	7.53%	3.55%
Accrued Liability	6.95	6.11
Total	14.48%	9.66%
Member	0.75%	0.75%
State (ARC)	13.73	8.91
Total	14.48%	9.66%

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

	For the Year Ending June 30, 2007	June 30, 2006
RECEIPTS FOR THE YEAR		
Contributions		
Members Statutory	$ 22,398,679	
Payment by Retired Members	30,700,999	
Total Members	$ 53,099,678	$ 51,697,167
State Statutory Contributions	$ 22,273,784	
State Special	5,960,000	
General Fund Surplus (6/2006)	12,000,000	
Allotment from Pension Fund	73,000,000	
Total Employer	$ 113,233,784	$ 89,319,498
Grand Total	$ 166,333,462	$ 141,016,665
Recovery Income	24,977	118,419
Medicare D Receipts	10,312,361	5,999,560
Net Investment Income	6,722,080	6,804,286
TOTAL	$ 183,392,880	$ 153,938,930
Disbursements for the Year		
Refunds to Members	$ 5,834	$ 5,143
Medical Insurance Payments	69,577,773	165,006,322
Miscellaneous, including expenses	4,651,324	4,624,074
TOTAL	$ 174,234,931	$ 169,635,539
Excess of Receipts over Disbursements	$ 9,157,949	$ (15,696,609)
Reconciliation of Asset Balances		
Asset Balance as of the Beginning of the Year	$ 131,614,285	$ 147,310,894
Excess of Receipts over Disbursements	9,157,949	(15,696,609)
Asset Balance as of the End of the Year	$ 140,772,234	$ 131,614,285

SCHEDULE C
Outline of Actuarial Assumptions and Methods

The rates of retirement, disability, mortality, and termination used in the valuation were selected by the Actuary based on the actuarial experience investigation as of June 30, 2005 and adopted by the Board of Trustees on September 18, 2006. The discount rate, rates of future participation, health care cost trend rates, and expected plan costs were determined by the actuary based on plan experience.

Valuation Date: June 30, 2007

Discount Rate: 4.5% per annum, compounded annually.

Health Care Cost Trend Rates: Following is a chart detailing trend assumptions.

Fiscal Year	Trend
2008	12.0%
2009	11.0
2010	10.0
2011	9.0
2012	8.0
2013	7.0
2014	6.0
2015 & beyond	5.0

Age Related Morbidity: Per capita costs are adjusted to reflect expected cost changes related to age. The increase to the net incurred claims was assumed to be:

Participant Age	Annual Increase
65-69	3.2 %
70-74	2.4
75-79	1.8
80-84	1.3
85 & over	0.0

Anticipated Plan Participation: Representative values of the assumed annual rates of plan participation are as follows:

			Post-65	
			Hired 6/30/02and earlier	
Years of Service	Pre-65	Hired 7/1/02 andlater	Age 65 on 12/31/04 and earlier	Age 65 on 1/1/05 andlater
5-9.99	25%	10%	70%	25%
10-14.99	50%	25%	80%	50%
15-19.99	75%	45%	90%	75%
20-24.99	98%	65%	98%	98%
25-25.99	98%	90%	98%	98%
26-26.99	98%	95%	98%	98%
27 or more	98%	98%	98%	98%

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 0 - 4	WITHDRAWAL 5 - 9	WITHDRAWAL 10+	RETIREMENT Before 27 Years of Service	RETIREMENT After 27 Years of Service*
20	0.003 %	0.01 %	9.00				
25	0.010	0.01	9.00	1.50%			
30	0.016	0.02	9.00	3.00	3.00%		
35	0.032	0.05	10.00	3.25	1.50		
40	0.048	0.08	10.00	3.75	1.50		
45	0.064	0.22	9.50	2.50	1.50		25.0%
50	0.104	0.42	10.00	4.00	3.00		20.0
55	0.216	0.60	11.00	3.00	2.70	6.0%	35.0
60	0.375	0.79	11.00	3.00	2.70	14.0	25.0
62	0.438	0.83	11.00	3.00	2.70	14.0	23.0
65	0.566	0.90	11.00	3.00	2.70	22.5	35.0
70	0.905					100.0	100.0

** Plus 5% before age 55 and 15% after age 55 in year when first eligible for unreduced retirement with 27 years of service.*

FEMALES: Annual Rate of . . .

AGE	DEATH	DISABILITY	WITHDRAWAL 0 - 4	WITHDRAWAL 5 - 9	WITHDRAWAL 10+	RETIREMENT Before 27 Years of Service	RETIREMENT After 27 Years of Service*
20	0.002 %	0.03 %	6.00%				
25	0.007	0.03	8.50	3.00%			
30	0.014	0.04	9.00	4.00	1.50%		
35	0.026	0.11	8.50	4.00	2.00		
40	0.044	0.22	8.50	2.50	1.50		
45	0.055	0.38	7.00	2.50	1.50		25.0%
50	0.066	0.44	8.50	3.00	2.25		20.0
55	0.085	0.56	10.00	3.50	2.50	7.5%	35.0
60	0.122	0.85	11.00	3.50	2.50	16.5	30.0
62	0.137	0.85	11.00	3.50	2.50	12.5	25.0
65	0.159	0.85	11.00	3.50	2.50	26.0	30.0
70	0.195					100.0	100.0

** Plus 5% before age 55 and 20% after age 55 in year when first eligible for unreduced retirement with 27 years of service.*

Deaths After Retirement: According to the 1994 Group Annuity Mortality Table for the period after service retirement. Special rates are used for the period after disability 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	0.1578 %	0.0973 %	6.500%	6.500%
50	0.2579	0.1428	10.000	10.000
55	0.4425	0.2294	10.000	10.000
60	0.7976	0.4439	9.000	9.000
65	1.4535	0.8636	10.000	10.000
70	2.3730	1.3730	6.500	4.500
75	3.7211	2.2686	7.000	6.000
80	6.2027	3.9396	10.000	6.500
85	9.7240	6.7738	12.500	7.500
90	15.2931	11.6265	15.000	17.500
95	23.3606	18.6213	23.368	31.702

Actuarial Method: Costs were determined using the Projected Unit Credit Actuarial Cost Method. The annual service cost is the present value of the portion of the projected benefit attributable to participation service during the upcoming year, and the accumulated postretirement benefit obligation (APBO) is equal to the present value of the portion of the projected benefit attributable to service before the valuation date. Service from hire date through the date of full retirement eligibility was used in allocating costs.

Assets: Market Value as provided by KTRS. Return on assets assumed to be 4.50%.

Spouse Coverage: Use actual census data and current plan elections for spouses of current retirees. For spouses of future retirees, assumed 20% of future retirees will cover spouses, with females 3 years younger than males.

Plan Costs: Assumed per capita health care costs were based on past experience and trended based on the assumptions. Following is a chart detailing retiree per capita assumptions. These amounts include medical, drug, and administrative costs and represent the amount that KTRS pays as the full contribution amount. For Post-65 retirees, the average costs shown are normalized to age 65 and then age adjusted in calculating liabilities.

	Average Monthly KTRS Full Costs & Contributions	
Years of Service	Pre-65	Post-65
CY 2004	$376	$274
CY 2005	$410	$288
CY 2006	$476	$304
CY 2007	$458	$283
CY 2008	$484	$278

SCHEDULE D

Summary of Main Plan Provisions as Interpreted for Valuation Purposes

ELIGIBILITY: Retiree medical eligibility is attained when an employee retires, which is possible after the completion of 27 years of service or attainment of age 55 and 5 years of service. Disabled employees, who are totally and permanently incapable of being employed as a teacher and under age 60, but after completing 5 years of service, are eligible for subsidized retiree medical coverage that is based on the number of years of service credit accrued at disability retirement. At the expiration of the disability entitlement period, the subsidy is recalculated based upon the number of years of service credit that would have accrued had the member remained active. Spouses of those actives who die while eligible to retire are eligible for retiree medical coverage when the death occurred prior to July 1, 2002.

100 Day Program: The 100 Day Program expired June 30, 2007.

CONTRIBUTIONS: The full contribution is provided to retirees with 27 or more years of service. The full contribution is determined by KTRS; the full cost is projected based on historical claims data. For retirees with less than 27 years of service, the following percentages of these full contributions are provided:

	Percentage of Full Contribution Provided to Post-65 Retirees		
Years of Service	Hired Before 07/01/2002 (Age 65 by 1/1/05)	Hired Before 07/01/2002 (Age 65 after 1/1/05)	Hired After 07/01/2002
27 or more	100 %	100 %	100 %
26 - 26.99	100	100	95
25 - 25.99	100	100	90
20 - 24.99	100	100	65
15 - 19.99	90	75	45
10 - 14.99	80	50	25
5 - 9.99	70	25	10

Effective 1/1/2008, benefits provided to pre-65 retirees and spouses who were hired before 7/1/2002 require the following monthly contributions:

Monthly Member Contributions for Single Coverage*

Years of Service	Essential Plan	Enhanced Plan	Premier Plan
20 or more	Not offered	$0	$20.40
15 -9.99	Not offered	$121.06	$141.46
10 -4.99	Not offered	$242.12	$262.52
5 - 9.99	Not offered	$363.18	$383.58

*Additional $16.80 monthly contribution required for smokers.

Spouses of post-65 retirees, as well as surviving spouses of deceased retirees, pay 100% of the full contribution. For spouses of active members who died while eligible to retire, prior to July 1, 2002, KTRS provides the same subsidy they would have provided to the retiree for the lifetime of the spouse, or until remarriage. For spouses of active members who die while eligible to retire July 1, 2002, or later, spouses pay 100% of the full contribution.

Retirees Receiving Health Benefits as of June 30, 2007

	Under 65	Over 65	Total
Number	14,705	16,937	31,642
Average Age	58.9	75.0	67.5

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STATISTICAL SECTION

for Fiscal Year ending June 30, 2007

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

Financial Trends .... page 97
These schedules contain trend information to help the reader understand how KTRS's financial performance & well-being have changed over time.

Demographic & Economic Information .... page 99
These schedules offer demographic and economic indicators to help the reader understand the System's environment within which KTRS's financial activities take place.

Operating Information .... page 107
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 Ten Fiscal Years

Additions by Source

YEAR	Employer Contributions	Member Contributions	Net Investment Income	Total Additions to Plan Net Assets
2007	$ 439,912,606	$ 269,687,864	$ 2,060,465,230	$ 2,770,065,700
2006	410,920,969	258,464,856	717,308,002	1,386,693,827
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

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
2007	$ 1,040,003,417	$ 48,863,876	$ 13,671,586	$ 4,245,000	$ 1,106,783,879	$ 14,822,827	$ 7,351,846	$ 1,128,958,552
2006	972,018,057	46,750,585	12,943,639	3,894,000	1,035,606,281	12,834,222	6,839,859	1,055,280,362
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

Changes in Net Assets

YEAR	Total Additions to Plan Net Assets	Total Deductions to Plan Net Assets	Changes in Plan Net Assets
2007	$ 2,770,065,700	$ 1,128,958,552	$ 1,641,107,148
2006	1,386,693,827	1,055,280,362	331,413,465
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

Medical Insurance Plan

Past Ten Fiscal Years

Additions by Source

YEAR	Employer Contributions	Member Contributions	Recovery Income	Net Investment Income	Total Additions to Plan Net Assets
2007	$ 113,233,784	$ 53,099,678	$ 10,337,338	$ 6,722,080	$ 183,392,880
2006	89,319,498	51,697,167	6,117,979	6,804,286	153,938,930
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

Deductions by Type
(Including Benefits by Type)

YEAR	Insurance Benefit Expense: Under Age 65	Insurance Benefit Expense: Age 65 & Over	Total Insurance Benefits Expense	Refunds	Administrative Expense	Total Deductions to Plan Net Assets
2007	$ 104,102,194	$ 65,475,579	$ 169,577,773	$ 5,834	$ 4,651,324	$ 174,234,931
2006	102,159,471	62,846,851	165,006,322	5,143	4,624,074	169,635,539
2005	81,442,102	60,907,334	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

Changes in Net Assets

YEAR	Total Additions to Plan Net Assets	Total Deductions to Plan Net Assets	Changes in Plan Net Assets
2007	$ 183,392,880	$ 174,234,931	$ 9,157,949
2006	153,938,930	169,635,539	(15,696,609)
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

Distribution of Active Contributing Members as of June 30, 2007

By Age

Age	Male	Female
20-24	925	3,084
25-29	2,836	8,078
30-34	2,444	7,109
35-39	2,336	7,552
40-44	2,067	6,449
45-49	1,950	6,533
50-54	2,247	6,890
55-59	2,236	5,854
60-64	1,288	2,743
65-69	529	1,089
Over 70	283	622
TOTAL	19,141	56,003

By Service

Years of Service	Male	Female
Less than 1	6,295	16,309
1-4	4,397	13,520
5-9	2,967	9,345
10-14	2,002	5,969
15-19	1,457	4,550
20-24	1,009	3,381
25-29	600	1,963
30-34	326	832
35 or more	88	134
TOTAL	19,141	56,003

Principal Participating Employers

Current Year and Nine Years Ago

	2007			1998		
	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
Jefferson County Schools	9,822	1	12.90%	6,792	1	13.00%
Fayette County Public Schools	4,039	2	5.30%	2,655	2	5.08%
Boone County Schools	1,619	3	2.13%	820	6	1.57%
Hardin County Schools	1,368	4	1.80%	1,000	4	1.91%
Kenton County Schools	1,251	5	1.64%	765	8	1.46%
Bullitt County Schools	1,155	6	1.52%	689	11	1.32%
Madison County Schools	1,138	7	1.49%	610	13	1.17%
Warren County Schools	1,130	8	1.48%	734	9	1.41%
Daviess County Schools	1,128	9	1.48%	704	10	1.35%
Oldham County Schools	1,103	10	1.45%	557	15	1.07%
All Other *	52,408		68.81%	36,902		70.66%
Total (198 Employers)	76,161		100.00%	52,228		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. Hazard
30. Jackson
31. Jenkins
32. Ludlow
33. Mayfield
34. Middlesboro
35. Monticello
36. Murray
37. Newport
38. Owensboro
39. Paducah
40. Paintsville
41. Paris
42. Pikeville
43. Pineville
44. Providence
45. Raceland
46. Russell
47. Russellville
48. Science Hill
49. Silver Grove
50. Somerset
51. Southgate
52. Walton-Verona
53. West Point
54. Williamsburg
55. 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 Investment Cabinet
4. Cabinet for Familes and Children*
5. Finance and Administration Cabinet

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, 2007

100	Alabama
1	Alaska
61	Arizona
24	Arkansas
93	California
49	Colorado
13	Connecticut
6	Delaware
4	District of Columbia
843	Florida
195	Georgia
7	Hawaii
4	Idaho
73	Illinois
485	Indiana
13	Iowa
29	Kansas
22	Louisianna
8	Maine
21	Maryland
14	Massachusetts
29	Michigan
19	Minnesota
57	Mississippi
54	Missouri
6	Montana
4	Nebraska
18	Nevada
3	New Hampshire
6	New Jersey
13	New Mexico
40	New York
187	North Carolina
4	North Dakota
459	Ohio
23	Oklahoma
21	Oregon
27	Pennsylvania
1	Rhode Island
117	South Carolina
7	South Dakota
649	Tennessee
146	Texas
12	Utah
2	Vermont
118	Virginia
28	Washington
65	West Virginia
21	Wisconsin
4	Wyoming

Additional Distribution Outside USA

1	AUSTRALIA
4	CANADA
1	MILITARY APO
1	PHILIPPINES
1	SWITZERLAND

TOTAL: Number of Out of State Payments 4,213
TOTAL: Out of State Payments ....$ 83,480,608
TOTAL: Number of Payments 40,749
GRAND TOTAL: Amount of Payments $1,102,448,662

Distribution of Retirement Payments Statewide

as of June 30, 2007

County Name	Total Payments	Number of Recipients
Adair	$ 4,431,730	169
Allen	3,740,091	144
Anderson	4,283,903	164
Ballard	2,638,449	94
Barren	10,022,838	360
Bath	2,924,373	118
Bell	8,965,483	353
Boone	18,841,664	632
Bourbon	4,326,008	165
Boyd	12,991,164	457
Boyle	9,050,615	327
Bracken	1,924,557	73
Breathitt	5,637,332	231
Breckinridge	4,534,115	159
Bullitt	10,116,990	330
Butler	2,049,394	81
Caldwell	4,235,867	154
Calloway	15,580,712	557
Campbell	15,616,272	534
Carlisle	1,126,992	43
Carroll	1,745,148	71
Carter	8,060,981	300
Casey	3,519,803	148
Christian	12,312,173	437
Clark	7,984,101	292
Clay	6,376,062	240
Clinton	3,034,210	114
Crittenden	1,525,881	61
Cumberland	2,043,737	71
Daviess	23,904,175	852
Edmonson	2,041,794	75
Elliott	1,410,715	63
Estill	3,090,112	115
Fayette	63,777,027	2,262
Fleming	3,634,793	143
Floyd	13,221,400	529
Franklin	17,864,778	778
Fulton	1,767,308	65
Gallatin	451,497	19
Garrard	3,897,748	138
Grant	3,796,567	132

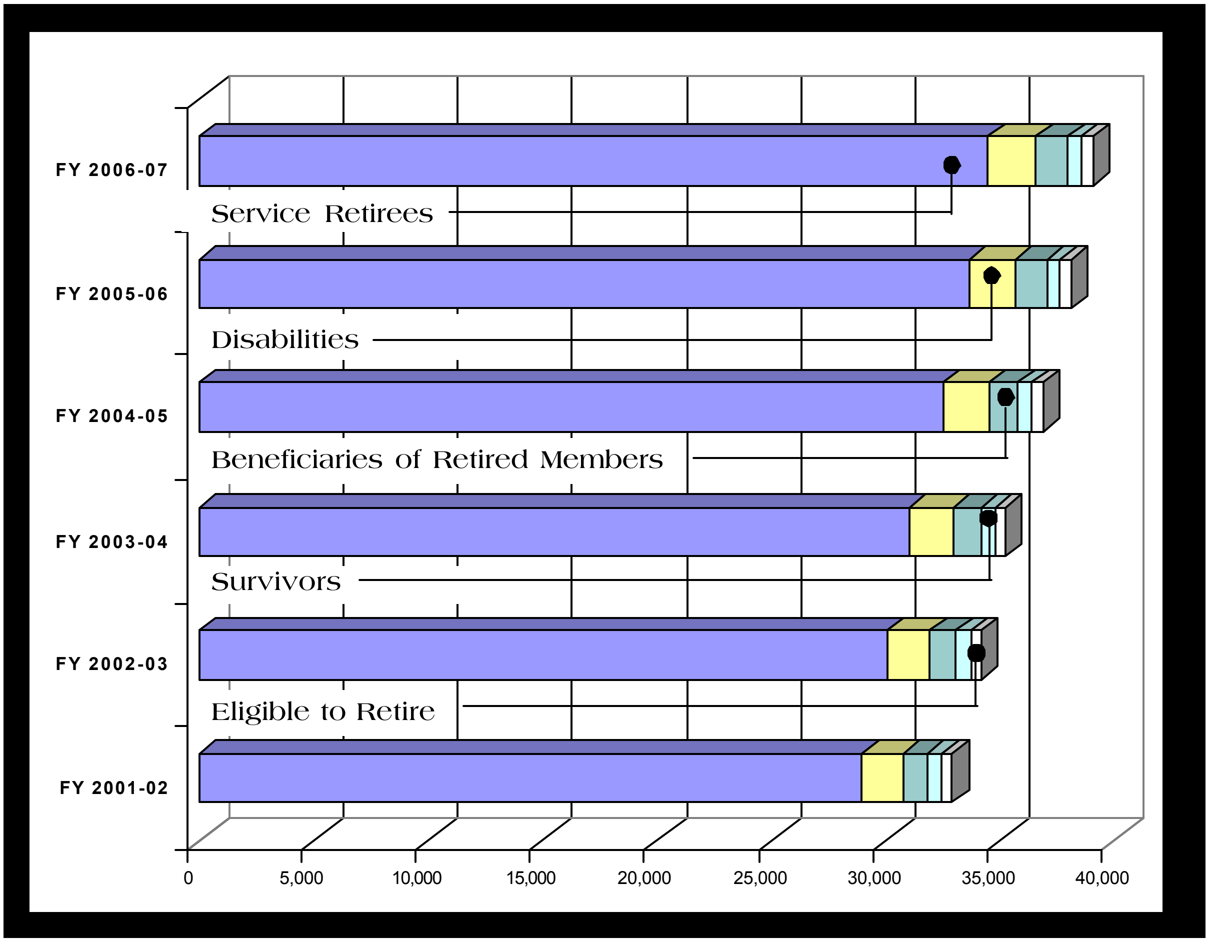
Distribution of Retirement Payments Statewide
as of June 30, 2007 continued . . .

County Name	Total Payments	Number of Recipients
Graves	8,870,611	316
Grayson	5,880,485	225
Green	2,924,954	108
Greenup	9,267,959	332
Hancock	1,727,841	64
Hardin	18,589,064	654
Harlan	10,090,820	380
Harrison	4,853,370	177
Hart	3,868,415	137
Henderson	9,054,004	333
Henry	3,896,030	145
Hickman	818,427	31
Hopkins	11,323,937	410
Jackson	2,903,439	122
Jefferson	173,105,658	5,457
Jessamine	6,374,095	246
Johnson	7,996,596	304
Kenton	19,327,103	672
Knott	5,285,546	218
Knox	5,904,234	227
Larue	3,824,927	127
Laurel	12,527,572	484
Lawrence	3,282,891	131
Lee	1,519,811	70
Leslie	3,407,703	132
Letcher	8,260,058	319
Lewis	4,416,568	160
Lincoln	6,861,045	251
Livingston	1,984,827	85
Logan	6,087,611	240
Lyon	2,333,574	91
Madison	31,296,428	1,065
Magoffin	3,588,172	145
Marion	3,719,513	139
Marshall	8,492,947	296
Martin	3,051,813	120
Mason	4,337,778	153
McCracken	16,844,734	599
McCreary	4,578,412	179
McLean	2,339,430	86
Meade	4,225,250	134

Distribution of Retirement Payments Statewide
as of June 30, 2007 continued . . .

County Name	Total Payments	Number of Recipients
Menifee	1,122,573	52
Mercer	5,284,946	216
Metcalfe	2,836,385	103
Monroe	3,903,187	154
Montgomery	6,384,946	227
Morgan	3,956,686	149
Muhlenberg	7,146,727	254
Nelson	8,244,555	285
Nicholas	1,512,669	57
Ohio	4,692,336	182
Oldham	10,203,121	331
Owen	1,963,374	76
Owsley	2,730,152	104
Pendleton	3,199,935	111
Perry	8,847,566	334
Pike	20,120,553	759
Powell	2,504,456	94
Pulaski	15,256,695	584
Robertson	559,798	22
Rockcastle	4,166,041	166
Rowan	11,360,496	414
Russell	4,798,110	180
Scott	8,049,018	283
Shelby	9,846,440	334
Simpson	3,538,109	135
Spencer	2,998,536	95
Taylor	6,320,814	238
Todd	2,146,775	87
Trigg	3,913,258	146
Trimble	1,394,812	39
Union	2,763,934	105
Warren	36,329,078	1,321
Washington	2,630,778	105
Wayne	5,342,363	206
Webster	3,004,405	117
Whitley	13,432,445	522
Wolfe	2,681,594	104
Woodford	6,238,177	231
Total in Kentucky	**$ 1,018,968,054**	**36,536**

Growth in Annuitants
as of June 30, 2007



Fiscal Year	Service Retirees	Disabilities	Beneficiaries of Retired Members	Survivors	Eligible to Retire
FY 2001-02	28,936	1,812	1,367	584	482
FY 2002-03	30,064	1,859	1,416	570	502
FY 2003-04	31,003	1,934	1,505	536	518
FY 2004-05	32,506	1,987	1,566	507	525
FY 2005-06	33,618	2,039	1,631	495	531
FY 2006-07	34,462	2,086	1,722	466	549

Schedule of Annuitants by Type of Benefit as of June 30, 2007

Amount of Monthly Benefit ($)	Number of Annuitants	Type of Retirement*				
		1	2	3	4	5
1 - 500	2,966	2,061	14	421	203	267
501 - 1,000	2,742	2,047	212	3	480	0
1,001 - 1,500	3,908	2,981	344	0	583	0
1,501 - 2,000	4,649	3,837	459	3	350	0
2,001 - 2,500	7,692	6,766	621	19	286	0
2,501 - 3,000	7,594	7,134	261	12	187	0
3,001 - 3,500	4,477	4,280	114	3	80	0
3,501 - 4,000	2,482	2,383	46	3	50	0
4,001 - 4,500	1,323	1,286	10	1	26	0
4,501 - 5,000	753	735	3	1	14	0
5,001 & OVER	966	952	2	0	12	0
Total	39,552	34,462	2,086	466	2,271	267

***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	1,401	359	242	59	9	350	118	428
501 - 1,000	1,448	336	218	145	10	284	226	75
1,001 - 1,500	2,085	488	356	183	14	377	296	109
1,501 - 2,000	2,481	518	407	169	5	557	366	146
2,001 - 2,500	3,570	740	623	258	10	1,330	835	326
2,501 - 3,000	3,951	802	601	236	8	1,088	807	101
3,001 - 3,500	2,322	466	387	154	8	615	484	41
3,501 - 4,000	1,192	271	254	99	6	356	297	7
4,001 - 4,500	650	137	126	75	9	172	151	3
4,501 - 5,000	357	76	102	41	3	88	85	1
5,001 & OVER	470	82	115	62	9	92	135	1
Total	19,927	4,275	3,431	1,481	91	5,309	3,800	1,238

***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
07/01/1997 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	1135	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	1133	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	1180	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	1008	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	1019	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
07/01/2005 TO 06/30/2006								
Average monthly benefit	$202	$473	$1,019	$1,493	$2,136	$2,998	$4,063	
Average final average salary	$4,106	$3,253	$4,052	$4,117	$4,537	$4,721	$5,490	
Number of retired members	44	105	106	132	193	689	604	1,873
07/01/2006 TO 06/30/2007								
Average monthly benefit	$178	$514	$930	$1,559	$2,276	$3,140	$4,263	
Average final average salary	$4,102	$3,346	$3,590	$4,228	$4,612	$4,970	$5,758	
Number of retired members	48	113	90	109	169	534	514	1,577

Medical Insurance Plan

Average Insurance Premium Supplements for the Last Seven 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	$ 107.71	$ 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
07/01/2005 TO 06/30/2006					
Average monthly supplement	$ 161.03	$ 241.76	$ 362.31	$ 487.23	
Number of retired members	28	49	106	1,440	1,623
07/01/2006 TO 06/30/2007					
Average monthly supplement	$ 146.24	$ 260.95	$ 363.45	$ 489.73	
Number of retired members	29	53	80	949	1,111

Summary of Fiscal Year 2006-2007
Retiree Sick Leave Payments

ACTUARIAL RATE

Grand Total Members Retiring	1,711
Total members receiving sick leave payments	1,226
Total amount of sick leave payments @ 9.855% contribution rate	$ 14,577,007.25
Average payment per retiree	$ 11,889.89
Total increase in final 3/5 average salary base	$ 4,191,521.25
Average increase in FAS	$ 3,418.86
Total service credit of 1,226 retirees	32,511.58
Average service credit of 1,226 retirees	26.52

Additional Average Monthly Annuity payment per Retirement Formula

3,418.86 x 2.52 x 2.00% =	$ 172.31
3,418.86 x 24.00 x 2.50% =	$ 2,051.32
Total	$ 2,223.63
2,223.63/ 12 months =	$ 185.30

Anticipated Lifetime Payout of Additional Annuity

185.30 X 146.7982 X 1226 new factor	$ 33,349,292.12

Funding of Additional Payments

Member contributions 9.855% x $14,577,007.25	$ 1,436,564.06
State Contributions 13.105% x $14,577,007.25	$ 1,910,316.80
TOTAL Member-State Contributions	$ 3,346,880.86

DEFICIT

Anticipated additional payout	$ 33,349,292.12
Less total member & state contributions	3,346,880.86
Subtotal unfunded debt	$ 30,002,411.26
Less current year appropriations	$ 4,293,800.00
TOTAL DEFICIT (overpayment)*	$ 25,708,611.26 *

* *This amount will be amortized over a twenty year period.*

* 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

for Fiscal Year Ended June 30, 2007

Fiscal Year	Total Member Contributions	Employer/ Federal Payments	Required State Match Contributions	Required Supplemental Appropriation	Required Sick Leave Payments	Total State Appropriation	(Deficit) Surplus State Funding
1944-48	3,184,178		3,184,178			3,039,017	(145,160)
1948-52	4,951,458		4,951,458			5,090,848	(139,390)
1952-56	7,267,163		7,267,163			6,494,102	(773,062)
1956-60	14,970,961		14,970,961			14,963,272	(7,689)
1960-64	25,945,897		25,945,897			25,938,763	(7,134)
1964-68	49,957,299	2,042,014	47,915,285			45,317,694	(2,597,591)
1968-72	82,922,869	6,044,865	76,878,005			80,091,951	3,213,946
1972-76	120,349,350	8,019,216	112,330,134			111,665,685	(664,449)
1976-80	189,072,371	12,044,186	177,028,185	75,010,028		256,784,030	4,745,817
1980-84	272,744,772	16,334,937	256,409,836	109,622,111	5,197,234	378,667,011	7,437,831
1984-88	413,932,416	21,417,604	392,514,811	141,251,827	13,341,243	515,932,177	(31,175,706)
1988-92	602,399,432	119,352,211	483,347,221	133,545,987	28,978,117	634,358,200	(11,537,557)
1992-96	756,817,769	154,296,351 (2)	602,521,418	213,030,177	53,308,591	854,138,311	(14,751,875)
1996-00	863,954,020	171,037,889	692,916,131	245,400,594	43,209,004	990,501,344	8,975,615
2000-04	999,971,551	200,041,662	799,935,889	289,439,321	see (1)	1,065,262,116	(24,113,095)
2004-05	274,249,089	63,618,098	210,630,991	79,018,035		293,364,324	3,715,298
2005-06	289,063,930	66,462,471	222,601,459	83,319,537		310,182,549	4,261,553
2006-07	301,522,044	68,333,669	233,188,375	86,819,875		321,074,432	1,066,182

(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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