



36TH

annual report

TEACHERS' RETIREMENT SYSTEM

STATE OF KENTUCKY

1975-76

DECEMBER 1976

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EXECUTIVE SECRETARY

COMMONWEALTH OF KENTUCKY
TEACHERS' RETIREMENT SYSTEM
216 WEST MAIN STREET
FRANKFORT, KENTUCKY
40601

December 30, 1976

Honorable Julian Carroll, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601

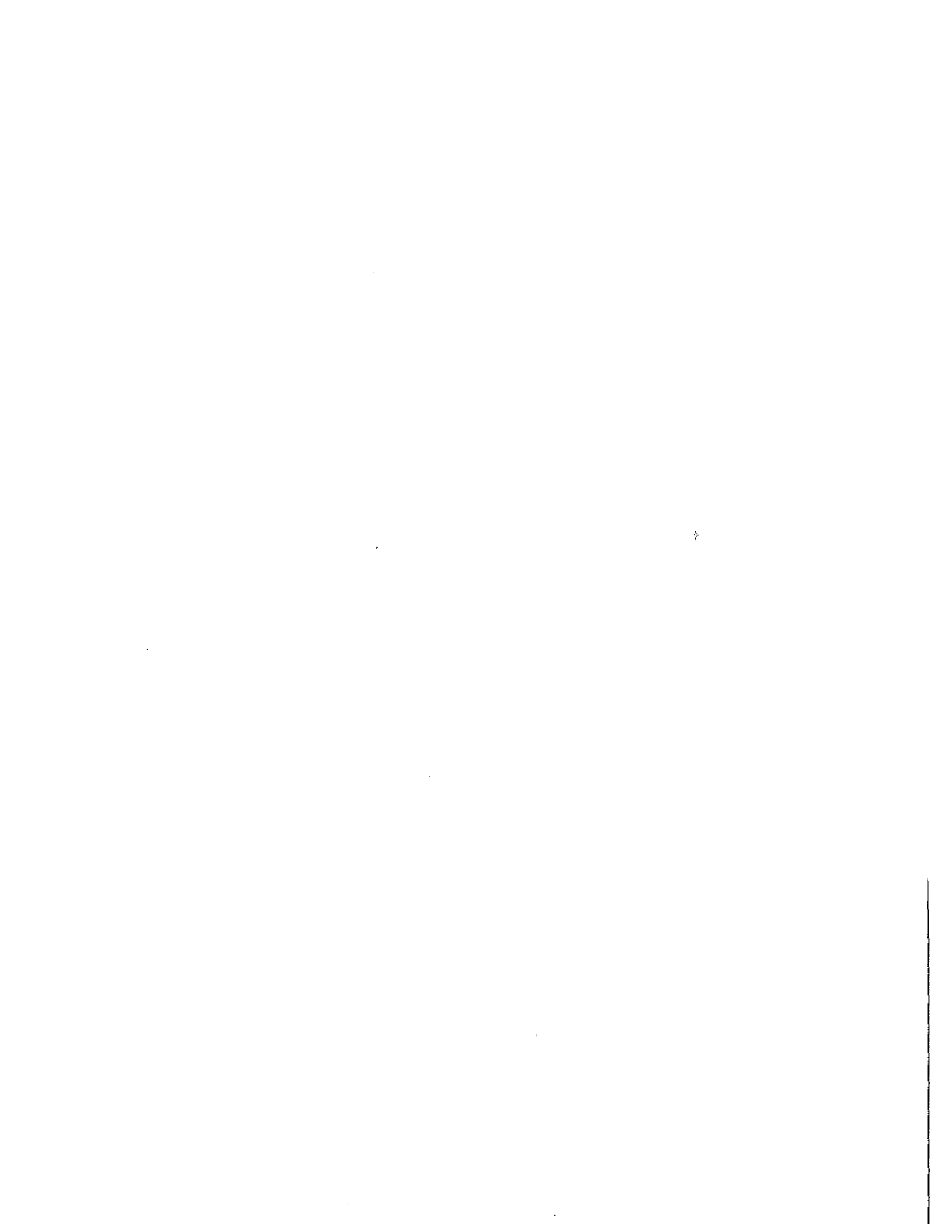
Dear Governor Carroll:

Submitted herewith is the Thirty-sixth Annual Report of the Teachers' Retirement System of the State of Kentucky as provided for in KRS 161.320.

Significant gains were realized in terms of return on investments, average benefits to members, and capital worth of the System's assets. On July 1, 1976, the average monthly benefit to all retirement payees was \$382 as compared to an average of \$320 per month a year earlier. The rate of investment income on fixed dollar assets on June 30, 1976, had increased to 7.34% on an annual basis, up from an annual rate of 7.13% at the end of the previous year. The total assets of the System increased during the year from a total of \$474.1 million to \$529.9 million, a gain of \$55.8 million in total assets.

The State's contribution to the Teachers' Retirement System will approximate 10.5% of the gross salary of members during the 1976-77 fiscal year and increase to approximately 10.7% during the 1977-78 fiscal year. The member contribution rate is 7.7% of gross salary and most of the overmatch by the State will be used to reduce the prior service debt and finance benefit improvements that were approved by the 1976 General Assembly.

Effective July 1, 1976, retired members received an average increase of \$59.34 in their monthly annuity payment. The substantial increase resulted from your recommendation to the 1976 General Assembly that all retirees receive a cost-of-living increase and increases from the change in the value of prior service. These increases have made it possible for our retired teachers to meet the problems of inflation without undue hardship. Without these additional benefits, thousands of these older teachers would have suffered substantial reductions in standards of living.

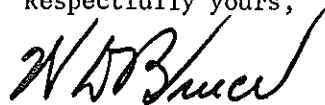


TEACHERS' RETIREMENT SYSTEM


Kentucky teachers, both active and retired, recognize the keen interest you have shown in the Teachers' Retirement System. Your concern for the actuarial soundness of the System and the welfare of all teachers is demonstrated by your stated goal to increase the State's contribution to the Teachers' Retirement System to equal the 13.1% of gross salary that is being made to the Kentucky Employes Retirement System.

The Board of Trustees is committed to improving member benefits so that they will be more comparable with those of other State employees and wish to express sincere thanks to you and the General Assembly for your support and interest.

Respectfully yours,



W. D. Bruce, Chairperson
Board of Trustees



Pat N. Miller
Executive Secretary

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TEACHERS' RETIREMENT SYSTEM
STATE OF KENTUCKY

BOARD OF TRUSTEES

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Huggins & Company, Actuary

The Boston Company of Louisville, Inc., Investment Counselors

FINANCIAL

During the year ending June 30, 1976, assets of the Teachers' Retirement System increased \$55,811,794 to a total of \$529,915,720. This represents an increase in assets of 11.7%. It should be noted that of the \$529.9 million in assets, \$231.2 million is credited to member accounts (Teachers' Savings Fund) and a like amount is reserved in the State Accumulation Fund as state matching for member contributions. This leaves a reserve for benefit payments of \$67.5 million which compares favorably with a reserve of \$65.9 million for the previous fiscal year.

Total benefit payments for 1975-76 were \$47.7 million, an increase of \$5.4 million over 1974-75. Total benefit payments for 1976-77 were projected at \$56.9 million.

Pages 5 and 6 provide a comparative review of the financial status of the System for the last three years. The following statistics, not necessarily financial in nature, are provided to assist in formulating a total picture of the Teachers' Retirement System and its responsibilities.

	At July 1	
	1975	1976
Number of Active Members	46,911	47,918
Average Balance per Active Member	\$ 4,080	\$ 4,646
Number of Service Retirants Receiving Benefits	10,328	11,089
Average Monthly Benefits per Service Retirant	\$ 320	\$ 382
Number of Members Receiving Disability Benefits	623	669
Average Monthly Benefit per Disability Retirant	\$ 255	\$ 320
Number of Survivors Receiving Monthly Benefits	618	688
Average Monthly Benefit per Survivor	\$ 212	\$ 231

BALANCE SHEET
 Teachers' Retirement System
 June 30, 1976

ASSETS

Cash, All Funds	\$ 5,131,517.00	
Special Reserve Account, Aetna Life Insurance Company	<u>290,837.00</u>	
		\$ 5,422,354.00
Overpayments By Employers		(24,936.86)
Investments	\$ 527,693,871.36	
Unamortized Premium on Investments	1,425,276.58	
Accrued Interest Purchased	<u>321,647.59</u>	
Sub-Total: Investments Plus Deferred Charges	\$529,440,795.53	
Deduct Unamortized Discount on Investments	<u>4,922,492.52</u>	
		<u>\$524,518,303.01</u>
TOTAL ASSETS		<u><u>\$529,915,720.15</u></u>

3 FUND BALANCES

Teachers' Savings Fund		\$231,213,678.75
State Accumulation Fund		231,213,678.75
Guarantee Fund		18,275,768.33
Hospital and Medical Insurance Fund		6,374,690.88
Voluntary Contributions, Active Members		2,233,799.81
Administrative Expense Fund		18,217.08
Allowance Reserve Fund		
Teachers' Contributions	\$ 6,537,440.75	
State Contributions (Permanent)	<u>24,637,231.33</u>	
		31,174,672.08
Survivor and Death Benefit Fund		
Reserve from Contributions from Active Members	\$ 8,470,426.15	
Reserve from State Matching Contributions	270,276.36	
Teachers' Balances, Accounts in Benefit Status	261,299.67	
State Reserve for Accounts in Benefit Status	<u>409,212.29</u>	
		<u>9,411,214.47</u>

TOTAL FUND BALANCES

\$529,915,720.15

STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS
 Teachers' Retirement System
 for the period July 1, 1975-June 30, 1976

CASH BALANCE, ALL FUNDS, July 1, 1975 \$ 2,533,654.38

Receipts:

Teachers' Savings	\$ 36,486,867.01	
Reinstatements	371,922.45	
Voluntary Unmatched Contributions	<u>408,818.19</u>	
 Total from Members		 \$ 37,267,607.65

State Contributions for:

Matching Teachers' Savings	32,626,965.00	
Prior Service Commitment	4,882,900.00	
1975 Bonus Payment to Retirees	3,587,500.00	
Administrative Expenses	<u>517,535.00</u>	

Total from State Appropriation 41,614,900.00

Employer Matching of Teacher Contributions (Fed. Funds)	2,238,733.26	
Sale of Investments	254,911,142.07	
Interest Income	28,691,658.77	
Dividend Income	2,796,374.25	
Net Increase in Special Reserve Acc't. - Aetna Insurance Co.	160,159.42	
Other Adjustments	<u>1,271,665.43</u>	

Total Receipts 368,952,240.85

TOTAL CASH AVAILABLE 371,485,895.23

Disbursements:

Administrative Expenses, Current Year	\$ 499,317.92	
Investment Counsel Fee	75,000.00	
Investment Processing Fees	40,000.00	
Refunds to Membership	3,447,869.52	
Premiums for Comprehensive Medical Insurance Plan	3,029,902.62	

Benefit Payments for:

Service and Disability Retirement	\$ 41,859,932.50	
Survivor Benefits	1,714,666.28	
Death Benefits	668,832.43	
1975 Bonus to Retirees	<u>3,488,926.03</u>	

Total Benefit Payments 47,732,357.24

Purchase of Investments	309,557,437.84	
Other Adjustments	<u>1,681,656.09</u>	

Total Disbursements 366,063,541.23

CASH BALANCE, ALL FUNDS, June 30, 1976 \$ 5,422,354.00

TEACHERS' RETIREMENT SYSTEM
COMPARATIVE BALANCE SHEET
June 30, 1976

	<u>June 30, 1974</u>		<u>June 30, 1975</u>		<u>June 30, 1976</u>	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
<u>ASSETS</u>						
Cash, All Funds	\$ 5,040,681.00	1.19	\$ 2,402,976.80	.51	\$ 5,131,517.00	.97
Special Reserve Account, Aetna Life Insurance	530,159.58	.12	130,677.58	.03	290,837.00	.05
Underpayments - (Overpayments) from Employers	17,094.95	.01	34,759.40	.01	(24,936.86)	(.01)
Investments	420,247,365.60	99.11	474,003,924.93	99.97	527,693,871.36	99.59
Unamortized Premium on Investments	1,455,466.08	.34	1,567,310.74	.33	1,425,276.58	.27
Accrued Interest Purchased	90,057.06	.02	292,871.72	.06	321,647.59	.06
Unamortized Discount on Investments	<u>(3,379,548.47)</u>	<u>(.79)</u>	<u>(4,328,595.57)</u>	<u>(.91)</u>	<u>(4,922,492.52)</u>	<u>(.93)</u>
TOTAL ASSETS	\$ <u>424,001,275.80</u>	100.00	\$ <u>474,103,925.60</u>	100.00	\$ <u>529,915,720.15</u>	100.00
<u>FUND BALANCES</u>						
Teachers' Savings Fund	\$ 184,683,730.16	43.56	\$ 204,122,170.48	43.05	\$ 231,213,678.75	43.63
State Accumulation Fund	184,683,730.16	43.56	204,122,170.48	43.05	231,213,678.75	43.63
Guarantee Fund	13,637,005.55	3.22	18,467,379.36	3.90	18,275,768.33	3.45
Hospital and Medical Insurance Fund	6,996,935.10	1.64	6,766,049.49	1.43	6,374,690.88	1.20
Voluntary Contributions Fund	2,073,367.59	.49	2,069,695.11	.44	2,233,799.81	.42
Administrative Expense Fund	29,873.42	.01	2,771.13	.01	18,217.08	.01
Allowance Reserve Fund	24,677,546.14	5.82	29,935,386.32	6.31	31,174,672.08	5.88
Survivor and Death Benefit Fund	<u>7,219,087.68</u>	<u>1.70</u>	<u>8,618,303.23</u>	<u>1.81</u>	<u>9,411,214.47</u>	<u>1.78</u>
TOTAL FUND BALANCES	\$ <u>424,001,275.80</u>	100.00	\$ <u>474,103,925.60</u>	100.00	\$ <u>529,915,720.15</u>	100.00

TEACHERS' RETIREMENT SYSTEM
COMPARATIVE STATEMENT OF SOURCE AND APPLICATION OF FUNDS
June 30, 1976

	YEAR ENDING					
	June 30, 1974		June 30, 1975		June 30, 1976	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Beginning Cash Balance:	\$ 6,258,237.91		\$ 5,570,840.58		\$ 2,533,654.38	
<u>Source of Funds</u>						
Teachers' Savings	27,003,178.52	11.10	31,973,452.50	7.70	36,486,867.01	9.89
Reinstatements	165,514.01	.07	402,089.05	.09	371,922.45	.10
Voluntary Unmatched Contributions	351,751.86	.14	348,805.53	.08	408,818.19	.11
<u>State Contributions:</u>						
Permanent, to match teachers' savings	25,226,962.66	10.37	29,721,938.46	7.15	32,626,965.00	8.85
Deficiency appropriation for matching	83,308.37	.03				
Prior Service Commitment	2,405,000.00	.99	7,267,400.00	1.75	4,882,900.00	1.32
Administrative Expenses	420,000.00	.17	455,300.00	.11	517,535.00	.14
Bonus Payment to Retirees	1,219,358.97	.50	2,974,061.54	.72	3,587,500.00	.97
Sale of Investments	162,734,692.97	66.87	313,191,145.34	75.36	254,911,142.07	69.09
Interest Income	18,900,815.95	7.77	23,783,638.87	5.72	28,691,658.77	7.78
Dividend Income	2,713,740.87	1.12	2,580,274.05	.62	2,796,374.25	.76
Employer Matching of Teacher Contributions (Fed. Funds)	1,775,589.01	.73	2,152,024.72	.52	2,238,733.26	.61
Net Increase in Special Reserve Acc't.-Aetna Ins. Co.					160,159.42	.04
Other Adjustments	372,843.83	.14	752,767.92	.18	1,271,665.43	.34
Total Source of Funds	\$ 243,372,757.02	100.00	\$ 415,602,897.98	100.00	\$ 368,952,240.85	100.00
Total Cash Available	\$ 249,630,994.93		\$ 421,173,738.56		\$ 371,485,895.23	
<u>Application of Funds</u>						
Administrative Expenses	390,126.58	.16	\$ 452,528.87	.11	\$ 499,317.92	.14
Investment Counsel Fee	29,500.00	.01	69,000.00	.02	75,000.00	.02
Investment Processing Fees	3,754.72	.01	40,000.00	.01	40,000.00	.01
Net Decrease in Special Reserve Acc't.-Aetna Ins. Co.	24,320.00	.01	399,482.00	.10		
Refunds for Withdrawal from Membership	3,629,397.75	1.49	4,257,525.86	1.02	3,447,869.52	.94
Premiums for Comprehensive Medical Insurance	1,404,652.12	.58	2,077,532.99	.50	3,029,902.62	.83
Benefits for Service and Disability Retirement	31,740,644.31	13.00	37,177,812.64	8.88	41,859,932.50	11.44
Survivor Benefits	738,060.00	.30	1,522,462.03	.36	1,714,666.28	.47
Death Benefits	702,750.43	.29	660,874.32	.16	668,832.43	.18
Bonus Payments	1,219,358.97	.50	2,974,061.54	.71	3,488,926.03	.95
Purchase of Investments	203,664,900.28	83.45	368,843,522.83	88.10	309,557,437.84	84.56
Other Adjustments	512,689.19	.20	165,281.10	.03	1,681,656.09	.46
Total Application of Funds	\$ 244,060,154.35	100.00	\$ 418,640,084.18	100.00	\$ 366,063,541.23	100.00
Ending Cash Balance (Includes Special Reserve Account)	\$ 5,570,840.58		\$ 2,533,654.38		\$ 5,422,354.00	

COMPARISON OF TEACHERS' SAVINGS AND MATCHING FUNDS
 Teachers' Retirement System
 for the period July 1, 1940 through June 30, 1976

Date	Teachers' Savings	Federal Matching Contributions	State Matching Contributions	State Prior Service Contributions	State Cont. Bonus Benefits	State Contribution For Expenses
7/1/40-6/30/44	\$ 2,063,716.64	\$	\$ 2,063,636.92	\$ 147,146.21	\$	\$ 89,216.87
7/1/44-6/30/48	3,184,177.52		3,039,017.44	363,594.56		131,388.00
7/1/48-6/30/52	4,951,457.55		5,090,847.83	3,374,273.81		198,335.00
7/1/52-6/30/56	7,267,163.31		6,494,101.79	936,448.21		262,254.00
1956-57	3,397,252.11		3,396,749.24	611,125.76		89,000.00
1957-58	3,523,727.93		3,523,551.57	612,278.43		125,225.00
1958-59	3,863,489.84		3,858,543.67	479,306.33		129,350.00
1959-60	4,186,490.96		4,184,427.58	281,225.77		178,146.65
1960-61	5,792,722.05		5,790,585.89	1,173,039.11		161,375.00
1961-62	6,311,472.35		6,309,696.04	1,119,118.96		171,185.00
1962-63	6,765,354.48		6,763,615.18	950,175.82		196,846.00
1963-64	7,076,348.40		7,074,866.28	696,608.72		220,657.00
1964-65	7,780,975.02		7,780,017.37	400,782.63		219,200.00
1965-66	11,839,447.87	147,969.24	10,744,110.00			255,890.00
1966-67	14,163,257.71	942,771.10	12,621,567.00			237,063.00
1967-68	16,173,617.90	951,273.29	14,172,000.00			225,000.00
1968-69	18,080,829.17	1,301,561.26	18,475,036.94	424,963.06		266,760.00
1969-70	19,774,253.40	1,355,704.89	16,913,000.00			274,910.00
1970-71	22,005,053.79	1,653,942.27	22,513,528.00			364,742.00
1971-72	23,062,733.07	1,733,656.39	22,190,386.00			342,675.00
1972-73	24,885,851.66	1,852,868.65	24,006,510.57	750,000.00	1,004,289.43	373,100.00
1973-74	27,003,178.52	1,775,589.01	25,310,271.03	2,405,000.00	1,219,358.97	420,000.00
1974-75	31,973,452.50	2,152,024.72	29,721,938.46	7,267,400.00	2,974,061.54	455,300.00
1975-76	36,486,867.01	2,238,733.26	32,626,965.00	4,882,900.00	3,587,500.00	517,535.00
TOTALS	<u>\$311,612,890.76</u>	<u>\$ 16,106,094.08</u>	<u>\$ 294,664,969.80</u>	<u>\$ 26,875,387.38</u>	<u>\$ 8,785,209.94</u>	<u>\$ 5,905,153.52</u>

RECAPITULATION

State permanent contributions to match teacher payments	294,664,969.80
Federal Matching through remittances by employers	<u>16,106,094.08</u>
Total matching under the statutory requirement for 100% matching of teachers payments	310,771,063.88
Teacher payments made thru June, 1976	<u>311,612,890.76</u>
State deficit in matching contributions as of June 30, 1976	<u>(841,826.88)</u>

REGULAR REFUNDS
Teachers' Retirement System
July 1, 1940 to June 30, 1976

Date	Withdrawals		Deaths		Adjustments		TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
7/1/40-6/30/44	2,654	\$ 106,474.07	148	\$ 11,447.66	21	\$ 231.76	2,823	\$ 118,153.49
7/1/44-6/30/48	6,455	415,929.56	205	34,386.65	52	1,184.73	6,712	451,500.94
7/1/48-6/30/52	9,079	816,505.87	267	89,957.65	71	1,443.47	9,417	907,906.99
7/1/52-6/30/56	9,488	1,204,087.67	237	147,531.23	39	727.79	9,764	1,352,346.69
7/1/56-6/30/60	8,810	1,835,748.41	255	287,341.43	285	7,678.97	9,350	2,130,768.81
1960-61	1,672	517,682.44	53	79,564.69	52	2,145.72	1,777	599,392.85
1961-62	2,170	724,240.16	69	113,975.25	42	1,769.95	2,281	839,985.36
1962-63	2,106	826,457.63	66	115,303.28	48	1,718.89	2,220	943,479.80
1963-64	2,310	1,035,242.10	60	144,154.22	26	1,460.21	2,396	1,180,856.53
1964-65	2,380	1,190,715.07	72	156,186.68	39	1,930.17	2,491	1,348,831.92
∞ 1965-66	2,417	1,375,728.50	44	90,196.91	23	1,256.68	2,484	1,467,182.09
1966-67	2,512	1,500,846.42	49	143,133.98	29	2,420.61	2,590	1,646,401.01
1967-68	2,766	1,858,115.15	48	138,362.23	16	975.68	2,830	1,997,453.06
1968-69	3,081	2,204,896.23	48	152,415.64	90	2,264.79	3,219	2,359,576.66
1969-70	3,447	2,651,430.47	53	200,204.03	48	8,097.76	3,548	2,859,732.26
1970-71	3,808	3,241,516.61	56	188,158.04	40	6,701.36	3,904	3,436,376.01
1971-72	3,011	2,812,762.92	36	131,650.80	40	5,953.59	3,087	2,950,367.31
1972-73	4,048	3,485,841.89	59	197,514.29	24	1,366.87	4,131	3,684,723.05
1973-74	2,956	3,245,099.68	51	173,900.70	13	4,833.36	3,020	3,423,833.74
1974-75	2,822	3,756,969.63	43	205,715.67	16	1,418.87	2,881	3,964,104.17
1975-76	2,242	2,992,768.00	31	178,866.66	68	12,642.93	2,341	3,184,277.59
TOTALS	<u>80,234</u>	<u>\$37,799,058.48</u>	<u>1,950</u>	<u>\$2,979,967.69</u>	<u>1,082</u>	<u>\$68,224.16</u>	<u>83,266</u>	<u>\$40,847,250.33</u>

ANALYSIS OF ACCOUNTS REFUNDED 1975-76
Teachers' Retirement System of the State of Kentucky

<u>REASON FOR WITHDRAWAL</u>	<u>MALES</u>	<u>FEMALES</u>	<u>TOTAL</u>	<u>AMOUNT</u>
Other Teaching Employment:				
State of Ohio	23	57	80	109,761.27
State of Florida	9	23	32	45,710.56
State of Indiana	16	42	58	55,912.66
Other States	112	215	327	419,717.69
Outside Limits of USA	6	5	11	14,698.71
Kentucky Schools not covered by Teachers' Retirement System	21	34	55	61,518.08
Non-Teaching Employment:				
Entered Business or Industry	263	129	392	665,301.54
Church-Related Profession	12	6	18	29,637.78
Legal Profession	2	0	2	6,617.97
Military Service	6	1	7	3,452.32
Further Training & Education	66	81	147	157,509.36
Local, State, or Federal Government	11	16	27	16,936.70
Homemaking, Family Duties, Children	1	276	277	399,128.45
Spouse Transferred Within Kentucky	0	18	18	23,833.20
Spouse Transferred Out of Kentucky	0	182	182	213,847.29
Moved Residence to Another State	14	49	63	119,487.20
Emergency Teacher, Not Re-employed	35	53	88	99,402.49
Salary Too Low	24	3	27	43,770.27
Needed the Money	9	25	34	40,152.25
Disliked Teaching	14	14	28	35,795.65
Personal Reasons	77	119	196	307,287.44
Illness of Member	8	25	33	38,876.77
Death of Member	7	24	31	178,866.66
Lost Service Credit, Absent 7 or More Yrs.	25	115	140	84,412.35
Adjustments	11	57	68	12,642.93
Sub-Total	772	1,569	2,341	3,184,277.59
Refunds from Voluntary Savings	36	25	61	250,035.97
Not Eligible for Membership	22	44	66	13,555.96
Grand Total	<u>830</u>	<u>1,638</u>	<u>2,468</u>	<u>3,447,869.52</u>

INVESTMENTS

The following two pages provide a summary of the investment situation for the System's trust funds at the close of the fiscal year. Average yield on fixed dollar assets increased from 7.13% to 7.34% per annum. This increase in the rate of return can be attributed to the prudent investment of cash flow in high grade intermediate term securities and a continuation of the program of exchanging securities which was initiated several years ago.

Details of the various transactions are too voluminous to include here, but such information is available to auditors and other interested persons.

Following is some general information concerning the investment program which may be of interest to members of the System:

1. As far as Teachers' Retirement is concerned, Kentucky is a "legal list" state. This means that the type, quality and in some cases quantity limitations are stated specifically in the Statutes.
2. The Board of Trustees annually appoints an investment committee consisting of two board members and the executive secretary. This committee makes investments subject to full board approval. Investment counsel is retained by the board on contract. Presently the Boston Company of Louisville serves in this capacity.
3. Within the framework of the Statutes, the Board of Trustees has established a detailed policy governing investment procedures. This policy, which is subject to change as conditions warrant, is available to interested persons.
4. The return from invested reserves is one of the very important revenue sources for active and retired teachers. For example, a teacher entering the profession after 1966 will find that her contributions will pay 25% of her retirement benefits, the state's contribution 25% and investment return the remaining 50%.

ANALYSIS OF INVESTMENTS HELD JUNE 30, 1976

to show annual yield rate

Teachers' Retirement System of the State of Kentucky

	Percentage of Total	Par Value	Net Annual Interest/Indicated Dividend Income	Net Annual Yield
U. S. Treasury - Repurchase Agreements & Notes	6.44%	\$ 34,000,000.00	\$ 2,416,103.14	7.106%
Obligations Secured by U. S. Treasury	1.67%	8,828,830.35	640,307.83	7.252%
Federal Agencies	22.59%	119,224,077.36	9,497,454.30	7.966%
FHA & VA Mortgages	7.89%	41,624,199.77	2,578,542.89	6.195%
II Other Guaranteed Mortgages	2.59%	13,636,904.05	941,306.16	6.903%
Corporate Bonds	40.32%	212,770,998.83	15,516,052.37	7.292%
Kentucky Industrial Development Finance Authority	.20%	1,028,333.43	51,425.01	5.001%
 Sub-Total	 81.70%	 \$431,113,343.79	 \$31,641,191.70	
 <u>NET YIELD RATE:</u>				
$\$31,641,191.70 \div \$431,113,343.79 = 7.339\%$				
 <u>Not Included Above:</u>				
2,000,217 Shares Common Stocks	18.30%	96,580,527.57	\$ 3,142,003.20	
$\$3,142,003.20 \div \$96,580,527.57 = 3.253\%$				
 TOTAL INVESTMENTS	 100.00%	 \$527,693,871.36		

SUMMARY OF INVESTMENT TOTALS AND YIELDS
ON FIXED DOLLAR ASSETS

<u>Year</u>	<u>Total of Invested Assets</u>	<u>Fixed Dollar Net Yield</u>
1959	\$ 57,572,000	3.39
1960	64,655,000	3.53
1961	78,017,000	3.81
1962	90,712,000	4.03
1963	102,938,000	4.17
1964	118,466,000	4.27
1965	132,805,000	4.43
1966	152,609,000	4.58
1967	174,612,000	4.69
1968	200,836,000	5.06
1969	235,898,000	5.32
1970	267,514,029	5.59
1971	295,882,441	6.08
1972	332,807,632	6.34
1973	378,403,868	6.55
1974	420,247,366	7.00
1975	474,003,925	7.13
1976	527,693,871	7.34

ACTUARIAL VALUATION

The Actuarial Valuation as of July 1, 1976, had not been received on the publication date of this report. The valuation will be available in the offices of the System for inspection by interested persons.

AUDIT REPORT

Each year, the records of the Teachers' Retirement System are subject to a certified financial audit to be conducted by an independent auditing firm. For the fiscal year ended June 30, 1976, the Charles T. Mitchell Company, a Certified Public Accounting firm, performed the audit. The next several pages contain the certification and the audited financial statements as prepared by the CPA firm.

ACTUARIAL VALUATION

The Actuarial Valuation as of July 1, 1976, had not been received on the publication date of this report. The valuation will be available in the offices of the System for inspection by interested persons.

TEACHERS' RETIREMENT SYSTEM
OF THE COMMONWEALTH OF KENTUCKY

REPORT OF AUDIT
FOR FISCAL YEAR ENDED
JUNE 30, 1976

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CHARLES T. MITCHELL COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
BOX 698
FRANKFORT, KENTUCKY
TELEPHONE 227-7395

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

MEMBERS
KY. SOC. C.P.A.
AMER. INST. C.P.A.

December 10, 1976

The Board of Trustees
Kentucky Teachers' Retirement System
214 W. Main Street
Frankfort, Kentucky 40601

Gentlemen:

We have examined the balance sheet of the Kentucky Teachers' Retirement System as of June 30, 1976 and 1975 and the related statements of operation and fund balance for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Kentucky Teachers' Retirement System at June 30, 1976 and 1975, and the results of its operations for the years then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Respectfully submitted,

Charles T. Mitchell Co.

CHARLES T. MITCHELL COMPANY

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BOARD OF TRUSTEES AND ADMINISTRATIVE PERSONNEL
HOLDING OFFICE AT DECEMBER 10, 1976

BOARD MEMBERS

W.D. Bruce, Jr. Chairman / Teacher Trustee
Mrs. James Sheehan, Vice-Chairman / Lay Trustee
Mrs. Martha Baker, Member / Teacher Trustee
Mrs. Edythe Hayes, Member / Teacher Trustee
T. K. Stone, Member / Retired Teacher Trustee
Ruth Reeves, Member / Teacher Trustee
Rumsey Taylor, Sr., Member / Lay Trustee
Frances J. Mills, Member Ex-Officio / State Treasurer
James B. Graham, Member Ex-Officio / Superintendent of Public Instruction

ADMINISTRATIVE PERSONNEL

Pat Miller, Executive Secretary
Charles L. Bratton, Deputy Executive Secretary
Billy Hunt, Deputy Executive Secretary

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET
JUNE 30, 1976 AND 1975

	JUNE 30 1976	JUNE 30 1975
<u>ASSETS</u>		
Cash	\$ 5 131 517 00	\$ 2 402 976 80
Investments:		
Bonds and notes (approximate quoted market values - \$397,844,527.00 as of June 30, 1976 and \$343,012,437.00 as of June 30, 1975)	427 616 127 85	384 148 451 82
Common and preferred stocks (approximate quoted market values - \$84,304,089.00 as of June 30, 1976 and \$71,544,420.00 as of June 30, 1975)	96 580 527 57	87 094 188 28
Accrued interest purchased	321 647 59	292 871 72
Special reserve account, Aetna Life Insurance Co	290 837 00	130 677 58
Irregular payments - escrow account	(24 936 86)	34 759 40
TOTAL ASSETS	\$529 915 720 15	\$474 103 925 60
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES		
Treasurers unredeemed checks	\$ 10 513 41	\$ 3 374 52
FUND BALANCES		
Teacher's Savings Fund	\$231 213 678 75	\$204 122 170 48
State Accumulation Fund	231 213 678 75	204 122 170 48
Allowance Reserve Fund	31 174 672 08	29 935 386 32
Guarantee Fund	18 265 254 92	18 464 004 84
Voluntary Contribution Fund	2 233 799 81	2 069 695 11
Hospital and Medical Insurance Fund	6 374 690 88	6 766 049 49
Survivors and Death Benefit Fund	9 411 214 47	8 618 303 23
General Expense Fund	18 217 08	2 771 13
Total Fund Balances	\$529 905 206 74	\$474 100 551 08
TOTAL LIABILITIES AND FUND BALANCES	\$529 915 720 15	\$474 103 925 60

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 COMBINED STATEMENT OF OPERATIONS AND FUND BALANCE
 FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	FISCAL YEAR ENDED JUNE 30	
	1976	1975
<u>REVENUES</u>		
Teachers' contributions	\$ 36 486 867 01	\$ 31 973 452 50
State matching contributions	37 509 865 00	36 939 500 00
Interest earned on investments	31 488 033 02	26 363 912 92
Cost-of-living appropriation	3 587 500 00	3 023 900 00
Employers' matching contributions	2 238 733 26	2 152 024 72
General expense fund appropriations	517 535 00	455 300 00
Voluntary contributions	408 818 19	348 805 53
Teachers' reinstatements	371 922 45	402 089 05
Irregular payments - escrow account		7 611 63
Aetna Life Insurance Company - reserve		
Interest income	8 494 00	31 810 00
Experience increase (deficit)	151 665 42	(431 292 00)
Gain (loss) on sale of investments (see note)	(2 086 081 93)	(1 938 075 50)
Forfeitures and adjustments	737 29	4 461 46
Total Revenues	<u>\$110 684 088 71</u>	<u>\$ 99 333 500 31</u>
<u>EXPENDITURES</u>		
Benefits for service and disability retirements	\$ 41 859 932 50	\$ 37 177 812 64
Refund members' contributions	3 447 869 52	4 257 525 86
Cost of living bonus	3 488 926 03	2 974 061 54
Survivor and death benefits	2 383 498 71	2 183 336 35
Comprehensive medical insurance premiums	3 029 902 62	2 077 532 99
General expense fund expenditures	499 317 92	452 528 87
Investment counsel and processing fee	115 000 00	109 000 00
Irregular payments - escrow account	54 985 75	
Total Expenditures	<u>\$ 54 879 433 05</u>	<u>\$ 49 231 798 25</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	<u>\$ 55 804 655 66</u>	<u>\$ 50 101 702 06</u>
<u>TOTAL FUND BALANCES</u>		
Beginning of year	<u>474 100 551 08</u>	<u>423 998 849 02</u>
End of year	<u>\$529 905 206 74</u>	<u>\$474 100 551 08</u>

NOTE: A substantial portion of the loss on sale of securities results from the immediate recognition of loss on securities sold to effect a rollover repurchase of higher overall yield securities. Accounting principles require this recognition while the increased income and recovery is reflected as additional income over the life of the purchased security.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
TEACHERS' SAVINGS FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	YEAR ENDED JUNE 30	
	1976	1975
<u>REVENUES</u>		
Teachers' contributions	\$ 34 188 076 91	\$ 29 917 622 62
Reinstatements	337 853 38	369 667 63
Irregular payments prior year - escrow		32 502 30
Transfers from allowance reserve fund		
Formerly disabled teachers returning to teaching	9 012 35	
Transfers from guarantee fund		
Interest on fund balance	5 781 042 54	5 086 962 31
Transfers from Hospital and Medical Insurance Fund		
To close out prior year underpayments by employers	1 099 59	969 56
To adjust for overpayments by employers	809 64	
Transfers from survivor and death benefit fund		
To close out prior year underpayments by employers	1 099 59	969 56
To adjust for overpayments by employers	809 64	
Forfeitures and adjustments	3 548 21	1 857 79
Total Revenues	<u>\$ 40 323 351 85</u>	<u>\$ 35 410 551 77</u>
<u>EXPENDITURES</u>		
Refunds - regular	\$ 3 184 277 59	\$ 3 964 104 17
Refunds - special	13 555 96	13 742 81
Irregular payments current year - escrow	23 317 58	
Irregular payments prior year - escrow	31 668 17	25 208 65
Transfers to allowance reserve fund		
Retirements	9 677 281 22	11 627 640 47
Transfers to guarantee fund		
Forfeitures and adjustments	4 821 63	6 227 92
Transfers to survivors and death benefit fund		
Survivors benefits	296 921 43	335 187 43
Total Expenditures	<u>\$ 13 231 843 58</u>	<u>\$ 15 972 111 45</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 27 091 508 27	\$ 19 438 440 32
<u>FUND BALANCE</u>		
Beginning of year	<u>204 122 170 48</u>	<u>184 683 730 16</u>
End of year	\$ 231 213 678 75	\$ 204 122 170 48

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
STATE ACCUMULATION FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	YEAR ENDED JUNE 30	
	1976	1975
<u>REVENUES</u>		
State contributions - permanent	\$ 30 508 331 02	\$ 27 744 463 76
State contributions - prior service	4 882 900 00	7 267 400 00
Employers' matching contributions	2 093 361 20	2 012 283 00
Teachers' reinstatement contributions	34 069 07	32 421 42
Expense fund balance - 1975 and 1974	2 771 13	29 873 42
Transfers from allowance reserve fund		
Formerly disabled teachers returning to teaching	21 044 70	
Transfers from guarantee fund		
Interest on fund balance	5 781 042 54	5 086 962 31
Reinstatements	337 853 38	369 667 63
To adjust for underpayments by employers		32 502 30
To adjust state contributions to match Teachers' contributions (see note 1)	1 543 413 85	131 186 85
Forfeitures and adjustments	1 869 37	
Total Revenues	\$ 45 206 656 26	\$ 42 706 760 69
<u>EXPENDITURES</u>		
Transfers to allowance reserve fund		
Retirements	\$ 9 677 281 22	\$ 11 627 640 47
State contributions - temporary	4 882 900 00	7 267 400 00
Expense fund balance - 1975 and 1974	2 771 13	29 873 42
Transfers to guarantee fund		
To close underpayments by employers	31 668 17	25 208 65
Refunds	3 195 466 83	3 975 387 78
To adjust 1975-76 overpayment by employers	23 317 58	
Forfeitures and adjustments	4 821 63	6 322 70
Transfers to survivors and death benefit fund		
Survivors' benefits	296 921 43	335 187 43
Forfeitures and adjustments		1 299 92
Total Expenditures	\$ 18 115 147 99	\$ 23 268 320 37
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 27 091 508 27	\$ 19 438 440 32
<u>FUND BALANCE</u>		
Beginning of year	204 122 170 48	184 683 730 16
End of year	\$231 213 678 75	\$204 122 170 48

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
ALLOWANCE RESERVE FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	YEAR ENDED JUNE 30	
	1976	1975
<u>REVENUES</u>		
Transfers from teacher's savings fund		
Retirements	\$ 9 677 281 22	\$ 11 627 640 47
Transfers from state accumulation fund		
Retirements	9 677 281 22	11 627 640 47
State contributions - prior service (see note 2)	4 882 900 00	7 267 400 00
Expense fund balance - 1975 and 1974 (see note 2)	2 771 13	29 873 42
Transfers from guarantee fund		
Interest on fund balance (see note 2)	952 928 08	979 410 38
State deficiency in service obligations for teachers retired (see note 2)	17 859 613 80	11 358 771 97
Transfers from voluntary contribution fund		
Teachers and employers voluntary contributions	106 946 31	160 064 13
Cost-of-living bonus appropriation	3 587 500 00	3 023 900 00
Forfeitures and adjustments		3 658 45
Total Revenues	\$ 46 747 221 76	\$ 46 078 359 29
<u>EXPENDITURES</u>		
Benefits for service and disability retirements	\$ 41 859 932 50	\$ 37 177 812 64
Transfers to guarantee fund		
Over appropriation for cost-of-living bonus (see note 1)	98 573 97	49 838 46
Transfers to teachers' savings fund and state accumulation fund		
Formerly disabled teachers returning to teaching		
TSF	9 012 35	
Formerly disabled teachers returning to teaching		
SAF	21 044 70	
Transfers to survivors and death benefit fund		
Transfers for payments to survivors of deceased members	30 445 75	618 806 47
Cost-of-living bonus	3 488 926 03	2 974 061 54
Forfeitures and adjustments	70	
Total Expenditures	\$ 45 507 936 00	\$ 40 820 519 11
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 1 239 285 76	\$ 5 257 840 18
<u>FUND BALANCE</u>		
Beginning of year	29 935 386 32	24 677 546 14
End of year	\$ 31 174 672 08	\$ 29 935 386 32

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 GUARANTEE FUND
 STATEMENT OF OPERATIONS AND FUND BALANCE
 FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	YEAR ENDED JUNE 30	
	1976	1975
<u>REVENUES</u>		
Interest and dividends earned on investments	\$ 31 488 033 02	\$ 26 363 912 92
Transfers from teachers' savings fund		
To close inactive accounts	4 821 63	6 227 92
Transfers from state accumulation fund		
Refunds	3 195 466 83	3 975 387 78
To close underpayments by employers	31 668 17	25 208 65
To close inactive accounts	4 821 63	6 322 70
To adjust 1975-76 overpayments by employers	23 317 58	
Transfers from allowance reserve fund		
To adjust for overmatches by state in accordance with KRS 161.420 (7)	98 573 97	49 838 46
Transfers from voluntary contribution fund		
To adjust voluntary contributions to actual		338 36
Transfers from hospital and medical insurance fund		
To close out prior year underpayments by employers	1 099 59	969 56
To adjust for overpayments by employers	809 64	
To adjust for overmatches by state in accordance with KRS 161.420 (7)		5 774 04
Transfers from survivors death benefit fund		
To close out prior year underpayments by employers	1 099 59	969 56
To adjust for overpayments for employers	809 64	
To adjust for overmatches by state in accordance with KRS 161.420 (7)		5 774 04
Gain (loss) on sale of investments (see note)	(2 086 081 93)	(1 938 075 50)
Total Revenues	<u>\$ 32 764 439 36</u>	<u>\$ 28 502 648 49</u>
<u>EXPENDITURES</u>		
Investment counsel and processing fees	\$ 115 000 00	\$ 109 000 00
Transfers to teachers' savings fund		
Interest on fund balance	5 781 042 54	5 086 962 31
Transfers to state accumulation fund		
Interest on fund balance	5 781 042 54	5 086 962 31
Reinstatements	337 853 38	369 667 63
To adjust for underpayment by employers		32 502 30
To adjust state contributions to match teachers' contributions (see note 1)	1 543 413 85	131 186 85
Transfers to allowance reserve fund		
Interest on fund balance	952 928 08	979 410 38
State deficiency in service obligations for teachers retired (see note 2)	17 859 613 80	11 358 771 97
Transfers to voluntary contribution fund		
Interest on fund balance	112 267 85	107 438 87

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 GUARANTEE FUND
 STATEMENT OF OPERATIONS AND FUND BALANCE (CONTINUED)
 FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	YEAR ENDED JUNE 30	
	1976	1975
<u>EXPENDITURES (CONTINUED)</u>		
Transfers to hospital and medical insurance fund		
Interest on fund balance	\$ 184 212 98	\$ 190 818 22
To adjust for underpayment by employers		1 128 55
To adjust state contributions to match teachers' contributions (see note 1)	17 392 03	
Transfers to survivors death benefit fund		
Interest on fund balance	257 949 73	239 156 76
To adjust for underpayment by employers		1 128 55
To adjust state contributions to match teachers' contributions (see note 1)	17 392 03	
Forfeitures and adjustments	3 080 47	15 917 99
Total Expenditures	\$ 32 963 189 28	\$ 23 710 052 69
 <u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</u>	 \$ (198 749 92)	 \$ 4 792 595 80
 <u>FUND BALANCE</u>		
Beginning of year	18 464 004 84	13 671 409 04
End of year	\$ 18 265 254 92	\$ 18 464 004 84

NOTE: A substantial portion of the loss on sale of securities results from the immediate recognition of loss on securities sold to effect a rollover repurchase of higher overall yield securities. Accounting principles require this recognition while the increased income and recovery is reflected as additional income over the life of the purchased security.

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
VOLUNTARY CONTRIBUTION FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	YEAR ENDED JUNE 30	
	1976	1975
<u>REVENUES</u>		
Voluntary contributions	\$ 408 818 19	\$ 348 805 53
Transfers from guarantee fund:		
Interest on fund balance	112 267 85	107 438 87
Forfeitures and adjustments	94	16 994 76
Total Revenues	\$ 521 086 98	\$ 473 239 16
<u>EXPENDITURES</u>		
Refunds - teachers' voluntary contributions and employers' voluntary contributions	\$ 250 035 97	\$ 279 678 88
Transfers to allowance reserve fund:		
Voluntary contributions used in determining retirement benefits	106 946 31	160 064 13
Transfers to guarantee fund:		
To adjust voluntary contributions to actual	-0-	338 36
Total Expenditures	\$ 356 982 28	\$ 440 081 37
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 164 104 70	\$ 33 157 79
<u>FUND BALANCE</u>		
Beginning of year	2 069 695 11	2 036 537 32
End of year	\$ 2 233 799 81	\$ 2 069 695 11

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
HOSPITAL AND MEDICAL INSURANCE FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	YEAR ENDED JUNE 30	
	1976	1975
<u>REVENUES</u>		
Teachers' contributions	\$ 1 149 395 05	\$ 1 027 914 94
Employer matching contributions	72 686 03	69 870 86
State matching contributions	1 059 316 99	963 818 12
Transfers from teachers' savings fund:		
To adjust for underpayment by employers		1 128 55
Transfers from guarantee fund:		
Interest on fund balance	184 212 98	190 818 22
To adjust for underpayment by employers		1 128 55
Transfer to comply with KRS 161.420 (7) and KRS 161.550	17 392 03	
Aetna Life Insurance Company		
Interest	8 494 00	31 810 00
Experience increase (deficit)	151 665 42	(431 292 00)
Total Revenues	\$ 2 643 162 50	\$ 1 855 197 24
<u>EXPENDITURES</u>		
Comprehensive medical insurance premiums	\$ 3 029 902 62	\$ 2 077 532 99
Transfers to teachers' savings fund:		
To close 1973-74 underpayment by employers		969 56
To close 1974-75 underpayment by employers	1 099 59	
To adjust for overpayment by employers	809 64	
Transfers to guarantee fund:		
To close 1973-74 underpayment by employers		969 56
To close 1974-75 underpayment by employers	1 099 59	
To adjust for overpayment by employers	809 64	
Transfers to comply with KRS 161.420 (7) and KRS 161.550		5 774 04
Forfeitures and adjustments	800 03	836 70
Total Expenditures	\$ 3 034 521 11	\$ 2 086 082 85
<u>EXCESS (DEFICIT) REVENUES OVER EXPENDITURES</u>	\$ (391 358 61)	\$ (230 885 61)
<u>FUND BALANCE</u>		
Beginning of year	6 766 049 49	6 996 935 10
End of year	\$ 6 374 690 88	\$ 6 766 049 49

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
SURVIVOR AND DEATH BENEFIT FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	YEAR ENDED JUNE 30	
	1976	1975
<u>REVENUES</u>		
Teachers' contributions	\$ 1 149 395 05	\$ 1 027 914 94
Employer matching contributions	72 686 03	69 870 86
State matching contributions	1 059 316 99	963 818 12
Transfers from teachers' savings fund:		
Survivor payments	296 921 43	335 187 43
To adjust for underpayment by employers		1 128 55
Transfers from state accumulation fund:		
Survivor payments	296 921 43	335 187 43
Transfers from allowance reserve fund:		
Transfers for payments to survivors of deceased members	30 445 75	618 806 47
Transfers from guarantee fund:		
Interest on fund balance	257 949 73	239 156 76
To adjust for underpayment by employers		1 128 55
Transfer to comply with KRS 161.420 (7) and 161.550 (see note 1)	17 392 03	
Total Revenues	<u>\$ 3 181 028 44</u>	<u>\$ 3 592 199 11</u>
<u>EXPENDITURES</u>		
Survivor and death benefit payments	\$ 2 383 498 71	\$ 2 183 336 35
Transfers to teachers' savings fund:		
To close 1973-74 underpayment by employers		969 56
To close 1974-75 underpayment by employers	1 099 59	
To adjust for overpayment by employers	809 64	
Transfers to guarantee fund:		
To close 1973-74 underpayment by employers		969 56
To close 1974-75 underpayment by employers	1 099 59	
To adjust for overpayment by employers	809 64	
Transfer to comply with KRS 161.420 (7) and 161.550		5 774 04
Forfeitures and adjustments	800 03	1 934 05
Total Expenditures	<u>\$ 2 388 117 20</u>	<u>\$ 2 192 983 56</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 792 911 24	\$ 1 399 215 55
<u>FUND BALANCE</u>		
Beginning of year	<u>8 618 303 23</u>	<u>7 219 087 68</u>
End of year	\$ 9 411 214 47	\$ 8 618 303 23

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 GENERAL EXPENSE FUND
 STATEMENT OF OPERATIONS
 FOR THE YEARS ENDED JUNE 30, 1976 AND 1975

	YEAR ENDED JUNE 30	
	1976	1975
<u>ALLOTMENTS</u>		
Regular legislative appropriations	\$ 517 535 00	\$ 455 300 00
<u>EXPENDITURES</u>		
Personal services		
Salaries	\$ 312 162 20	\$ 288 682 46
Contracted professional and consulting services	30 477 42	50 897 05
Current operating expenses		
Life insurance - employees	475 11	420 23
Postage, freight, and express	53 059 86	26 281 50
Telephone and telegraph	5 964 60	4 966 99
Travel - in state	8 060 88	4 034 13
Travel - out of state	2 133 83	2 033 00
Printing	4 155 38	7 545 11
Maintenance of equipment	2 156 41	1 700 63
Maintenance of building	1 286 67	-0-
Office supplies	6 386 34	6 750 07
Messenger vehicle	780 90	304 28
Rental of building	18 029 00	18 029 04
Rental of equipment	28 829 49	25 860 43
Insurance	1 342 31	1 255 01
Fidelity bonds	35 00	70 00
Dues and subscriptions	1 277 08	1 622 37
Miscellaneous	2 400 65	661 09
Capital Outlay		
Office furniture, fixtures, and equipment	20 304 79	11 415 48
Total Expenditures	\$ 499 317 92	\$ 452 528 87
Ending balance lapsed to Teachers' Retirement System Allowance Reserve Fund	\$ 18 217 08	\$ 2 771 13

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET COMMENTS
JUNE 30, 1976

CASH - \$5,131,517.00

Cash consists of:

Cash on deposit with the Kentucky State Treasurer \$ 5 131 517 00

INVESTMENTS - AT COST

Investments consist of:

BONDS AND NOTES

Maturity Value

	June 30, 1976	June 30, 1975
Obligations secured by U.S. Treasury		
Treasury bonds and bills	\$ 34 000 000 00	\$ 14 500 000 00
Federal Agencies	119 224 077 36	84 221 305 62
Republic of Panama External Secured	2 385 000 00	2 385 000 00
Maritime bonds	5 841 999 97	2 613 000 00
FHA and VA mortgages	41 624 199 77	40 688 920 55
Railroad notes	601 830 38	631 830 38
Other mortgages	13 636 904 05	12 162 807 39
Total Secured by U.S. Treasury	\$217 314 011 53	\$157 202 863 94
Corporate Bonds		
Telephone	\$ 13 590 000 00	\$ 23 700 000 00
Public Utilities	54 567 000 00	54 545 000 00
Industrials	78 669 651 15	77 723 307 69
Finance	49 342 160 47	52 750 883 93
Railroads	16 099 687 21	17 779 681 02
Miscellaneous	502 500 00	2 083 000 00
Total Corporate Bonds	\$212 770 998 83	\$228 581 872 64
Other		
Kentucky Industrial Development		
Finance Authority Notes	\$ 1 028 333 43	\$ 1 125 000 07
 TOTAL BONDS AT MATURITY VALUE	 \$431 113 343 79	 \$386 909 736 65
Unamortized premiums	1 425 276 58	1 567 310 74
Unamortized discounts	(4 922 492 52)	(4 328 595 57)
 BONDS AND NOTES NET OF UNAMORTIZED PREMIUMS (DISCOUNTS)	 \$427 616 127 85	 \$384 148 451 82
 <u>COMMON AND PREFERRED STOCK</u>	 \$ 96 580 527 57	 \$ 87 094 188 28

Investments are being made in accordance with KRS 161.430.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET COMMENTS (CONTINUED)
JUNE 30, 1976

ACCRUED INTEREST PURCHASED - \$321,647.59

This is the amount of accrued interest purchased upon the acquisition of bonds and notes.

SPECIAL RESERVE ACCOUNT, AETNA LIFE INSURANCE CO. - \$290,837.00

This reserve is maintained in an agreement with Aetna Life Insurance Company to cover loss experience in excess of estimated premiums on medical insurance. This reserve is maintained at a level approximately equal to three months premiums. Interest is currently being paid by the Aetna Life Insurance Company on this reserve. An adjustment is also made annually by the insurance company to allow for an experience credit or deficit.

At present time, the reserve is below requirements as specified in the agreement. Based on an evaluation by the insurance company for the period May 1, 1975 to May 1, 1976 this reserve balance should be approximately \$749,000.00. The Retirement System is making monthly deposits to re-establish this reserve.

IRREGULAR PAYMENTS - ESCROW ACCOUNT - \$(24,936.86)

During the year school districts and other agencies submit teachers' contributions monthly in a lump sum, individual accounts are not credited. On June 30 of each year these school districts and other agencies submit a year end report which designates the amount that each individual's account is to be credited for the year's contributions. Irregular payments - escrow account is the amount that the actual monthly contributions differ from the year end reports. School districts and other agencies are contacted in the subsequent year in order to reconcile these differences.

TREASURERS UNREDEEMED CHECKS - \$3,374.52

This account is the amount of checks issued on behalf of the Retirement System and have not been redeemed in a reasonable amount of time.

TEACHERS' SAVINGS FUND - \$231,213,678.75

This fund consists of contributions paid by members of the Retirement System and interest assigned by the Board of Trustees from the Guarantee Fund. The accumulated contributions of a member, returned to him upon his withdrawal or paid to his estate or designated beneficiary in the event of his death shall be paid from the Teachers' Savings Fund. Any accumulated contributions forfeited by a failure of a member or his estate to claim same shall be transferred from the Teachers' Savings Fund to the Guarantee Fund. The accumulated contributions of a member shall be transferred from the Teachers' Savings Fund to the Allowance Reserve Fund in the event of retirement by reason of service or disability.

STATE ACCUMULATION FUND - \$231,213,678.75

This fund consists of state appropriations to the Retirement System which are used for matching the members contributions for prior service obligations. Also included in the state accumulation fund is interest assigned by the Board of Trustees from the Guarantee Fund.

STATE ACCUMULATION FUND (CONTINUED)

At the time of retirement of a member, there shall be transferred from this fund to the Allowance Reserve Fund an amount which together with the sum transferred from the Teachers' Savings Fund will be sufficient to provide the member the allowance granted in KRS 161.620 and 161.660. Upon termination by a member, his share of the state matching appropriations is transferred to the Guarantee Fund.

ALLOWANCE RESERVE FUND - \$31,174,672.08

This fund consists of transfers from other funds in order to provide for all retirement allowances. Also included in this fund are state appropriations for a cost of living bonus, which was paid to eligible participants.

GUARANTEE FUND - \$18,265,254.92

This fund receives all interest and dividends on investments; deposits; gifts and bequests; transfers, from the Teachers' Savings Fund and State Accumulation Fund by reason of lack of claimant or because of a surplus in any fund; and any other money whose disposition is not otherwise provided for. The interest allowed by the Board of Trustees to each of the other funds shall be paid from this fund. Any deficit occurring in any fund that would not be automatically covered shall be met by the payments from the Guarantee Fund to that fund.

VOLUNTARY CONTRIBUTION FUND - \$2,233,799.81

Members are allowed to contribute two per cent or more of their annual compensation to their accounts. These voluntary contributions earn interest for the members at the rate of 5.25% compounded monthly. These contributions are returned to the member upon request or they can be used to increase the members allowance at the time of his retirement.

HOSPITAL AND MEDICAL INSURANCE FUND - \$6,374,690.88

This fund receives an amount equal to one-half of one per cent (.5%) of the gross annual payroll of all members. One-quarter of one per cent (.25%) of such funds derives from member contributions and one-quarter of one per cent (.25%) from state appropriations. These funds are used for meeting costs resulting from medical and hospital services to retired members as provided by KRS 161.675. Any amounts not required to meet current costs are maintained as a reserve for this benefit.

SURVIVORS AND DEATH BENEFIT FUND - \$9,411,214.47

This fund receives an amount equal to one-half of one per cent (.5%) of the gross annual payroll of all members. One-quarter of one per cent (.25%) of such funds derives from member contributions and one-quarter of one per cent (.25%) from state appropriations. In addition, whenever a change in status of member results in an obligation on this fund, there is transferred to this fund from the Teachers' Savings Fund, the State Accumulation Fund and the Allowance Reserve Fund such amounts as may be held in these funds for the member. All claims for benefits under KRS 161.520, and 161.655 are paid from this fund. Any amounts not required to meet current costs are maintained as a reserve for this benefit.

GENERAL EXPENSE FUND - \$18,217.08

Each fiscal year, an amount not greater than 4% of the receipts of the State Accumulation Fund shall be set aside into the expense fund to defray administrative expenses of the Retirement System. The balance of this fund is transferred annually to the Allowance Reserve Fund.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
JUNE 30, 1976

- A. Assets, liabilities, and fund balances, and revenues and expenses are recognized in accordance with the governmental accounting policies of The Commonwealth of Kentucky.
- B. Bonds and notes are stated at maturity value net of unamortized premiums and discounts. Common stock is stated at cost.
- C. Fixed assets are expensed when purchased in accordance with the governmental accounting policies of The Commonwealth of Kentucky.
- D. Premiums and discounts are amortized using the straight line method over the period that bonds and notes are to be held. Any unamortized premium or discount is recognized at the date of sale for bonds or notes sold prior to maturity.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1976

NOTE 1: ANNUAL YEAR END ADJUSTMENTS

State appropriations used to match teachers' contributions to the Hospital and Medical Insurance Fund undermatched those contributions by \$17,392.03. Likewise, state appropriations undermatched teachers' contributions to the Survivor and Death Benefit Fund by \$17,392.03. In accordance with KRS 161.420 (7), these amounts were transferred from the Guarantee Fund to the above respective funds to offset the undermatches.

The appropriation to provide the "cost of living increase" bonus exceeded the actual cost of the bonus by \$98,573.97. This excess was transferred to the Guarantee Fund in accordance with KRS 161.420 (7).

In order to balance the State Accumulation Fund with the Teachers' Savings Fund, \$1,543,413.85 was transferred from the Guarantee Fund to the State Accumulation Fund in accordance with KRS 161,420 (7).

NOTE 2: RETIREMENT ALLOWANCE PROVISIONS

Retirement allowances paid, first reduce the member's contributions, until they are exhausted, then the state matching contributions are used to cover the allowances. When both the member's contributions and the state matching contributions are exhausted the retirement allowance is paid from investment earnings and funds available through actuarial provisions. For the year June 30, 1976, \$23,698,213.01 was paid in excess of teachers' contributions and state matching contributions. This amount is comprised of: (1) transfers from the State Accumulation Fund: state contributions - prior service - \$4,882,900.00 and 1974-75 General Expense Fund balance - \$2,771.13 and (2) transfers from the Guarantee Fund: \$17,859,613.80, and interest on fund balance - \$952,928.08.

NOTE 3: PRIOR SERVICE OBLIGATION

Beginning July 1, 1960 the state is required under KRS 161.550 "to contribute an amount sufficient to discharge prior service obligation with interest assumed by the state, over a period not greater than thirty years".

No payments were made through June 30, 1972 at which time the actuarial report disclosed that this obligation was \$55,618,577.00. The report also disclosed that for the system to be actuarially sound this obligation must be met.

From July 1, 1972 through June 30, 1974 the state contributed \$3,155,000.00 toward this obligation. This did not fully meet the required payments and the obligation increased to \$57,476,380.00 due to a loss of future investment potential by Teachers' Retirement System using a 4 1/2% annual rate of interest to amortize the deficiency.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 1976

NOTE 3: PRIOR SERVICE OBLIGATION (CONTINUED)

For the period July 1974 through June 30, 1975 the state contributed enough funds to liquidate the 1972-74 prior service increase and to liquidate the 1974-75 requirement of \$4,882,868.00. For fiscal year 1975-76 the state contributed \$4,882,900.00, which is the annual amount required to discharge the total prior service obligation by 1990.

