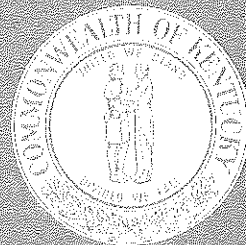


25 SILVER ANNIVERSARY ANNUAL REPORT TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY



December 15, 1965

Honorable Edward T. Breathitt
Governor of Commonwealth of Kentucky
Frankfort, Kentucky

Dear Governor Breathitt:

It is with considerable pride that we transmit herewith in accordance with the provisions of Section 161.320 of the Kentucky Revised Statutes, the Twenty-fifth Annual Report of the Teachers' Retirement System of the State of Kentucky. Milestones in the life of an agency, as with an individual, are important, and as we recognize our Silver Anniversary we have tried to make this not only an annual report but something of a review of the past.

We are sure that you are aware the Kentucky Teachers' System is recognized as one of the strongest retirement programs in the nation. The System begins its second quarter-century on a sound basis, with excellent benefit programs, sound invested reserves, and the prospect of a promising future.

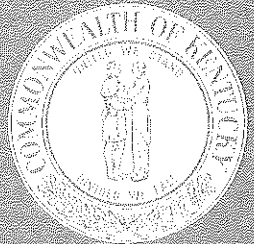
There are, of course, continuing problems. An unfunded liability for prior service still exists and is the continuing obligation of the Commonwealth. However, as long as the Board of Trustees can maintain the present excellent return on invested reserves this liability should not be troublesome.

Again we wish to express our appreciation to you and those who have preceded you for the fine support that has been afforded this organization.

Respectfully yours,

Edna Lindle
Chairman, Board of Trustees

James L. Sublett
Executive Secretary
Teachers' Retirement System
of the State of Kentucky



DEDICATION:

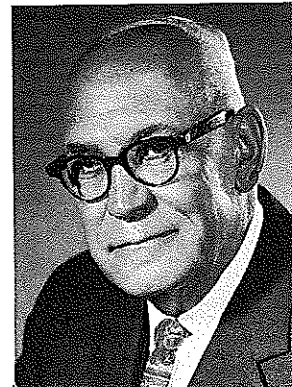
To these whose faithful service has contributed immeasurably to the welfare of the teaching profession this volume is respectfully dedicated



N. O. KIMBLER
(1893-1960)
Executive Secretary
1940-1957

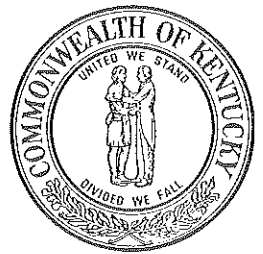


VERA BECKHAM
Assistant Secretary
1940-



L. C. CORTRIGHT
Actuary
1940-

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ADMINISTRATION



BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM — STATE OF KENTUCKY



EDNA LINDLE
Chairman
Henderson



MRS. JAMES SHEEHAN
Danville



TED CROSTHWAIT
Bardstown



MILLARD TOLLIVER
Jackson



EMERSON BEAUCHAMP
Treasurer
Russellville

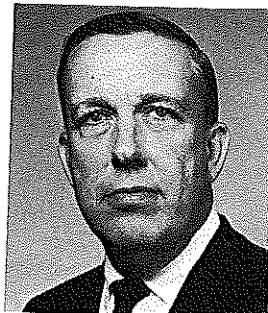


ROBERT MATTHEWS
Attorney-General
Shelbyville



HARRY SPARKS
Supt. of Public Instruction
Murray

STAFF
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY



JAMES L. SUBLETT
Executive Secretary

VERA BECKHAM, Assistant Secretary

WILLIAM RAY HOLT, Accountant

L. C. CORTRIGHT, Actuary

Susan L. Begley
Anna Jean Blackwell
Joan Burke
Polly Casey
Betty Cohorn
Anna Mae Connelly

Nancy G. Cosby
Wilma Gaines
Edna Inman
Bobby Kelly
Alean McDonald
Helen N. Meade
Amanda Owens

Jean L. Pulliam
Isabelle Royalty
Martha Sudduth
Doris W. Ward
Dorothy L. Wood
Frances Wright



FURNISH INFORMATION TO VISITORS



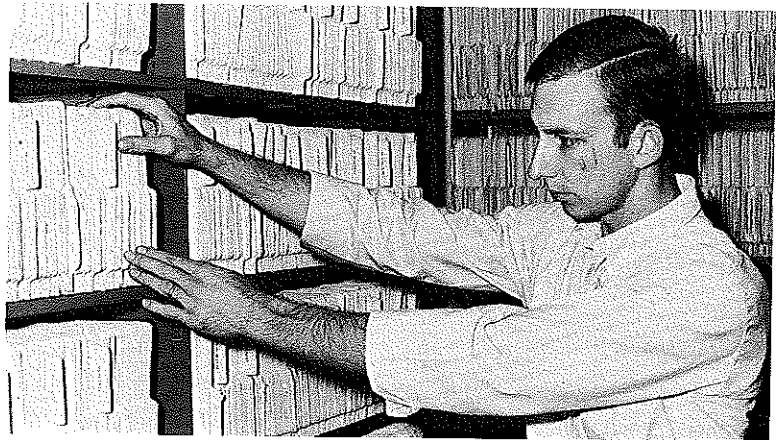
ENROLL NEW MEMBERS



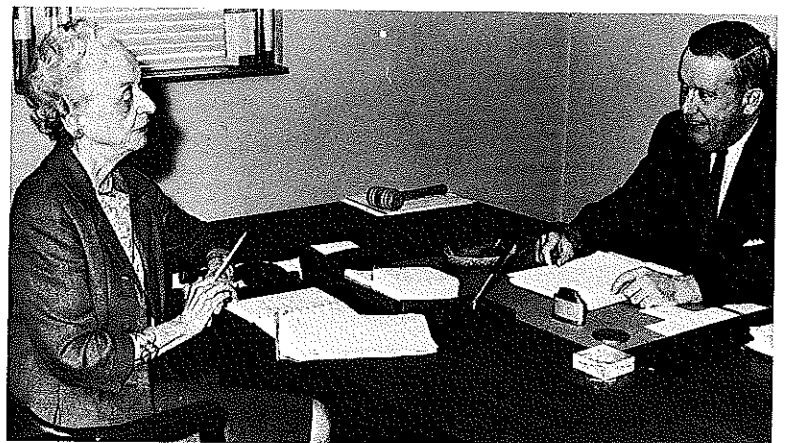
HELP PLAN FOR THE FUTURE



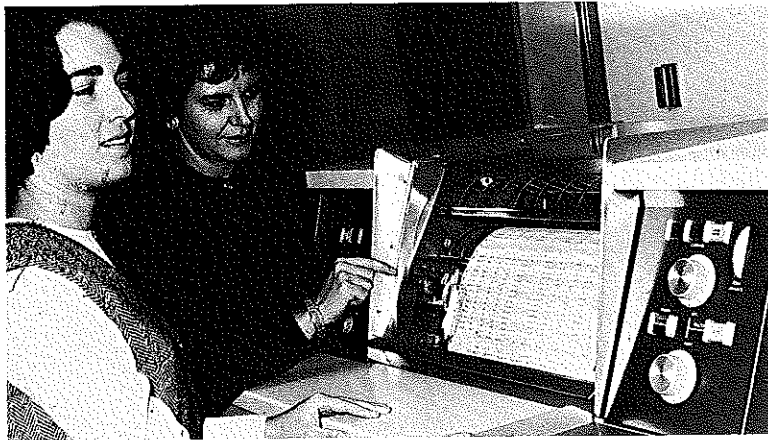
ACCOUNT FOR MEMBER CONTRIBUTIONS



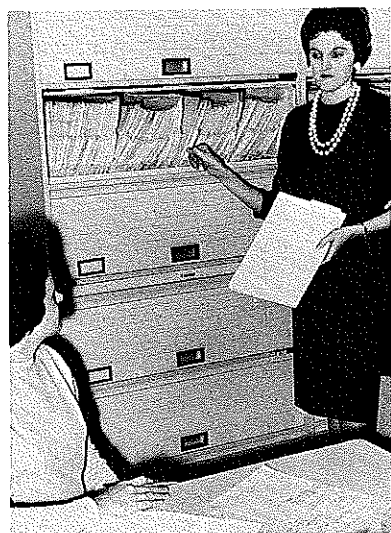
MAINTAIN TEACHERS SERVICE RECORDS



COUNSEL WITH RETIRED MEMBERS



PREPARE ANNUAL ACCOUNT
STATEMENTS FOR MEMBERS



MAINTAIN INVESTMENT FILES
AND RECORDS



PROCESS MONTHLY ANNUITY PAYROLLS



KEEP UP WITH THE STATUS
OF OUR MEMBERS



PAY MISCELLANEOUS CLAIMS, INSURANCE
BENEFITS AND OPERATING EXPENSES



COLLECT INCOME ON INVESTED RESERVES

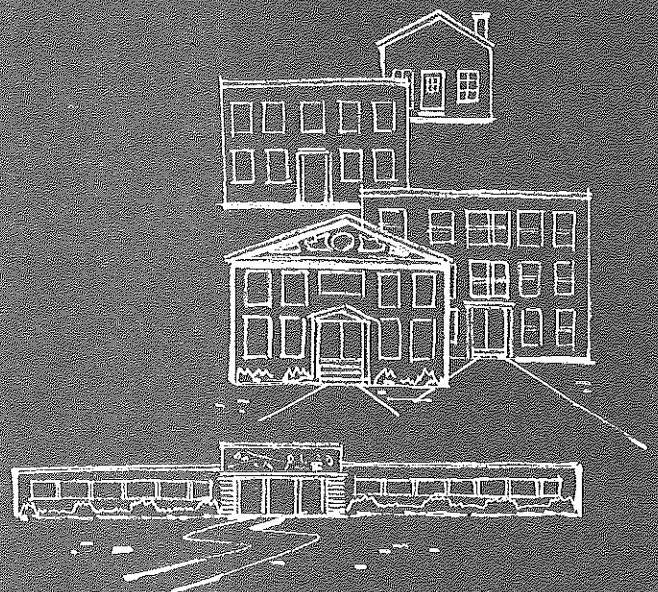


ANSWER REQUESTS FOR INFORMATION



PROCESS APPLICATIONS FOR RETIREMENT

HISTORY



The original retirement act, the Porter-Rayburn bill, was passed in 1938 to become effective July 1, 1940, with an appropriation of one million dollars. The Board of Trustees was elected and qualified to serve and a staff of six under the direction of N. O. Kimbler, Executive Secretary, began operation in a small office in the State Capitol Building. The System began operation with a membership of about 18,000 and during the first year the staff was occupied primarily with establishing procedures for record keeping and enrolling members.

Teachers first retired on July 1, 1942. Many of these teachers had already passed the mandatory retirement age, their ages ranging up to eighty-two. The average annuity was approximately \$21 per month, so small that annuities were paid quarterly rather than monthly. Since that time there have been five "blanket" increases to retired teachers. At the present time the average monthly annuity is about \$140.

The System continued to operate under the original act until 1946 when changes were made in the contribution rate, the maximum salary for contributions was increased to \$2,400 and provision was made for transferring out-of-state service.

Public junior college personnel were admitted to membership in 1948 and a special appropriation was made for the purpose of eliminating an accrued deficit brought about by low return on the invested reserves of the System. This was an important milestone because it constituted recognition by the Commonwealth of the obligation to keep the System funded.

In 1950 retirement with thirty years of service regardless of age was added to the law and the principles of deferred retirement and a voluntary contribution plan were installed.

Beginning in 1952 annuities had increased to the point that it was feasible to issue checks monthly and the quarterly payment was abandoned. At the same time provision was made for thirty days of substitute teaching by retired teachers.

The Board of Trustees by regulation in 1952 established a program of Options, allowing a retiring teacher to make provision for continuing income to a survivor following death.

Credit for military service was allowed under amendments adopted in 1954 and effective July 1, 1955, contribution rates were increased to three, four, and five percent and the ceiling on salaries was eliminated.

In 1957 N. O. Kimbler who had served as Executive Secretary since the inception of the System retired because of ill health and Miss Vera Beckham, Assistant Secretary, became Acting Executive Secretary, serving in this capacity until July 1, 1958, at which time James L. Sublett was appointed Executive Secretary. During this period extensive studies were made of teacher records, accounting procedures, investment policies, and general operating procedure. As a result there was a considerable change in many facets of the Retirement System with emphasis on improved services to members and a more realistic investment program.

In 1958 major improvements in the benefit structure were accomplished. Death and survivor benefits were added to the program providing for the first time a concept of protection other than retirement income. Benefits to all retired teachers were increased and the service qualification for disability retirement was reduced from twenty to ten years.

During 1959 a complete actuarial experience study was made of the System and on the basis of the study actuarial factors based on Kentucky teacher experience were adopted.

In 1960 there was an extensive revision of the investment statutes. Provision was made for regaining lost service credit and the privilege of membership was extended to those persons who had declined. The contribution rate was set at five percent for all members and a minimum annuity of \$40 for each year of service was established. Vesting after twenty years of service was adopted.

At the 1962 Session of the General Assembly a great number of improvements were made at no cost to the members or the Commonwealth. This was possible because of the greatly improved earnings on the reserves of the System. Included were a reduction to fifteen years service for a vested interest, elimination of differential in annuities because of sex, credit for military service before membership, liberalization of out-of-state service transfer, lifting the half-salary limitation on minimum annuities, liberalization of requirements for disability retirement and extension of deferred retirement from age sixty to sixty-five.

Perhaps the most far reaching changes in the history of the System were made in 1964. By increasing the contribution rate to seven percent (effective July 1, 1965) it was possible to calculate all service after 1941 on the basis of the high five year average salary, increase the maximum on annuities to seventy-five percent of salary, raise the death benefit to \$1,000, provide comprehensive medical coverage to retired teachers over sixty, liberalize survivors benefits, provide guaranteed annuities to the spouse of an active teacher deceased after qualifying for retirement, reduce the vested interest requirement to ten years of service, and provide one-half salary benefits for disability retirement.

As this twenty-fifth year ends we are servicing the accounts of some 35,000 active teachers and providing benefits to 3,264 retired teachers and to survivors of 112 teachers who died while in service.

The Kentucky Teachers' Retirement System enters its second quarter-century in a sound position. The return on invested reserves places us in the upper fifteen percent of all retirement systems in the nation. This progress has been made possible by the wise action of the dedicated men and women who have served through the years on the Board of Trustees. The teachers of Kentucky owe them a large measure of gratitude.

MEMBERS OF THE BOARD OF TRUSTEES

Elected Members

Mary J. Maguire (Chairman 1941-54) 7-1-39 to 6-30-54
 B. L. Trevathan 7-1-39 to 6-30-43
 Hal E. Dudley 7-1-39 to 7-1-42
 A. M. Stickles (Chairman 1939-40) 7-1-39 to 6-30-40
 H. L. Donovan (Chairman 1940-41) 7-1-40 to 7-1-41
 W. F. O'Donnell 7-1-41 to 6-30-44
 Morton Walker 7-1-42 to 11-1-46
 Edward L. Cawood 7-1-43 to 6-30-47
 L. C. Curry (Chairman 1954-58) 7-1-44 to 8-20-58

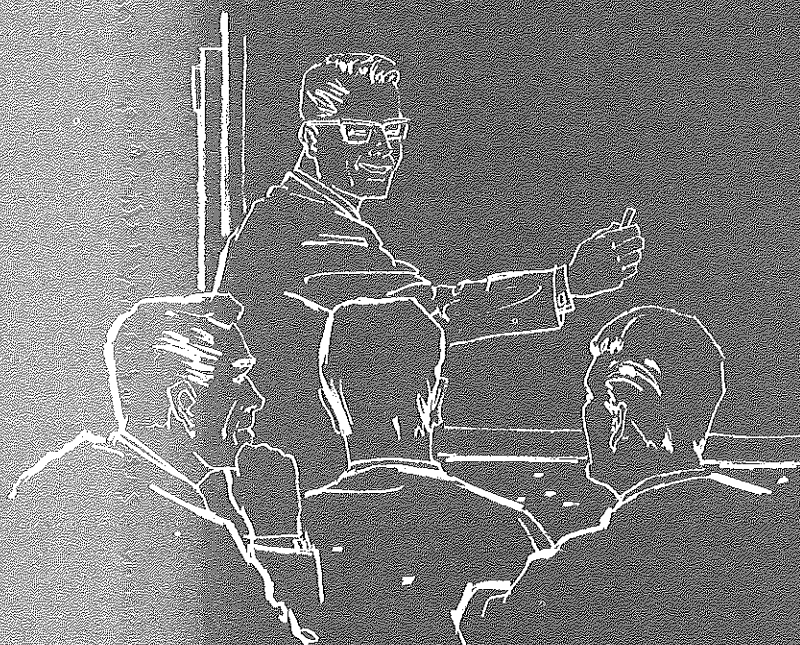
W. S. Milburn (Chairman 1958-62) 2-1-47 to 6-30-62
 Anna H. Settle 7-1-47 to 6-30-51
 John Fred Williams 7-1-51 to 6-30-59
 Edna Lindle (Chairman 1962-) 7-1-54 to 6-30-66
 Sedley Stewart 8-20-58 to 6-30-60
 Mrs. James G. Sheehan 7-1-59 to 6-30-67
 Ted L. Crosthwait 7-1-60 to 6-30-68
 Millard Tolliver 7-1-62 to 6-30-65

Ex-Officio Members

H. W. Peters 1-1-40
 John E. Buckingham 1-1-40
 Hubert Meredith 1-1-40
 John W. Brooker 1-1-40 to 1-1-44
 E. E. Shannon 1-1-40 to 1-1-44
 Hubert Meredith 1-1-40 to 1-1-44
 John Fred Williams 1-1-44 to 1-1-48
 T. W. Vinson 1-1-44 to 1-1-48
 Eldon S. Dummit 1-1-44 to 1-1-48
 Boswell B. Hodgkin 1-1-48 to 1-1-52
 A. E. Funk 1-1-48 to 1-1-52
 Edward Seiller (resigned) 1-1-48 to 1-1-52
 Pearl F. Runyon

Wendell P. Butler 1-1-52 to 1-1-56
 J. D. Buckman, Jr. 1-1-52 to 1-1-56
 Pearl F. Runyon 1-1-52 to 1-1-56
 Robert R. Martin 1-1-56 to 1-1-60
 Jo M. Ferguson 1-1-56 to 1-1-60
 Henry H. Carter 1-1-56 to 1-1-60
 Wendell P. Butler 1-1-60 to 1-1-64
 John B. Breckinridge 1-1-60 to 1-1-64
 Thelma Stovall 1-1-60 to 1-1-64
 Harry Sparks 1-1-64 to 1-1-68
 Robert Matthews 1-1-64 to 1-1-68
 Emerson Beauchamp 1-1-64 to 1-1-68

ACTUARIAL VALUATION



A retirement program must be concerned not only with the situation at present but more importantly with the future since it is established to provide benefits in perpetuity. Therefore, it is necessary to make periodic studies of what the future holds.

Obviously it is not possible to exactly determine the situation one hundred years from now but based on life expectancy, salary trends, occurrence of disability, withdrawal rates and many other factors, an actuary can determine if the system is embarked on a reasonable, sound and prudent program.

Section 161.400 of the Kentucky Revised Statutes provides that at least biennially an actuarial valuation of the Kentucky Teachers' Retirement System shall be made and that once in each ten year period an actuarial investigation of the System's experience shall be conducted (the last such complete investigation was made in 1959).

In keeping with these provisions there is presented herewith the results of the actuarial valuation as of June 30, 1964. Because of the voluminous statistics that must be gathered and processed for such a study approximately a nine month period is required to make the valuation. It will be noted, however, that the valuation gives effect to the financial implications of the new benefit structure which became effective on July 1, 1964.

L. C. CORTRIGHT
ACTUARY
529 SOUTH SEVENTH STREET SPRINGFIELD, ILLINOIS

October 1, 1965

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

Ladies and Gentlemen:

I am pleased to submit herewith my report on the latest biennial actuarial valuation of the Teachers' Retirement System of the State of Kentucky as of June 30, 1964.

The results of this valuation are fully discussed in this report. The system is maintaining a satisfactory financial condition and is fulfilling its stated objectives adequately and effectively under the prescribed plan of operation. The improved benefit program, enacted at the 1964 session of the Legislature, is in accord with a constructive pension policy for teachers.

The revised benefit schedule including the latest amendments was applied in this valuation since the legislation providing for the revisions became effective on the day following the date of the valuation. Thus, the results of the valuation give effect to the full financial impact of these amendments.

The various financial and statistical data required for the preparation of this report was made available, in excellent form, by your administrative staff headed by James L. Sublett, Executive Secretary. This courtesy is hereby acknowledged with appreciation.

Respectfully submitted,


L. C. Cortright, F. C. A. P.

**REPORT ON THE BIENNIAL ACTUARIAL VALUATION OF THE
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
AS OF JUNE 30, 1964**

Section 161.400 of the Act creating the Teachers' Retirement System and governing its operation provides, among other things, that

"At least once each two-year period the actuary shall make an actuarial valuation of the retirement system."

In accordance with this directive, an actuarial valuation of the assets and liabilities of the system was completed as of June 30, 1964. The results of this valuation are presented herewith.

Briefly stated, the valuation discloses that the system is maintaining a sound and satisfactory financial condition. The policies in effect in its management and in the direction of its affairs are in accord with progressive standards in the operation of retirement systems for public employees. The administration of the system has been developed to a high level of efficiency under modern operating methods and procedures.

BASIS OF VALUATION

The valuation has been made using the actuarial functions previously formulated in the survey and investigation of the system's operating experience for the period from July 1, 1941 to June 30, 1959, referred to as the "Ken-

tucky Teachers' Actuarial Functions, 1959". The rate of interest assumed in the application of these functions is 3% per annum.

The benefit and contribution provisions underlying the plan of operation of the system, which have been evaluated in this study, are summarized in the appendix.

Effect has been given to the 1964 amendments to the retirement law. These amendments are briefly described as follows:

1. All service credit after July 1, 1941 is now calculated on the basis of the average salary for the 5 highest consecutive years of service.
2. The rate of service retirement annuity for all service after July 1, 1941 has been established at $1\frac{3}{4}\%$ of average salary per year of credited service.
3. The maximum service retirement annuity was increased from 50% to 75% of average salary.
4. The benefit for disability retirement was changed and now provides 50% of final salary instead of the same formula as that applicable to service retirement. The revision applies to members qualifying for disability retirement after the date of the amendment.
5. The death benefit payable upon death of an active member or retired member was increased from \$500.00 to \$1,000.00. (See 9 below.)
6. The requirement of teaching service in Kentucky for retirement at age 60 was reduced from 15 to 10 years.

7. The rate of contribution by members was increased from 5% to 7% of salary effective July 1, 1965, to be matched by the State on an equal basis.

8. Comprehensive medical insurance coverage has been made available to retired teachers age 60 or over, and the spouse of such teachers. This program is to be financed by setting aside in a special fund account out of the 7% contribution by the active teachers an amount equal to $\frac{1}{4}$ of 1% of salary. An equal amount is to be appropriated by the State.

9. The period of service to qualify for a survivors benefit was reduced from 6 to 3 years. The death benefit and survivors benefit are to be financed by establishing a special fund account to which is to be credited from the 7% contribution by the teachers an amount equal to $\frac{1}{4}$ of 1% of salary. An equal amount is to be paid by the State.

10. The spouse or legal dependent of a teacher whose death occurs in active service, while in a contributing status, after having qualified for retirement, may elect to receive an annuity in lieu of a refund.

These amendments have established greater adequacy in the retirement plan for the teachers and have brought the plan substantially in line with the provisions in effect for public school teachers in other States.

PURPOSE OF A VALUATION

Although the financial arrangement prescribed for a retirement system requires the systematic discharge of the obligations thereunder by fixed rates of contribution on the part of the members and the employer, certain factors affecting the membership may arise during the course of operations that may have some bearing on its financial position. The rates of contribution are generally predicated upon certain assumed conditions. In the formulation

of the actuarial functions used in the calculation of rates and liabilities, it is assumed by the application of various factors that future operations will duplicate those of past years. These assumptions may or may not be fully supported by the results of actual operations.

For these reasons, a periodic actuarial valuation of the assets and liabilities of the system has become a standard requirement in retirement system operations. In the case of the Kentucky Teachers' Retirement System, the law provides that a valuation is to be made at least biennially. This policy reflects a sound procedure since any variations from the assumed standards over a period of two years will, at best, be relatively minor in scope or character even if changes in the benefit structure have occurred. Generally the cost effect of any such changes, if of major character, is determined prior to enactment by an actuarial valuation. A predetermination of cost is the general policy of the management of the system with respect to legislation affecting the basic plan of operation.

The purpose of an actuarial valuation, therefore, is to establish as of a given date the present and prospective liabilities, and the adequacy of present and prospective assets to meet these liabilities under the established method of financing.

A comparison of the results of the valuation at the particular date with the results disclosed during the last preceding valuation will reveal whether the prescribed rate structure is adequate and whether it is meeting properly the accruing costs of the benefits. The trends in certain liabilities are studied, analyzed and evaluated as a check of the functions in use in the measurement thereof based upon past experience as previously established. Thus, changes or adjustments may be made by the actuary in the applicable functions within certain discretionary limits.

Pensions represent long term obligations and must not be unduly influenced by transitory factors or developments of a limited character. The foregoing methods, therefore, make it unnecessary to revise the actuarial functions except at reasonably long intervals, say every ten years. This is the procedure prescribed or contemplated by the law governing the system. It reflects the best practice in the field of retirement system operation, management and administration.

VALUATION BALANCE SHEET

The functions produced in the analysis and survey of the operating experience of the system with respect to the several factors forming the basis of the cost calculations were applied in making this valuation. A Valuation Balance Sheet was prepared and presents the financial condition of the system from a technical standpoint taking into account, in addition to the present assets and current liabilities, the actuary's determination of the accrued and prospective assets and liabilities reflecting his calculations according to actuarial requirements.

Full funding of the accrued and accruing requirements of the system under the applicable law is achieved when present assets become equal to the difference between (a) the total of all liabilities, and (b) the present value of future contributions payable by the members and by the State. Thus, the Valuation Balance Sheet also serves the purpose of denoting the trend in respect to the measure of funding of the system.

VALUATION BALANCE SHEET — JUNE 30, 1964

PRESENT ASSETS

ASSETS

Fund Balances:

Expense Fund	\$ 12,379.39	
Teachers' Savings Fund	54,863,552.48	
State Accumulation Fund	54,863,552.48	
Guarantee Fund	5,863,009.96	
Voluntary Contributions, Active Members	198,141.94	
Allowance Reserve Fund:		
Teachers' Contributions and State "Permanent" contributions ..	2,620,296.70	
Total Fund Balances		\$118,420,932.95

PROSPECTIVE ASSETS

Deferred Obligation of Teachers and the State of Kentucky for service subsequent to June 30, 1964:

Present value of future teachers' contributions —		
Male	\$ 41,102,426.00	
Female	74,578,602.00	
Present value of prospective State matching contributions	115,681,028.00	
Total Prospective Assets		231,362,056.00

DEFERRED ASSETS Obligation of the State of Kentucky —

Present value of accrued obligation for service prior to July 1, 1941:

Active Members		\$ 7,605,511.41	
Retired Teachers —	\$38,414,750.30		
Less:			
Guarantee Fund	5,863,009.96		
Allowance Reserve Fund	2,620,296.70	29,931,443.64	
Total Deferred Assets			37,536,955.05
TOTAL ASSETS			\$387,319,944.00

VALUATION BALANCE SHEET — JUNE 30, 1964

ACCRUED LIABILITIES

LIABILITIES AND RESERVES

Reserve Requirements:

Retirement Annuities	\$ 34,264,674.00		
Less: Allowance			
Reserve Fund	2,620,296.70	\$ 31,644,377.30	
Disability Annuities		4,912,490.00	
Survivors' Benefits in Force		1,645,264.00	
Death Benefit		212,619.00	\$ 38,414,750.30

Prior Service:

Present Value of Benefits Mandatory to Active Members on account of service prior to July 1, 1941-			7,605,511.41
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Subsequent Service:

Present Value of Benefits Mandatory on account of Service Subsequent to July 1, 1941-			
Service Retirement Annuities	\$ 79,524,156.00		
Disability Annuities	11,402,552.00		
Survivors' Benefits	3,818,220.00	94,744,928.00	

Reserve for Future Refunds of Member Contributions —		14,982,176.96	
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Special Reserves:

Expense Fund	\$ 12,379.39		
Voluntary Contributions by Members	198,141.94	210,521.33	

PROSPECTIVE LIABILITIES:

Present Value of Benefits on Account of Subsequent Service, i.e. service after June 30, 1964:

Pension Benefits —			
Male	\$ 48,234,588.00		
Female	161,838,677.00	\$210,073,265.00	
Disability Benefits		12,590,969.00	
Survivors' Benefits		8,697,822.00	231,362,056.00

TOTAL LIABILITIES AND RESERVES		<u>\$387,319,944.00</u>	
--------------------------------------	--	-------------------------	--

COMMENTS ON FOREGOING VALUATION BALANCE SHEET

The following explanation is given regarding the several items comprising the assets, liabilities and reserves of the system to facilitate an understanding of the function and meaning of the specific amounts appearing in the Valuation Balance Sheet.

Present Assets comprise the assets on hand as shown in the 24th Annual Report of the Board of Trustees dated December 15, 1964.

Prospective Assets represent the obligations of the members and the State for service to be rendered subsequent to June 30, 1964. Beginning July 1, 1965, the new contribution rates become effective. These prospective assets consist of discounted sums, actuarially computed, giving effect to the factors of mortality, interest, withdrawals and other conditions that enter into the computation of the present value of future contributions accruing on account of future service.

Deferred Assets constitute the amount accrued and unpaid on account of service rendered prior to July 1, 1941. This is an obligation of the State to be discharged in future years by increasing appropriations to the system or otherwise.

Reserve Requirements on account of retirement, disability and survivors annuities in force constitute the total obligations that were payable at the balance sheet date for the future lifetime of the present pensioners and beneficiaries covering pensions and other benefits already granted.

Prior Service liabilities constitute the actuarially determined accrued liability on account of service of the members prior to July 1, 1941, when the present system began operations.

Subsequent Service consists of the liabilities for retirement and disability annuities on account of service of the members rendered during the period from July 1, 1941 to June 30, 1964.

Reserve for Future Refunds of Member Contributions is the calculated liability on account of refunds payable to members in future years upon separation from service or death without payment of survivors or other benefits.

Special Reserves are essentially current liabilities representing the two described items. These are set out separately since they are of an entirely different character than the remaining liabilities of the Balance Sheet.

Prospective Liabilities are complementary to the Prospective Assets although subject to an independent computation. They represent the present value of the proportionate pension credits to be earned by the members during future service extending from the balance sheet date to the assumed ages of retirement.

RECOMMENDATIONS

The findings indicate that:

The Deferred Assets on account of "Prior Service" for both active members and pensioners has shown an increase as noted in this Valuation due to the minimum measure of \$40.00 per credit year, fractionally applied. However, the Prior Service liabilities should soon develop a downward trend, both for active members with prior service as well as the pensioners' group with credits prior to July 1, 1941. It is conceivable that by the temporary application of limited amounts of unallocated interest earnings, the State's legal obligation for "temporary" appropriations might be tempered to some extent.

"Subsequent Service" from July 1, 1941 to the Statement date appears to be nearly funded; even in light of the increase in benefits to 1¾ % of salary from 1941. The 1965 contribution rates appear to be adequate but caution should be exercised with respect to influences and factors that might be brought to bear that could quickly alter the status quo.

Disability benefits — survivors benefits — and death benefits should be allowed to crystallize by a fairly long period of experience in terms of the assumptions underlying their valuations.

The management of the investment portfolio of the system under the established investment authority as revised during recent years reflects painstaking acumen and well considered judgment. It is producing enviable and rewarding results. To a marked extent, it accounts for a large share of the improvement evident in the financial condition of the system.

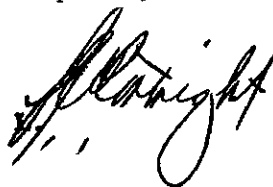
It is recommended that the system rest for the present on its merits and accomplishments. It has attained an enviable position in terms of adequacy of the benefit schedule, financial stability and management. It should be permitted to continue its progress and development.

CONCLUSIONS

As stated in previous reports, the policies and procedures in force in the management and direction of the system's affairs on the part of the Board of Trustees reflect a constructive and conscientious approach to all the problems arising in its operations. They are in accord with the principles of good management and give promise that the effective administration of the system will be consistent with accepted standards and concepts in the fulfillment of its stated objectives.

The administration of the system under the direction of James Sublett, Executive Secretary, continues to be conducted with competence and ability. Continuity of management is a very desirable adjunct in the operation of a retirement system and the Board of Trustees is to be congratulated with respect to its choice of executive management.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "L. C. Cortright", written in a cursive style.

L. C. Cortright, F.C.A.P.

A c t u a r y

FINANCIAL

These statistics present the financial operation of the System during 1964-65 and accumulated facts for previous years.



BALANCE SHEET
Teachers' Retirement System
June 30, 1965

ASSETS

Cash, Unencumbered, All Funds	\$ 862,830.79	
Cash, Encumbered	27,043.05	\$ 889,873.84
Investments		<u>131,856,790.18</u>
Deferred Charges:		
Unamortized Premium on Investments	\$ 941,038.65	
Accrued Interest Purchased	\$ 46,532.58	
Sub-total		
Unamortized Discount on Investments	987,571.23	
	<u>929,169.33</u>	58,401.90
TOTAL ASSETS		<u><u>\$132,805,065.92</u></u>

LIABILITIES AND FUND BALANCES

Expense Fund Encumbrances and Escrow Items		\$ 27,043.05
Fund Balances:		
Expense Fund	\$ 18,434.48	
Teachers' Savings Fund	61,259,801.89	
State Accumulation Fund	61,259,801.89	
Guarantee Fund	8,544,046.64	
Voluntary Contributions, Active Members	270,762.41	
Allowance Reserve Fund	1,299,027.00	
Survivor & Death Benefit Fund	126,148.56	
Total Fund Balances		<u>132,778,022.87</u>
TOTAL LIABILITIES AND FUND BALANCES		<u><u>\$132,805,065.92</u></u>

STATEMENT OF RECEIPTS AND DISBURSEMENTS

Teachers' Retirement System

for the Period July 1, 1964 — June 30, 1965

CASH BALANCE, ALL FUNDS JULY 1, 1964

\$ 865,612.25

Receipts:

Teachers' Savings\$ 7,780,975.02
Reinstatements 129,066.14
Voluntary Unmatched Contributions 105,057.35

Total from Members

\$ 8,015,098.51

State Contributions:

"Permanent" — to match Teachers' Savings\$ 7,780,017.37
"Temporary" — to reduce Prior Service Obligation 400,782.63
Administrative Expense 219,200.00

8,400,000.00

Interest Collected, Bonds Redeemed or Sold

32,147,873.24

Annuity Checks Returned, Benefit Adjustments

22,696.58

Total Receipts

TOTAL CASH AVAILABLE

48,585,668.33

\$ 49,451,280.58

Disbursements:

Administrative Expenses Current Year	\$ 175,807.84	
Liquidation of Prior Year Encumbrances	6,179.16	\$ 181,987.00
Refunds for Withdrawal from Membership		1,350,893.31
Premiums for Comprehensive Medical Plan		508,818.66
Death Benefit Payments	195,000.00	
Retirement Allowances, Final Settlements and Survivor Benefits	5,191,434.14	5,386,434.14
Purchase of Investments		41,133,273.63
Total Disbursements		48,561,406.74
CASH BALANCE, ALL FUNDS — June 30, 1965		\$ 889,873.84

ANALYSIS OF RECEIPTS
Teachers' Retirement System
Fiscal Years 1940-41 through 1964-65

Date	Teachers' Savings*	Rein-statements	State Matching Contribution	State Prior Service Contribution	State Contribution for Expenses	Interest and Profit	Total Receipts
7/1/40-6/30/44	\$ 2,063,716.64	\$ 675.28	\$ 2,063,636.92	\$ 147,146.21	\$ 89,216.87	\$ 161,182.57	\$ 4,525,574.49
7/1/44-6/30/48	3,184,177.52	8,138.74	3,039,017.44	363,594.56	131,388.00	680,795.86	7,407,112.12
7/1/48-6/30/52	4,951,457.55	9,880.10	5,090,847.83	3,374,273.81	198,335.00	1,676,157.12	15,300,951.41
1952-53	1,470,569.81	3,887.05	1,460,497.62	640,267.38	59,039.00	610,139.97	4,244,400.83
1953-54	1,509,971.81	6,262.44	1,503,190.97	144,949.03	62,860.00	688,046.72	3,915,280.97
1954-55	1,606,795.76	5,240.32	1,600,512.20	151,231.80	70,000.00	776,485.87	4,210,265.95
1955-56	2,706,333.97	5,730.97	1,929,901.00	—	70,355.00	908,548.21	5,620,869.15
1956-57	3,409,800.55	6,946.98	3,396,749.24	611,125.76	89,000.00	1,082,779.34	8,596,401.87
1957-58	3,533,508.21	4,583.72	3,523,551.57	612,278.43	125,225.00	1,557,061.91	9,356,208.84
1958-59	3,877,031.28	7,026.22	3,858,543.67	479,306.33	129,350.00	1,638,554.23	9,989,811.73
1959-60	4,198,829.94	10,015.71	4,184,427.58	281,225.77	178,146.65	2,045,440.74	10,898,086.39
1960-61	5,826,133.35	391,207.80	5,790,585.89	1,173,039.11	161,375.00	2,537,175.78	15,879,516.93
1961-62	6,344,302.54	120,331.07	6,309,696.04	1,119,118.96	171,185.00	2,902,788.98	16,967,422.59
1962-63	6,795,670.37	110,996.21	6,763,615.18	950,175.82	196,846.00	3,866,534.20	18,683,837.78
1963-64	7,160,866.67	134,357.38	7,074,866.28	696,608.72	220,657.00	4,401,450.78	19,688,806.83
1964-65	7,886,032.37	129,066.14	7,780,017.37	400,782.63	219,200.00	5,391,261.59	21,806,360.10
	<u>\$66,525,198.34</u>	<u>\$954,346.13</u>	<u>\$65,369,656.80</u>	<u>\$11,145,124.32</u>	<u>\$2,172,178.52</u>	<u>\$30,924,403.87</u>	<u>\$177,090,907.98</u>

*Includes Voluntary Unmatched Contributions

SOURCE OF ALLOWANCE RESERVE FUND PAYMENTS

Teachers' Retirement System

July 1, 1942, through June 30, 1965

Year	Total Benefits	Paid from Teachers' Contributions	Paid from State Funds:		Percentage Paid from State "Temporary" Funds
			Matching Contribution	Prior Service Contribution	
1942-43	\$ 63,865.92	\$ 15,791.10	\$ 15,215.22	\$ 32,859.60	51.5%
1943-44	83,077.79	9,491.37	8,345.75	65,240.67	78.5%
1944-45	104,451.85	14,258.05	11,527.58	78,666.22	75.3%
1945-46	133,861.43	24,692.91	13,686.44	95,482.08	71.3%
Minimum \$10/year (limit 30 years)					
1946-47	215,390.17	40,215.35	28,118.59	147,056.23	68.3%
1947-48	252,374.54	38,185.99	31,348.35	182,840.20	72.4%
1948-49	289,568.15	46,017.03	29,902.32	213,648.80	73.8%
1949-50	331,367.57	57,683.56	36,823.79	236,860.22	71.5%
Minimum \$16/year (limit 30 years)					
1950-51	517,542.72	90,904.36	66,228.19	360,410.17	69.6%
1951-52	574,212.32	86,685.31	68,091.54	419,435.47	73.0%
1952-53	647,085.26	120,169.70	67,935.42	458,980.14	70.9%
1953-54	725,196.28	137,788.76	93,637.63	493,769.89	68.1%
Minimum \$18/year (limit 35 years)					
1954-55	909,023.42	155,608.13	123,280.98	630,134.31	69.3%
1955-56	982,596.56	164,026.16	130,416.71	688,153.69	70.0%
1956-57	1,049,427.01	184,815.47	119,989.90	744,621.64	71.0%
1957-58	1,138,397.08	235,990.95	126,817.43	775,588.70	68.1%
Minimum \$25/year (years not limited)					
1958-59	1,819,873.84	395,932.80	233,975.69	1,189,965.35	65.4%
1959-60	1,950,244.95	430,754.17	271,427.76	1,248,063.02	64.0%
Minimum \$40/year for career teachers					
1960-61	3,015,564.82	529,515.82	424,639.95	2,061,409.05	68.4%
1961-62	3,259,235.55	579,979.44	381,099.15	2,298,156.96	70.5%
1962-63	3,793,152.74	856,809.14	440,755.58	2,495,588.02	65.8%
1963-64	4,008,123.14	803,751.29	552,538.46	2,651,833.39	66.2%
P.S. — C.S. Formula Improved					
1964-65	5,018,770.84	1,338,999.94	813,499.42	2,866,271.48	57.1%
	<u>\$30,882,403.95</u>	<u>\$6,358,066.80</u>	<u>\$4,089,301.85</u>	<u>\$20,435,035.30</u>	66.1%

For the period only 20.6% of aggregate benefit payments have been derived from teachers' individual savings accounts.

REFUNDS

Teachers' Retirement System July 1, 1940, to June 30, 1965

Date	Withdrawals		Deceased		Special		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
1952-53	2,954	288,013.06	72	24,405.01	4	53.51	3,030	312,471.58
1953-54	2,268	278,483.49	51	32,243.80	9	155.22	2,328	310,882.51
1954-55	2,164	313,019.33	47	37,659.91	13	292.38	2,224	350,971.62
1955-56	2,102	324,571.79	67	53,222.51	13	226.68	2,182	378,020.98
1956-57*	1,832	381,015.98	67	63,100.03	10	502.87	1,909	444,618.88
1957-58*	2,183	422,166.84	60	63,459.52	11	176.36	2,254	485,802.72
1958-59*	2,153	432,917.49	59	66,659.22	198	4,946.17	2,410	504,522.88
1959-60*	2,642	599,648.10	69	94,122.66	66	2,053.57	2,777	695,824.33
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
Totals	47,124	\$8,673,082.98	1,432	\$1,179,848.74	675	\$20,291.66	49,231	\$9,873,223.38

*Does not include Refunds of Voluntary Unmatched Contributions.

ANALYSIS OF ACCOUNTS REFUNDED 1964-65
Teachers' Retirement System of the State of Kentucky

REASONS FOR WITHDRAWAL	Males	Females	TOTAL
Other Teaching Employment:			
State of Ohio	92	102	194
State of Florida	13	35	48
State of Indiana	30	39	69
Other States	126	119	245
Outside Limits of U.S.A.	3	3	6
Kentucky College or School not covered by Teachers' Retirement System	32	39	71
Non-Teaching Employment:			
Entered Business or Industry	204	56	260
Church-Related Profession	46	21	67
Medical Profession	7	5	12
Legal Profession	5	—	5
Military Service	12	7	19
Further Training & Education	63	65	128
Homemaking, Family Duties, Children	—	332	332
Husband Transferred Within Kentucky	—	6	6
Husband Transferred Out of Kentucky	—	73	73
Moved Residence to Another State	60	221	281
Emergency Teacher, Lack of Training, Not Re-Employed	25	62	87
Salary Too Low	47	4	51
Needed The Money	14	21	35
Disliked Teaching	5	5	10
Personal Reasons	49	68	117
Illness of Member	7	19	26
Death of Member	25	47	72
Absent from Profession 4-6 years	17	61	78
Lost Service Credit, Absent 7 or More Years	46	114	160
TOTALS	928	1,524	2,452

COMPARISON OF BUDGET REQUESTS WITH APPROPRIATIONS RECEIVED

July 1, 1940, through June 30, 1966

Biennium	Budget Request	Appropriations	Not Appropriated
1940-42.....	\$ 1,500,000.00	\$ 1,000,000.00	\$ 500,000.00
1942-44.....	1,719,600.00	1,300,000.00	419,600.00
1944-46.....	1,945,250.00	1,622,000.00	323,250.00
1946-48.....	2,340,000.00	1,912,000.00	428,000.00
1948-50.....	5,393,456.64	5,393,456.64
1950-52.....	3,258,540.00	3,270,000.00	(11,460.00)
1952-54.....	4,254,340.00	3,870,804.00	383,536.00
1954-56.....	4,439,605.00	3,822,000.00	617,605.00
1956-58.....	8,356,705.00	8,356,705.00
1958-60.....	9,343,215.00	9,111,000.00	232,215.00
1960-62.....	14,725,000.00	14,725,000.00
1962-64.....	15,902,769.00	15,902,769.00
1964-66.....	20,077,902.00	19,848,090.00	229,812.00
Totals	<u>\$93,256,382.64</u>	<u>\$90,133,824.64</u>	<u>\$3,122,558.00</u>

COST OF ADMINISTRATION
Teachers' Retirement System
July 1, 1940, through June 30, 1965

Year	Receipts of State Accumulation Fund (for Matching and Prior Service)	Administration Expenses	Percentage of Receipts
1940-41	\$ 476,089.49	\$ 23,669.88	4.97%
1941-42	481,713.03	18,232.93	3.79
1942-43	627,680.61	22,317.03	3.56
1943-44	625,300.00	24,633.20	3.94
1944-45	772,866.80	25,908.68	3.35
1945-46	791,641.32	31,390.43	3.97
1946-47	919,490.57	36,039.67	3.92
1947-48	919,960.33	36,409.41	3.96
1948-49	1,434,834.59	41,059.78	2.90
1949-50	2,439,606.64*		
1950-51	1,434,315.22	43,396.76	3.03
1951-52	1,577,988.24	52,324.68	3.32
1952-53	1,580,070.32	58,303.98	3.69
1953-54	2,102,681.02	57,490.72	2.73
1954-55	1,649,688.28	61,165.65	3.71
1955-56	1,753,438.35	68,889.71	3.93
1956-57	2,693,326.38	69,548.14	2.58
1957-58	4,008,681.86	88,407.80	2.21
1958-59	4,261,055.00	111,868.14	2.62
1959-60	4,337,850.00	128,489.00	2.97
1960-61	4,465,653.35	164,768.85**	3.68
1961-62	6,963,625.00	170,103.70	2.44
1962-63	7,428,815.00	170,691.00	2.30
1963-64	7,739,140.00	193,366.07	2.49
1964-65	7,771,475.00	207,730.97	2.67
	8,191,883.41	200,567.87	2.44

*Special appropriation for prior service is not reflected in administrative expense computations.

**Includes non-recurring capital outlay expenditure of \$33,500 for accounting machines charged off in one year instead of being amortized over the life of the equipment.

INVESTMENTS

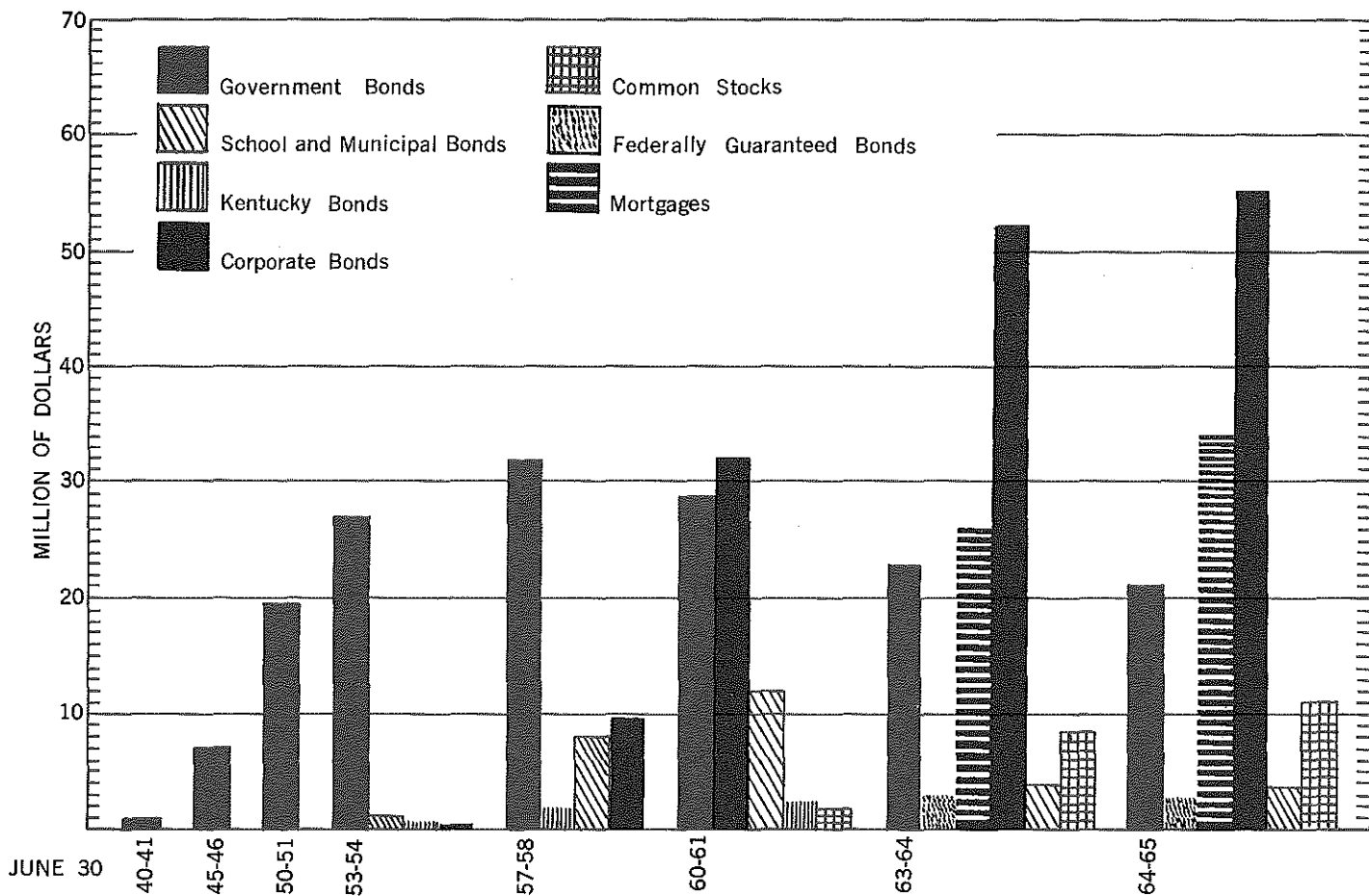


The investment of the reserves of the retirement fund is one of the most important responsibilities of the members of the Board of Trustees. Their record, operating under a sound investment statute is an enviable one and to quote the actuary, "accounts for a large share of the improvement evident in the financial condition of the system".

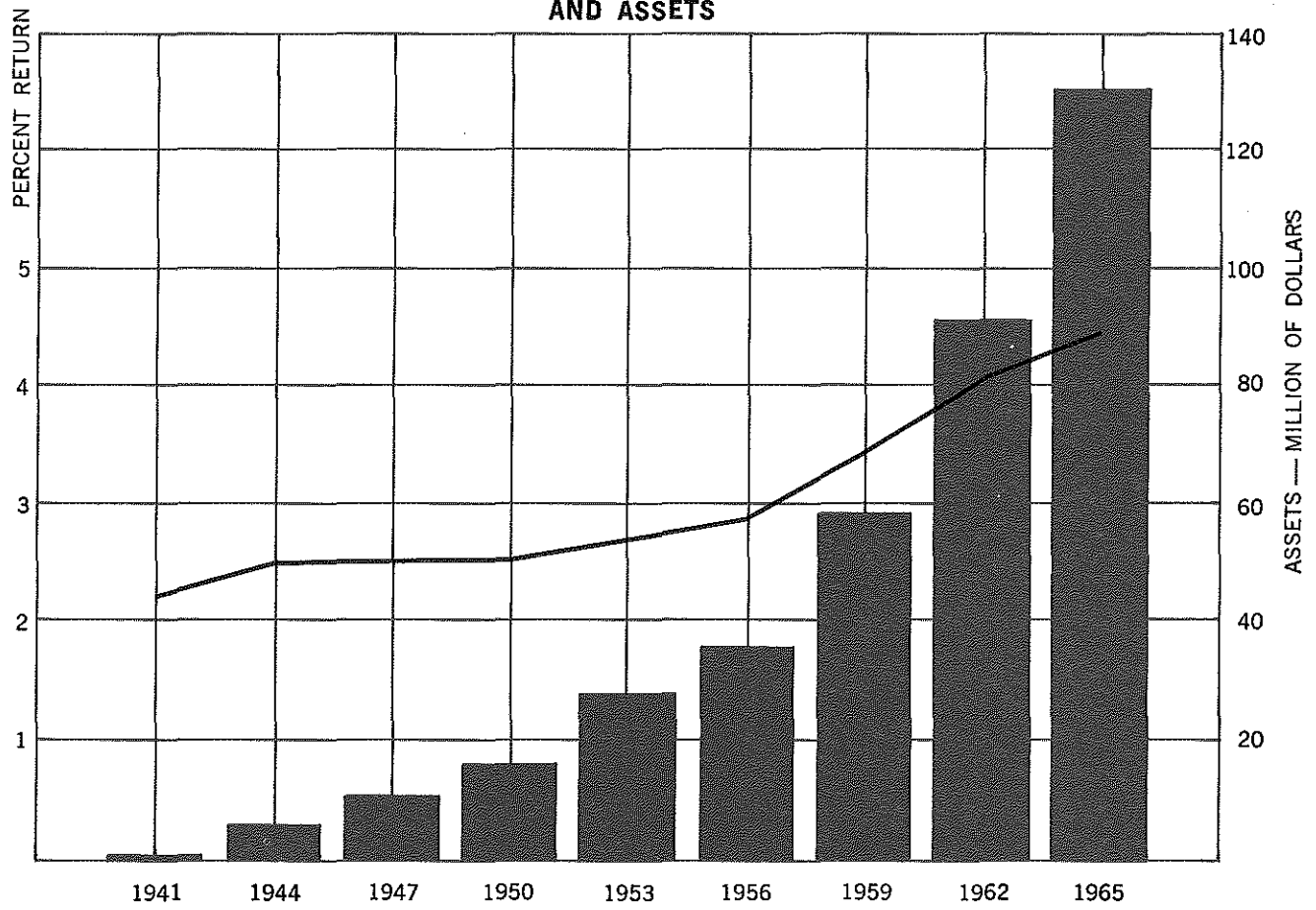
The authority of the Board to make all investments as set forth in KRS 161.430 is a right not enjoyed by many retirement programs whose funds are often diverted to purposes not in the best interest of members of the system. It is both the duty and responsibility of the members of the retirement system to help in maintaining the autonomous nature of the Board of Trustees, guarding against any attempt to weaken or change its structure and duties.

Income from invested reserves is as important as contributions from the member and the State in financing benefits. Every improvement in earnings means additional benefits that can be provided without increasing the cost to the State or the teacher. For every member who enters the profession in Kentucky after 1955 the earned income on the reserves will provide roughly fifty percent of the funds necessary to pay the annuity at retirement.

Because of the importance of this source we include herein not only the report on investments as of June 30, 1965, but a picture of the changes that have occurred through the years in the investment pattern and the growth in yields and assets.



GROWTH IN INVESTMENT RETURN AND ASSETS



ANALYSIS OF INVESTMENTS HELD AT JUNE 30, 1965

to show annual yield rate
Teachers' Retirement System of the State of Kentucky

	Percentage of Total	Par Value	Interest Income/Year	Annual Yield
U.S. Treasury Bills and Bonds	13.38%	\$ 17,647,000.00	\$ 576,478.56	3.267%
Obligations Secured by U.S. Treasury	2.04%	2,688,000.00	126,423.93	4.703%
Capehart Mortgages	3.11%	4,103,255.76	184,106.39	4.487%
FHA & VA Mortgages	19.28%	25,417,555.66	1,245,478.82	4.900%
Other Guaranteed Mortgages	4.17%	5,497,859.87	284,537.90	5.175%
Corporate Bonds	48.03%	63,329,229.46	2,843,773.28	4.490%
School and Municipal Bonds	2.29%	3,017,000.00	131,402.28	4.355%
Totals	92.30%	\$121,699,900.75	\$5,392,201.16	

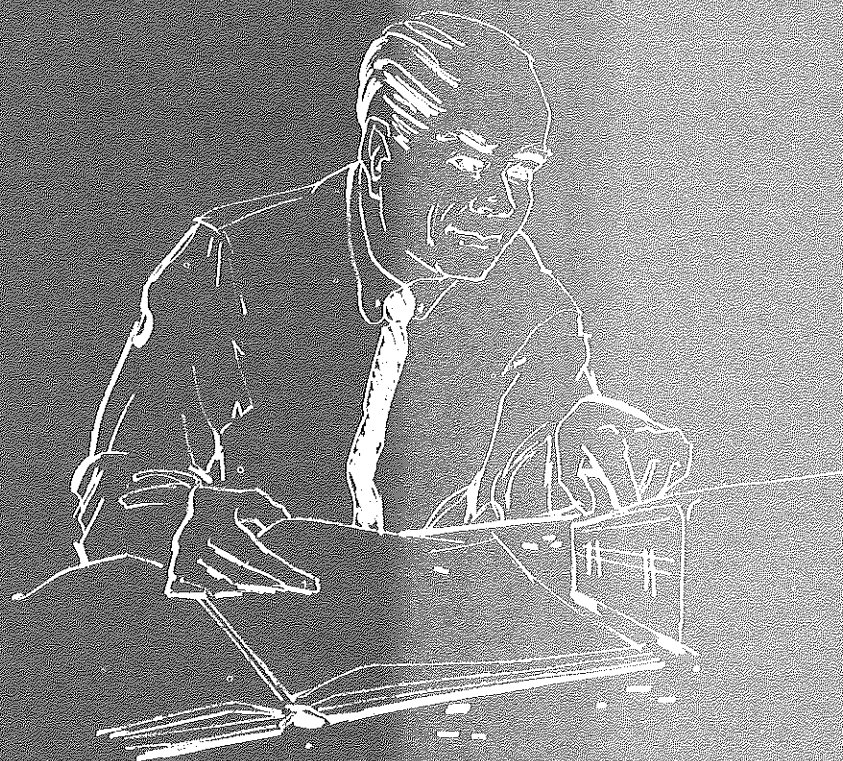
NET YIELD RATE:

$$\frac{\$5,392,201.16}{\$121,699,900.75} = 4.430735\%$$

Not Included Above:

221,165 shares Stocks	7.70%	10,156,889.43
TOTAL INVESTMENTS	100.00%	\$131,856,790.18

AUDIT



CHARLES T. MITCHELL COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
TAYLOR BUILDING
FRANKFORT, KENTUCKY
TELEPHONE 227-1395

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

November 15, 1965

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

Board of Trustees,
Teachers Retirement System of the
Commonwealth of Kentucky
Commissioner of Finance
Commonwealth of Kentucky
Frankfort, Kentucky

Gentlemen:

We have examined the balance sheets and related statements of cash receipts and disbursements of the Teachers Retirement System of the Commonwealth of Kentucky for the fiscal years ended June 30, 1964 and June 30, 1965. Our examination was conducted in accordance with generally accepted auditing procedures 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 accompanying balance sheets and related statements of cash receipts and disbursements present fairly the financial position of the Teachers Retirement System of the Commonwealth of Kentucky at June 30, 1964 and June 30, 1965 and the results of operations for the years then ended, in conformity with generally accepted governmental accounting principles applied on a basis consistent with that of the preceding years.

Respectfully,

Charles T. Mitchell

CHARLES T. MITCHELL COMPANY

CHARLES T. MITCHELL COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
TAYLOR BUILDING
FRANKFORT, KENTUCKY
TELEPHONE 227-7389

November 15, 1965

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

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

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

Gentlemen:

Along with our audit of the Teachers' Retirement System, Mr. Sublett requested that we review the various funds used by the Teachers' Retirement System in their accounting procedures. As of June 30, 1965 the funds being used are provided for by KRS 161.420, these funds are as follow:

- (1) Expense Fund
- (2) Teachers Savings Fund
- (3) State Accumulation Fund
- (4) Allowance Reserve Fund
- (5) Hospital and Medical Insurance Fund
- (6) Survivors and Death Benefit Fund
- (7) Guarantee Fund

In addition, KTRS also maintains a Voluntary Contribution Fund, this fund is not provided for KRS 161.420. However, voluntary contribution are provided for in KRS 161.705. This fund is used to control the contributions made by teachers in excess of the mandatory contributions.

We conclude from our review that all of the funds now in use are either necessary or highly desirable. Among factors contributing to this decision are the large number of participants, their physical location throughout the Commonwealth, a probable lack of comprehension of volume and magnitude by most participants, and the complex and diverse individual questions that could, and do, arise. We believe these considerations should call for all possible detail consistent with economic administration and with the emphasis on information. The maintenance of separate control accounts - fund balances - does not significantly increase the accounting work load, the detail would still be necessary.

Page 2
Board of Trustees
Teachers' Retirement System

It is our opinion that one of the primary functions of the System is to provide an informative, responsible and courteous service to the participants. The accounting procedures now in use helps the Teachers Retirement System perform this function in an excellent manner.

Yours truly,

Charles T. Mitchell

CHARLES T. MITCHELL COMPANY

TEACHERS RETIREMENT SYSTEM OF THE COMMONWEALTH OF KENTUCKY
Report of Examination for the Fiscal Years Ended June 30, 1964 and June 30, 1965

TEACHERS RETIREMENT SYSTEM BALANCE SHEET — JUNE 30, 1965

ASSETS			
Cash — Unencumbered all Funds	\$	865,651.48	
Cash — Encumbered		24,222.36	\$ 889,873.84
Investments (Note 1)			131,856,790.18
Deferred Charges			
Unamortized Premium on Investments	\$	941,038.65	
Accrued Interest Purchased		46,532.58	
Sub-Total	\$	987,571.23	
Less: Unamortized Discount on Investments		929,169.33	58,401.90
Total Assets			\$132,805,065.92

LIABILITIES AND FUND BALANCES

Liabilities

Escrow — Insurance Premiums and Other Deposits for	
Capehart and FHA Mortgages	\$ 2,085.37
Expense Fund Encumbrances	24,222.36

Total Liabilities 26,307.73

Fund Balances (Note 2)

Teachers' Savings Fund	61,259,801.89
State Accumulation Fund	61,259,801.89
Guarantee Fund	8,544,046.64
Voluntary Contributions Fund	270,762.41

Allowance Reserve Fund (Note 3)

Teachers' Contributions	\$ 830,905.36
State "Permanent" Cont.	2,837,972.64
State "Temporary" Cont.	(2,350,681.20)
	1,318,196.80

Hospital and Medical Insurance Fund. -0-

Survivor and Death Benefits Fund

Teachers' Contributions	\$ 44,495.03
State "Permanent" Cont.	113,970.53
State "Temporary" Cont.	(32,317.00)
	126,148.56

Total Fund Balances 132,778,758.19

Total Liabilities and Fund Balances \$132,805,065.92

TEACHERS RETIREMENT SYSTEM BALANCE SHEET — JUNE 30, 1964

ASSETS			
Cash — Unencumbered, All Funds	\$ 859,433.09		
Cash — Encumbered	6,179.16	\$	865,612.25
Investments (Note 1)			117,302,440.20
Deferred Charges			
Unamortized Premium on Investments	\$ 870,998.89		
Accrued Interest Purchased	15,705.07		
Sub-Total	\$ 886,703.96		
Less: Unamortized Discount on Investments	588,702.63		298,001.33
Total Assets			\$118,466,053.78
LIABILITIES AND FUND BALANCES			
Liabilities			
Employer Remittances for Teacher Contributions for Next			
Fiscal Year	\$ 1,250.77		
Escrow — Insurance Premiums and Other Deposits for			
Capehart and FHA Mortgages	38,346.35		
Expense Fund Encumbrances	6,179.16		
Total Liabilities		\$	45,776.28
Fund Balances (Note 2)			
Teachers' Savings Fund	\$ 54,862,384.69		
State Accumulation Fund	54,862,384.69		
Guarantee Fund	5,864,143.45		
Voluntary Contributions Fund	198,141.94		
Allowance Reserve Fund (Note 3)			
Teachers Contributions	\$ 525,611.34		
State "Permanent" Cont.	2,094,685.36		
State "Temporary" Cont.	12,926.03		2,633,222.73
Total Fund Balances			118,420,277.50
Total Liabilities and Fund Balances			\$118,466,053.78

NOTES TO THE BALANCE SHEET

- NOTE 1: Bonds and mortgages are carried in this account at maturity value. Differences between the purchase price and maturity value of bonds are entered in either the "Unamortized Premium" account or the "Unamortized Discount" account, as appropriate. Premiums are amortized to the earliest date of call without penalty; discounts are amortized to the maturity date of the bond. Stocks are carried in the "Investments Account" at cost.
- NOTE 2: Our audit included adjustments of several fund balances to compensate for correcting entries made after the close of the fiscal year under examination. This explains any differences between the fund balances shown in our report and the fund balances shown by the Teachers Retirement System.
- NOTE 3: All benefits paid to deceased or retired teachers are channeled through this account. The Commonwealth of Kentucky is paying its obligation for teachers' service prior to the establishment of the Retirement System by allocating to the System funds sufficient to meet current benefit payments which have not been provided for by teachers' savings and matching State funds. Since the State is liquidating this liability on a current basis, the present value of the actuarially computed annuities necessary for payment of benefits to retired teachers is only partially reflected in the Allowance Reserve Fund Balance.

TEACHERS RETIREMENT SYSTEM STATEMENT OF RECEIPTS AND DISBURSEMENTS **For the Fiscal Year Ended June 30, 1965**

Cash Balances — All Funds — July 1, 1964.....		\$ 865,612.25
Receipts		
Members Contributions		
Teachers Savings	\$ 7,780,975.02	
Reinstatements	129,066.14	
Voluntary Unmatched Cont.	105,057.35	
Total Member Contributions		\$8,015,098.51
State Contributions		
"Permanent" — To Match Teachers' Savings.....	\$ 7,780,017.37	
"Temporary" — To Reduce Prior Service Obligation.....	400,782.63	
Administrative Expense	219,200.00	
Total State Contributions		8,400,000.00
Investment Income		
Interest Income	\$ 5,303,727.35	
Net Profit on Sale of Investment	61,883.79	5,365,611.14
Receipts From Sale or Redemption		
of Bonds, Purchased Interest, and Amortization of Premium.....		26,782,262.10
Annuity Checks Returned and Benefit Adjustments.....		22,696.58
Total Receipts		48,585,668.33
Total Cash Available		\$49,451,280.58

TEACHERS RETIREMENT SYSTEM STATEMENT OF RECEIPTS AND DISBURSEMENTS

For the Fiscal Year Ended June 30, 1965

Disbursements

Administrative Expenses — Current Year	\$ 175,807.84	
Liquidation of Prior Year Encumbrances	6,179.16	\$ 181,987.00
Refunds for Withdrawal from Membership		1,350,893.31
Premiums for Comprehensive Medical Plan		508,818.66
Death Benefit Payments — Members Deceased Before Retirement		72,000.00
Retirement Allowance Payments		
Retirement	\$ 4,553,656.66	
Disability	458,610.20	
Voluntary and Survivor Benefit Payments	179,167.28	
Death Benefit Payments for Annuitants Deceased	123,000.00	5,314,434.14
Purchase of Investments		41,133,273.63
Total Disbursements		48,561,406.74
Cash Balance — All Funds — June 30, 1965		\$ 889,873.84

TEACHERS RETIREMENT SYSTEM STATEMENT OF RECEIPTS AND DISBURSEMENTS

For the Fiscal Year Ended June 30, 1964

Cash Balances — All Funds — July 1, 1963..... \$ 893,500.19

Receipts

Members Contributions

Teachers Savings	\$ 7,076,348.40	
Reinstatements	10,727.38	
Partially Matched Reinstatements	123,630.00	
Voluntary Unmatched Cont.	84,518.27	

Total From Members		\$ 7,295,224.05
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State Contributions

"Permanent" — To Match Teachers' Savings	\$ 7,074,866.28	
"Temporary" — To Reduce Prior Service Obligation	696,608.72	
Administrative Expense	220,657.00	

Total State Contributions		7,992,132.00
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Investment Income

Interest Income	\$ 4,345,766.09	
Net Profit on Sale of Investment	36,520.73	4,382,286.82

Receipts from Sale or Redemption of Bonds, Purchased

Interest, and Amortization of Premium		12,413,062.00
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Annuity Checks Returned and Benefit Adjustments		17,054.96
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Total Receipts		32,099,759.83
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Total Cash Available		\$32,993,260.02
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TEACHERS RETIREMENT SYSTEM STATEMENT OF RECEIPTS AND DISBURSEMENTS

For the Fiscal Year Ended June 30, 1964

Disbursements

Administrative Expenses — Current Year	\$ 201,572.86	
Liquidation of Prior Year Encumbrances	8,234.39	\$ 209,807.25
Refunds for Withdrawal from Membership		1,186,260.68
Death Benefit Payments — Members Deceased before Retirement		28,000.00
Retirement Allowance Payments		
Retirement	\$ 3,491,862.98	
Disability	367,886.87	
Voluntary and Survivor Benefit Payments	165,253.08	
Death Benefit Payments for Annuitants Deceased	71,500.00	4,096,502.93
Purchase of Investments		26,607,076.91
Total Disbursements		<u>32,127,647.77</u>
Cash Balance — All Funds — June 30, 1964		\$ 865,612.25

GENERAL COMMENTS

INTERNAL CONTROL

We have reviewed the internal control and accounting system of the Teachers Retirement System. The internal control is found to be excellent in view of the large volume of individual teachers' contributions which must be collected and processed. The accounting system is adequate, but not excessive since individual records must be maintained for each contributing member and each member receiving benefits.

REMITTANCE FROM SCHOOL BOARDS

In our prior audit as of June 30, 1963 we commented upon several School Boards being late in remitting the contributions withheld from the teachers' salaries each month. During the two years under audit, there have been some cases of late remittances. However, as of June 30, 1965 procedures have been worked out with the Kentucky Department of Education to withhold foundation program payments from any School Board until all withholdings are properly paid. This has succeeded in clearing up any delays in payments by the School Boards as of the date of the audit.