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29th
annual report

TEACHERS' RETIREMENT SYSTEM

STATE OF KENTUCKY
1968 - 1969

COMMONWEALTH OF KENTUCKY
STATE ARCHIVES AND RECORDS SERVICE
DEPARTMENT OF FINANCE
FRANKFORT

DECEMBER 1969



COMMONWEALTH OF KENTUCKY
TEACHERS' RETIREMENT SYSTEM

JAMES L. SUBLETT
EXECUTIVE SECRETARY

309 LEWIS STREET
FRANKFORT

PAT N. MILLER
ASSISTANT SECRETARY

December 1, 1969

Honorable Louie B. Nunn, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601

Dear Governor Nunn:

In keeping with the provisions of KRS 161.320 submitted herewith is the Twenty-Ninth Annual Report of the Teachers' Retirement System of the State of Kentucky.

The Teachers' Retirement System ended the year as formerly, with new highs in return on investment, monthly benefits to retired teachers, and other aspects of the benefit program. On June 30, 1969, the average monthly benefit being paid to 5,140 retired teachers was \$183. This figure may be expected to exceed \$200 prior to the end of the next fiscal year.

Presently the Actuary is conducting the biennial valuation of the assets and liabilities of the System, both present and prospective. His report was not ready in time to include in this document. We plan to issue it as a supplement in the near future.

Included are the pertinent portions of the Report of the State Auditor, including the Balance Sheets, Statement of Receipts and Disbursements and the certifying letter. Again, we take strong exception to the Auditor's remarks concerning the Trustees planned program of investment exchanges. This program has resulted in an actual increase in the System's reserves and will over the years produce literally millions of dollars in additional revenue for the System and its members. We feel that the Auditor should have indicated that the accounting methods used also are employed in a number of other state teachers' retirement systems and that the whole question of investment accounting practices for tax exempt pension funds is presently under study by the American Institute of Certified Public Accountants.

Kentucky teachers have an excellent program of retirement and related benefits; overall perhaps no similar group has a more adequate program. Constant vigilance is necessary, however, to avoid unwise and unwarranted

TEACHERS' RETIREMENT SYSTEM

pressures for increases in benefits without corresponding increases in financing. The Board of Trustees is dedicated to providing an excellent benefit program but at the same time maintaining the absolute fiscal integrity of the System.

Respectfully yours,

Edna Lindle, Chairman
Board of Trustees

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

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TEACHERS' RETIREMENT SYSTEM
STATE OF KENTUCKY

BOARD OF TRUSTEES

Elected by members:

Mrs. Edna Lindle, Chairman Henderson

Mrs. James Sheehan, Vice Chairman Danville

Ted L. Crosthwait Bardstown

Harold Miller Fort Thomas

Ex-Officio:

Thelma Stovall, State Treasurer Frankfort

John Breckinridge, Attorney General Frankfort

Wendell P. Butler, Superintendent of Public Instruction...Frankfort

STAFF

James L. Sublett, Executive Secretary

Pat Miller, Assistant Secretary

William R. Holt, Supervisor of Finance & Accounting

Huggins & Company, Actuary

Louise Bates	Nancy G. Cosby	Isabelle Royalty
Anna Jean Blackwell	Wilma Gaines	Martha Sudduth
Joan Burke	Mary J. Games	Elizabeth Tharpe
Polly Casey	Albert Hudson	Doris Ward
Betty Cohorn	Alean McDonald	Dorothy L. Wood
Anna Mae Connelly	Jean Pulliam	Frances Wright

PART I. FINANCIAL

The Balance Sheet reveals that the assets of the System on June 30, 1969, were \$239,312,036.97, approximately fourteen percent larger than for the same date in 1968. If this rate of percentage increase continues, the assets of the System will exceed \$300,000,000 by 1971. An increase in the assets is determined by the larger amount of member and state contributions which results from salary increases and additional members, plus greater return on the investments of the System.

Sometimes there is a tendency on the part of some public officials and members of the System to feel that the increasing amount of the assets of the Teachers' Retirement System would permit larger or extended benefits, lower contributions, or a reduction of state appropriations. It must be realized, however, that these are trust funds and held in large measure in reserve to assure retirement and related benefits for teachers who may be expected to retire in the future or who will at least receive their contributions in the form of refund. Unless adequate reserves are established and maintained now, future liabilities will exceed future assets with the resulting inability to pay benefits.

BALANCE SHEET
Teachers' Retirement System
June 30, 1969

ASSETS

Cash, All Funds	\$3,115,086.31	
Special Reserve Account, Aetna Life Insurance Company	<u>263,787.72</u>	\$ 3,378,874.03
Underpayment Adjustments due from Employers		34,948.99
Investments	\$235,777,468.49	
Unamortized Premium on Investments	2,383,214.50	
Accrued Interest Purchased	<u>50,293.61</u>	
Sub-total: Investments plus Deferred Charges	\$238,210,976.60	
Deduct Unamortized Discount on Investments	<u>2,312,762.65</u>	
		235,898,213.95
TOTAL ASSETS		<u>\$239,312,036.97</u>

FUND BALANCES

Teachers' Savings Fund	\$108,123,331.68	
State Accumulation Fund	108,123,331.68	
Guarantee Fund	12,826,393.67	
Voluntary Contributions, Active Members	986,166.81	
Expense Fund	41,985.89	
Allowance Reserve Fund	3,192,786.68	
Hospital & Medical Insurance Fund	2,954,428.62	
Survivor & Death Benefit Fund	<u>3,063,611.94</u>	
TOTAL FUND BALANCES		<u>\$239,312,036.97</u>

STATEMENT OF RECEIPTS AND DISBURSEMENTS
Teachers' Retirement System
for the period July 1, 1968-June 30, 1969

CASH BALANCE, ALL FUNDS JULY 1, 1968

\$ 3,972,253.08

Receipts:

Teachers' Savings	\$ 18,080,829.17	
Reinstatements	147,753.52	
Voluntary Unmatched Contributions	<u>315,045.07</u>	
Total from Members		\$18,543,627.76

State Contributions:

"Permanent" - to match Teachers' Savings	\$ 18,475,036.94	
"Temporary" - for Prior Service Obligation	424,963.06	
Administrative Expense	<u>266,760.00</u>	19,166,760.00

Interest Collected, Bonds Redeemed or Sold		27,661,308.32
Aetna Special Reserve Account Adjusted		83,151.28
Benefit Checks Returned for Deposit		35,140.99
Employer Matching of Teacher Contributions		1,301,561.26
Administrative Expense Adjustments		<u>1,434.11</u>

Total Receipts

66,792,983.72
\$70,765,236.80

TOTAL CASH AVAILABLE

Disbursements:

Administrative Expenses Current Year	\$ 225,884.22	
Liquidation of Prior Year Encumbrances	<u>228.92</u>	\$ 226,113.14
Refunds for Withdrawal from Membership		2,373,008.53
Premiums for Comprehensive Medical Plan		543,807.41
Benefits for Service & Disability Retirement	\$11,303,856.36	
Survivor Payments	271,610.34	
Death Benefits	<u>224,000.00</u>	11,799,466.70

Purchase of Investments

52,443,966.99

CASH BALANCE, ALL FUNDS - JUNE 30, 1969

67,386,362.77
\$ 3,378,874.03

ANALYSIS OF RECEIPTS
Teachers' Retirement System
Fiscal Years 1940-41 through 1968-69

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	\$ 161,216.57	\$ 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
7/1/52 - 6/30/56	7,293,671.35	21,120.78	6,494,101.79	936,448.21	262,254.00	2,983,220.77	17,990,816.90
1956-57	3,409,800.55	6,946.98	3,396,749.24	611,125.76	89,000.00	1,802,779.34	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
1965-66	11,948,546.60	77,594.19	10,744,110.00	---	255,890.00	5,217,998.29	28,244,139.08
1966-67	14,318,742.10	152,312.44	12,621,567.00	---	237,063.00	6,786,657.62	34,116,342.16
1967-68	16,381,912.34	100,611.48	14,172,000.00	---	225,000.00	8,116,302.09	38,995,825.91
1968-69	18,395,874.24	147,753.52	18,475,036.94	424,963.06	266,760.00	10,279,269.43	47,989,657.19
	<u>\$127,570,273.62</u>	<u>\$1,432,617.79</u>	<u>\$121,382,370.74</u>	<u>\$11,570,087.38</u>	<u>\$3,156,891.52</u>	<u>\$61,324,631.30</u>	<u>\$326,436,872.35</u>

COMPARISON OF BUDGET REQUESTS
WITH APPROPRIATIONS RECEIVED

July 1, 1940, through June 30, 1969

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
1966-68.....	25,656,256.00	25,655,630.00	626.00
1968-70.....	37,354,669.00	36,354,670.00	999,999.00
Totals.....	\$156,267,307.64	\$152,144,124.64	\$4,123,183.00

COST OF ADMINISTRATION
Teachers' Retirement System
July 1, 1940, through June 30, 1969

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.....	1,434,315.22	43,396.76	3.03
1950-51.....	1,577,988.24	52,324.68	3.32
1951-52.....	1,580,070.32	58,303.98	3.69
1952-53.....	2,102,681.02	57,490.72	2.73
1953-54.....	1,649,688.28	61,165.65	3.71
1954-55.....	1,753,438.35	68,889.71	3.93
1955-56.....	2,693,326.38	69,548.14	2.58
1956-57.....	4,008,681.86	88,407.80	2.21
1957-58.....	4,261,055.00	111,868.14	2.62
1958-59.....	4,337,850.00	128,489.00	2.97
1959-60.....	4,465,653.35	164,768.85	3.68
1960-61.....	6,963,625.00	170,103.70	2.44
1961-62.....	7,428,815.00	170,691.00	2.30
1962-63.....	7,739,140.00	193,366.07	2.49
1963-64.....	7,771,475.00	207,730.97	2.67
1964-65.....	8,191,883.41	200,567.87	2.44
1965-66.....	10,892,079.24	259,448.83	2.38
1966-67.....	13,564,338.10	220,146.12	1.62
1967-68.....	15,123,273.29	223,130.31	1.47
1968-69.....	20,201,561.26	228,132.69	1.12

REFUNDS
Teachers' Retirement System
July 1, 1940, to June 30, 1969

Date	Withdrawals		Deceased		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
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	1,406.21	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
TOTALS	<u>57,900</u>	<u>\$15,612,669.28</u>	<u>1,621</u>	<u>\$1,703,957.50</u>	<u>833</u>	<u>\$27,209.42</u>	<u>60,354</u>	<u>\$17,343,836.20</u>

ANALYSIS OF ACCOUNTS REFUNDED 1968-69
Teachers' Retirement System of the State of Kentucky

<u>REASONS FOR WITHDRAWAL</u>	<u>MALES</u>	<u>FEMALES</u>	<u>TOTAL</u>
Other Teaching Employment:			
State of Ohio	45	107	152
State of Florida	31	41	72
State of Indiana	35	64	99
Other States	162	231	393
Outside Limits of U. S. A.	4	7	11
Kentucky College or school not covered by Teachers' Retirement System	46	50	96
Non-Teaching Employment:			
Entered Business or Industry	141	34	175
Church-Related Profession	29	9	38
Medical Profession	1	2	3
Legal Profession	5	0	5
Military Service	63	2	65
Further Training & Education	121	113	234
Local, State, or Federal Government	50	34	84
Homemaking, Family Duties, Children	0	913	913
Husband Transferred Within Kentucky	0	0	0
Husband Transferred Out of Kentucky	0	65	65
Moved Residence to Another State	28	156	184
Emergency Teacher, Lack of Training, Not Re-employed	30	63	93
Salary Too Low	56	9	65
Needed the Money	7	13	20
Disliked Teaching	8	14	22
Personal Reasons	103	109	212
Illness of Member	11	18	29
Death of Member	16	32	48
Absent from Profession 4 - 6 Years	2	5	7
Lost Service Credit, Absent 7 or More Years	<u>7</u>	<u>37</u>	<u>44</u>
TOTALS	<u>1,001</u>	<u>2,128</u>	<u>3,129</u>

ANALYSIS OF ACCOUNTS REFUNDED 1968-69
Teachers' Retirement System of the State of Kentucky

	<u>NUMBER OF YEARS IN MEMBERSHIP</u>	<u>MALES</u>	<u>FEMALES</u>	<u>TOTAL</u>
	1	62	172	234
	2	265	633	898
	3	200	458	658
	4	114	227	341
VESTED	5	80	167	247
	6	51	107	158
	7	57	74	131
	8	41	59	100
	9	24	45	69
	10 or more	<u>107</u>	<u>186</u>	<u>293</u>
	Totals	<u>1,001</u>	<u>2,128</u>	<u>3,129</u>

PART II. INVESTMENTS

Again the Teachers' Retirement System ended the year with record returns on invested reserves. Our yield again is in the upper ten percent of similar systems throughout the nation. These results are secured within a framework of high quality investments.

Action by the 1968 General Assembly increased the permissible investment in common stocks to twenty-five percent of assets. Because common stock prices were high during most of 1968-69 investment in them was somewhat curtailed with the result that as of June 30, 1969, the System had slightly less than fourteen percent invested in this category. The amount may be expected to increase as individual prices weaken or the entire market goes lower.

During this fiscal year the Trustees completed its program of exchanging low yielding government securities for higher coupon top quality corporate bonds. Almost twelve million par value of government bonds were exchanged for a similar quantity of corporate securities. The net result of this transaction was to increase the gross income of the System by more than three million dollars. Details of the exchange are too voluminous to include here, but a detailed analysis of the transaction is available to anyone desiring a copy.

Because of the System's extensive investment in Federally guaranteed mortgages, investment in Treasury securities does not seem warranted.

ANALYSIS OF INVESTMENTS HELD AT JUNE 30, 1969

to show annual yield rate

Teachers' Retirement System of the State of Kentucky

	Percentage of Total	Par Value	Interest Income/Year	Annual Yield
Obligations Secured by U. S. Treasury	2.10%	\$ 4,945,830.38	\$ 261,020.73	5.278%
Federal Agencies	3.14%	7,394,000.00	387,605.06	5.242%
FHA & VA Mortgages	18.45%	43,500,171.09	2,276,999.99	5.234%
Other Guaranteed Mortgages	3.40%	8,010,574.79	428,255.23	5.346%
Corporate Bonds	58.18%	137,167,378.53	7,353,798.37	5.361%
School & Municipal Bonds	.22%	531,000.00	26,219.00	4.938%
Kentucky Industrial Development Finance Authority	.61%	1,450,000.00	72,250.00	4.983%
Sub-Total	86.10%	\$ 202,998,954.79	\$ 10,806,148.38	

NET YIELD RATE:

$\$10,806,148.38 \div \$202,998,954.79 = 5.323\%$

Not Included Above:

695,946 Shares Common Stocks	13.88%	32,721,862.05
500 Shares Preferred Stock	.02%	56,651.65
TOTAL INVESTMENTS	100.00%	\$ 235,777,468.49

SUMMARY OF INVESTMENT PROFIT YIELDS

<u>Year</u>	<u>Invested Assets</u>	<u>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

PART III. AUDIT

In the transmittal letter in the first portion of this Report, we state our position in regard to the comments of the Auditor concerning the investment accounting practices employed by the Board of Trustees. Further elaboration would serve no useful purpose.

The Board of Trustees and staff have been concerned for a number of years regarding the lapse of time between the end of a fiscal year and the issuance of statements of account to members. We labor constantly to improve this situation. In part the delay results from tardiness in submission of annual reports by school districts. More important, however, has been our inability to secure additional computing equipment. Hopefully, this problem may be solved in the near future.



COMMONWEALTH OF KENTUCKY
AUDITOR OF PUBLIC ACCOUNTS
FRANKFORT

JAMES THOMPSON
AUDITOR

July 29, 1969

Honorable Louie B. Nunn, Governor
Commonwealth of Kentucky
Board of Trustees
Teachers' Retirement System of the
Commonwealth of Kentucky
Frankfort, Kentucky

Gentlemen:

We have examined the financial records of the Teachers' Retirement System of the Commonwealth of Kentucky for the fiscal year ended June 30, 1968, and submit herewith our report.

Our examination included a review of the balance sheet and the related statement of cash receipts and disbursements. 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.

We take exception to certain policies and procedures followed by the System, and refer you to the comments immediately following this letter.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Thompson".

James Thompson
Auditor of Public Accounts

JT:sc

C O M M E N T SInvestments

The System has been selling low-yield investments and reinvesting the proceeds in higher-yield investments. The System has treated these sales and purchases as re-investments or "exchanges". From July 1, 1967 through May 17, 1968, the System's policy was to incorporate a part of the loss or gain on the sale of old securities into the cost of the new securities, so that inaccurate gain or loss was recognized. From May 17, 1968 through June 30, 1968, any losses or gains on the securities "exchanged" were added to the cost of the new securities, to bring the new securities to par value, and the remainder of the losses or gains were recognized on the books.

During the fiscal year ending June 30, 1968, the System had losses of \$3,030,300.00 on "exchanges" of bonds. Of these losses, \$2,599,800.00 was treated as additional cost of the new investments and \$430,500.00 was recognized as a loss. This method of handling losses or gains has the effect of overstating the investment cost and the guarantee fund balance, and understating the loss on sale of investments.

The above policy of handling losses or gains on sale of investments is contrary to generally accepted accounting principles as stated by the American Institute of Certified Public Accountants. Exception to the accounting treatment of these losses was taken in the audit report for the fiscal years ended June 30, 1966 and June 30, 1967. Exception is again taken in this audit report to the accounting treatment of these losses.

State Matching Fund

The State's permanent contributions made to match teachers' contributions were the exact amount set up in the State Budget for the fiscal year ended June 30, 1968. The State's contributions lacked \$1,030,000.00 matching teachers' contributions for this year. In addition, the State has made no contributions toward the retirement of prior service liability during this period.

Teachers' Contributions

The school boards remit teachers' withholding monthly and submit an individual breakdown at the end of the year. At our audit date nearly one year after the close of the fiscal period the contributions had been broken down to individual teachers, but had not been posted in the teachers' individual accounts. The amounts to be posted to teachers' accounts were compared to the employer's annual report on a test basis.

Effort should be made to furnish teachers an annual statement of these accounts as soon as possible after the close of the fiscal year.

Some school boards were late in submitting the withholdings from teachers' salaries. To encourage prompt remittance from the school boards, we recommend that the Teachers' Retirement System study the possibility of adding a penalty for late payment.

C O M M E N T S (Continued)

Administration

During the fiscal year under audit, there was no insurance coverage on office equipment and the automobile. However, insurance coverage was secured in January, 1969.

The accounts maintained by the Teachers' Retirement System should be reconciled at least quarterly with the control accounts in the Division of Accounts, Department of Finance. Also, transfers between funds made on the System's records should coincide with the transfers made on the books of Division of Accounts, Department of Finance.

The Teachers' Retirement System has a hybrid-cash accounting system. The receipts books are held open until most of the receipts for the year have been received. The disbursements are cut off at the end of the year. The ninety day closeout period as permitted by the Department of Finance should be observed for expenditures.

We note that the System has invested approximately two million dollars in tax-exempt bonds. Since the System is itself a tax-exempt institution, it could have realized substantially higher yields had these funds been invested in conventional "taxable" bonds.

TEACHERS' RETIREMENT SYSTEM

Exhibit A

BALANCE SHEET

June 30, 1968

Assets

Cash - All Funds		\$ 3,719,060.72
Special Reserve Account, Aetna Life Ins. Co.		252,928.44
Investments (1)	\$200,144,951.55	
Unamortized Premium on Investments	2,501,797.21	
Unamortized Discount on Investments	<u>(1,952,083.30)</u>	200,694,665.46 (2)
Accrued Interest Purchases		<u>141,680.39</u>
Total Assets		<u>\$204,808,335.01</u>

Fund Balances (3)

Teachers' Savings Fund	\$ 94,171,068.28
State Accumulation Fund	92,631,676.54
Guarantee Fund	10,777,106.67
Voluntary Contribution Fund	686,164.03
Allowance Reserve Fund	2,469,285.44
Hospital and Medical Insurance Fund	1,998,366.01
Survivor and Death Benefits Fund	<u>2,074,668.04</u>
Total Fund Balances	<u>\$204,808,335.01</u>

- (1) Bonds and Notes are carried at maturity value. Stock is carried at cost.
Mortgages are carried at current amortized value.
- (2) The investment account is overstated by \$2,599,800.00 due to the System's policy of treating sales and purchases of investments as exchanges. See comments - Investments - for further explanation.
- (3) Our audit included adjustments of several fund balances to compensate for correcting entries made after the close of the fiscal year under examination.

TEACHERS' RETIREMENT SYSTEM

Exhibit B

RECEIPTS AND DISBURSEMENTS

Fiscal Year Ended June 30, 1968

Cash Balance - All Funds - 7/1/67	\$ 2,537,956.44	
Special Reserve Account - Aetna Life Ins. Co.	<u>194,743.00</u>	\$ 2,732,699.44

Receipts

Members' Contributions:

Teachers' Contributions	\$16,173,617.90
Reinstatements	100,611.48
Voluntary Unmatched Contributions	<u>208,294.44</u>

Total Members' Contributions	\$16,482,523.82
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State Contributions:

"Permanent" to Match Teachers' Savings	\$14,172,000.00
Administration Expenses	<u>225,000.00</u>

Total State Contributions	14,397,000.00
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Employers' Matching of Teachers' Cont.	951,273.29(2)
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Investment Income:

Interest on Investments	\$ 8,396,947.14
Interest on Special Reserve Account	9,263.44
(Less) Loss on Sale of Securities	<u>(280,780.83) (1)</u>

Total Investment Income	8,125,429.75
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Receipts from Sale or Redemption of Investments:

Purchased Interest and Amortization of Premium	16,754,332.44
Experience Refund on Prior Medical Premiums	148,922.00
Annuity Checks Returned and Benefit Adjustments	<u>18,682.53</u>

Total Receipts	<u>56,878,163.83</u>
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Total to be Accounted for	\$59,610,863.27
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Disbursements

Administration Expenses Current Yr.	\$ 222,543.97	
Deduct Sale of Automobile	(155.00)	
Prior Year Encumbrances	<u>1,005.26</u>	223,394.23
Refunds for Withdrawal from Membership		2,019,431.47
Premiums for Comprehensive Medical Plan		467,755.84
Benefits for Service & Disability Retire.	9,466,946.84	
Death Benefits	238,417.52	
Survivor Payments	<u>244,400.00</u>	9,949,764.36

(Continued)

TEACHERS' RETIREMENT SYSTEM
RECEIPTS AND DISBURSEMENTS
Fiscal Year Ended June 30, 1968

Exhibit B
(Concluded)

Disbursements (Cont.)

Purchase of Investments, Accrued Interest and Premiums	<u>\$42,978,528.21</u>
Total Disbursements	<u>\$55,638,874.11</u>
Cash Balance - June 30, 1968	<u>\$ 3,971,989.16</u>

- (1) The loss on sale of securities is understated by \$2,599,800.00. See Comments - Investments - for further explanation.
- (2) Employers' matching of teachers' contributions is from employers of teachers whose salaries are from sources other than public school system funds.

