TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

Financial Statements

June 30, 2009

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

We have audited the accompanying statements of plan net assets of the Teachers' Retirement System of the State of Kentucky as of June 30, 2009 and 2008 and the related statements of changes in plan net assets for the years then ended. These component unit financial statements are the responsibility of the Teachers' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, at June 30, 2009 and 2008 and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2009 on our consideration of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-6 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The financial section supporting schedules listed in the table-of-contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the System's management. Such schedules as of and for the year ended June 30, 2009 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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

Charles T. Mitchell Co.

Charles T. Mitchell Co. PLLC
December 18, 2009

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TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Teachers' Retirement System's financial performance provides an overview of the defined benefit and medical insurance plans' financial year ended June 30, 2009. Please read it in conjunction with the respective financial statements, which begin on page 7.

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan, and the medical and life insurance plans, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. The Statement of Plan Net Assets and Statement of Changes in Plan Net Assets (on pages 7-10) provide information about the activities of the defined benefit plan, medical insurance plan, life insurance plan and the tax-sheltered annuity plan as a whole. The Kentucky Teachers' Retirement System is the fiduciary of funds held in trust for its members.

The Schedule of Funding Progress (on pages 27-29) includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions (on pages 27-29) presents historical trend information about the annual required contributions of employers and the contributions made by employers in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

KENTUCKY TEACHERS' RETIREMENT SYSTEM AS A WHOLE

In the fiscal year ended June 30, 2009, Kentucky Teachers' Retirement System's combined plan net assets decreased by $2,510.5 million – from $14,340.7 million to $11,830.2 million. The following summaries focus on plan net assets and changes in plan net assets of Kentucky Teachers' Retirement System's defined benefit plan, medical insurance plan, life insurance plan and the tax-sheltered annuity plan.

Summary of Plan Net Assets
(In Millions)

	Defined Benefit Plan			Medical Insurance Plan			Life Insurance Fund		
Categories	2009	2008	2007	2009	2008	2007	2009	2008	2007
Cash & Investments	$ 11,592.4	$ 14,224.0	$ 16,204.5	$ 225.0	$ 182.0	$ 137.0	$ 89.0	$ 76.8	$ 69.1
Receivables	94.3	93.6	95.8	7.1	6.2	5.7	0.7	0.8	0.8
Capital Assets	3.2	3.0	3.1						
Total Assets	11,689.9	14,320.6	16,303.4	232.1	188.2	142.7	89.7	77.6	69.9
Total Liabilities	(174.0)	(243.9)	(880.8)	(3.0)	(2.3)	(1.9)	(5.0)	-	-
Plan Net Assets	$ 11,515.9	$ 14,076.7	$ 15,422.6	$ 229.1	$ 185.9	$ 140.8	$ 84.7	$ 77.6	$ 69.9

*Totals	2009	2008	2007
Cash & Investments	$ 11,906.4	$ 14,482.8	$ 16,410.6
Receivables	102.1	100.6	102.3
Capital Assets	3.2	3.0	3.1
Total Assets	12,012	14,586	16,516
Total Liabilities	(182.0)	(246.2)	(882.7)
Plan Net Assets	$ 11,829.7	$ 14,340.2	$ 15,633.3

**The 403(b) Tax Shelter Plan cash and investments were approximately $.5 million for the years ended 2009 and 2008 and 2007.*

Plan net assets of the defined benefit plan decreased by 18.2% ($11,515.9 million compared to $14,076.7 million). The decrease is primarily due to unfavorable market conditions which resulted in a net investment income decrease of $2 billion. The defined benefit plan assets are restricted to providing monthly retirement allowances to members and their beneficiaries. Plan net assets of the medical insurance plan increased by 23.2% ($229.1 million compared to $185.9 million) primarily due to state allocations from redirecting contributions from the retirement fund to the medical plan. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

Summary of Plan Net Assets
(In Millions)

	Defined Benefit Plan			Medical Insurance Plan			Life Insurance Fund		
Categories	2009	2008	2007	2009	2008	2007	2009	2008	2007
Additions									
Member Contributions	$ 293.7	$ 291.4	$ 269.7	$ 58.7	$ 55.4	$ 53.1	$ -	$ -	$ -
Employer Contributions	442.6	466.2	434.9	164.4	148.9	113.2	5.4	5.4	5.0
Net Investment Income	(2,020.7)	(909.1)	2,063.9	11.3	8.1	6.7	5.3	6.3	(3.4)
Other Income				13.7	11.9	10.4			
Total Additions	$ (1,284.4)	$ (151.5)	$ 2,768.5	$ 248.1	$ 224.3	$ 183.4	$ 10.7	$ 11.7	$ 1.6
Deductions									
Benefit Payments	$ 1,253.0	$ 1,170.9	$ 1,102.6	$	$	$	$ 3.7	$ 4.0	$ 4.2
Refunds	15.2	15.9	14.8						
Administrative Expense	8.2	7.6	7.4						
Insurance Expenses				204.8	179.2	174.2			
Total Deductions	1,276.4	1,194.4	1,124.8	204.8	179.2	174.2	3.7	4.0	-
Increase/(Decrease) in Plan Net Assets	$ (2,560.8)	$ (1,345.9)	$ 1,643.7	$ 43.3	$ 45.1	$ 9.2	$ 7.0	$ 7.7	$ 1.6

*Totals	2009	2008	2007
Additions			
Member Contributions	$ 352.4	$ 346.8	$ 322.8
Employer Contributions	612.4	620.5	553.1
Net Investment Income	(2,004.1)	(894.7)	2,067.2
Other Income	13.7	11.9	10.4
Total Additions	$ (1,025.6)	$ 84.5	$ 2,953.5
Deductions			
Benefit Payments	$ 1,256.7	$ 1,174.9	$ 1,106.8
Refunds	15.2	15.9	14.8
Administrative Expense	8.2	7.6	7.4
Insurance Expenses	204.8	179.2	174.2
Total Deductions	$ 1,484.9	$ 1,377.6	$ 1,303.2
Increase/(Decrease) in Plan Net Assets	$ (2,510.5)	$ (1,293.1)	$ 1,650.3

DEFINED BENEFIT PLAN ACTIVITIES

Member contributions increased $2.3 million. Retirement contributions are calculated by applying a percentage factor to salary and are paid monthly by each member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit.

Employer contributions totaled $442.6 million, a net decrease of $23.6 million over the 2008 fiscal year.

The System experienced a greater decrease in net investment income compared to the previous year (negative $2,020.7 million at June 30, 2009 as compared to a $909.1 million decrease at June 30, 2008). The decrease in the fair value of investments is mainly due to unfavorable market conditions for the year ended June 30, 2009.

This can be illustrated as follows:

(In Millions)	2009	2008	2007
Appreciation(depreciation) in fair value of investments - June 30, prior year	$ 385.4	$ 1,904.0	$ 690.4
Appreciation(depreciation) in fair value of investments - June 30, prior year	(1,336.2)	385.4	1,904.0
Change in net appreciation(depreciation) in fair value of investments	(1,721.6)	(1,518.6)	1,213.6
Net income (net of investment expense)	373.1	426.9	443.1
Net gain on sale of investments	(672.2)	182.6	403.8
Investment Income (net) - June 30, end of year	$ (2,020.7)	$ (909.1)	$ 2,060.5

Program deductions in 2009 increased $82 million. The increase was caused principally by an increase of $82.1 million in benefit payments. Members who were drawing benefits as of June 2009 received an increase of 1.5% to their retirement allowances in July 2008. Also, there was an increase of 1,311 members and beneficiaries on the retired payroll as of June 30, 2009.

OTHER POST EMPLOYMENT BENEFIT ACTIVITIES

During the 2009 fiscal year, the medical insurance plan member contributions increased $3.3 million and employer contributions increased by $15.5 million over fiscal year 2008. The employer contributions increased primarily because $139.4 million in stabilization funding was placed in the medical insurance fund from the pension fund at the recommendation of the System's actuary. The amount will be repaid over a ten-year period per KRS 161.553.

Program deductions increased $25.6 million due to an increase of insurance expenses. The monthly premium subsidy for retirees under age 65 increased 12.56% from fiscal year 2008 to fiscal year 2009. A 8.19% increase is expected for calendar year 2010. The monthly premium subsidy for retirees age 65 and over increased by 2.50% from fiscal year 2008 to fiscal year 2009. A 20% increase is expected for calendar year 2010 due to federal reimbursement changes with the Medicare Advantage Program.

Net investment income increased $3.2 million from $8.1 million in 2008 to $11.3 million in 2009. This is due to the recognition of interest income since all investments for the Medical Insurance Plan are short term in nature and the recognition of appreciation in fair value is not feasible. This can be illustrated as follows:

(In Millions)	2009	2008	2007
Appreciation(depreciation) in fair value of investments - June 30, prior year	$ -	$ -	$ -
Appreciation(depreciation) in fair value of investments - June 30, prior year	-	-	-
Change in net appreciation(depreciation) in fair value of investments	-	-	-
Net income (net of investment expense)	11.3	8.1	6.7
Net gain on sale of investments	-	-	-
Investment Income (net) - June 30, end of year	$ 11.3	$ 8.1	$ 6.7

The life insurance plan is has an actuarial valuation conducted independently from the defined benefit plan. Total life insurance benefits paid for 2009, 2008 and 2007 were $3.7, $4.0 and $4.2 million respectively.

HISTORICAL TRENDS

Accounting standards require that the Statement of Plan Net Assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the defined benefit plan, the medical insurance plan, and the life insurance plan is provided in the Schedule of Funding Progress (beginning on page 27). The asset value, stated in the Schedule of Funding Progress, is determined by the System's independent actuary. The actuarial accrued liability is calculated using the projected unit credit cost method.

The 2009 fiscal year reveals a decline in funding position of the pension plan due to an increase in the actuarial liability.

Annual required employer contributions of the defined benefit plan are provided in the Schedule of Employer Contributions (on page 27). This schedule indicates that for year 2009 employer shortfall of contributions created a net pension obligation of $413,292,362.

The medical insurance plan is not as vulnerable to adverse market conditions since its assets are all short term in nature and less likely to experience huge fluctuations. Although the plan continues to have a large unfunded actuarial liability, the current obligations are being met by current funding.

Annual required contributions of the Medical Insurance Plan are provided in the Schedule of Employer Contributions (on page 28). This schedule indicates that for year 2009 employer shortfall of contributions created a net OPEB obligation of $525,816,306.

Teachers' Retirement System of the State of Kentucky
Statement of Plan Net Assets
as of June 30, 2009

	Defined Benefit Plan	403(b) Tax Shelter	Medical Insurance Plan	Life Insurance Plan	2009 Total
Assets					
Cash	$ 4,927,062	$	$	$ 1,736,300	$ 6,663,362
Prepaid Expenses	148,786		121,000		269,786
Receivables					
Contributions	34,794,627		2,762,036	77,453	37,634,116
State of Kentucky	2,966,717				2,966,717
Investment Income	55,886,305			674,184	56,560,489
Installment Account Receivable	605,511				605,511
Medicare D Receivables			4,328,805		4,328,805
Other Receivables					-
Total Receivables	94,253,160	-	7,090,841	751,637	102,095,638
Investments at Fair Value (See Note 5)					
Short Term Investments	19,159,158	474,361	224,866,481	12,400,000	256,900,000
Bonds and Mortgages	3,710,946,462			74,889,911	3,785,836,373
Equities	7,086,247,046				7,086,247,046
Alternative Invetments	177,330,444				177,330,444
Real Estate	425,746,050				425,746,050
Total Investments	11,419,429,160	474,361	224,866,481	87,289,911	11,732,059,913
Invested Security Lending Collateral	167,874,202				167,874,202
Capital Assets, at Cost Net Of Accumulated Depeciation of $2,087,345 (See Note 2)	3,219,786				3,219,786
Total Assets	11,689,852,156	474,361	232,078,322	89,777,848	12,012,182,687
Liabilities					
Accounts Payable	1,028,771			78,339	1,107,110
Insurance Claims Payable			2,975,307		2,975,307
Investment Purchases Payable	5,065,608			4,996,875	10,062,483
Obligations Under Security Lending	167,874,202				167,874,202
Total Liabilities	173,968,581	-	2,975,307	5,075,214	182,019,102
Net Assets Held In Trust For Pension And Other Post Employment Benefits	$ 11,515,883,575	$ 474,361	$ 229,103,015	$ 84,702,634	$ 11,830,163,585

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

Teachers' Retirement System of the State of Kentucky
Statement of Plan Net Assets
as of June 30, 2008

	Defined Benefit Plan	403(b) Tax Shelter	Medical Insurance Plan	Life Insurance Plan	2008 Total
Assets					
Cash	$ 8,083,548	$	$	$ 587,853	$ 8,671,401
Prepaid Expenses	146,008		121,000		267,008
Receivables					
Contributions	29,761,242		2,273,890	60,048	32,095,180
State of Kentucky	500,956				500,956
Investment Income	62,223,633	29		736,866	62,960,528
Installment Account Receivable	661,499				661,499
Medicare D Receivables			3,901,214		3,901,214
Other Receivables	423,332				423,332
Total Receivables	93,570,662	29	6,175,104	796,914	100,542,709
Investments at Fair Value (See Note 5)					
Short Term Investments	201,290,978	498,892	181,882,630	5,100,000	388,772,500
Bonds and Mortgages	4,208,000,818			71,173,450	4,279,174,268
Equities	9,029,380,841				9,029,380,841
Alternative Invetments	104,787,575				104,787,575
Real Estate	431,693,774				431,693,774
Total Investments	13,975,153,986	498,892	181,882,630	76,273,450	14,233,808,958
Invested Security Lending Collateral	240,638,736				240,638,736
Capital Assets, at Cost Net Of Accumulated Depeciation of $1,978,998 (See Note 2)	3,018,126				3,018,126
Total Assets	14,320,611,066	498,921	188,178,734	77,658,217	14,586,946,938
Liabilities					
Accounts Payable	3,280,149			14	3,280,163
Insurance Claims Payable			2,295,511		2,295,511
Obligations Under Security Lending	240,638,736				240,638,736
Total Liabilities	243,918,885	-	2,295,511	14	246,214,410
Net Assets Held In Trust For Pension And Other Post Employment Benefits	$ 14,076,692,181	$ 498,921	$ 185,883,223	$ 77,658,203	$ 14,340,732,528

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

Teachers' Retirement System of the State of Kentucky
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2009

	Defined Benefit Plan	403(b) Tax Shelter	Medical Insurance Plan	Life Insurance Plan	2009 Total
Additions					
Contributions					
Employer	$ 442,549,935	$	$ 164,408,037	$ 5,455,473	$ 612,413,445
Member	293,678,564		58,688,767		352,367,331
Total Contributions	736,228,499	-	223,096,804	5,455,473	964,780,776
Other Income					-
Recovery Income			72,082		72,082
Medicare D Receipts			13,611,748		13,611,748
Total Other Income	-	-	13,683,830	-	13,683,830
Investment Income					
Net Appreciation/(Depreciation) in Fair Value of Investments	(2,393,824,926)			1,888,614	(2,391,936,312)
Interest	206,695,899	3,172	11,296,280	3,394,344	221,389,695
Dividends	150,828,141				150,828,141
Rental Income, Net	29,794,103				29,794,103
Securities Lending, Gross Earnings	3,053,121				3,053,121
Gross Investment Income	(2,003,453,662)	3,172	11,296,280	5,282,958	(1,986,871,252)
Less: Investment Expense	(16,321,910)				(16,321,910)
Less: Securities Lending Expense	(906,950)				(906,950)
Net Investment Income	(2,020,682,522)	3,172	11,296,280	5,282,958	(2,004,100,112)
Total Additions	(1,284,454,023)	3,172	248,076,914	10,738,431	(1,025,635,506)
Deductions					
Benefits	1,252,980,407	27,732		3,694,000	1,256,702,139
Refunds of Contributions	15,208,419				15,208,419
Insurance Expenses			204,857,122		204,857,122
Administrative Expense	8,165,757				8,165,757
Total Deductions	1,276,354,583	27,732	204,857,122	3,694,000	1,484,933,437
Net Increase(Decrease)	(2,560,808,606)	(24,560)	43,219,792	7,044,431	(2,510,568,943)
Net Assets Held In Trust For Pension And Other Postemployment Benefits					
Beginning of Year	14,076,692,181	498,921	185,883,223	77,658,203	14,340,732,528
End of Year	$ 11,515,883,575	$ 474,361	$ 229,103,015	$ 84,702,634	$ 11,830,163,585

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

Teachers' Retirement System of the State of Kentucky
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2008

	Defined Benefit Plan	403(b) Tax Shelter	Medical Insurance Plan	Life Insurance Plan	2008 Total
Additions					
Contributions					
Employer	$ 466,247,782	$	$ 148,929,322	$ 5,411,249	$ 620,588,353
Member	291,423,948		55,402,830		346,826,778
Total Contributions	757,671,730	-	204,332,152	5,411,249	967,415,131
Other Income					-
Recovery Income			25,322		25,322
Medicare D Receipts			11,911,565		11,911,565
Total Other Income	-	-	11,936,887	-	11,936,887
Investment Income					
Net Appreciation/(Depreciation) in Fair Value of Investments	(1,335,940,216)			2,821,989	(1,333,118,227)
Interest	240,681,166	17,397	8,128,179	3,499,502	252,326,244
Dividends	165,542,769				165,542,769
Rental Income, Net	28,660,581				28,660,581
Securities Lending, Gross Earnings	21,398,859				21,398,859
Gross Investment Income	(879,656,841)	17,397	8,128,179	6,321,491	(865,189,774)
Less: Investment Expense	(9,499,832)				(9,499,832)
Less: Securities Lending Expense	(19,926,852)				(19,926,852)
Net Investment Income	(909,083,525)	17,397	8,128,179	6,321,491	(894,616,458)
Total Additions	(151,411,795)	17,397	224,397,218	11,732,740	84,735,560
Deductions					
Benefits	1,170,969,101	30,507		4,003,000	1,175,002,608
Refunds of Contributions	15,965,083		10,014		15,975,097
Insurance Expenses			179,276,215		179,276,215
Administrative Expense	7,551,936				7,551,936
Total Deductions	1,194,486,120	30,507	179,286,229	4,003,000	1,377,805,856
Net Increase(Decrease)	(1,345,897,915)	(13,110)	45,110,989	7,729,740	(1,293,070,296)
Net Assets Held In Trust For Pension And Other Post Employment Benefits					
Beginning of Year	15,422,590,096	512,031	140,772,234	69,928,463	15,633,802,824
End of Year	$ 14,076,692,181	$ 498,921	$ 185,883,223	$ 77,658,203	$ 14,340,732,528

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

NOTE 1: DESCRIPTION OF PLAN

A. REPORTING ENTITY

The Teachers' Retirement System of the State of Kentucky (KTRS) was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS is a cost-sharing multiple-employer defined benefit plan established to provide pension benefit plan coverage for local school districts and other public educational agencies in the state.

B. PARTICIPANTS

As of June 30, 2009 a total of 197 employers participated in the plan. Employers are comprised of 174 local school districts, 17 Department of Education Agencies and other educational organizations, 5 universities and also the Kentucky Community and Technical College System.

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

	2009	2008
Active contributing members:		
Vested	45,843	42,932
Non-vested	30,094	32,607
Inactive members, vested	5,245	4,861
Retirees and beneficiaries currently receiving benefits	42,050	40,739
Total members, retirees, and beneficiaries	123,232	121,139

C. BENEFIT PROVISIONS

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or

2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. University employees receive monthly benefits equal to two (2) percent of their final average salary for each year of credited service. The final average salary is the member's five (5) highest annual salaries except members at least 55 with 27 or more years of service may use their (3) three highest annual salaries. New members (including second retirement accounts started) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, non-university members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation.

The System also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is $2,000 for active contributing members and $5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases, and any other benefit amendments must be authorized by the General Assembly.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. CASH

KTRS has three cash accounts. At June 30, 2009, the pension cash account totaled $2,587,489. The administrative expense fund cash account was $2,339,572 and the life insurance cash account totaled $1,736,300. Therefore, the carrying value of cash was $6,663,361 and the corresponding bank balance was $10,712,930. The variance is primarily due to outstanding checks and items not processed by the bank on June 30, 2009.

C. CAPITAL ASSETS

Fixed assets are recorded at historical cost less straight-line accumulated depreciation. The classes of fixed assets are furniture and equipment, the KTRS office buildings and land. Furniture and equipment are depreciated over an average useful life of five to seven years. The office buildings are depreciated over forty years. Internally created software for the Pathway capital project is capitalized and amortized over five years. The Pathway project will update technological record keeping abilities and improve timeliness and accuracy of responses to member inquiries.

D. INVESTMENTS

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers.

Purchase and sales of debt securities, equity securities, and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Upon sale of investments, the difference between sales proceeds and cost is reflected in the statement of changes in plan net assets.

Investment expenses consist of investment manager and consultant fees along with fees for custodial services.

E. COMPENSATED ABSENCES

Expenses for accumulated vacation days and compensatory time earned by the System's employees are recorded when earned. Upon termination or retirement, employees of the System are paid for accumulated vacation time limited to 60 days and accumulated compensatory time limited to 200 hours. As of June 30, 2009 and 2008 accrued compensated absences were $733,610 and $658,434.

F. RISK MANAGEMENT

Destruction of assets, theft, employee injuries and court challenges to administrative policy are among the various risks to which the System is exposed. In order to cover such risks the System carries appropriate insurance policies such as fire and tornado, employee bonds, fiduciary liability, worker's compensation and equipment insurance.

G. OTHER RECEIVABLES
KTRS allows qualified purchases of service credit to be made by installment payments not to exceed a five-year period. Revenue is recognized in the initial year of the installment contract agreement. The June 30, 2009 and 2008 installment contract receivables were $605,511 and $661,499.

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

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

J. ACCOUNTING CHANGES
The System implemented GASB #51 Accounting and Financial Reporting for Intangible Assets.

K. RECLASSIFICATIONS
Certain 2008 amounts have been reclassified in conformity with the 2009 presentation.

NOTE 3: CONTRIBUTIONS AND RESERVES

A. CONTRIBUTIONS
Contribution rates are established by Kentucky Revised Statutes. Pre July 2008 members are required to contribute 9.855% of their salaries to the System; university members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 6.16% of their salary to KTRS. Post July 2008 members are required to contribute an additional 1% to the medical insurance fund.

Participating employers are required to contribute the percentage contributed by members plus an additional 3.25% of members' gross salaries. The Commonwealth of Kentucky contributes the required percentages for the local school district employers except for those members who are employed in federally funded positions, in which case the federal program pays the required percentages.

The member and employer contributions consist of pension contributions and post-retirement contributions to the medical insurance fund. The post-retirement contribution from employee (.75% for members prior to July 1, 2008 or 1.75% for members who joined after July 1, 2008) and the employer contribution rate of .75% of members' gross salaries help finance KTRS' retiree medical insurance plan.

If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee contributions plus interest are refunded to the employee upon the member's request.

B. RESERVES

Member Reserve

This fund was established by KRS 161.420(2) as the Teacher Savings Fund and consists of contributions paid by university and non-university members. The fund also includes interest authorized by the Board of Trustees from Unallocated Reserves. The accumulated contributions of members that are returned upon withdrawal or paid to the estate or designated beneficiary in the event of death are paid from this fund. Upon retirement, the member's contributions and the matching state contributions are transferred from this fund to Benefit Reserves, the fund from which retirement benefits are paid.

Employer Reserve

This fund was established by KRS 161.420(3) as the State Accumulation Fund and receives state appropriations to the Retirement System. The state matches an amount equal to members' contributions. State appropriations during the year are based on estimates of members' salaries. At year-end when actual salaries are known, the required state matching is also realized by producing either a receivable from or a payable to the State of Kentucky.

Benefit Reserve

This fund was established by KRS 161.420(4) as the Allowance Reserve Fund, the source for retirement, disability, and survivor benefits paid to members of the System. These benefits are paid from the retired members' contributions until they are exhausted, at which time state matching contributions are used to pay the benefits. After an individual member's contributions and the state matching contributions have been exhausted, retirement benefits are paid from monies transferred from Unallocated Reserves.

Unallocated Reserve

This fund was established by KRS 161.420(4) as the Allowance Reserve Fund, the source for retirement, disability, and survivor benefits paid to members of the System. These benefits are paid from the retired members' contributions until they are exhausted, at which time state matching contributions are used to pay the benefits. After an individual member's contributions and the state matching contributions have been exhausted, retirement benefits are paid from monies transferred from Unallocated Reserves.

Administrative Expense Reserve

This fund was established by KRS 161.420(1) as the Expense Fund. Investment income transferred to this fund from Unallocated Reserves is used to pay the administrative expenses of the System.

NOTE 4: FUNDED STATUS AND FUNDING PROGRESS

A. DESCRIPTION OF FUNDING PROGRESS

The funded status of the Defined Benefit Plan as of the most recent actuarial valuation date is as follows:

(Dollar amount in 1000's)

Valuation Year June 30	Actuarial Value Of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (uaal) B-A	Funded Ratio (A/B)	Covered Payroll C	UAAL as a % of Covered Payroll [B-A/C]
2009	$ 14,885,951	$ 23,400,426	$ 8,514,475	63.6%	$ 3,253,077	261.7%

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

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the System is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement system. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement system.

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

B. METHODOLOGIES

The promised benefits of the System are included in the actuarially calculated contribution rates, which are developed using the projected unit credit actuarial cost method. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period using an open amortization approach. The five (5) year smoothed market approach is used for asset valuation.

Actuarial Value Assets

(1) Actuarial Value Of Assets On June 30,2008	$ 15,321,325,033
(2) Market Value End Of Year June 30, 2009	11,515,883,575
(3) Market Value Beginning of Year June 30, 2008	14,076,692,181
(4) Cash Flow	
a. Contributions	736,228,499
b. Benefit Payments	(1,268,188,826)
c. Administrative Expenses	(8,165,757)
d. Net	(540,126,084)
(5) Investment Income	
a. Market total: (2) - (3) -(4)d	(2,020,682,522)
b. Assumed Rate	7.5%
c. Amount for Immediate Recognition: [(3) x (5)b] + [(4)d * (5)b * 0.5]	1,035,497,185
d. Amount for Phased-In Recognition: (5)a - (5)c	(3,056,179,707)
(6) Phased-In Recognition of Investment Income	
a. Current Year: 0.20*(5)d	(611,235,941)
b. First Prior Year	(409,879,449)
c. Second Prior Year	190,240,386
d. Third Prior Year	(75,996,339)
e. Fourth Prior Year	(23,843,540)
f. Total Recognized Investment Gain	(930,714,883)
(7) Actuarial Value End of Year: (1) + (4)d + (5)c +(6)f	14,885,981,251
(8) Difference Between Market & Actuarial Values: (2) - (7)	$ (3,370,097,675.94)

C. ASSUMPTIONS

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2009, the most recent updated actuarial information include:

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

NOTE 5: DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Including Repurchase Agreements)

A. LEGAL PROVISIONS FOR INVESTMENTS

The following disclosures are meant to help the users of KTRS' financial statements assess the risks KTRS takes in investing member funds. The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers as defined in KRS 161.430. The parameters as outlined in Title 102, Chapter 1.175, Section 2 of the Kentucky Administrative Regulations are as follows:

- There shall be no limit on the amount of investments owned by the System if the investments are guaranteed by the U.S. Government.
- Not more than thirty-five percent (35%) of the assets of the System at market value shall be invested in corporate debt obligations.
- Not more than sixty-five percent (65%) of the assets of the System at market value shall be invested in common stocks or preferred stocks. Not more than twenty-five percent (25%) of the assets of the System at market value shall be invested in a stock portfolio designed to replicate a general stock index. Not more than fifteen percent (15%) of the assets of the System at market value shall be invested in the stocks of companies domiciled outside of the United States; any amounts so invested shall be included in the sixty-five percent (65%) limitation for total stocks.
- Not more than ten percent (10%) of the assets of the System at market value shall be invested in real estate. This would include real estate equity, real estate lease agreements, and shares in real estate investment trusts.
- Not more than ten percent (10%) of the assets of the System at market value shall be invested in alternative investments. This would include private equity, venture capital, timberland, and infrastructure investments.
- Not more than ten percent (10%) of the assets of the System at market value shall be invested in any additional category or categories of investments. The Board of Trustees shall approve by resolution such additional category or categories of investments.

B. CASH AND CASH EQUIVALENTS

For cash deposits and cash equivalents, custodial credit risk is the risk that, in the event of a bank failure, the retirement system's deposits may not be returned to the System. The bank's total balance at June 30, 2009 was $10,710,930 of which $4,642,173 primarily represents deposited amounts due the System for which actual funds are in transit to and waiting to be received by the custodial bank; therefore, these funds were unavailable for investment. An additional amount of $2,339,572 represents funds held in the bank but their investment is controlled by the Commonwealth of Kentucky. There were various outstanding checks and vouchers totaling a $4,046,953 balance reduction while the amount of $3,728,569 was the amount invested in cash equivalents. Cash equivalents are created through the daily sweeps of available excess cash by the System's custodial bank into bank sponsored short-term investment funds. These funds are custodial bank sponsored commingled funds which are invested in short-term securities backed by the U.S. Government and its agencies. The actual cash deposits held in bank accounts are currently insured up to $250,000 as covered by federal depository insurance and uncollateralized until being invested in cash equivalents.

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

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

As of June 30, 2009, the System's cash equivalents in the amount of $3,728,569 were not exposed to custodial credit risk since this amount was invested by the custodial bank and collateralized at 102% with the collateral pledged to the Treasurer of the Commonwealth of Kentucky.

C. INVESTMENTS

All of the System's assets are invested in short-term and long-term debt (bonds and mortgages) securities, equity (stock) securities, real estate and alternative investments. These assets are reported at fair market value.
Investments are governed by the Board of Trustees' policy while the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent person rule", as identified in KRS 161.430 (2)(b). The prudent person rule establishes a standard for all fiduciaries, to act as a prudent person would be expected to act, with the "care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims."

The following chart represents the fair market values of the investments of the Kentucky Teachers' Retirement System for June 30, 2009.

	Market Value June 30, 2009	Market Value June 30, 2008
Short Term Investments		
Repurchase Agreements	$ 256,900,000	$ 338,900,000
Agency & Other (Short Term)		49,872,500
Total Short Term Investments	256,900,000	388,772,500
Bonds and Mortgages		
U.S. Government	579,447,437	924,161,362
Agency Bonds	393,391,786	495,014,012
Mortgage-Backed Securities	385,320,648	500,140,653
Collateralized Mortgage Obligations	125,751,715	160,154,576
Asset Backed Securities	67,889,109	155,645,158
Commercial Mortgage-Backed Securities	203,469,640	205,815,754
Municipal Bonds	393,237,899	329,621,169
Corporate Bonds	1,637,328,139	1,508,621,584
Total Bonds and Mortgages	3,785,836,373	4,279,174,268
Equities		
International Equity	1,355,549,565	1,328,489,089
U.S. Equity	5,730,697,481	7,700,891,752
Total Equities	7,086,247,046	9,029,380,841
Real Estate		
Real Estate Equity	425,746,050	431,693,774
Total Real Estate Equity	425,746,050	431,693,774
Alternative Investments		
Private Equity	60,731,073	28,791,613
Timberland	116,599,371	75,995,962
Total Alternative Investments	177,330,444	104,787,575
Total Investments	$ 11,732,059,913	$ 14,233,808,958

Custodial Credit Risk

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

a. the counterparty or

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

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

Individual repurchase agreements are ordered by KTRS under the terms of Master Repurchase Agreements with various brokers under terms dictated by KTRS. The repurchase agreements and their supporting collateral are held by the custodial agent's correspondent bank in an account identified by the custodian's name and KTRS' nominee name. This account is unique to KTRS. The Master Repurchase Agreements require that the supporting collateral have a market value of at least 102% of the value of the repurchase agreements.

As of June 30, 2009, cash collateral reinvestment securities acquired through securities lending by the System's custodian, who is also the lending agent/counterparty, amounted to $167,874,202 related to $161,861,685 securities lent. This is consistent with the System's securities lending agreement with the custodian. (Please refer to a following section entitled Securities Lending.)

Interest Rate Risk

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

As of June 30, 2009 KTRS had the following investments and weighted average maturities:

Investment Type	Fair Value	Average Maturity(Years)
U.S. Government	$ 579,447,437	9.4
Agency	393,391,786	9.7
MBS	385,320,648	15.9
CMO	125,751,715	21.1
ABS	67,889,109	13.5
CMBS	203,469,640	28.7
Muni	393,237,899	13.8
Corporate	1,637,328,139	8.3
Total	$ 3,785,836,373	11.6

In addition to the above securities, Repurchase Agreements (short-term investments) had a total fair value of $256,900,000 and had a weighted average maturity of two days. Average maturity is used as a measure of a security's exposure to interest rate risk due to fluctuations in market interest rates.

Mortgage-backed securities and collateralized mortgage obligations are typically amortizing investments with an average life and interest rate risk significantly less than suggested by the legal maturity.

Mortgage-backed securities, which are generally pre-payable, and other callable bonds are subject to adverse changes in average life in response to market interest rate changes. The schedule above reflects only the legal maturity of all such bonds.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed by using the effective duration or option adjusted methodology. It is widely used in the management of fixed income portfolios by quantifying the risk of interest rate changes. This methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. The control of interest rate risk is not set forth in a particular policy; however, the System manages interest rate risk in practice by establishing appropriate benchmarks for its various portfolios.

Mortgage-backed securities are securities representing pass-through interests in the cash flows from pools of mortgage loans on single-family or multi-family residential properties. All of the mortgage-backed securities owned by the System were securitized and are guaranteed by Fannie Mae, Freddie Mac, or GNMA. The average life of a mortgage-backed security depends upon the level of prepayments experienced in the underlying pool of loans. Market interest rates are a primary determinant of prepayment levels. Lower than anticipated market rates generally lead to higher than anticipated prepayments and a shorter average life; higher than anticipated market rates generally lead to lower than anticipated prepayments and a longer average life. The System held $385.3 million in mortgage-backed securities as of June 30, 2009.

Collateralized mortgage obligations are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes in accordance with a collateralized mortgage obligations established payment order. The System held $125.8 million in collateralized mortgage obligations as of June 30, 2009.

Asset-backed securities are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other credit providers. The originator of the loan or accounts receivable paper sells it to a specially created trust, which repackages it as securities. Asset-backed securities have been structured as pass-throughs and as structures with multiple bond classes. The asset-backed securities in the amount of $67.9 million held by the System as of June 30, 2009 are moderately sensitive to changes in interest rates.

Commercial mortgage-backed securities are securities representing interests in the cash flows from pools of mortgage loans on commercial properties. The interests in a securitized pool of loans are generally divided into various tranches based upon planned payment order and level of seniority. The System's commercial mortgage-backed securities investments consist of highly rated relatively senior tranches. The average maturity of the System's commercial mortgage-backed securities holdings in the schedule above reflects the legal maturity of those holdings. Most of the tranches held are earlier in the planned payment order than the legal maturity suggests. The System held $203.5 million in commercial mortgage-backed securities investments as of June 30, 2009.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The following schedule lists KTRS's fixed income investments (net of cash equivalents) according to credit ratings as of June 30, 2009:

Rating	Fair Value	%
U.S. Government	$ 579,447,437	15.3
Agency	393,391,786	10.4
AAA	1,055,435,764	27.9
AA	345,570,041	9.1
A	887,207,814	23.4
BBB	518,902,281	13.7
BB	2,441,250	0.1
B	3,440,000	0.1
Total	$ 3,785,836,373	100.0

Total market value of the fixed income portfolio was $3,785,836,373 on June 30, 2009. The rating system used in the chart is the nationally recognized Standard & Poor's rating system.

In addition to the above categories, the System held $256,900,000 in Cash Equivalents or short term investments such as Repurchase Agreements. The credit risk associated with Repurchase Agreements and Agency Discount investments is very minimal as the general rating of these securities is higher than AAA. In addition, investments in US Government and Agency securities are also highly rated securities since they are backed by the US Government. Notation is made that the ratings of securities is subject to change due to circumstances and thereby may have a lower rating than when first purchased.

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

> "A fixed income investment shall be rated at the time of purchase within the four (4) highest credit classifications identified by one (1) of the major rating services. A private placement debt investment shall be subject to the same credit qualifications as each fixed income investment. Notwithstanding the foregoing, the fixed income investment portfolio as a whole shall maintain an average rating equal to at least the second highest credit classification."

Concentration of Credit Risk

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

"Unless the issuer is the United States Government or a government sponsored enterprise (GSE), the amount invested in the securities of a single issuer shall not equal more than five (5) percent of the assets of the System.

"The System's position in a single stock shall not exceed two and one-half (2.5) percent of the System's assets. The System's position in a single stock shall not exceed five (5) percent of the outstanding stock for that company unless the investment is part of a venture capital program."

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

Foreign Currency Risk

As of June 30, 2009, KTRS exposure to foreign currency risk consisted of $934,821,801 of foreign equity investments through commingled funds managed by UBS Global Asset Management, Baring Asset Management, and Baillie Gifford as follows:

UBS International Collective	$	429,263,724
Baring Asset Management		245,698,127
Baillie Gifford		259,859,950
Total	$	934,821,801

These amounts represent the market values of equities held by the Fund as a result of cash contributions to each Fund by KTRS.

In addition to the commingled funds investing in foreign securities, KTRS held $420,727,764 associated with foreign interests in American Depositary Receipt investments. These American Depositary Receipts are securities that are issued by a U.S. bank in place of the foreign stock shares held in trust by that bank, thereby facilitating the trading of foreign shares in U.S. markets. American Depositary Receipts are denominated in U.S. currency.

The System's policy regarding foreign equities is that not more than fifteen percent (15%) of the assets of the System at market value shall be invested in the stocks of companies domiciled outside of the United States. Any amounts so invested shall be included in the sixty-five percent (65%) limitation for total stocks per 102 KAR 1:175 Section 2(e).

D. SECURITIES LENDING

Section 161.430 of the Kentucky Revised Statutes empowers the Board of Trustees with complete fiduciary responsibility for the funds of the System. The System operates a securities lending program in which it temporarily lends securities to qualified agents in exchange for a net fee and high quality collateral. U.S. Government and agency securities, selected domestic bonds, and domestic and international stocks are the types of securities that are lent. The System's sub-custodian, The Bank of New York Mellon, acts as lending agent in exchanging securities for collateral. The collateral has a value of not less than 102% of the market value of the lent securities plus any accrued, unpaid distributions. The collateral may consist of cash, marketable U.S. Government securities, and select marketable U.S. Government agency securities approved by the System.

Securities lending transactions are accounted for in accordance with GASB Statement No. 28 Accounting and Financial Reporting for Securities Lending Transactions, which established standards of accounting and financial reporting for securities lending transactions. The following section details the net income earned from securities lending for the fiscal year ended June 30, 2009:

Item		Earnings
Gross Earnings (Interest and Fees)	$	1,348,381
Plus: Gross Borrower Rebates		1,704,740
Less: Bank Fees		(906,950)
Net Earnings	$	2,146,171

Cash collateral is invested in short-term obligations fully guaranteed by the United States Government or select Government agencies and Government Repurchase Agreements with qualified agents. The System cannot pledge or sell collateral securities received unless the borrower defaults. The lending agent (Bank of New York Mellon) also indemnifies the System from any financial loss associated with a borrower's default and collateral inadequacy. As of June 30, 2009 the loan average days to maturity was one (1) day and the weighted average investment maturity of cash collateral investments was one (1) day.

At fiscal year end, the System has no credit risk exposure to borrowers, since the amounts the System owes the borrowers exceeds the amounts the borrowers owe the System and there were no losses resulting during the period.

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

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2009:

Type of Security Lent	Fair Value	Cash Collateral Received Non-Cash Collateral Value*
U.S. Government and Agencies	$ 12,181,403	$ 12,441,565
U.S. Equities	149,680,282	155,432,637
Total	$ 161,861,685	$ 167,874,202

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

NOTE 6: PENSION PLAN FOR EMPLOYEES OF THE SYSTEM

Full-time employees of Kentucky Teachers' Retirement System (KTRS) participate in either KTRS or Kentucky Employees Retirement System. Both plans are multiple-employer cost sharing defined benefit pension plans. All KTRS employees in positions requiring a four-year degree are covered under KTRS. The contribution rates and required employer matching are the same as state agency employers in the System. These rates, the plan description and funding policy are fully disclosed in the notes to the financial statements.
The System's annual required contributions for KTRS employee members for the fiscal years 2009, 2008 and 2007 were $456,258, $413,492, and $388,973 respectively. KTRS contributed 100% of the required contribution each year.

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

Members of KERS were required to contribute 5% of their annual creditable compensation for the fiscal years 2009, 2008, and 2007. As the employer, KTRS is required to contribute the annual actuarially determined rate of the creditable compensation (or the rate approved by legislators). The approved rate for the fiscal years 2009, 2008 and 2007 were 10.01%, 8.5% and 7.75%; and the System's annual required contributions to KERS were $182,399, $129,356 and $114,711 respectively. KTRS contributed 100% of the required contributions for each year.

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

NOTE 7: 403(b) TAX-SHELTERED ANNUITY PLAN

A. PLAN DESCRIPTION

KTRS has, in prior years, administered a salary deferral program as permitted by section 403(b) of the Internal Revenue Code. Under this program members were able to voluntarily defer a portion of their compensation within the limits established by the applicable laws and regulations. However, the System's Board of Trustees determined that the cost of providing the necessary services to assure the System of continuing compliance with these laws and regulations was not economically feasible due to the limited participation in the program by the System's members. The Board decided, therefore, to discontinue offering the program as of April 30, 1997. Members who were not receiving annuities from their account as of April 30, 1997, were able to transfer their respective accounts directly into other tax-sheltered plans on a tax-free basis. As of June 30, 2009, the twenty-four members who are receiving annuities will continue to receive distributions according to the terms of their respective elections.

B. SUMMARY OF SIGNIFICANT POLICIES

Basis of Accounting

The Tax-sheltered Annuity Plan financial statements are prepared using an accrual basis of accounting. Contributions are no longer being accepted into the plan, therefore, there are no receivables to be recognized.

Method Used to Value Investments

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

NOTE 8: MEDICAL INSURANCE PLAN AND POST-EMPLOYMENT BENEFITS

A. PLAN DESCRIPTION

In addition to pension benefits described in Note 1, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-retirement healthcare benefits for eligible members and dependents. The KTRS Medical Insurance benefit is funded by employer and employee contributions. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.
To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. KTRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. The Commonwealth of Kentucky bears no risk for excess claims expenses that exceed the premium equivalents charged for the Kentucky Employees Health Plan. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan. KTRS bears the risk for actual drug claims cost in the Medicare Eligible Health Plan.

At June 30, 2009, KTRS insurance covered 33,489 retirees and 6,822 dependents. There are 197 participating employers and 75,937 active members contributing to the Medical Insurance Fund.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Medical Insurance Plan financial statements are prepared using the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due.
Healthcare premiums charged to retired members are recognized when due and any premiums collected in advance are recognized as a liability.

Method Used to Value Investments

Since the investments are all short-term investments they are reported at cost, which approximates fair value.

C. CONTRIBUTIONS

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 0.75% of gross payroll to the plan. Member contributions are 1.75% of gross payroll for those who became members of the System after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Escalating medical expenses have made it increasingly difficult to meet the expenses of the retiree health insurance program. To further fund the plan, the state legislature has directed a portion of the state employer contribution in a sufficient amount to be allocated to the Medical Insurance Fund instead of the pension fund. The System actuary calculated those amounts to be $125,000,000 and $125,000,000 for fiscal years 2008 and 2009 respectively. The balances are to be amortized over a period of 10 years. The Legislature appropriated $18,280,000 in fiscal year 2008-2009 and $36,490,700 in 2009-2010 to apply to amortization of the balances.

D. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Medical Insurance Plan as of the most recent actuarial valuation date is as follows:

(Dollar amount in 1000's)

Valuation Year June 30	Actuarial Value Of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (uaal) B-A	Funded Ratio (A/B)	Covered Payroll C	UAAL as a % of Covered Payroll [B-A/C]
2009	$ 229,103	$ 6,454,733	$ 6,225,630	3.5%	$ 3,253,077	191.4%

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

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

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

Significant actuarial methodologies and assumptions employed as of the June 30, 2009 valuation date include the following:

Actuarial cost method	Projected unit credit
Actuarial value of assets	Market value of assets
Assumed inflation rate	4.0%
Investment rate of return	4.5%
Projected salary increases	4.0%
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Healthcare trend rate	10.50%
Ultimate trend rate	5.00%
Year of Ultimate Pre-Medicare trend rate	2017

E. INCURRED BUT NOT REPORTED CLAIMS LIABILITIES

KTRS recognizes estimates of liabilities for self-insured unpaid claims that have incurred (both reported and unreported) using the development method. This method uses past observed patterns of time between the date the claim is incurred and the date the claim is paid to estimate incurred claims from available paid claim information.

The following schedule shows the change in the claims and liability and the claims activity for the years ended June 30, 2009 and 2008.

	Fiscal Year 2009	Fiscal Year 2008
Unpaid Claims Liability	$ 2,289,841	$ 1,966,148
Current Year Claims and Changes in Estimates	201,400,693	175,915,477
Claims Payments	(200,720,780)	(175,591,784)
Ending Unpaid Claims Liability	$ 2,969,754	$ 2,289,841

NOTE 9: LIFE INSURANCE PLAN

A. PLAN DESCRIPTION

The System administers the Life Insurance Plan as provided by KRS 161.655 to provide life insurance benefits to retired and active members. This benefit is financed by actuarially determined contributions from the 197 participating employers. The benefit is $5,000 for members who are retired for service or disability, and $2,000 for active contributing members.

B. SUMMARY OF SIGNIFICANT POLICIES

Basis of Accounting

The Life Insurance Plan financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the fiscal year due.

Method Used to Value Investments

Life Insurance Plan investments are reported at fair value. The short-term securities are carried at cost, which approximates fair value. Fixed income is generally valued based on published market prices and quotations from national security exchanges and securities pricing services.

C. CONTRIBUTIONS

To finance the life insurance benefit a portion of the employer contribution rate is directed to the plan as recommended by the System's actuary. For fiscal years 2009 and 2008, this rate has been .17% of active members' payroll.

D. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Life Insurance Plan as of the most recent actuarial valuation date is as follows:

Valuation Year June 30	Actuarial Value Of Assets A	Actuarial Accrued Liabilities B	Actuarial Accrued Liabilities (uaal) B-A	Funded Ratio (A/B)	Covered Payroll C	UAAL as a % of Covered Payroll [B-A/C]
2009	$ 84,703	$ 90,334	$ 5,631	93.8%	$ 3,253,077	0.17%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The required supplementary schedules following the notes to the financial section contain more actuarial information.

Significant actuarial methodologies and assumptions employed as of the June 30, 2009 valuation date include the following:

Actuarial cost method	Projected unit credit
Actuarial value of assets	Market value of assets
Assumed inflation rate	4.0%
Investment rate of return	7.5%
Projected salary increases	4.0%
Amortization method	Level percent of pay, open
Remaining amortization period	30 years

Defined Benefit Plan
Schedule of Funding Progress
(dollar amounts in millions)

Valuation Year June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL As A % Of Covered Payroll [(B-A)/C]
2004	$ 14,255.1	$ 17,617.6	$ 3,362.5	80.9%	$ 2,641.5	127.3
2005	14,598.8	19,134.8	4,536.0	76.3%	2,703.4	167.8
2006	14,857.6	20,324.7	5,467.1	73.1%	2,859.5	191.2
2007	15,285.0	21,255.0	5,970.0	71.9%	2,975.3	200.7
2008	15,321.3	22,460.3	7,139.0	68.2%	3,190.3	223.8
2009	14,885.9	23,400.3	8,514.4	63.6%	3,253.1	261.7

The amounts reported in this schedule of funding progress do not include assets or liabilities for postemployment benefits, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Defined Benefit Plan Schedule of Employer Contributions

Fiscal Year June 30	Annual Required Contributions	Percentage Contributed
2004	$ 364,351,412	100%
2005	383,776,826	100%
2006	406,107,266	100%
2007	494,565,369	85%
2008	563,789,483	78%
2009	600,282,735	67%

Medical Insurance Plan-Schedule of Funding Progress
(dollar amounts in millions)

Valuation Year June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL As A % Of Covered Payroll [(B-A)/C]
2004	$ 158.9	$ 3,166.6	$ 3,007.7	5.0%	$ 2,641.5	113.9
2005	147.3	4,763.9	4,616.6	3.1%	2,703.4	170.8
2006	131.6	4,341.9	4,210.3	3.0%	2,859.5	147.2
2007	140.8	5,928.8	5,788.0	2.4%	2,975.3	194.5
2008	185.9	6,434.5	6,248.6	2.9%	3,190.3	195.9
2009	229.1	6,454.7	6,225.6	3.5%	3,253.1	191.4

The amounts reported in this schedule of funding progress do not include assets or liabilities for the defined benefit or life insurance plans, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Medical Insurance Plan
Schedule of Employer Contributions

Fiscal Year Ending Date	Annual Required Contributions(ARC) (A)	Actual Employer Contribution (B)	Retiree Drug Subsidy Contribution (C)	Total Contribution (B) + (C)	Percentage Of ARC Contributed [(B) + (C)/(A)]
June 30, 2007	$ 231,473,321	$ 113,258,761	$ 10,312,361	$ 123,571,122	53.4%
June 30, 2008	395,282,164	148,954,644	11,911,565	160,866,209	40.7%
June 30, 2009	467,312,904	164,480,119	13,611,748	178,091,867	38.1%

Only three years of actuarial calculations of annual required contributions is available.

Life Insurance Plan
Schedule of Funding Progress
(dollar amounts in thousands)

Valuation Year June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities B	Actuarial Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL As A % Of Covered Payroll [(B-A)/C]
2007	$ 71,426	$ 82,722	$ 11,296	86.3%	$ 2,975,289	0.38
2008	77,658	84,265	6,607	92.2%	3,190,332	0.21
2009	84,703	90,334	5,631	93.8%	3,253,077	0.17

The amounts reported in this schedule of funding progress do not include assets or liabilities for the defined benefit or medical insurance plans, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Life Insurance Plan
Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contributions(ARC)	Actual Employer Contribution	Percentage Of ARC Contributed
2007	$ 1,785,173	$ 5,022,137	281.3%
2008	1,914,199	5,411,249	282.7%
2009	1,498,076	5,455,473	364.2%

Supporting Schedule 1
Schedule of Administrative Expenses
Year Ended June 30, 2009

Salaries	$	5,865,661
Other Personnel Costs		562,890
Professional Services & Contracts		324,181
Utilities		78,952
Rentals		16,172
Maintenance		132,703
Postage & Related Services		352,550
Printing		79,592
Insurance		109,741
Miscellaneous Services		107,331
Telecommunications		28,446
Computer Services		55,728
Supplies		49,493
Depreciation		108,347
Travel		50,781
Dues & Subscriptions		38,817
Miscellaneous Commodities		11,494
Furniture, Fixtures, & Equipment not Capitalized		117,702
Compensated Absences		75,176
Total Administrative Expenses	$	8,165,757

Supporting Schedule 2
Schedule of Contracted Investment Management Expenses
Year Ended June 30, 2009

Balanced Manager		
Todd Investment Advisors		$ 1,233,072
Equity Managers		
Baring Focused International	$ 842,795	
Baillie Gifford International	178,330	
GE Asset Management Inc.	676,376	
UBS Global Asset Management Corporation	2,559,270	
Wellington Management Company, LLP	2,225,042	
Total Equity Managers		6,481,813
Fixed Income Managers		
Galliard Capital Management		353,340
Real Estate		
Prudential PRISA Real Estate		300,776
Alternative Investments		
Private Equity		6,785,554
Custodian		
Farmers Bank		468,079
Consultant		
Becker, Burke Associates	125,000	
Enis Knupp	235,930	
Total Consultant		360,930
Legal & Research		
Stoll, Keenon, Ogden, PLLC	11,164	
Schottenstein, Zox & Dunn	32,335	
Total Legal & Research		43,499
Other		
Subscriptions		294,847
Total Contracted Investment Management Expenses		$ 16,321,910

Supporting Schedule 3
Schedule of Professonal Fees
Year Ended June 30, 2009

Professional	Nature of Service	Amount
Cavanaugh Macdonald Consulting	Actuarial Services	$ 249,959
Charles T. Mitchell Company	Auditing Services	29,600
Farmers Bank	Bank Services	16,967
International Claim Specialist	Investigative Services	2,840
Attorney General	Attorney Services	2,719
Klausner & Kaufman	Attorney Services	6,980
Reed, Weitkamp, Schell & Vice	Attorney Services	6,388
Stoll Keenon Ogden	Attorney Services	8,728
Total Professional Fees		$ 324,181

Charles T. Mitchell Co. LLP

William G. Johnson, Jr., C.P.A.
James Clouse, C.P.A.
Bernadette Smith, C.P.A.
Kim Field, C.P.A.
Greg Miklavcic, C.P.A.
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Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Audit Standards*

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

We have audited the financial statements of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Teachers' Retirement System of the State of Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

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

Charles T. Mitchell Co.

Charles T. Mitchell Co. PLLC
December 18, 2009

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