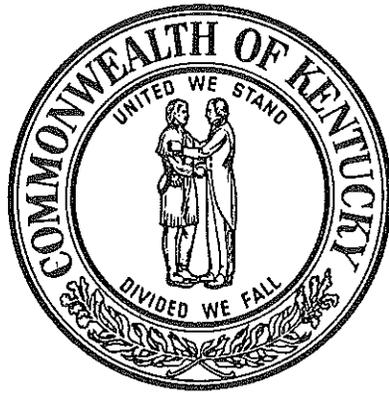


# **TEACHERS' RETIREMENT SYSTEM**

## **OF THE STATE OF KENTUCKY**



**1977-78**

**DECEMBER 1978**

**38TH ANNUAL REPORT**

BOARD OF TRUSTEES

W. D. BRUCE, JR.  
CHAIRPERSON, LOUISVILLE  
MRS. JAMES SHEEHAN  
VICE-CHAIRPERSON, DANVILLE  
MARTHA BAKER, PADUCAH  
RUTH REEVES, ASHLAND  
ARLENE ROMINE, MT. WASHINGTON  
T. K. STONE, ELIZABETHTOWN  
RUMSEY TAYLOR, SR., PRINCETON  
EX-OFFICIO  
FRANCES J. MILLS  
STATE TREASURER  
JAMES B. GRAHAM  
SUPT. OF PUBLIC INSTRUCTION



PAT N. MILLER  
EXECUTIVE SECRETARY

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

December 27, 1978

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

Dear Governor Carroll:

Submitted herewith is the thirty-eighth Annual Report of the Teachers' Retirement System of the State of Kentucky as provided for in Kentucky Revised Statute 161.320.

The most significant activities of the Kentucky Teachers' Retirement System in the past year have been the successful efforts to improve the financial condition of the System, to obtain reasonable cost of living adjustments for the retired members, and to improve active member benefits to a level that will better equate with those received by State employees. Members now have reasonable survivor and retirement benefits and know that adequate funds will be available to finance their future payments. These important accomplishments would not have been possible without the excellent cooperation from you and members of the 1978 General Assembly.

Kentucky teachers, both active and retired, recognize the keen and sincere interest you have shown in the Teachers' Retirement System. Your concern for the actuarial and financial soundness of the System and for the welfare of public school teachers is especially appreciated by all concerned.

Respectfully yours,

Handwritten signature of W. D. Bruce, Jr.

W. D. Bruce, Jr., Chairperson  
Board of Trustees

Handwritten signature of Pat N. Miller.

Pat N. Miller  
Executive Secretary

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TEACHERS' RETIREMENT SYSTEM

STATE OF KENTUCKY

BOARD OF TRUSTEES

The Kentucky Teachers' Retirement System was created by the 1938 General Assembly and became operational on July 1, 1940 with an appropriation of one million dollars.

The Board of Trustees was elected and qualified to serve and a staff of six persons were employed to work under the direction of N. O. Kimbler, the first Executive Secretary.

The Board is responsible for the general administration and management of the retirement system and for making effective provisions of KRS 161.220 to 161.710. The Board consists of nine members, seven of which are elected by the membership for four year terms and two who are ex-officio members. Four of the elective trustees are members of the retirement system, known as teacher trustees. Two are persons who are not teachers and are known as lay trustees. One member is an annuitant of the system, known as the retired teacher trustee. The two ex-officio members are the Superintendent of Public Instruction and the State Treasurer.

The Board has employed four Executive Secretaries since 1940 to serve the system beginning with N. O. Kimbler who served from 1940 to 1957. Mr. Kimbler has been followed by James L. Sublett from 1957 to 1970, Mr. Ted Crosthwait, 1970-76, and Mr. Pat N. Miller, 1976 to the present.

BOARD OF TRUSTEES



Mr. W.D. Bruce, Jr.  
Chairperson  
Louisville  
Teacher Trustee



Mrs. James Sheehan  
Vice-Chairperson  
Danville  
Lay Trustee



Mrs. Martha Baker  
Paducah  
Teacher Trustee



Mrs. Arlene Romine  
Mt. Washington  
Teacher Trustee



Mrs. Ruth Reeves  
Ashland  
Teacher Trustee



Mr. T.K. Stone  
Elizabethtown  
Retired Teacher Trustee



Mr. Rumsey Taylor, Sr.  
Princeton  
Lay Trustee



Dr. James B. Graham  
Superintendent of  
Public Instruction  
Ex-Officio Trustee



Mrs. Frances Jones Mills  
State Treasurer  
Ex-Officio Trustee

TEACHERS' RETIREMENT SYSTEM

STAFF

Pat N. Miller, Executive Secretary. . . . . (502)564-3266  
Charles L. Bratton, Deputy Executive Secretary. . . . . 564-2057  
Billy F. Hunt, Deputy Executive Secretary . . . . . 564-3266

CONSULTANTS

Actuary: Huggins and Company  
1401 Walnut Street  
Philadelphia, Pennsylvania 19102

Investment Counselor: The Boston Company  
3160 First National Tower  
Louisville, Kentucky 40202

Auditor: The Charles T. Mitchell Company  
Box 698  
Frankfort, Kentucky 40601

## ORGANIZATION AND ADMINISTRATION

The thirty-two staff positions of the Retirement System are organized in the manner depicted on the organization chart on the adjoining page.

Emphasis is placed on providing the best possible service to the membership just as has been true over the 40 year history of the Retirement System.

Office visits, mail and telephone calls continue to increase thereby indicating a heightened interest and awareness on the part of the membership concerning their retirement program.

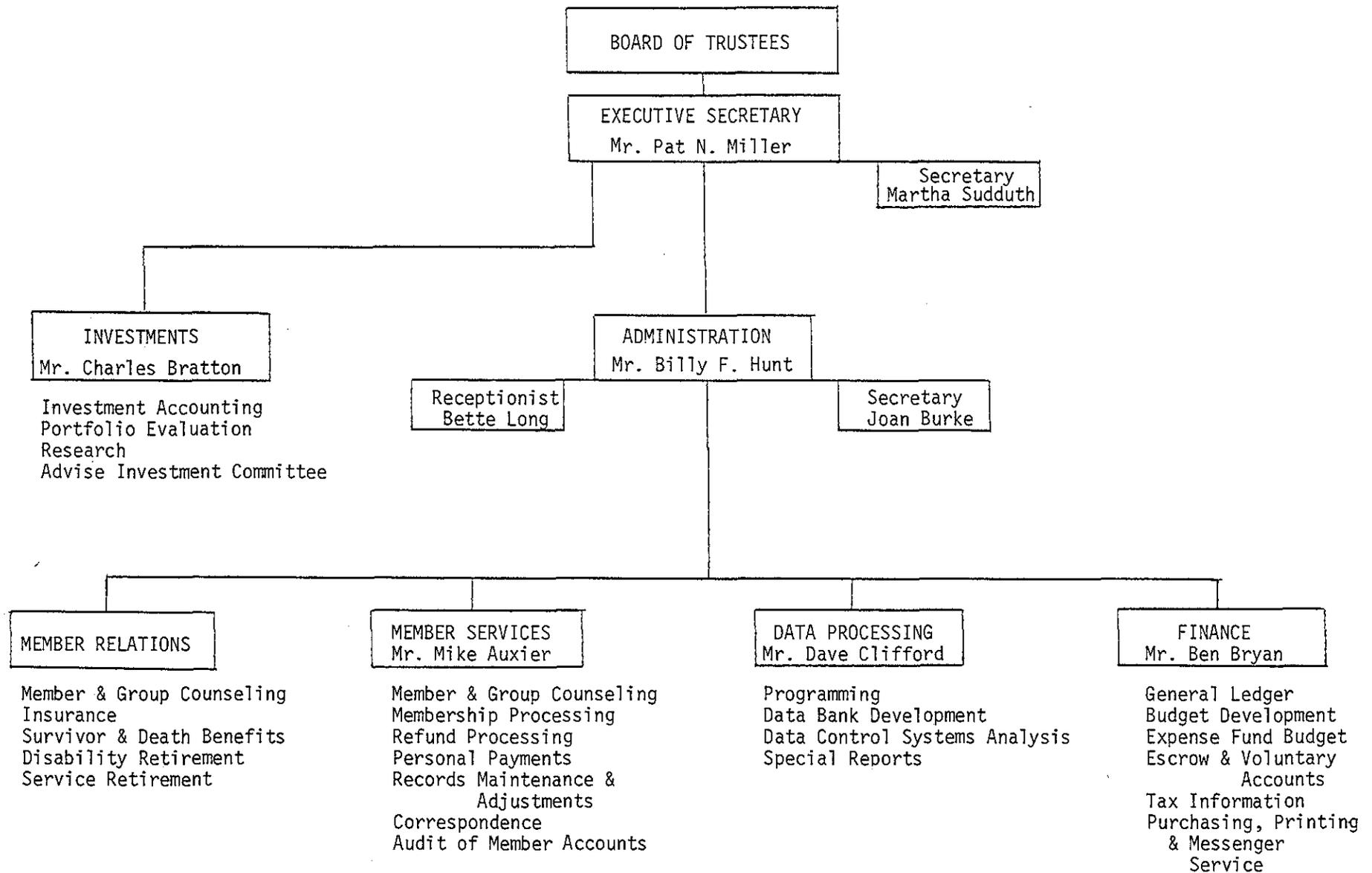
INVESTMENTS: Personnel in this area are responsible for overseeing the nearly \$700 million invested by the retirement system. In coordination with the Boston Company the investment staff helped the system realize an overall yield of more than 7% on its total investment program in 1977-78.

MEMBER RELATIONS: These staff positions work directly with members concerning service retirement, disability retirement, survivor benefits, medical insurance benefits and auditing of member accounts.

MEMBER SERVICES: Employees in this area concentrate heavily on member records and their accuracy including payroll changes, membership enrollment, annual statements to members, refund of member accounts and improvement of member accounts through reinstatements, purchase of annual leaves of absence, military leaves and out-of-state service.

DATA PROCESSING: Personnel in this area are responsible for implementing program changes and integrating them into the data processing system. They are directly responsible for seeing that members payroll checks are processed for mailing each month. They assist, with the preparation of income tax statements, Board of Trustee ballots and mailing of member statements at the close of each fiscal year.

FINANCE: This section is responsible for receiving contributions from local school districts and other member agencies as well as accounting for the funds of the system. Also, responsible for staff payroll, employee leave time and agency purchasing.



KENTUCKY TEACHERS' RETIREMENT SYSTEM

EFFECTIVE 11-16-78



Teachers' Retirement System  
 Administrative Expenses  
 for the period July 1, 1972 thru June 30, 1978

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
Payroll Salaries	243,874	264,009	288,869	312,162	368,020	404,246
Contracted Services	22,597	55,348	159,897	145,477	201,897	196,290
Operating Expenses	81,345	95,640	101,348	136,878	139,272	155,816
Fixed Equipment	6,905	8,385	11,415	19,801	4,712	6,833
<b>TOTALS</b>	<b>354,721</b>	<b>423,382</b>	<b>561,529</b>	<b>614,318</b>	<b>713,901</b>	<b>763,185</b>

The contracted services include Investment Counsel and Processing Fees that are paid from investment income. The remaining administrative expenses are paid from state funds.

## BENEFITS AND SERVICES TO MEMBERS

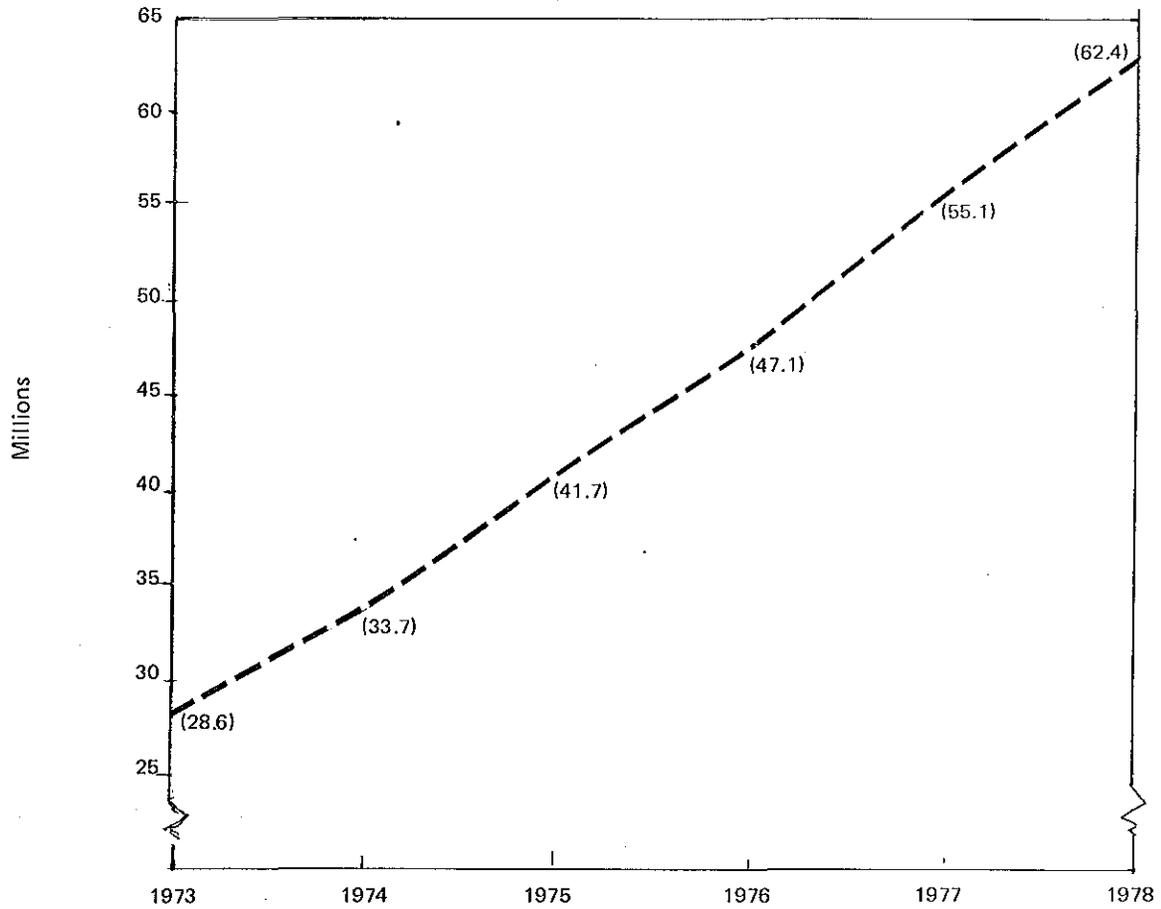
Annual Applications for Service Retirement have shown a steady decline particularly since 1976. Two reasons appear to be mainly responsible for the decrease. Inflation probably has been the primary reason members who were eligible to retire have elected to continue working. In 1978 inflation rose at an annual rate of 9%, thereby helping many persons to make the decision to avoid a relatively stable income with rather modest increases. The second major reason for postponing retirement has been the salary increases afforded members over the last four years, particularly the last two years. Since retirement benefits are so closely tied to final average salaries, it is clear why members are choosing to work rather than retire at this particular point in time.

Tables at the end of this section show the trend in service retirements and the annual payroll for retirees and survivors since 1973.

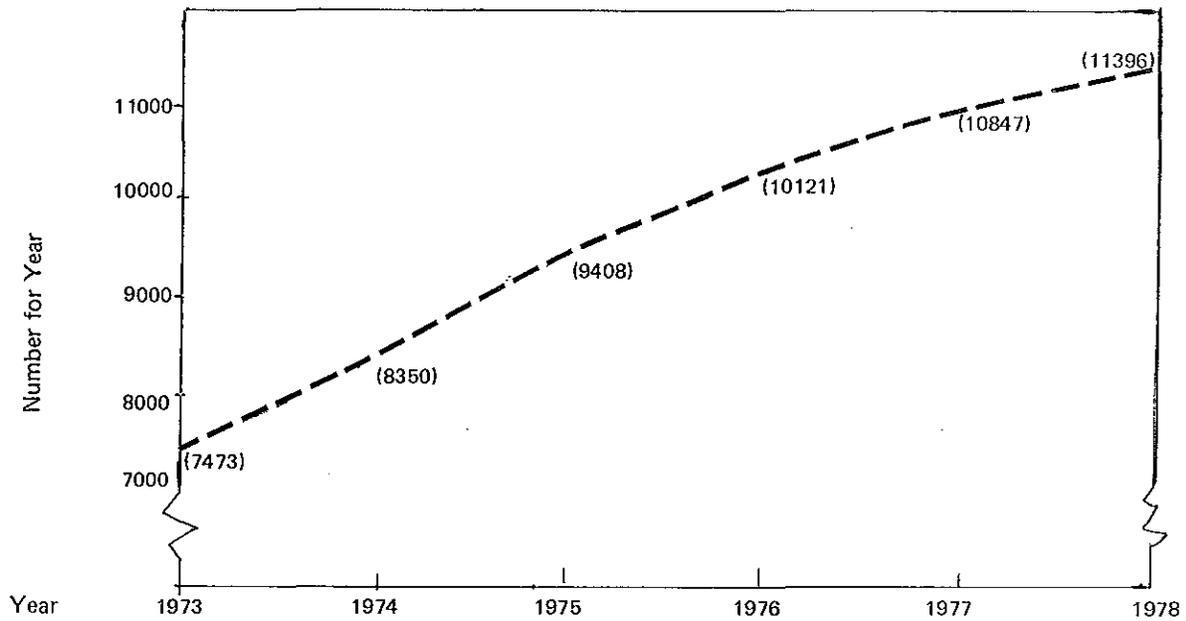
There has been a steady increase in persons eligible for benefit payments other than retirees. This is especially true for persons retiring on disability and those persons classified as survivors of members as shown in the table depicting the payroll for persons other than service retirees.

The graphs at the conclusion of this section are designed to show monthly benefit payments for the different types of eligible recipients of the retirement system.

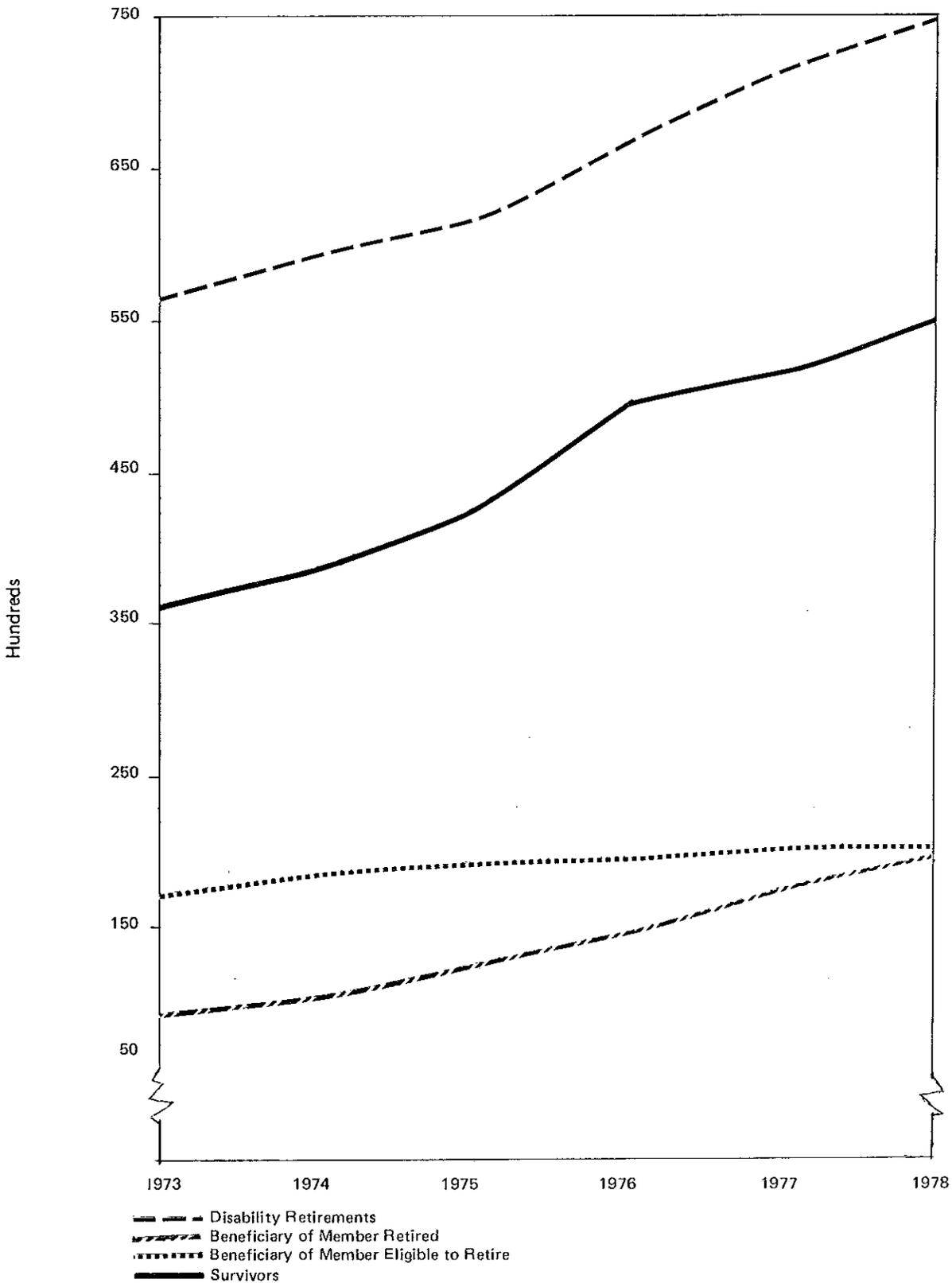
### GROWTH IN ANNUAL PAYROLL TO RETIREES AND SURVIVORS



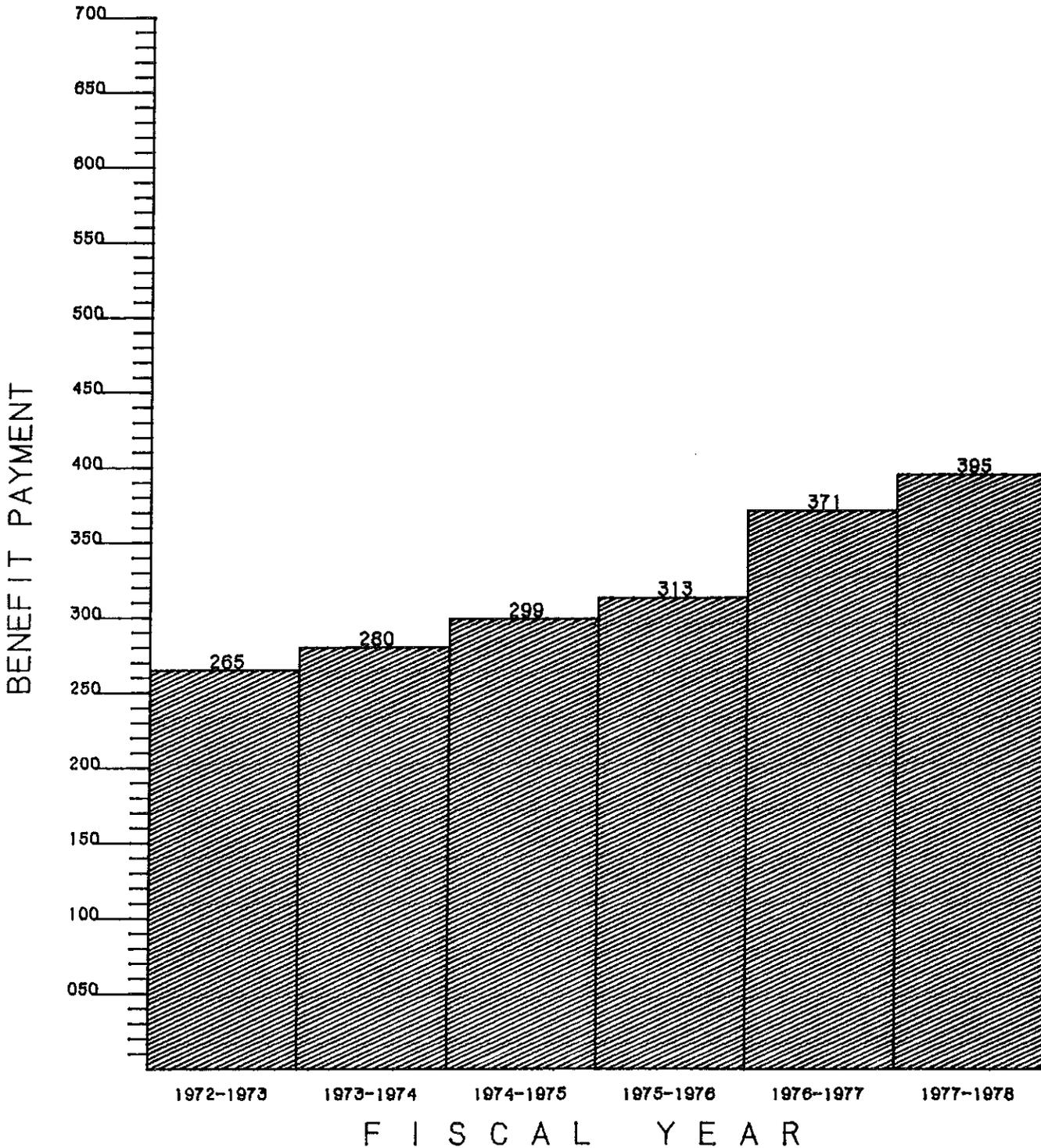
### GROWTH IN SERVICE RETIREMENTS



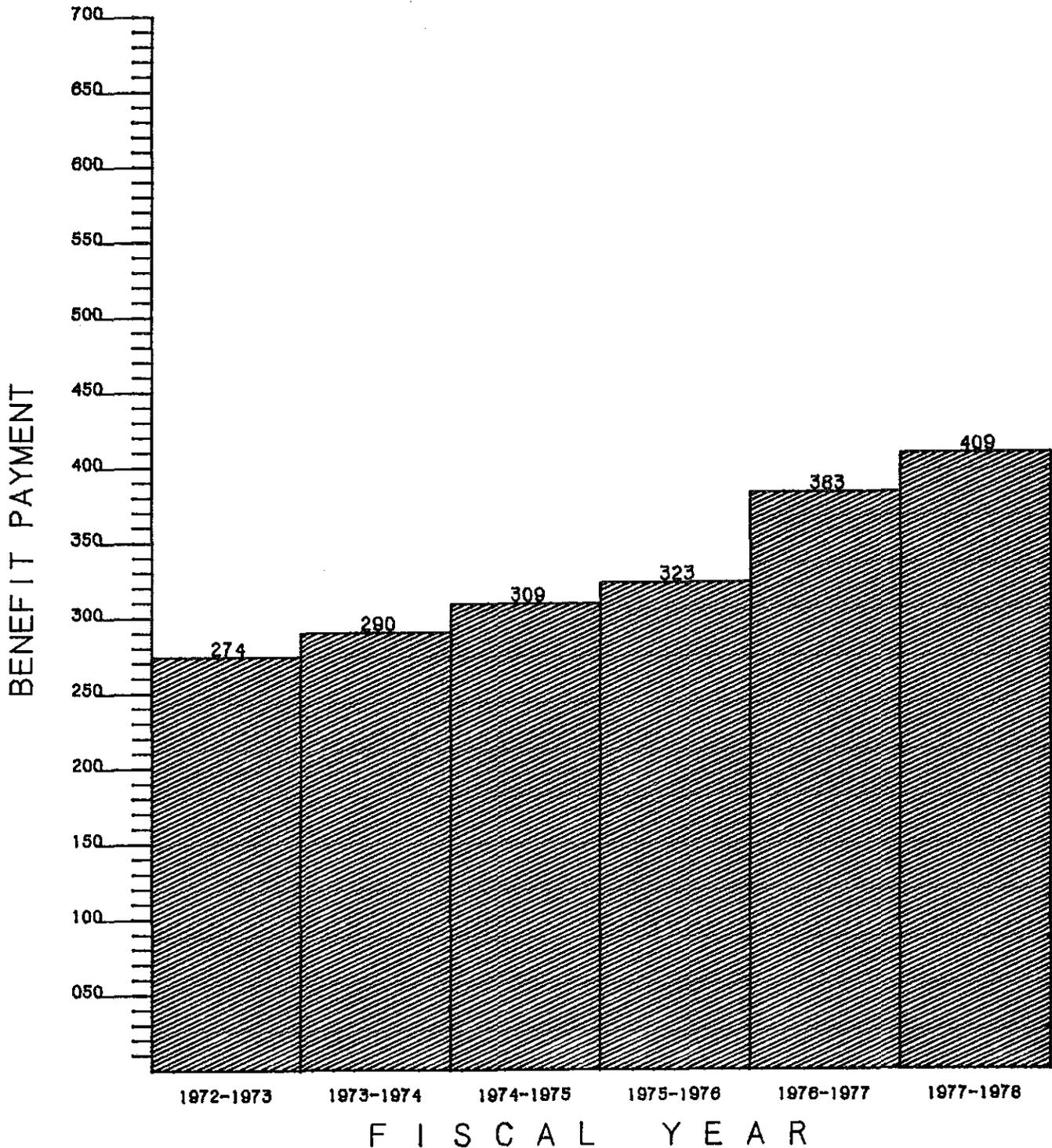
NUMBER OF  
ANNUITANTS ON PAYROLL  
OTHER THAN SERVICE RETIREMENT



TEACHERS RETIREMENT SYSTEM  
216 W. MAIN  
FRANKFORT KY 40601  
AVERAGE BENEFIT PAYMENT GRAPH  
ALL RECIPIENTS

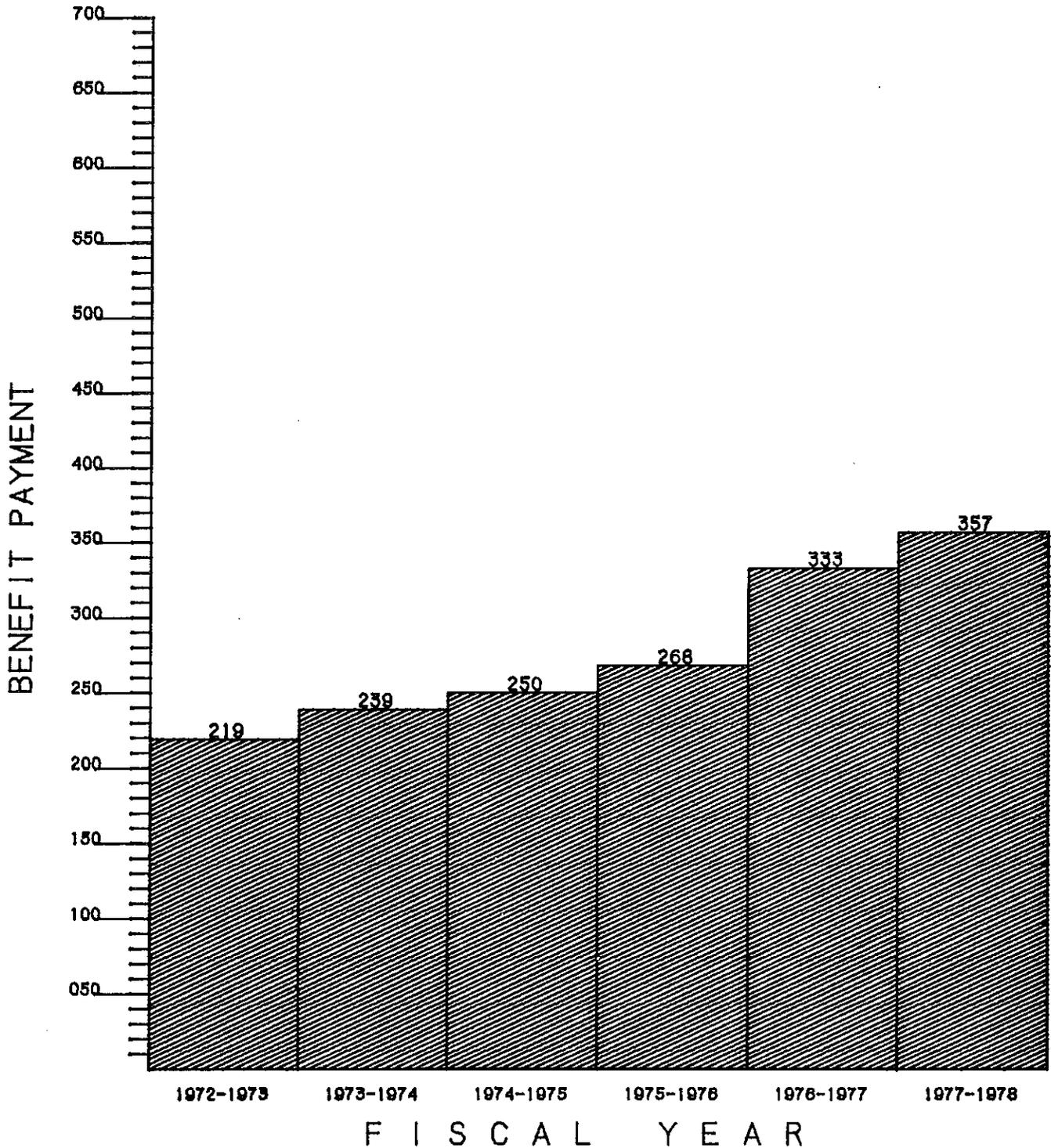


TEACHERS RETIREMENT SYSTEM  
216 W. MAIN  
FRANKFORT KY 40601  
AVERAGE BENEFIT PAYMENT GRAPH  
SERVICE RETIREES

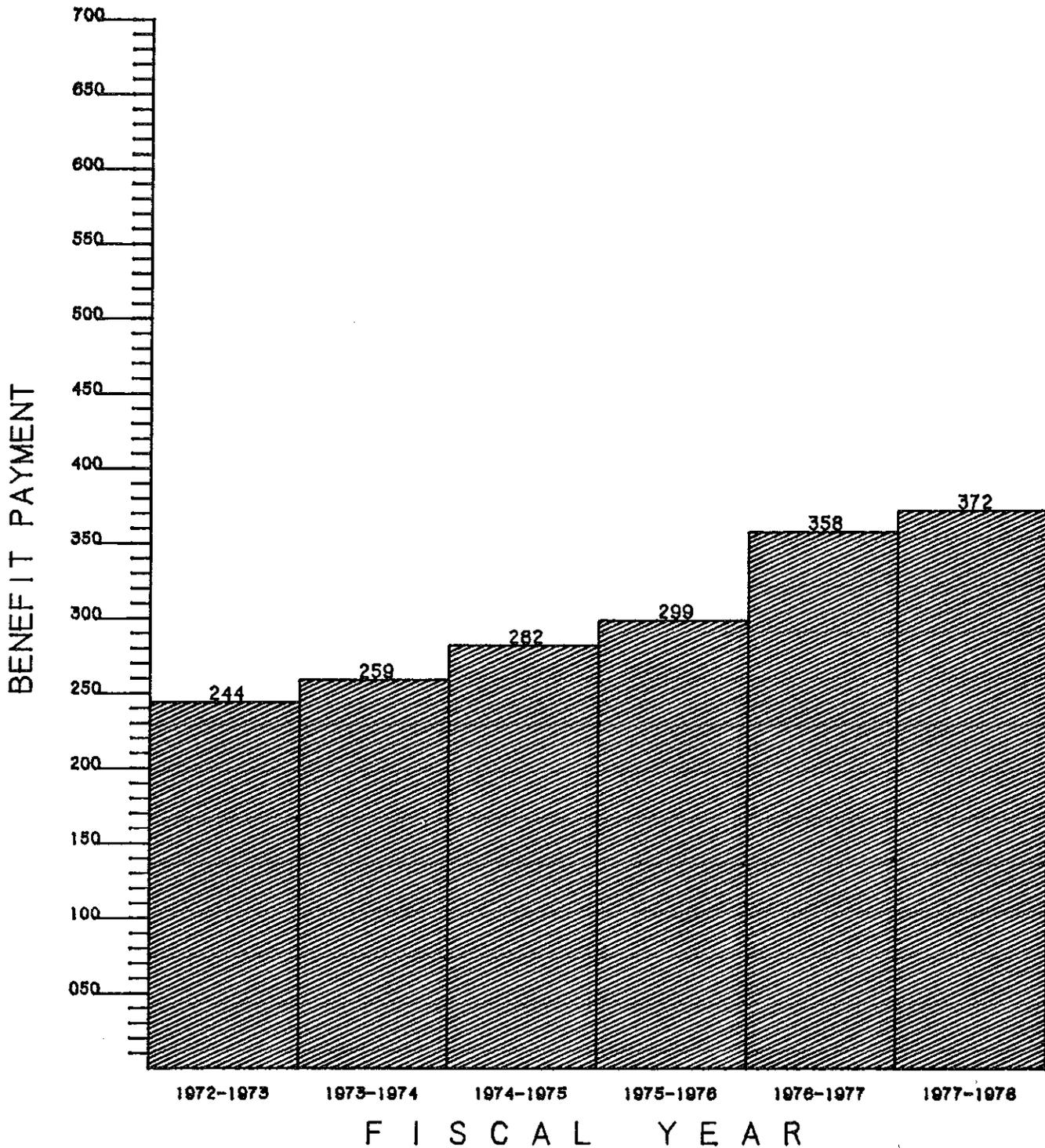


TEACHERS RETIREMENT SYSTEM  
216 W. MAIN  
FRANKFORT KY 40601  
AVERAGE BENEFIT PAYMENT GRAPH

DISABILITY RETIREES



TEACHERS RETIREMENT SYSTEM  
218 W. MAIN  
FRANKFORT KY 40601  
AVERAGE BENEFIT PAYMENT GRAPH  
BENEFICIARIES

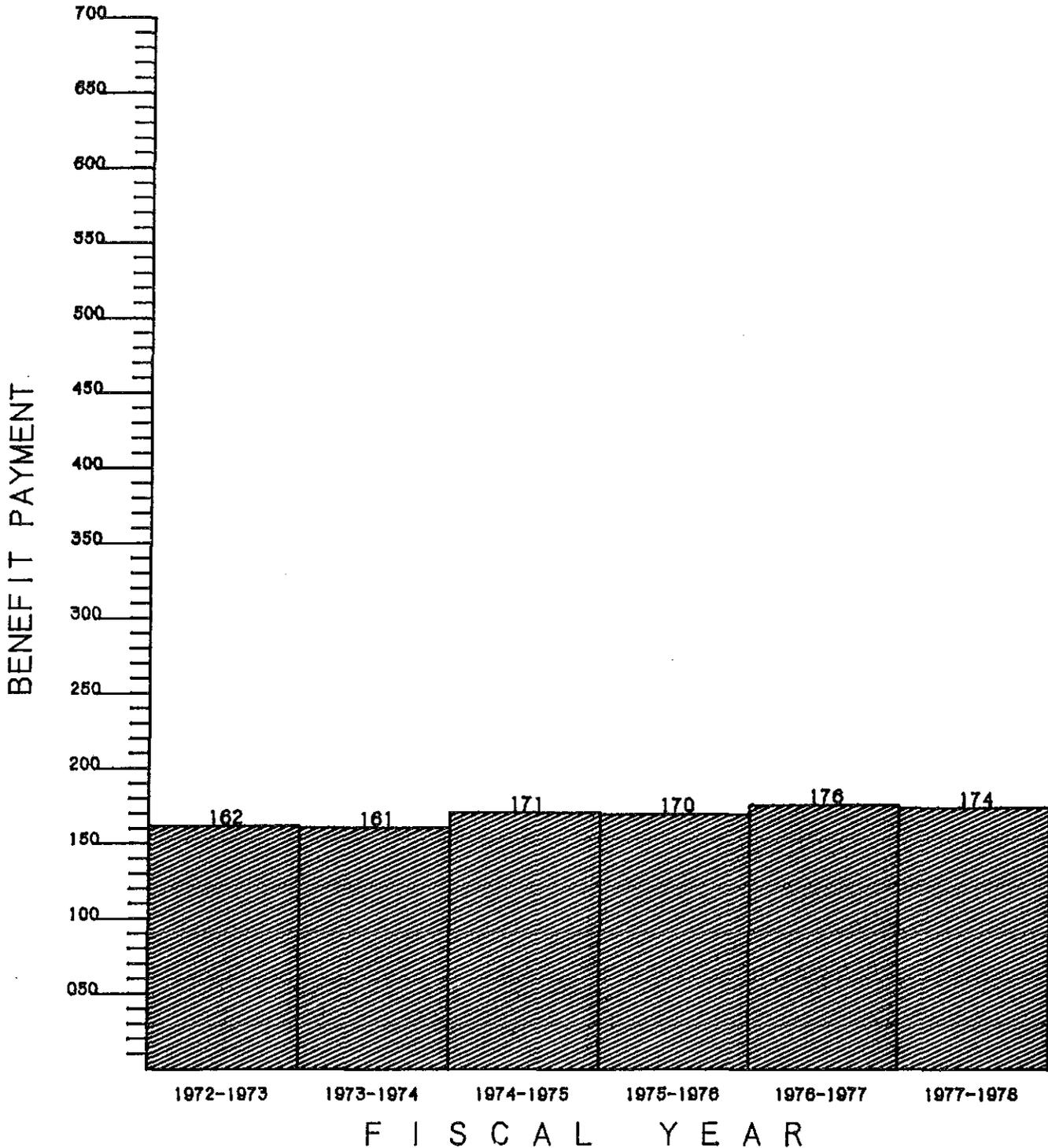


TEACHERS RETIREMENT SYSTEM

216 W. MAIN  
FRANKFORT KY 40601

AVERAGE BENEFIT PAYMENT GRAPH

SURVIVOR PAYEES



## INVESTMENTS

The Board of Trustees of the Teachers' Retirement System annually appoints an Investment Committee consisting of two board members and the Executive Secretary. This committee acts for the board in all matters of investment subject to the approval of the Board of Trustees. In compliance with the Kentucky Revised Statutes, the Board of Trustees has adopted an "Investment Policy" which is subject to periodic review. On June 30, 1978, the investment objectives of the Board of Trustees were as follows:

1. Investment of the funds of the Teachers' Retirement System of the State of Kentucky shall be made solely in the interest of its members and their beneficiaries and for the exclusive purpose of providing benefits to such members and their beneficiaries and for the payment of reasonable expenses of administering the Plan and its Trust Funds.
2. The specific objective of the investment program shall be the investment of the fund's assets in securities which shall provide a reasonable rate of total return with major emphasis being placed upon the protection of the assets so invested. Current income together with prospects for capital appreciation shall be weighed in terms of long term needs to provide benefits to members and their beneficiaries. Short term fluctuations in the market value of the fund's assets shall be considered as secondary to long term objectives in terms of the needs of the System.

The Kentucky Revised Statutes also require the Board of Trustees to employ an experienced investment counselor to advise it on investment related matters. The Board also must appoint a custodian of securities for the safekeeping of all securities and the collection and payment of monies as authorized. The Boston Company of Louisville was employed as investment counsel during 1977-78 subject to an annual contract. The Farmers Bank and Capital Trust Company of Frankfort, Kentucky was employed as the appointed custodian on an annual contract basis.

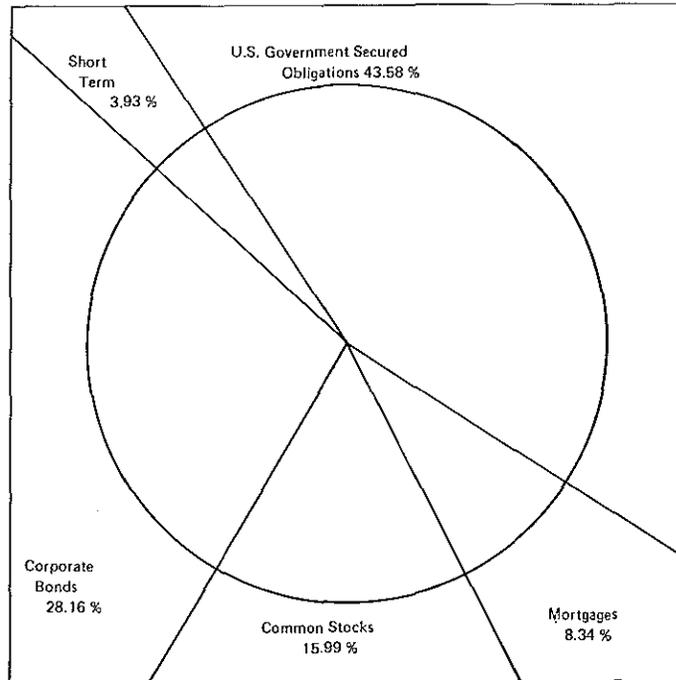
The par value of the portfolio increased \$74.9 million, or 12.6%, to a total of \$671.9 million at year end. The major portion of this increase was invested in high quality U. S. Government secured notes and bonds of intermediate maturity which increased in total from \$222 million to \$293 million. The remainder was primarily invested in very short term instruments in anticipation of the availability of higher bond yields in the near future. The quantity of corporate bonds held actually declined slightly during the year as a result of calls and maturities and as a result of a swap program wherein corporate bonds were sold and government agencies were purchased to improve portfolio quality without sacrificing yield. The net increase in the cost of common stocks held during the year was less than \$1 million. As a result, common stock declined from 17.9% of the portfolio at June 30, 1977, to 16% at June 30, 1978.

Investment income (interest and dividends) increased \$5.7 million, or 15.5%, during the year to a total of \$42.3 million. This increase compares favorably to a growth of 12.6% in the size of the portfolio. The net indicated yield on fixed dollar investments increased from 7.19% to 7.48% annually. The indicated dividend yield on common stocks also increased from 4% to 4.6% reflecting dividend growth as well as an increased emphasis on the purchase of higher yield stocks.

The four charts that follow display graphically the growth that is discussed in preceding paragraphs and perhaps more importantly, provide the reader an opportunity to analyze the growth of the retirement system over the last twenty years. Following the graphs, is a summary analysis of investments held at June 30, 1978. This analysis provides a breakdown of securities held by type and further identifies the indicated yield and portfolio percentage for each type. Following the summary, is a detailed listing of all securities held at June 30, 1978.

DISTRIBUTION OF INVESTMENTS

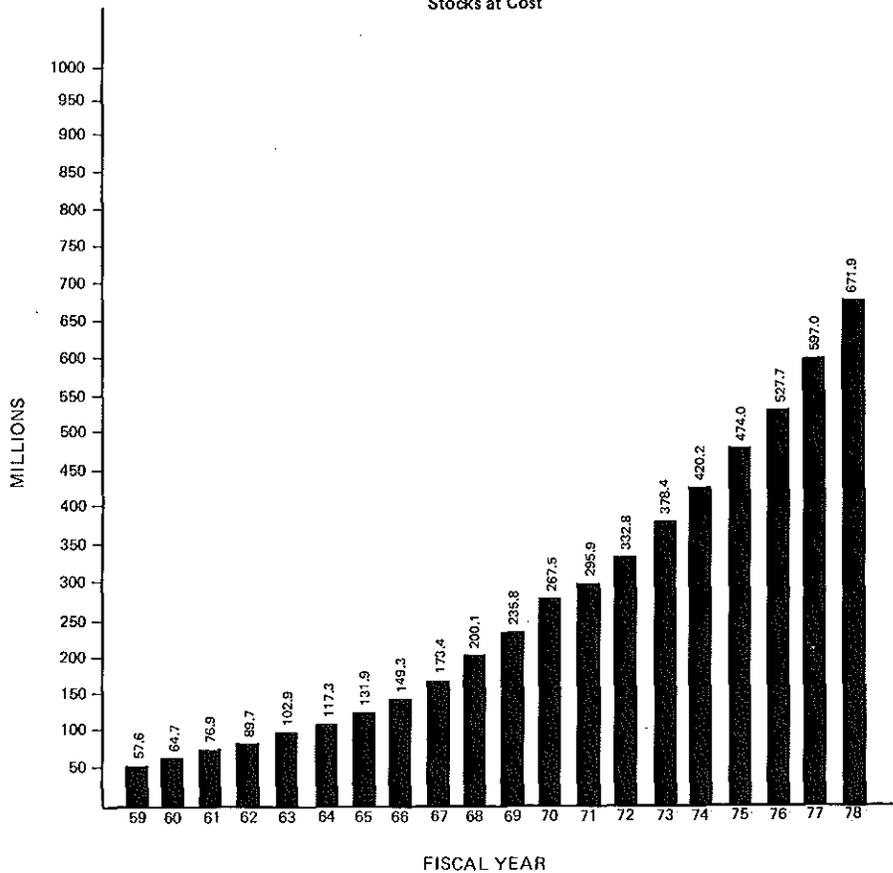
June 30, 1978



INVESTMENT PORTFOLIO GROWTH

Bonds at Par Value

Stocks at Cost



SHORT TERM INVESTMENTS

	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
<u>CDs &amp; Repurchase Agreements:</u>			
Certificate of Deposit	7.450%	7/78	1,000,000.00
Certificate of Deposit	7.450%	8/78	3,000,000.00
Certificate of Deposit	7.550%	8/78	5,000,000.00
Repurchase Agreement	7.000%	7/78	2,500,000.00
Repurchase Agreement	7.000%	7/78	3,900,000.00
Repurchase Agreement	7.020%	7/78	1,000,000.00
Repurchase Agreement	7.050%	7/78	3,500,000.00
Repurchase Agreement	7.125%	7/78	1,500,000.00
Repurchase Agreement	7.375%	8/78	1,000,000.00
Repurchase Agreement	7.500%	7/78	4,000,000.00
Total Short Term Investments			26,400,000.00

U. S. GOVERNMENT OBLIGATIONS

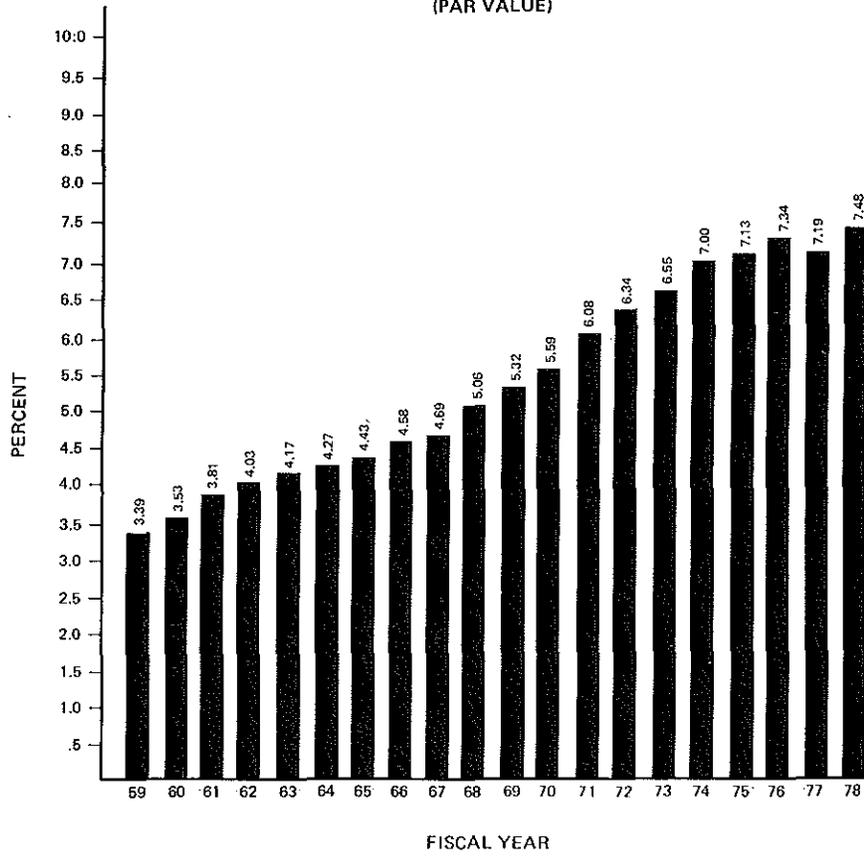
	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
<u>Treasury Bonds &amp; Notes:</u>			
U. S. Treasury Notes	7.000%	11/81	7,000,000.00
			7,000,000.00
<u>Federal Agencies:</u>			
Banks for Cooperatives	7.750%	1/86	14,000,000.00
Farmers Home Insured Notes FHA	7.500%	5/88	1,498,275.68
Federal Farm Credit Banks	7.750%	9/89	5,000,000.00
Federal Home Loan Bank	7.450%	5/82	2,600,000.00
Federal Home Loan Bank	7.650%	5/87	12,000,000.00
Federal Home Loan Bank	7.850%	8/84	20,000,000.00
Federal Home Loan Bank	7.950%	2/82	4,000,000.00
Federal Home Loan Bank	8.100%	11/85	10,000,000.00
Federal Home Loan Bank	8.250%	11/82	5,000,000.00
Federal Home Loan Bank	7.600%	8/87	10,000,000.00
Federal Intermediate Credit Banks	6.950%	1/87	15,000,000.00
Federal Intermediate Credit Banks	7.950%	4/86	15,000,000.00
Federal Land Bank	7.350%	10/83	5,000,000.00
Federal Land Bank	7.850%	1/88	10,000,000.00
Federal Land Bank	7.950%	10/85	14,000,000.00
Federal Land Bank	8.100%	7/85	9,800,000.00
Federal Land Bank	8.150%	4/82	2,000,000.00
Federal Land Bank	8.800%	10/85	1,000,000.00
Tennessee Valley Auth. Pr. Ser. B	7.350%	5/97	2,000,000.00
			157,898,275.68

U. S. GOVERNMENT OBLIGATIONS (Continued)

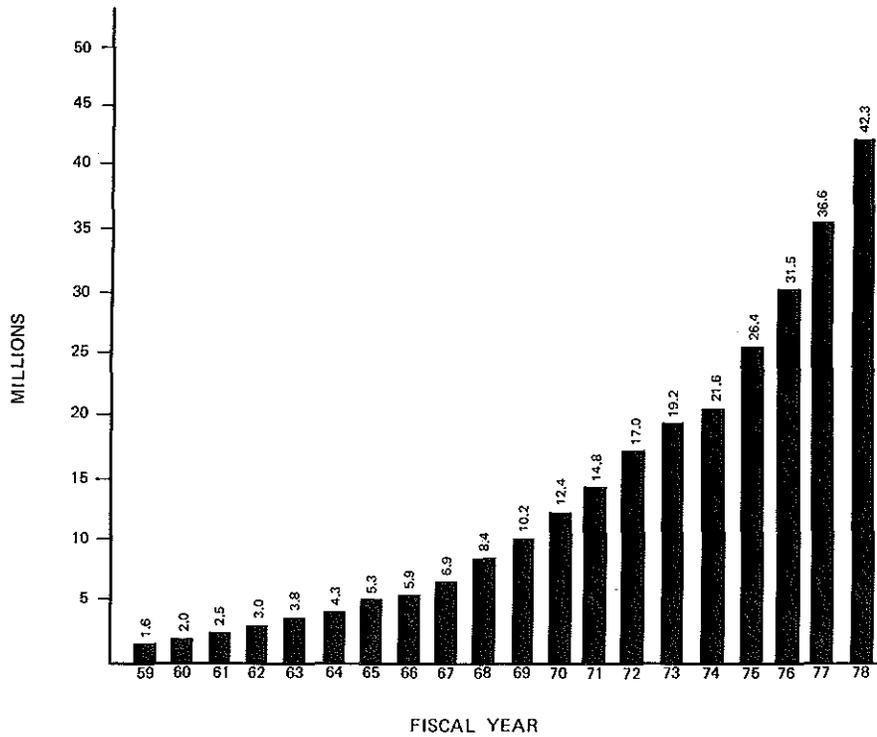
	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
<u>Title XI Ship Bonds:</u>			
American Export Freedom	7.300%	7/97	1,827,000.00
American Export Isbrandtsen	7.300%	7/97	1,842,000.00
American Export Lines SF Ser I	7.950%	12/06	5,000,000.00
Atlas Marine American Heritage	7.700%	12/96	2,975,554.20
Central Gulf Lines Lash Lighters	8.250%	1/95	4,843,000.00
Crowley Maritime	8.125%	9/99	4,853,676.07
Diamond M Drilling New Era	7.750%	9/89	4,223,857.70
Flowers Transportation SF	8.400%	5/00	2,000,000.00
Marine Ship Leasing Ser A Antarctic	7.875%	9/95	1,096,296.28
Marine Vessel Leasing Indian Ocean	7.875%	10/95	903,703.69
Shipco 2296 Series C SF	8.100%	2/02	4,738,000.00
Shipco 668 Series A SF	8.500%	5/02	5,000,000.00
Stuyvesant Issue	7.950%	9/97	9,894,143.26
Stuyvesant Issue	8.000%	5/95	3,349,000.00
Union Mechling Corp SF	8.000%	1/02	4,978,000.00
Wabash Transportation	5.400%	6/89	4,696,000.00
Zapata Marine U S Inc SF	7.700%	9/94	5,000,000.00
			<u>67,220,231.20</u>

<u>GNMA Single Family:</u>			
Pool 10700	8.250%	6/06	992,001.40
Pool 13400	7.500%	1/07	963,915.97
Pool 13512	7.500%	1/07	1,906,732.88
Pool 14282	7.500%	1/07	2,863,803.32
Pool 14356	7.500%	1/07	970,740.57
Pool 14563	7.500%	1/07	988,288.88
Pool 14572	7.500%	1/07	925,754.59
Pool 14705	7.500%	2/07	1,905,183.31
Pool 14832	7.500%	4/07	1,940,497.34
Pool 14864	7.500%	2/07	989,313.37
Pool 14890	7.500%	2/07	1,087,816.02
Pool 14958	7.500%	2/07	991,423.08
Pool 15033	7.500%	2/07	963,481.97
Pool 15094	7.500%	1/07	943,695.98
Pool 15182	7.500%	1/07	973,240.12
Pool 15242	7.500%	2/07	987,742.66
Pool 15293	7.500%	1/07	2,074,543.27
Pool 15374	7.500%	2/07	943,624.49
Pool 15397	7.500%	1/07	955,572.99
Pool 15510	7.500%	2/07	926,153.39
Pool 15539	7.500%	3/07	1,012,542.07
Pool 15682	7.500%	2/07	1,009,051.08
Pool 15703	7.500%	3/07	1,935,329.10
Pool 15704	7.500%	4/07	483,954.26
Pool 15738	7.500%	3/07	955,881.33
Pool 15772	7.500%	2/07	988,063.27
Pool 15814	7.500%	6/07	946,571.06

NET INDICATED YIELD  
on  
FIXED DOLLAR ASSETS  
(PAR VALUE)



INVESTMENT INCOME GROWTH  
(Includes Amortization)



ANALYSIS OF INVESTMENTS HELD JUNE 30, 1978  
to show annual yield rate  
Teachers' Retirement System of the State of Kentucky

	Percentage of Total	Par Value	Net Annual Interest/Indicated Dividend Income	Net Annual Yield
Short Term Investments	3.93%	\$ 26,400,000.00	\$ 1,921,075.00	7.277%
U. S. Government Secured Obligations:				
Treasury Bonds & Notes	1.04%	7,000,000.00	482,479.14	6.893%
Federal Agencies	23.50%	157,898,275.68	12,171,876.25	7.709%
Title XI Ship Bonds	10.00%	67,220,231.20	5,289,489.19	7.869%
GNMA Single Family	8.93%	59,999,234.67	4,716,984.40	7.862%
Other - Miscellaneous	.11%	740,617.72	62,174.91	8.395%
	<u>43.58%</u>	<u>292,858,359.27</u>	<u>22,723,003.89</u>	<u>7.759%</u>
Corporate Bonds:				
Industrial	9.91%	66,563,034.62	5,291,519.23	7.950%
Utilities	10.43%	70,113,000.00	5,112,389.90	7.292%
Finance	5.37%	36,100,433.30	2,429,763.28	6.731%
Railroad	2.04%	13,722,381.99	831,115.72	6.057%
Other - Miscellaneous	.41%	2,733,000.15	143,224.42	5.241%
	<u>28.16%</u>	<u>189,231,850.06</u>	<u>13,808,012.55</u>	<u>7.297%</u>
U. S. Government Guaranteed Mortgages:				
FHA & VA Single Family	5.16%	34,661,031.17	2,174,231.84	6.273%
Project Mortgages (FHA & GNMA)	3.18%	21,371,009.87	1,606,071.72	7.515%
	<u>8.34%</u>	<u>56,032,041.04</u>	<u>3,780,303.56</u>	<u>6.747%</u>
Sub-Total	<u>84.01%</u>	<u>\$564,522,250.37</u>	<u>\$42,232,395.00</u>	<u>7.481%</u>
Common Stocks - 2,305,669.355 Shares	<u>15.99%</u>	<u>107,419,339.09</u>	<u>4,986,833.95</u>	<u>4.642%</u>
TOTAL INVESTMENTS, INCOME AND YIELD	<u>100.00%</u>	<u>\$671,941,589.46</u>	<u>\$47,219,228.95</u>	<u>7.027%</u>

U. S. GOVERNMENT OBLIGATIONS (Continued)

	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
<u>GNMA Single Family: (Continued)</u>			
Pool 15891	7.500%	4/07	1,987,319.02
Pool 15924	7.500%	2/07	1,924,723.16
Pool 15943	7.500%	2/07	1,923,890.08
Pool 16032	7.500%	5/07	967,699.67
Pool 16192	7.500%	4/07	992,054.61
Pool 16336	7.500%	5/07	970,720.82
Pool 16547	7.500%	4/07	1,727,699.69
Pool 16837	7.500%	4/07	955,933.27
Pool 16844	7.500%	4/07	2,829,316.02
Pool 16943	7.500%	5/07	974,471.55
Pool 16980	7.500%	7/07	489,664.57
Pool 17030	7.500%	4/07	1,986,346.71
Pool 17151	7.500%	6/07	1,865,684.45
Pool 17194	7.500%	4/07	1,892,009.37
Pool 17296	7.500%	7/07	2,965,579.85
Pool 17758	7.500%	6/07	990,265.11
Pool 18926	7.500%	6/07	1,002,079.16
Pool 19197	7.500%	9/07	928,859.79
			<u>59,999,234.67</u>
 <u>Other - Miscellaneous:</u>			
Missouri Kansas Texas RR Notes	9.250%	12/87	550,000.00
FHA Certificate of Claim	3.000%		4,516.76
FHA Certificate of Claim	3.000%		32,887.02
FHA Gen Insurance Fund Deb Ser MM	4.375%	3/90	32,200.00
Student Loans HEW Pleasureville Bk	7.000%		85,599.08
Student Loans HEW Pleasureville Bk	7.750%		35,414.86
			<u>740,617.72</u>
Total U. S. Government Obligations			<u>292,858,359.27</u>

CORPORATE BONDS

	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
<u>Industrials:</u>			
Allied Chemical Corp Notes	8.375%	4/83	4,000,000.00
Allis Chalmers Mfg SF Deb	4.850%	5/90	750,000.00
Aluminum Co America SF Deb	9.450%	5/00	1,250,000.00
American Metal Climax SF Deb	8.500%	3/96	1,300,000.00
Ariel Properties Inc Mortgage Note	7.000%	7/98	535,000.00

## CORPORATE BONDS (Continued)

	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
<u>Industrials: (Continued)</u>			
Armco Steel Deb	9.200%	7/00	1,300,000.00
Chevron London 1st Prfd Ship Mtg	7.700%	9/97	989,098.70
Chevron Stations Inc Note	5.100%	4/91	161,000.00
Countrywide Stations Secrd Notes C	7.500%	9/02	3,753,000.00
Cummins Engine Co Inc Notes	4.600%	7/90	195,000.00
Dow Chemical Deb	8.875%	5/00	2,103,000.00
Dow Chemical Notes	5.000%	4/91	931,600.00
Dresser Industries Inc Notes	8.650%	5/85	4,250,000.00
Dresser Industries SF Deb	9.375%	5/00	1,750,000.00
Exxon Transportation Guarntd Notes	7.400%	7/02	2,500,000.00
Fahrney Paul L 1st Prfd Ship Mtg	7.700%	9/97	989,098.70
I P Petroleum Gtd Notes	8.500%	2/82	1,456,968.00
Ingersoll-Rand Notes	8.750%	5/85	4,000,000.00
Inland Steel 1st Mtg Ser O	8.750%	7/95	2,733,000.00
Leased Tankers Secured Notes A	7.450%	12/92	4,000,000.00
Liggett Myers SF Deb	8.625%	4/01	2,000,000.00
North American Rockwell SF Deb	8.300%	4/96	1,200,000.00
Penney J C SF Deb	8.875%	7/95	600,000.00
Philip Morris Inc Notes	8.500%	3/85	4,000,000.00
Pitney Bowes Inc SF Deb	9.000%	10/95	600,000.00
Quaker Oats SF Deb	7.700%	6/01	2,000,000.00
Republic Steel SF Deb	8.900%	11/95	948,000.00
Revlon Inc Notes	8.450%	5/85	3,000,000.00
Reynolds R J Industries SF Deb	7.375%	2/01	1,000,000.00
Sybron Corporation SF Deb	7.500%	4/94	1,000,000.00
Transocean Gulf Oil Gtd Notes	8.500%	11/81	4,000,000.00
Union Oil of Calif Deb	8.375%	12/82	1,000,000.00
Union Oil of Calif Deb	8.625%	3/06	1,500,000.00
United States Steel Sub Deb	4.625%	1/96	4,425,000.00
Vale B S Corp Note Ashland Oil	5.000%	6/86	343,269.22
			<u>66,563,034.62</u>

Utilities:

Alabama Gas Corp 1st Mtg F	7.250%	2/94	300,000.00
Arkansas Power Light 1st Mtg	4.375%	2/93	325,000.00
Arkansas Power Light 1st Mtg	5.875%	3/97	200,000.00
Brooklyn Union Gas 1st Mtg	4.375%	5/88	209,000.00
Cambridge Electric Light Notes C	6.250%	6/97	592,000.00
Cape Vineyard Elec Notes B	6.125%	6/97	99,000.00
Con Edison 1st Ref Mtg EE	6.250%	8/97	500,000.00
Con Edison 1st Ref Mtg FF	6.850%	10/98	250,000.00
Con Edison 1st Ref Mtg R	4.750%	6.90	575,000.00
Con Edison 1st Ref Mtg S	5.000%	12/90	700,000.00
Con Edison 1st Ref Mtg V	4.375%	6/92	1,150,000.00
Con Natural Gas Deb	9.250%	7/95	2,000,000.00
Consumers Power 1st Mtg	7.500%	6/02	3,000,000.00
Continental Oil Company Notes	4.750%	5/85	73,000.00
Continental Oil Company Notes	5.875%	12/89	635,000.00
Continental Pipe Line Guarntd Notes	7.500%	5/94	240,000.00

## CORPORATE BONDS (Continued)

	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
<u>Utilities: (Continued)</u>			
Elizabethtown Water Co Deb N J	4.875%	2/92	818,000.00
Florida Power Corp 1st Mtg	7.375%	6/02	2,000,000.00
Florida Power Light 1st Mtg	4.625%	3/95	100,000.00
Florida Power Light 1st Mtg	5.000%	12/95	700,000.00
Interstate Power 1st Mtg	4.625%	5/95	400,000.00
Interstate Power 1st Mtg	5.000%	5/87	325,000.00
Interstate Power 1st Mtg	6.125%	5/97	555,000.00
Iowa Electric Lt Pr 1st Mtg J	6.250%	9/96	250,000.00
Kentucky Utilities 1st Mtg I	8.750%	4/00	300,000.00
Kentucky Utilities 1st Mtg J	7.625%	9/01	2,000,000.00
Louisiana Power Light 1st Mtg	5.750%	3/96	150,000.00
Louisiana Power Light 1st Mtg	6.500%	9/97	200,000.00
Louisville Gas Electric 1st Mtg	8.250%	8/01	2,000,000.00
Milwaukee Gas Light 1st Mtg	4.625%	5/87	794,000.00
New York State Electric Gas 1st Mtg	6.500%	9/98	250,000.00
Nor Indiana Pub Ser 1st Mtg O	6.375%	9/97	650,000.00
Northern Natural Gas Debentures	9.000%	11/95	4,500,000.00
Ohio Power 1st Mtg	10.125%	6/82	1,750,000.00
Old Ocean Fuel 1st Mtg	5.000%	1/81	628,000.00
Otter Tail Power 1st Mtg	4.875%	2/91	500,000.00
Pacific Gas Elec 1st Ref Mtg QQ	6.625%	6/00	1,000,000.00
Pacific Gas Elec 1st Ref Mtg XX	7.500%	12/03	1,300,000.00
Pacific Power Light 1st Mtg	4.500%	12/92	1,361,000.00
Pacific Power Light 1st Mtg	4.625%	10/94	385,000.00
Pacific Power Light 1st Mtg	4.750%	4/92	283,000.00
Pacific Power Light 1st Mtg	5.000%	10/95	270,000.00
Pennsylvania Electric Deb	5.250%	6/86	483,000.00
Pennsylvania Electric Deb	7.000%	11/92	98,000.00
Pennsylvania Electric 1st Mtg	4.625%	10/94	100,000.00
Pennsylvania Gas Water 1st Mtg	6.875%	10/92	250,000.00
Pub Ser Elec Gas Deb	6.000%	7/98	255,000.00
Pub Ser Elec Gas Deb	9.000%	11/95	1,069,000.00
Pub Ser Elec Gas 1st Ref Mtg	6.250%	6/97	790,000.00
Pub Ser Indiana 1st Mtg W	9.600%	8/05	500,000.00
Pub Ser New Hampshire 1st Mtg Q	9.000%	11/00	150,000.00
Sierra Pacific Power 1st Mtg	4.750%	6/94	200,000.00
Sierra Pacific Power 1st Mtg	4.875%	6/92	750,000.00
Sou Elec Gen 1st Mtg 1959	5.250%	6/92	570,000.00
Sou Elec Gen 1st Mtg 1961	5.250%	6/92	700,000.00
Sou Natural Gas 1st Mtg PL SF	4.750%	12/81	169,000.00
South Carolina Elec Gas 1st Ref Mtg	8.000%	3/01	250,000.00
Tenneco Inc Deb	9.875%	5/00	4,500,000.00
Texas Estrn Trans 1st Mtg PL	10.500%	5/90	688,000.00
Tucson Gas Electric 1st Mtg	4.550%	2/95	300,000.00
United Gas Inc 1st Mtg	6.500%	12/89	2,169,000.00
Virginia Electric Power 1st Ref Mtg	9.250%	3/06	1,000,000.00
Washington Natural Gas 1st Mtg	6.875%	9/93	190,000.00
Western Mass Elec 1st Mtg	5.750%	3/97	200,000.00
Western Mass Elec 1st Mtg G	6.750%	3/98	100,000.00
Wisconsin Gas 1st Mtg	6.625%	10/91	625,000.00

## CORPORATE BONDS (Continued)

	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
<u>Utilities: (Continued)</u>			
American Tel Tel Deb	5.500%	1/97	2,100,000.00
American Tel Tel Deb	6.000%	8/00	1,000,000.00
Gen Telephone Florida 1st Mtg	8.000%	3/01	250,000.00
Gen Telephone Midwest 1st Mtg F	7.500%	2/01	200,000.00
Hawaiian Telephone 1st Mtg S	6.750%	4/98	100,000.00
Hawaiian Telephone 1st Mtg T	8.750%	9/00	200,000.00
Michigan Bell Tel Deb	7.000%	11/12	2,000,000.00
New England Tel Tel Co Notes	8.750%	6/81	6,000,000.00
New York Tel Ref Mtg W	8.300%	8/12	1,500,000.00
Pacific Tel Tel Deb	7.800%	3/07	250,000.00
South Central Bel Tel Deb	8.250%	8/13	1,500,000.00
Southwestern Bell Tel Deb	4.625%	8/95	1,590,000.00
Southwestern Bell Tel Deb	6.750%	6/08	1,000,000.00
Southwestern Bell Tel Deb	7.750%	9/09	2,000,000.00
			<u>70,113,000.00</u>

Finance:

Associates Investment Sr Deb	7.375%	12/88	800,000.00
Bankamerica Corp Deb	7.875%	12/03	1,000,000.00
Beneficial Corp Notes	4.625%	6/87	1,000,000.00
Beneficial Finance Deb	4.500%	3/92	495,000.00
Beneficial Finance Deb	5.000%	11/90	1,675,000.00
Beneficial Finance Sr Notes	4.600%	3/89	2,625,000.00
Commercial Credit Sr Notes	4.875%	9/87	1,000,000.00
General Electric Credit Sr Note	4.650%	5/86	2,500,000.00
General Motors Accept Corp Deb	7.750%	10/94	4,877,000.00
General Motors Accept Corp Deb	8.000%	1/02	3,500,000.00
GMAC Notes Shelf Reg	8.250%	3/82	3,000,000.00
Household Finance Corp Deb	4.750%	1/89	3,500,000.00
International Harvstr Credit Deb	8.625%	8/91	500,000.00
Marathon Finance Guaranteed Notes	5.500%	5/87	350,000.00
Marathon Finance Promissory Notes	4.550%	4/85	142,800.00
Mellon National Corp Notes	7.800%	3/82	4,000,000.00
Montgomery Ward Credit Deb	6.500%	9/87	300,000.00
Montgomery Ward Credit Deb	9.250%	11/90	1,500,000.00
Penney J C Financial Corp Deb	7.875%	9/91	2,000,000.00
Roxbury Properties Corp Secrd Notes	4.750%	1/89	287,259.61
Seaboard Finance SF Deb	7.875%	4/89	546,000.00
United California Bk Cap Notes	4.500%	1/90	200,000.00
Villiers Realty Corp Secrd Notes	4.750%	10/89	302,373.69
			<u>36,100,433.30</u>

Railroad:

Atchison Topeka Santa Fe Equip Tr B	8.750%	3/85	221,000.00
Carolina Clinchfield Ohio 1st Mtg	4.500%	4/90	438,000.00
Chesapeake Ohio Ry Condtl Sale	6.000%	4/82	120,000.00
Chesapeake Ohio Ry Equip Trust	5.125%	4/82	337,000.00

## CORPORATE BONDS (Continued)

	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
<u>Railroad: (Continued)</u>			
Chesapeake Ohio Ry Gen Mtg	4.500%	3/92	656,000.00
Chic Burl Quincy RR Condtl Sales	5.500%	4/81	58,584.90
Chic Burl Quincy RR Condtl Sales	6.375%	8/82	312,000.24
Delaware Hudson RR Condtl Sale	6.875%	9/83	260,626.76
Delaware Hudson RR 1st Gen Mtg	5.500%	5/83	359,000.00
Erie Lackawanna RR Condtl Sale	6.500%	5/82	160,794.39
Kansas City Sou Ry Condtl Sale	5.500%	10/81	70,000.00
Kansas City Sou Ry Condtl Sale	5.500%	4/81	116,666.83
Kentucky Central Ry 1st Mtg	4.000%	7/87	137,000.00
Ky and Ind Terminal RR 1st Mtg	4.875%	3/86	100,000.00
Louisville Nashville RR Col Trust	4.875%	12/87	1,290,000.00
Louisville Nashville RR Col Trust	7.375%	12/93	300,000.00
Louisville Nashville RR Condtl Sale	5.750%	11/81	144,502.06
N Y Central RR Equip Tr Cert	4.750%	2/81	160,000.00
Norfolk Western Ry Condtl Sale	9.500%	5/85	770,000.00
North American Car Corp Equip Trust	8.500%	8/84	210,000.00
Northern Pacific Ry Condtl Sale	5.500%	3/82	120,000.00
Northern Pacific Ry Condtl Sale	6.625%	2/83	92,398.33
Seaboard Coast Line Condtl Sale	6.375%	6/82	191,873.34
Sou Railway Memphis Div 1st Mtg	5.000%	7/96	539,000.00
Southern Pacific RR 1st Mtg H	5.250%	10/83	100,000.00
Southern Railway 1st Con Mtg	5.000%	7/94	2,950,000.00
St Louis San Francisco Condtl Sale	5.750%	3/82	80,000.00
St Louis San Francisco Condtl Sale	6.250%	3/82	133,154.25
St Louis San Francisco Condtl Sale	6.250%	7/82	165,672.47
St Louis San Francisco Condtl Sale	6.750%	1/83	500,000.00
St Louis San Francisco Condtl Sale	7.250%	12/83	600,000.00
St Louis San Francisco Condtl Sale	8.250%	8/84	385,000.00
St Louis San Francisco Condtl Sale	9.375%	1/85	315,000.00
St Louis San Francisco Condtl Sale	9.500%	2/85	525,000.00
St Louis San Francisco Condtl Sale	9.750%	7/85	397,108.42
Texas Pacific Ry Equip Trust Cert	5.500%	3/80	300,000.00
Virginia Southwestern Ry 1st Mtg	5.000%	1/03	107,000.00
			<u>13,722,381.99</u>
<u>Other - Miscellaneous:</u>			
Ky Industrial Dev Finance Auth Note	4.500%	7/85	174,999.95
Ky Industrial Dev Finance Auth Note	5.000%	7/86	56,666.71
Ky Industrial Dev Finance Auth Note	5.000%	1/87	420,000.04
Ky Industrial Dev Finance Auth Note	5.500%	1/87	120,000.08
Ky Industrial Dev Finance Auth Note	5.500%	7/87	63,333.37
Kentucky Southern College 1st Mtg	5.250%	1/83	500,000.00
Republic Panama External Secured	4.800%	4/93	<u>1,398,000.00</u>
			<u>2,733,000.15</u>
Total Corporate Bonds			189,231,850.06

U. S. GOVERNMENT GUARANTEED MORTGAGES

	<u>Coupon</u>	<u>Maturity</u>	<u>Remaining Principal Balance</u>
<u>Single Family:</u>			
FHA	various		18,785,339.38
VA	various		15,875,691.79
			<u>34,661,031.17</u>
 <u>Project Mortgages:</u>			
Bethany Circle Kings Daughters Ind	8.375%	3/02	1,939,736.43
Calif Guidance Care Center 232	8.500%	2/92	555,512.60
Calverty City Convalescent Ky I 232	7.000%	1/93	465,008.96
Camellia Center Hospital Calif 232	6.000%	11/88	541,405.73
Congregational Home Aged Kan 231	5.250%	7/04	1,690,539.47
Cottage Bell Apts Calif 221D4	7.500%	11/10	982,349.56
Cottage Bell Apts II Calif 221D4	8.500%	11/11	466,205.93
Denver Ed Sr Citzns 231	5.250%	11/03	975,081.09
Ephraim McDowell Hospital Ky HEW CL	9.000%	1/01	3,325,002.48
Gallantine Apts Calif 207	5.250%	10/02	693,885.56
Gladman Nursing Home 232	5.250%	4/87	405,099.36
Glenway Lodge Inc Nursing Home 232	5.250%	9/87	154,381.27
Hallmark Plaza Ky 223F	8.500%	6/11	1,236,756.57
Longmont Christian Housing 231	5.250%	3/03	621,327.08
Merrick Manor Inc Lexington Ky 232	6.000%	4/89	487,428.63
Panorama West Covington Ky 236	8.500%	12/12	487,960.72
Salem Village No I FHA Sec 232 I11	7.750%	3/16	1,075,280.33
Salem Village No II FHA Sec 231 I11	7.750%	10/16	3,663,048.10
GNMA Mtg Pool 13088CL Cortland Hosp	8.750%	4/81	780,000.00
GNMA Mtg Pool 14923CL Boston Hosp	8.500%	6/84	210,000.00
GNMA Mtg Pool 21190CL Christ Hosp	8.000%	10/83	615,000.00
			<u>21,371,009.87</u>
 Total U. S. Government Guaranteed Mortgages			 56,032,041.04

## COMMON STOCKS

	<u>No. of Shares</u>	<u>Cost</u>	<u>Market Value</u>
Allied Chemical Corp	51,900	2,056,593.25	1,887,603
American Home Products	31,300	908,242.50	887,981
American Telephone Telegraph Co	84,918.355	4,810,966.30	5,084,062
Baxter Travenol Laboratories Inc	14,500	591,950.00	614,365
Beatrice Foods Company	65,000	1,491,851.19	1,632,800
Beneficial Corporation	39,000	1,801,221.28	858,000
Bristol-Myers Company	40,000	1,430,937.50	1,434,800
Caterpillar Tractor	12,000	417,579.45	670,440
CBS Inc	37,200	1,917,342.17	1,953,000
Central & South West Corporation	82,000	1,318,426.00	1,342,340
Coca Cola Company	54,000	3,348,554.28	2,254,500
Continental Oil Company	83,000	2,604,195.83	2,188,710
Eastman Kodak	23,000	3,175,428.00	1,227,510
Exxon Corporation	73,500	2,883,219.26	3,224,445
Federated Department Stores	87,100	3,786,337.71	3,222,700
Florida Power Light Co	80,000	3,176,575.20	2,189,600
Gannett Company Inc	80,000	2,926,177.50	3,380,000
General Electric Company	64,100	3,118,325.31	3,237,050
General Mills Inc	30,000	847,417.98	900,000
General Motors Corporation	64,000	4,946,753.98	3,799,680
Gillette Company	75,000	4,572,348.35	2,146,500
Hewlett-Packard Company	10,000	925,797.46	810,000
Ingersoll-Rand Co	12,200	982,238.50	675,514
International Business Machines	19,051	4,542,646.72	4,900,870
International Paper	42,000	2,253,033.00	1,664,040
International Tel and Tel Corp	75,000	3,797,634.80	2,277,750
Kellogg Company	68,000	1,586,862.50	1,564,000
Kentucky Utilities Company	52,900	1,493,868.66	1,058,000
Lilly Eli and Company	39,600	1,987,722.50	1,831,500
Louisville Gas and Electric Co	120,000	3,828,078.08	2,714,400
Marsh & McLennan Company Inc	27,500	1,753,637.50	1,746,250
McDonalds Corp	30,200	1,467,545.00	1,589,124
Mobil Corporation	47,400	3,160,915.00	2,926,950
Penney J C Company	28,500	2,253,842.13	1,040,250
Philip Morris Inc	36,200	1,970,300.15	2,398,250
Procter and Gamble	17,000	1,599,580.00	1,462,000
R J Reynolds Industries Inc	65,500	3,981,441.69	3,741,360
Sears Roebuck and Company	79,800	3,281,957.30	1,844,976
Standard Oil Co Indiana	51,500	2,602,712.16	2,484,875
Texaco Inc	40,000	1,003,237.50	960,000
Texas Utilities Company	155,000	4,501,743.23	3,138,750
Trans Union Corporation	23,000	820,712.50	807,760
Warner Lambert Company	68,000	2,065,521.36	1,938,000
Xerox Corporation	25,800	3,427,868.31	1,351,146
Total Common Stocks	2,305,669.355	107,419,339.09	89,061,851

## CERTIFIED PUBLIC ACCOUNTANTS REPORTS

Each year the records of the Teachers' Retirement System are subject to audit by an independent Certified Public Accounting Firm to insure that the accounting records accurately disclose its financial status and to insure the presence of adequate internal control. For the fiscal year ended June 30, 1978, the Charles T. Mitchell Company performed the audit.

The main body of the audit report is reprinted on the following pages.

During the year ending June 30, 1978, assets of the Teachers' Retirement System increased \$75,324,509 to a total of \$674,326,265. It is noted that of the \$674 million in assets, \$293.8 million is credited to members accounts (Teachers Savings Fund) and a like amount is reserved in the State Accumulation Fund as state matching for member contributions. This leaves a reserve for benefit payments of \$86.7 million, which compares favorably with a reserve of \$78.2 for the previous year.

Administrative cost for the fiscal year totaled \$605,226. This breaks down to a cost of \$5.15 per each member account (active, retired and inactive) that is maintained by the Teachers' Retirement System.

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

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

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

November 21, 1978

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

Gentlemen:

We have examined the balance sheet of the Kentucky Teachers' Retirement System as of June 30, 1978 and 1977 and the related statements of operation and fund balance for the years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Kentucky Teachers' Retirement System at June 30, 1978 and 1977, and the results of its operations for the years then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Respectfully submitted,

*Charles T. Mitchell Co.*

CHARLES T. MITCHELL COMPANY

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
BALANCE SHEET  
JUNE 30, 1978 AND 1977

<u>ASSETS</u>	JUNE 30, 1978	JUNE 30, 1977
Cash	\$ 5 293 965 55	\$ 3 804 213 35
Investments: (See Note Below)		
Bonds And Notes (Approximate Quoted Market Values - \$516,772,423.00 As Of June 30, 1978 And \$475,899,485.00 As Of June 30, 1978)	561 316 652 40	487 416 856 82
Common And Preferred Stocks (Approximate Quoted Market Values - \$89,061,851.00 As Of June 30, 1978 And \$92,932,693.00 As Of June 30, 1977)	107 419 339 09	106 845 022 21
Accrued Interest Purchased	29 378 58	190 144 80
Special Reserve Account, Aetna Life Insurance Co	266 929 00	745 519 00
<b>TOTAL ASSETS</b>	<b>\$674 326 264 62</b>	<b>\$599 001 756 18</b>
<u>LIABILITIES AND FUND BALANCES</u>		
<b>LIABILITIES</b>		
Irregular Payments - Escrow Account	\$ 27 393 73	\$ 28 770 02
Treasurers Unredeemed Checks	10 385 40	6 620 63
Total Liabilities	<u>\$ 37 779 13</u>	<u>\$ 35 390 65</u>
<b>FUND BALANCES</b>		
Teachers' Savings Fund	\$293 812 422 75	\$260 398 542 47
State Accumulation Fund	293 812 422 75	260 398 542 47
Allowance Reserve Fund	43 539 735 66	37 574 084 73
Guarantee Fund	24 582 970 82	22 253 261 11
Voluntary Contribution Fund	3 370 909 96	2 464 246 16
Hospital And Medical Insurance Fund	4 099 958 58	5 696 565 72
Survivor And Death Benefit Fund	11 053 155 84	10 166 338 16
General Expense Fund	16 909 13	14 784 71
Total Fund Balances	<u>\$674 288 485 49</u>	<u>\$598 966 365 53</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$674 326 264 62</b>	<b>\$599 001 756 18</b>

NOTE: Par Value Of Bonds And Notes - \$564,522,250.37 As of  
June 30, 1978, and \$490,156,644.91 As of June 30, 1977.

The Accompanying Notes Are An Integral Part Of These Statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
 COMBINED STATEMENT OF OPERATIONS AND FUND BALANCE  
 FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

<u>REVENUES</u>	YEAR ENDED JUNE 30,	
	1978	1977
Teachers' Contributions	\$ 43 440 611 72	\$ 39 616 015 59
State Contributions	59 626 165 00	53 473 965 00
Interest And Dividends Earned On Investments	42 306 556 25	36 637 171 44
Employers' Matching Contributions	2 672 980 06	2 443 306 41
General Expense Fund Appropriations	622 135 00	575 735 00
Voluntary Contributions	556 726 86	480 299 86
Teachers' Reinstatements	338 071 47	265 197 06
Aetna Life Insurance Company - Reserve		
Interest Income	52 186 00	20 359 00
Experience Increase (Deficit)	( 530 776 00)	434 323 00
Gain (Loss) On Sale Of Investments	( 833 355 28)	228 075 82
Irregular Payments	1 376 29	(7 265 97)
Refund Recoveries	2 078 74	-0-
Forfeitures And Adjustments	615 58	4 850 93
Total Revenues	\$148 255 371 69	\$134 172 033 14
<u>EXPENDITURES</u>		
Benefits For Service And Disability Retirements	\$ 60 244 549 78	\$ 53 635 038 59
Benefits Increased By Voluntary Contributions	95 641 41	-0-
Increase Benefits Continued After		
Vountary Contributions Expire	5 972 51	-0-
Refund Members' Contributions	4 898 179 66	4 206 122 42
Survivor And Death Benefits	2 869 752 20	2 699 568 17
Comprehensive Medical Insurance Premiums	4 055 971 39	3 856 244 36
General Expense Fund Expenditures	605 225 87	560 950 29
Investment Counsel and Processing Fees	157 958 91	152 950 52
Total Expenditures	\$ 72 933 251 73	\$ 65 110 874 35
<u>EXCESS OF REVENUE OVER EXPENDITURES</u>	\$ 75 322 119 96	\$ 69 061 158 79
<u>TOTAL FUND BALANCES</u>		
Beginning Of Year	598 966 365 53	529 905 206 74
End Of Year	\$674 288 485 49	\$598 966 365 53

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
TEACHERS' SAVINGS FUND  
STATEMENT OF OPERATIONS AND FUND BALANCE  
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

<u>REVENUES</u>	YEAR ENDED JUNE 30,	
	1978	1977
Teachers' Contributions	\$ 40 640 705 82	\$ 37 053 602 37
Reinstatements	293 577 71	236 279 08
Irregular Payments Prior Year - Escrow	28 770 02	21 504 05
Transfers From Guarantee Fund:		
Interest On Fund Balance	7 390 155 92	6 511 549 10
Transfers From Hospital And Medical Insurance Fund:		
To Adjust For Overpayment By Employers	889 41	934 09
Transfers From Survivors And Death Benefit Fund:		
To Adjust For Overpayment By Employers	889 41	934 09
Refund Recoveries	2 078 74	-0-
Forfeitures And Adjustments	3 738 76	4 139 61
Total Revenues	\$ 48 360 805 79	\$ 43 828 942 39
 <u>EXPENDITURES</u>		
Refunds - Regular	\$ 4 575 994 16	\$ 3 976 280 41
Refunds - Special	14 813 87	14 365 44
Irregular Payments - Current Year Escrow	27 393 73	28 770 02
Transfers To Allowance Reserve Fund:		
Retirements	10 025 888 97	10 340 247 93
Transfers To Hospital And Medical Insurance Fund:		
To Close Prior Year Overpayment By Employers	934 09	698 18
Transfers To Survivors And Death Benefit Fund:		
Survivors Benefits	300 966 60	283 018 51
To Close Prior Year Overpayments By Employers	934 09	698 18
Total Expenditures	\$ 14 946 925 51	\$ 14 644 078 67
 <u>EXCESS OF REVENUES OVER EXPENDITURES</u>	 \$ 33 413 880 28	 \$ 29 184 863 72
 <u>FUND BALANCE</u>		
Beginning Of Year	\$260 398 542 47	\$231 213 678 75
END OF YEAR	\$293 812 422 75	\$260 398 542 47

The Accompanying Notes Are An Integral Part Of These Statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
STATE ACCUMULATION FUND  
STATEMENT OF OPERATIONS AND FUND BALANCE  
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

<u>REVENUES</u>	YEAR ENDED JUNE 30,	
	1978	1977
State Contributions - Permanent	\$ 40 709 416 24	\$ 46 012 085 46
State Contributions - Prior Service	4 882 900 00	4 882 900 00
State Contributions - Benefit Improvements	11 206 809 00	-0-
Employers' Matching Contributions	2 499 373 96	2 284 650 27
Teachers' Reinstatement Contributions	44 493 76	28 917 98
Expense Fund Balance - 1977 And 1976	14 784 71	18 217 08
Transfers From Guarantee Fund:		
Interest On Fund Balance	7 390 155 92	6 511 549 10
Reinstatements	293 577 71	236 279 08
To Close Prior Year Overpayments By Employers	26 901 84	20 107 69
Forfeitures And Adjustments	6 622 69	-0-
Total Revenues	\$ 67 075 035 83	\$ 59 994 706 66
<u>EXPENDITURES</u>		
Transfers To Allowance Reserve Fund:		
Retirements	\$ 10 025 888 97	\$ 10 340 247 93
Benefit Improvements (See Note 2)	10 195 700 00	7 881 000 00
State Contributions - Prior Service	4 882 900 00	4 882 900 00
Expense Fund Balance	14 784 71	18 217 08
Transfers To Guarantee Fund:		
To Adjust For Overpayments By Employers	25 614 91	26 901 84
Refunds	4 589 493 39	3 989 802 43
Benefit Improvements (See Note 2)	1 011 109 00	993 740 00
To Adjust State Contributions To Match Teachers' Contributions (See Note 1)	2 614 697 97	2 392 769 18
Transfers To Survivor And Death Benefit Fund:		
Survivors' Benefits	300 966 60	283 018 51
Forfeitures And Adjustments	-0-	1 245 97
Total Expenditures	\$ 33 661 155 55	\$ 30 809 842 94
<u>EXCESS REVENUES OVER EXPENDITURES</u>	\$ 33 413 880 28	\$ 29 184 863 72
<u>FUND BALANCE</u>		
Beginning Of Year	\$260 398 542 47	\$231 213 678 75
End Of Year	\$293 812 422 75	\$260 398 542 47

The Accompanying Notes Are An Integral Part Of These Statements

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
ALLOWANCE RESERVE FUND  
STATEMENT OF OPERATIONS AND FUND BALANCE  
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

<u>REVENUES</u>	YEAR ENDED JUNE 30,	
	1978	1977
Transfers From Teachers' Savings Fund:		
Retirements	\$ 10 025 888 97	\$ 10 340 247 93
Transfers From State Accumulation Fund:		
Retirements	10 025 888 97	10 340 247 93
State Contributions - Prior Service (See Note 3)	4 882 900 00	4 882 900 00
Expense Fund Balance - 1977 And 1976 (See note 3)	14 784 71	18 217 08
Benefit Improvements	10 195 700 00	7 881 000 00
Transfers From Guarantee Fund:		
Interest On Fund Balance	1 010 922 06	989 378 37
State Deficiency In Service Obligations For Teachers Retired (See Note 3)	30 717 669 49	25 464 818 98
Transfers From Voluntary Contribution Fund:		
Teachers' And Employers' Voluntary Contributions	-0-	155 180 95
Forfeitures And Adjustments	-0-	3 300 21
Total Revenues	\$ 66 873 754 20	\$ 60 075 291 45
 <u>EXPENDITURES</u>		
Benefits For Service And Disability Retirements	\$ 60 244 549 78	\$ 53 635 038 59
Transfers To Survivor And Death Benefit Fund:		
Transfers For Payments To Survivors Of Deceased Members	33 779 50	40 840 21
Forfeitures And Adjustments	8 105 43	-0-
Total Expenditures	\$ 60 286 434 71	\$ 53 675 878 80
 <u>EXCESS OF REVENUES OVER EXPENDITURES</u>	 \$ 6 587 319 49	 \$ 6 399 412 65
 <u>FUND BALANCE</u>		
Beginning Of Year	37 574 084 73	31 174 672 08
Less: Transfer To Voluntary Contribution Fund (See Note On Voluntary Contribution Fund Statement)	( 621 668 56)	-0-
End Of Year	\$ 43 539 735 66	\$ 37 574 084 73

The Accompanying Notes Are An Integral Part Of These Statement.

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
 GUARANTEE FUND  
 STATEMENT OF OPERATIONS AND FUND BALANCE  
 FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

REVENUES	YEAR ENDED JUNE 30,	
	1978	1977
Interest And Dividends Earned On Investments	\$ 42 306 556 25	\$ 36 637 171 44
Transfers From State Accumulation Fund:		
Refunds	4 589 493 39	3 989 802 43
To Adjust For Overpayments By Employers	25 614 91	26 901 84
Benefit Improvements (See Note 2)	1 011 109 00	993 740 00
To Adjust State Contributions To Match Teachers' Contributions (See Note 1)	2 614 697 97	2 392 769 18
Transfers From Hospital And Medical Insurance Fund:		
To Adjust For Overpayments By Employers	889 41	934 09
To Adjust State Contributions To Match Teachers' Contributions (See Note 1)	89 836 86	87 611 22
Transfers From Survivor And Death Benefit Fund:		
To Adjust For Overpayments By Employers	889 41	934 09
To Adjust State Contributions To Match Teachers' Contributions	89 836 86	87 611 24
Gain (Loss) On Sale Of Investments	( 833 355 28)	228 075 82
Forfeitures And Adjustments	192 10	-0-
Total Revenues	\$ 49 895 760 88	\$ 44 445 551 35
<u>EXPENDITURES</u>		
Investment Counsel And Processing Fees	\$ 157 958 91	\$ 152 950 52
Transfers To Teachers' Savings Fund:		
Interest On Fund Balance	7 390 155 92	6 511 549 10
Transfers To State Accumulation Fund:		
Interest On Fund Balance	7 390 155 92	6 511 549 10
Reinstatements	293 577 71	236 279 08
To Close Prior Year Overpayment By Employers	26 901 84	20 107 69
Transfers To Allowance Reserve Fund:		
Interest On Fund Balance	1 010 922 06	989 378 37
State Deficiency In Service Obligation For Teachers Retired (See Note 3)	30 717 669 49	25 464 818 98
Transfers To Voluntary Contribution Fund:		
Interest On Fund Balance	131 281 42	120 804 01
To Fund Deficiency From Increased Benefits Continued After Voluntary Contributions Expire	5 972 51	-0-
Transfers To Hospital And Medical Insurance Fund:		
Interest On Fund Balance	128 342 14	162 166 78
To Close Prior Year Overpayments By Employers	934 09	698 18
Transfers To Survivor And Death Benefit Fund:		
Interest On Fund Balance	311 245 07	286 544 21
To Close Prior Year Over Payments By Employers	934 09	698 18
Forfeitures And Adjustments	-0-	96
Total Expenditures	\$ 47 566 051 17	\$ 40 457 545 16
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 2 329 709 71	\$ 3 988 006 19

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
 GUARANTEE FUND  
 STATEMENT OF OPERATIONS AND FUND BALANCE (CONTINUED)  
 FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

	YEAR ENDED JUNE 30,	
	1978	1977
EXCESS OF REVENUES OVER EXPENDITURES	\$ 2 329 709 71	\$ 3 988 006 19
<u>FUND BALANCE</u>		
Beginning Of Year	22 253 261 11	18 265 254 92
End Of Year	\$ 24 582 970 82	\$ 22 253 261 11

The Accompanying Notes Are An Integral Part Of These Statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
VOLUNTARY CONTRIBUTION FUND  
STATEMENT OF OPERATIONS AND FUND BALANCE  
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

<u>REVENUES</u>	YEAR ENDED JUNE 30,	
	1978	1977
Voluntary Contributions	\$ 556 726 86	\$ 480 299 86
Transfers From Guarantee Fund:		
Interest On Members Account	131 281 42	120 804 01
Deficiency From Increased Benefits Continued After Voluntary Contributions Expire	5 972 51	
Total Revenues	\$ 693 980 79	\$ 601 103 87
<u>EXPENDITURES</u>		
Refunds - Active Members' Voluntary Contributions And Employers' Voluntary Contributions	\$ 304 402 83	\$ 215 476 57
Refunds - Retired Members' Voluntary Contributions	2 968 80	
Benefits Increased By Voluntary Contributions	95 641 41	
Increased Benefits Continued After Voluntary Contributions Expire	5 972 51	
Transfers To Allowance Reserve Fund: Voluntary Contributions Used In Determining Retirement Benefits		155 180 95
Total Expenditures	\$ 408 985 55	\$ 370 657 52
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 284 995 24	\$ 230 445 35
<u>FUND BALANCE</u>		
Beginning Of Year	2 464 246 16	2 233 799 81
Add: Transfer From Allowance Reserve Fund (See Note Below)	621 668 56	
End Of Year	\$ 3 370 909 96	\$ 2 464 246 16

NOTE: In Prior Years, Voluntary Contributions Used In Determining Retirement Benefits Were Transferred To The Allowance Reserve Fund From Which These Benefits Were Paid Beginning July 1, 1977, The Voluntary Portion Of Retirement Benefits Were Charged Directly To The Voluntary Contribution Fund Instead Of The Allowance Reserve Fund. The Balance Of Monies Transferred To The Allowance Reserve Fund In Prior Years Had To Therefore Be Transferred Back To The Voluntary Contribution Fund.

The Accompany Notes Are Also An Integral Part Of These Statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
HOSPITAL AND MEDICAL INSURANCE FUND  
STATEMENT OF OPERATIONS AND FUND BALANCE  
FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

<u>REVENUES</u>	YEAR ENDED JUNE 30,	
	1978	1977
Teachers' Contributions	\$ 1 399 952 95	\$ 1 281 206 61
Employer Matching Contributions	86 803 05	79 328 06
State Matching Contributions	1 413 519 88	1 289 489 77
Transfers From Teachers' Savings Fund:		
To Close Prior Year Overpayment By Employers	934 09	698 18
Transfers From Guarantee Fund:		
Interest On Fund Balance	128 342 14	162 166 78
To Close Prior Year Overpayment By Employers	934 09	698 18
Aetna Life Insurance Company		
Interest Income	52 186 00	20 359 00
Experience Increase (Deficit)	( 530 776 00)	434 323 00
Total Revenues	\$ 2 551 896 20	\$ 3 268 269 58
<u>EXPENDITURES</u>		
Comprehensive Medical Insurance Premiums	\$ 4 055 971 39	\$ 3 856 244 36
Transfers To Teachers' Savings Fund:		
To Adjust For Overpayment By Employers	889 41	934 09
Transfers To Guarantee Fund:		
To Adjust For Overpayment By Employers	889 41	934 09
To Comply With KRS 161.420 (7) and KRS 161.550 (See Note 1)	89 836 86	87 611 22
Forfeitures And Adjustments	916 27	670 98
Total Expenditures	\$ 4 148 503 34	\$ 3 946 394 74
<u>EXCESS (DEFICIT) REVENUES OVER EXPENDITURES</u>	\$ (1 596 607 14)	\$ ( 678 125 16)
<u>FUND BALANCE</u>		
Beginning Of Year	5 696 565 72	6 374 690 88
End Of Year	\$ 4 099 958 58	\$ 5 696 565 72

The Accompanying Notes Are An Integral Part Of These Statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
 SURVIVOR AND DEATH BENEFIT FUND  
 STATEMENT OF OPERATIONS AND FUND BALANCE  
 FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

<u>REVENUES</u>	YEAR ENDED JUNE 30,	
	1978	1977
Teachers' Contributions	\$ 1 399 952 95	\$ 1 281 206 61
Employer Matching Contributions	86 803 05	79 328 08
State Matching Contributions	1 413 519 88	1 289 489 77
Transfers From Teachers' Savings Fund:		
Survivor Payments	300 966 60	283 018 51
To Close Prior Year Overpayment By Employers	934 09	698 18
Transfers From State Accumulation Fund:		
Survivor Payments	300 966 60	283 018 51
Transfers From Allowance Reserve Fund:		
Transfers For Payments To Survivors Of Deceased Members	33 779 50	40 840 21
Transfers From Guarantee Fund:		
Interest On Fund Balance	311 245 07	286 544 21
To Close Prior Year Overpayment By Employers	934 09	698 18
Total Revenues	\$ 3 849 101 83	\$ 3 544 842 26
<u>EXPENDITURES</u>		
Survivor And Death Benefit Payments	\$ 2 869 752 20	\$ 2 699 568 17
Transfers To Teachers' Savings Fund:		
To Adjust For Overpayment By Employers	889 41	934 09
Transfers To Guarantee Fund:		
To Adjust For Overpayment By Employers	889 41	934 09
To Comply With KRS 161.420 (7) And KRS 161.550 (See Note 1)	89 836 86	87 611 24
Forfeitures And Adjustments	916 27	670 98
Total Expenditures	\$ 2 962 284 15	\$ 2 789 718 57
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 886 817 68	\$ 755 123 69
<u>FUND BALANCE</u>		
Beginning Of Year	10 166 338 16	9 411 214 47
End Of Year	\$ 11 053 155 84	\$ 10 166 338 16

The Accompanying Notes Are An Integral Part Of These Statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
 GENERAL EXPENSE FUND  
 STATEMENT OF OPERATIONS  
 FOR THE YEARS ENDED JUNE 30, 1978 AND 1977

ALLOTMENTS	YEAR ENDED JUNE 30,	
	1978	1977
Regular Legislative Appropriations	\$ 622 135 00	\$ 575 735 00
<u>EXPENDITURES</u>		
Personal Services		
Salaries	\$ 404 245 56	\$ 368 020 07
Contracted Professional And Consulting Services	38 331 48	48 946 15
Current Operating Expenses		
Occasional Labor	37 12	
Life Insurance - Employees	609 71	571 63
Postage, Freight, And Expres	47 452 00	33 605 00
Telephone And Telegraph	8 794 99	7 802 35
Travel-In State	7 314 84	7 959 66
Travel-Out Of State	4 172 48	2 886 70
Printing	6 721 37	9 830 96
Maintenance Of Equipment	2 027 90	3 305 72
Maintenance Of Building	2 485 63	231 00
Carpool Rentals	1 641 13	1 463 03
Office Supplies	8 621 19	7 961 72
Rental Of Computer	14 046 35	13 700 54
Rental Of Building	28 055 04	26 215 59
Rental Of Equipment	17 589 36	18 396 83
Insurance	1 659 60	1 222 36
Fidelity Bonds	35 00	35 00
Membership Fees	225 00	
Subscriptions	2 593 54	1 922 92
Miscellaneous	1 126 60	639 91
Capital Outlay		
Office Furniture, Fixtures, And Equipment	7 439 98	6 233 15
Total Expenditures	\$ 605 225 87	\$ 560 950 29
Ending Balance Lapsed To		
Allowance Reserve Fund	\$ 16 909 13	\$ 14 784 71

The Accompanying Notes Are An Integral Part Of These Statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
JUNE 30, 1978

- A. Assets, liabilities, and fund balances, and revenues and expenditures are recognized in accordance with the governmental accounting policies of the Commonwealth of Kentucky.
- B. Bonds and notes are stated at maturity value net of unamortized premiums and discounts. Stocks are stated at cost. Realized gains or losses on all securities are recorded at the time of sale.
- C. Premiums and discounts are amortized using the straight line method over the period the bonds and notes are to be held. Any unamortized premium or discount is recognized at the time of sale for bonds or notes sold prior to maturity.
- D. Fixed assets are expensed when purchased in accordance with the governmental accounting policies of the Commonwealth of Kentucky.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 1978

1. ANNUAL YEAR END ADJUSTMENTS

State appropriations to match teachers' contributions to the Teachers' Savings Fund, the Hospital and Medical Insurance Fund, and the Survivor and Death Benefit Fund exceeded those contributions by \$2,794,371.69. In accordance with KRS 161.420 (7), the excess appropriation was transferred to the Guarantee Fund. It consisted of transfers from the State Accumulation Fund - \$2,614,697.97, the Hospital and Medical Insurance Fund - \$89,836.86, and the Survivor and Death Benefit Fund - \$89,836.86.

2. PAST SERVICE LIABILITY

The amount necessary to be appropriated to this System by the General Assembly to fund the unfunded past service in future periods is not included as an asset, nor is the liability for past service included in these statements.

Actuarial reports are required biannually, with the most current report made as of July 1, 1976. At that time the System's consulting actuary determined the unfunded past service liability to be approximately \$799,279,900.00 detailed as follows:

	JULY 1, 1976	JULY 1, 1974
Prior Service Obligation	\$ 50 007 571 00	\$ 57 476 380 00
Service Subsequent To July 1, 1941	749 272 329 00	385 080 311 00
Total Unfunded Past Service Liability	\$799 279 900 00	\$442 556 691 00

NOTE: The actuarial report for July 1, 1978 was not complete as of the audit date, therefore it is not included in this report.

KENTUCKY TEACHERS' RETIREMENT SYSTEM  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 1978

2. PAST SERVICE LIABILITY (CONT)

In accordance with KRS 161,550 "the state shall contribute annually to the retirement system a permanent amount equal to that contributed by all members. The state shall, in addition to the above amount, contribute annually an amount sufficient to discharge the prior service and other unfunded obligations with interest assumed by the state, over a period not greater than thirty years."

At June 30, 1978 participating members contributed to the System at the rate of 7.7% of creditable compensation with state appropriations contributed at the rate of 10.5% of creditable compensation. The additional 2.8% state contribution is summarized below:

Transferred To Allowance Reserve Fund	
Amortization Of Prior Service Obligation	\$ 4 882 900 00
Benefit Improvements	10 195 700 00
Transferred To Guarantee Fund	
Benefit Improvements	1 011 109 00
Total Additional 3% State Contribution 1977-78	\$16 089 709 00

3. RETIREMENT ALLOWANCE PROVISIONS

Retirement allowances paid, first reduce the member's contributions, until they are exhausted, then the state matching contributions are used to cover the allowances. When both the member's contributions and the state matching contributions are exhausted, the retirement allowance is paid from investment earnings and funds available through actuarial provisions. For the year June 30, 1978, \$41,549,276.26 was paid in excess of teachers' contributions and state matching contributions. This amount is comprised of: (1) transfers from the State Accumulation Fund: state contributions - prior service - \$4,882,900.00, prior service increase \$4,923,000.00, and the 1976-77 General Expense Fund Balance - \$14,784.71 and (2) transfers from the Guarantee Fund: \$30,717,669.49; and interest on fund balance - \$1,010,922.06.