

KENTUCKY RETIREMENT SYSTEMS  
AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS

June 30, 2001

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Kentucky Retirement System  
Frankfort, Kentucky

We have audited the accompanying statements of plan net assets of the Kentucky Retirement System as of June 30, 2001 and 2000 and the related statements of changes in plan net assets for the years then ended. These component unit financial statements are the responsibility of Kentucky 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 Kentucky Retirement System, a component unit of the Commonwealth of Kentucky, at June 30, 2001 and 2000 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 November 26, 2001 on our consideration of the Kentucky Retirement System'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 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, 2001 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.

*Charles T. Mitchell Co.*

November 26, 2001

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Retirement System's financial performance provides an overview of the retirement systems' and insurance fund's financial activities for the fiscal year ended June 30, 2001. Please read it in conjunction with the Retirement Systems' financial statements and Insurance Fund's financial statements, which begin on page 10.

### FINANCIAL HIGHLIGHTS—RETIREMENT SYSTEMS

The following highlights are explained in more detail later in this discussion.

- The combined plan net assets of all pension funds administered by Kentucky Retirement Systems decreased by \$920.8 million during the 2000-2001 fiscal year.
- Salaries totaling \$3.5 billion requiring both employee and employer pension contributions were reported during the year. The covered payroll increased \$225 million over the prior reporting period. Although, the covered payroll increased, the corresponding employer contributions decreased by \$17.1 million for a total employer contribution amount of \$288.1 million. This decrease is attributable to four of the five pension funds experiencing a decrease in the required employer contribution rate. Contributions paid by employees were \$250.2 and \$246.6 million respectively for the years ended June 30, 2001 and June 30, 2000. This increase is a reflection of the increase in covered payroll.
- Net appreciation in fair value of investments revealed net depreciation of \$1.1 billion compared to net appreciation of \$210 million for the prior fiscal year. The pension funds realized gains on sales of investments of \$992.7 million compared to \$2.068 billion for the year ended June 30, 2000. This decline in the net appreciation in the fair value of investments compared to the prior year is due to less favorable market conditions.
- Investment income net of investment expense from all sources including securities lending was \$408 million representing an increase of approximately \$25 million compared to last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased \$72 million bringing total benefit payments to \$549 million. Refund of contributions paid to former members upon termination of employment decreased from \$21 million to \$19 million.
- Administrative expense and other deductions totaling \$10.2 million decreased \$179.8 million. This decrease is attributable to the change in the way that employer contributions are posted to the insurance fund. In the prior fiscal year, contributions were deducted from the pension account and added to the insurance fund. Beginning with the fiscal year ended June 30, 2001, employer contributions were deposited into a clearing account fund and the appropriate employer contributions were transferred to the respective pension and insurance funds.

### FINANCIAL HIGHLIGHTS—INSURANCE FUND

The following highlights are explained in more detail later in this discussion.

- The combined plan net assets of the insurance fund administered by Kentucky Retirement Systems increased by \$59.3 million during the 2000-2001 fiscal year.

- Employer contributions of \$182.6 million were received. This is an increase of \$2.3 million over the prior fiscal year.
- Net appreciation in fair value of investments results were net depreciation of \$72 million compared to net appreciation of \$31 million for the prior fiscal year. The insurance fund realized gains on sales of investments of \$42.7 million compared to \$71 million in the prior fiscal year. This decline in the net appreciation in the fair value of investments compared to the prior year is due to less favorable market conditions.
- Investment income net of investment expense from all sources including securities lending was \$31.1 million representing an increase of approximately \$4.6 million compared to last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage increased \$15.4 million to total \$81.9 million for the year.
- Administrative fees paid to the State Personnel Cabinet for administration of the insurance program for retirees not eligible for Medicare totaled \$714 thousand compared to \$331 thousand for the prior year. This increase is due to the increase in the administrative rate charged per retiree.

## **USING THIS FINANCIAL REPORT**

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The Combined Statement of Plan Net Assets and Combined Statements of Changes in Plan Net Assets (on pages 10-13) provide information about the activities of the pension funds and insurance fund as a whole. Kentucky Retirement Systems is the fiduciary of funds held in trust for five distinct groups of members. The Combining Statements of Plan Net Assets and Combining Statements of Changes in Plan Net Assets (on pages 14-21) provide more detailed information about each plan assets, liabilities, plan net assets, and changes in plan net assets.

The Schedule of Funding Progress (on pages 36-46) 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 47-52) 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 RETIREMENT SYSTEMS AS A WHOLE**

Kentucky Retirement Systems' combined plan net assets decreased during the year ended June 30, 2001 by \$861.5 million from \$13,703.2 million to \$12,841.7 million. Plan net assets for the prior fiscal year increased by \$628.4 million. The decrease for the plan year ended June 30, 2001 is attributable to less favorable market conditions than the prior fiscal year. The analysis below focuses on plan net assets (Table 1) and changes in plan net assets (Table 2) of Kentucky Retirement Systems' pension funds and insurance fund.

**Table 1**  
**Plan Net Assets**  
**(In Millions)**

	Pension Funds		Insurance Fund		Total	
	2001	2000	2001	2000	2001	2000
Cash & Investments	\$ 13,420.10	\$12,884.20	\$1,156.70	\$ 998.90	\$14,576.80	\$13,883.10
Receivables	<u>125.00</u>	<u>138.80</u>	<u>21.20</u>	<u>22.60</u>	<u>146.20</u>	<u>161.40</u>
Total Assets	13,545.10	13,023.00	1,177.90	1,021.50	14,723.00	14,044.50
Total Liabilities	<u>(1,781.90)</u>	<u>(339.00)</u>	<u>(99.40)</u>	<u>(2.30)</u>	<u>(1,881.30)</u>	<u>(341.30)</u>
Plan Net Assets	<u>\$ 11,763.20</u>	<u>\$12,684.00</u>	<u>\$1,078.50</u>	<u>\$1,019.20</u>	<u>\$12,841.70</u>	<u>\$13,703.20</u>

**Table 2**  
**Changes in Plan Net Assets**  
**(In Millions)**

	Pension Funds		Insurance Fund		Total	
	2001	2000	2001	2000	2001	2000
Additions:						
Members' Contributions	\$ 250.20	\$ 246.60	\$ -	\$ -	\$ 250.20	\$ 246.60
*Employer Contributions	105.50	305.20	182.60	180.30	288.10	485.50
Investment Income(net)	<u>(698.50)</u>	<u>593.70</u>	<u>(40.70)</u>	<u>57.80</u>	<u>(739.20)</u>	<u>651.50</u>
Total additions	(342.80)	1,145.50	141.90	238.10	(200.90)	1,383.60
Program deductions						
Benefit payments	549.10	476.60	-	-	549.10	476.60
Refunds	18.60	21.40	-	-	18.60	21.40
Administrative Expense	10.90	9.80	0.70	0.30	11.60	10.10
Healthcare premiums	-	-	81.90	66.50	81.90	66.50
Tot. program deductions	578.60	507.80	82.60	66.80	661.20	574.60
*Other deductions(net)	<u>(0.60)</u>	<u>180.30</u>	<u>-</u>	<u>-</u>	<u>(0.60)</u>	<u>180.30</u>
Total deductions	<u>578.00</u>	<u>688.10</u>	<u>82.60</u>	<u>66.80</u>	<u>660.60</u>	<u>754.90</u>
Increase (decrease) in plan net assets	<u>\$ (920.80)</u>	<u>\$ 457.40</u>	<u>\$ 59.30</u>	<u>\$ 171.30</u>	<u>\$ (861.50)</u>	<u>\$ 628.70</u>

\*Beginning with the fiscal year ended June 30, 2001, employer contributions were deposited into a clearing account fund and the appropriate employer contributions were transferred to the respective pension and insurance funds.

Plan net assets of the pension funds decreased by 7.3% (\$11,763.2 million compared to \$12,684.0 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries. This plan net asset decrease is attributable primarily to the decline in the net appreciation in the fair value of investments due to less favorable market conditions in general.

Plan net assets of the insurance fund increased by 5.8% (\$1,078.5 million compared to \$1,019.2 million). All of these assets are restricted in use to provide hospital and medical insurance benefits to members of the pension funds who receive a monthly retirement allowance. Even though there was an increase in plan net assets for the year, the increase was not of the magnitude of the increase for the prior year. This reduction in the amount of increase in plan assets arose primarily because of two factors. First, there was a decline in the net appreciation in the fair value of investments due to less favorable market conditions as explained above for the pension funds. The second factor was a 23.1% increase in health insurance premiums paid for the year (\$81.9 million compared to \$66.5 million).

## **PENSION FUND ACTIVITIES**

Member contributions increased (\$3.6 million). Retirement contributions are calculated by applying a percentage factor to salary and are paid in monthly by each member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit. During the year there was an increase in monthly contributions over the previous year due to the increase in salaries reported to Kentucky Retirement Systems. The number of elective service purchases remained relatively close to the prior year.

Employer contributions decreased (\$17.1 million). Even though salaries reported to Kentucky Retirement Systems increased (\$225 million), because four of the five pension funds experienced a decrease in the required employer contribution rate, employer contributions decreased to \$288.1 million compared to \$305.2 million. A portion (\$182.6 million) of the employer contributions was added to the insurance fund. Only \$105.5 million remained in the pension funds.

Net investment income decreased by 217.6% (loss of \$698.5 million compared to income of \$593.7 million). The primary cause of the reduction in net investment income between fiscal years is less appreciation in the fair value of investments for the year ended June 30, 2001 than for the year ended June 30, 2000. This can be illustrated as follows:

	<b>In Millions</b>
Appreciation in fair value of investments-June 30, 2001	\$420.7
Appreciation in fair value of investments-June 30, 2000	\$2,520.7
Net appreciation in fair value of investments	(\$2,100.0)
Investment income (net of investment expense)	\$408.6
Net gain on sale of investments	\$992.7
Investment income (net)-June 30, 2001	(\$698.5)

Program deductions increased by \$70.8 million caused principally by an increase of \$72 million in benefit payments. Retirees received an increase of 2.2% in benefits as of July 1, 2000. Also there was an increase of approximately 3300 members and beneficiaries on the retired payroll as of June 30, 2001. Refunds decreased by \$2.8 million.

Other deductions (net) decreased approximately \$180.9 million explained primarily by employer contributions no longer being deducted from the pension funds and added to the insurance fund. Employer contributions are now added directly to the insurance fund.

## INSURANCE FUND ACTIVITIES

Employer contributions paid into the insurance fund increased by \$2.3 million over the prior year. An increase in the amount of covered payroll (\$225 million) reported to Kentucky Retirement Systems is responsible for the increased employer contributions paid into the insurance fund.

Net investment income decreased by 170.4 % (loss of \$40.7 million compared to income of \$57.8 million). The primary cause of the reduction in net investment income between fiscal years is less appreciation in the fair value of investments for the year ended June 30, 2001 than for the year ended June 30, 2000. This can be illustrated as follows:

	<b>In Millions</b>
Appreciation in fair value of investments-June 30, 2001	\$65.1
Appreciation in fair value of investments-June 30, 2000	\$179.6
Net appreciation in fair value of investments	(\$114.5)
Investment income (net of investment expense)	\$31.1
Net gain on sale of investments	\$42.7
Investment Income (net)-June 30, 2001	(\$40.7)

Program deductions increased by \$15.8 million explained almost totally by an increase in payment of healthcare premiums of \$15.4 million. The health insurance program administrative fee increased from \$.3 million to \$.7 million.

## HISTORICAL TRENDS

Accounting standards require that the statement of plan net assets state asset value at **fair value** and include only benefits and refund due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the pension funds and insurance fund is provided in the Schedule of Funding Progress (on pages 36-46). The asset value stated in the Schedule of Funding Progress is the **actuarial value** of assets determined by calculating the difference between the expected valuation assets and the actual market value of assets adjusted for any unrecognized gains or losses and amortized over a five year period. The actuarial accrued liability is calculated using the entry age normal fund method.

The funding position of the pension funds continues to provide more than adequate assets to meet pension obligations. The insurance fund continues to have a large unfunded liability for all participating employee groups. However, the funded ratio for all employee groups participating in the pension funds and the insurance fund show a positive trend over the six-year period displayed.

Annual required contributions of the employers and contributions made by the employers in relation to the required contributions are provided in the Schedule of Employer Contributions (on pages 47-52). This schedule indicates that employers are generally meeting their responsibilities to provide resources to the plans.



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	<u>Pensions</u>	<u>2001 Post-Employment Healthcare</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Short Term Investments			
Cash	\$ 33,263	\$ 19,154	\$ 52,417
Short Term Investments	<u>1,833,669</u>	<u>188,046</u>	<u>2,021,715</u>
Total Cash and Short Term Investments	1,866,932	207,200	2,074,133
Receivables			
Investments - accounts receivable	820	82	902
Due from retirement fund			
Interest receivable - year end	58,287	2,658	60,945
Accounts receivable - year end	61,414	18,431	79,845
Accounts receivable - alternate plan	4,162	-	4,162
A/R - alternate plan - year end	<u>304</u>	<u>-</u>	<u>304</u>
Total receivables	<u>124,988</u>	<u>21,171</u>	<u>146,159</u>
Investments at fair value			
Corporate and government bonds	2,939,846	104,512	3,044,358
Corporate stocks	5,742,621	739,105	6,481,726
Mortgages	525,665	6,595	532,260
Real estate	<u>577,315</u>	<u>-</u>	<u>577,315</u>
Total investments at fair value	<u>9,785,447</u>	<u>850,212</u>	<u>10,635,659</u>
Securities lending collateral invested	<u>1,767,731</u>	<u>99,339</u>	<u>1,867,071</u>
Total assets	13,545,098	1,177,923	14,723,021
<b>LIABILITIES</b>			
Investments - accounts payable		108	108
Accounts payable	14,166		14,166
Due to insurance fund			
Securities lending collateral	<u>1,767,731</u>	<u>99,339</u>	<u>1,867,071</u>
Total Liabilities	<u>1,781,898</u>	<u>99,448</u>	<u>1,881,346</u>
Plan net assets held in trust for pension			
Benefits	<u>\$11,763,200</u>	<u>\$ 1,078,475</u>	<u>\$12,841,676</u>

(A schedule of funding progress for each plan is presented on pages 36-46)

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

KENTUCKY RETIREMENT SYSTEMS  
 COMBINED STATEMENTS OF PLAN NET ASSETS  
 As of June 30, 2001 and 2000  
 Expressed In Thousands

<u>Pensions</u>	<u>2000</u> Post-Employment <u>Healthcare</u>	<u>Total</u>
\$ <u>867,131</u>	\$ <u>85,503</u>	\$ <u>952,633</u>
867,131	85,503	952,633
282	10	292
	900	900
46,277	3,706	49,982
87,222	17,980	105,202
4,644	-	4,644
<u>327</u>	<u>-</u>	<u>327</u>
<u>138,752</u>	<u>22,596</u>	<u>161,347</u>
2,661,171	224,782	2,885,953
7,935,081	669,515	8,604,596
527,838	17,117	544,955
<u>590,310</u>	<u>-</u>	<u>590,310</u>
11,714,401	911,414	12,625,814
<u>302,677</u>	<u>1,979</u>	<u>304,656</u>
13,022,960	1,021,491	14,044,451
	191	191
35,385	130	35,515
900		900
<u>302,677</u>	<u>1,979</u>	<u>304,656</u>
<u>338,962</u>	<u>2,300</u>	<u>341,262</u>
<u>\$12,683,998</u>	<u>\$ 1,019,191</u>	<u>\$13,702,289</u>

	<u>Pensions</u>	<u>2001</u> Post-Employment <u>Healthcare</u>	<u>Total</u>
<b>ADDITIONS</b>			
Members contributions	\$ 250,239	\$ -	\$ 250,239
Employers contributions	<u>105,522</u>	<u>182,656</u>	<u>288,178</u>
Total contributions	355,761	182,656	538,417
<b>Investment Income:</b>			
From investing activities			
Net appreciation in fair value of investments	(1,107,218)	(71,873)	(1,179,090)
Interest	291,982	23,791	315,773
Dividends	109,057	6,458	115,516
Real estate operating income (Net)	<u>3,964</u>	<u>-</u>	<u>3,964</u>
Total investing activities income	(702,214)	(41,624)	(743,838)
Investment expense	<u>4,508</u>	<u>95</u>	<u>4,603</u>
Net income from investing activities	(706,722)	(41,719)	(748,441)
From securities lending activities			
Securities lending income	106,874	11,095	117,578
Securities lending expense:			
Custodial Fee	19		19
Security borrower rebate	96,171	9,892	106,063
Security lending agent fee	<u>2,520</u>	<u>240</u>	<u>2,760</u>
Net income from securities lending activities	8,165	962	9,126
Total net investment income	<u>(698,558)</u>	<u>(40,757)</u>	<u>(739,315)</u>
<b>TOTAL ADDITIONS</b>	<b>(342,796)</b>	<b>141,899</b>	<b>(200,897)</b>
<b>DEDUCTIONS</b>			
Benefit payments	549,120		549,120
Refunds	18,614		18,614
Administrative expenses	10,879	714	11,593
Healthcare premiums paid		81,901	81,901
Other deductions (Net)	<u>(612)</u>	<u>-</u>	<u>(612)</u>
<b>TOTAL DEDUCTIONS</b>	<b><u>578,001</u></b>	<b><u>82,615</u></b>	<b><u>660,616</u></b>
Net increase	(920,797)	59,284	(861,513)
<b>Plan net assets held in trust for pension benefits and post-employment benefits</b>			
Beginning of year	12,683,998	1,019,191	13,703,189
Prior period adjustment (Note K)	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$11,763,201</u>	<u>\$ 1,078,475</u>	<u>\$12,841,676</u>

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

KENTUCKY RETIREMENT SYSTEMS  
 COMBINED STATEMENTS OF CHANGES IN PLAN NET ASSETS  
 For The Years Ended June 30, 2001 and 2000

Expressed In Thousands

<u>Pensions</u>	<u>2000</u> Post-Employment <u>Healthcare</u>	<u>Total</u>
\$ 246,563	\$ -	\$ 246,563
<u>305,231</u>	<u>180,350</u>	<u>485,581</u>
551,794	180,350	732,144
210,243	31,230	241,473
244,948	17,624	262,572
99,348	8,819	108,167
<u>40,600</u>	<u>-</u>	<u>40,600</u>
595,139	57,673	652,812
<u>5,082</u>	<u>83</u>	<u>5,164</u>
590,057	57,590	647,648
105,560	5,522	111,082
324	-	324
99,421	5,223	104,643
<u>2,455</u>	<u>119</u>	<u>2,575</u>
3,360	179	3,539
<u>593,417</u>	<u>57,770</u>	<u>651,187</u>
1,145,211	238,120	1,383,331
476,610	-	476,610
21,369	-	21,369
9,772	331	10,103
-	66,487	66,487
<u>180,345</u>	<u>-</u>	<u>180,345</u>
<u>688,095</u>	<u>66,818</u>	<u>754,914</u>
457,116	171,302	628,417
12,226,898	847,874	13,074,772
<u>(15)</u>	<u>15</u>	<u>-</u>
<u>\$12,683,998</u>	<u>\$ 1,019,191</u>	<u>\$13,703,189</u>

ASSETS	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
Cash and short-term investments		
Cash	\$ 5,339	\$ 11,356
Short-term investments	<u>52,255</u>	<u>797,007</u>
Total cash and short-term investments	57,593	808,363
Receivables		
Investments - accounts receivable	28	314
Interest receivable - year end	1,476	27,459
Accounts receivable - year end	1,675	26,343
Accounts receivable - alternate plan		
A/R - alternate plan - year end	<u>-</u>	<u>-</u>
Total receivables	3,178	54,116
Investments at fair value		
Corporate and government bonds	72,139	1,399,392
Corporate stocks	140,120	2,714,016
Mortgages	12,089	256,644
Real estate	<u>20,700</u>	<u>256,984</u>
Total investments at fair value	245,048	4,627,036
Securities lending collateral invested	<u>45,784</u>	<u>824,647</u>
Total assets	351,604	6,314,162
LIABILITIES		
Accounts payable	276	4,952
Securities lending collateral	<u>45,784</u>	<u>824,647</u>
Total liabilities	<u>46,060</u>	<u>829,599</u>
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 305,544</u>	<u>\$ 5,484,564</u>

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

KENTUCKY RETIREMENT SYSTEMS  
 COMBINING STATEMENTS OF PLAN NET ASSETS  
 PENSION FUNDS  
 June 30, 2001 and 2000

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2001 TOTAL</u>	<u>2000 TOTAL</u>
\$ 4,070	\$ 11,404	\$ 1,095	\$ 33,263	\$ -
<u>199,808</u>	<u>739,534</u>	<u>45,064</u>	<u>1,833,669</u>	<u>867,131</u>
203,878	750,939	46,159	1,866,932	867,131
99	368	11	820	282
5,889	21,637	1,826	58,287	46,277
7,173	24,987	1,236	61,414	87,222
2,306	1,856		4,162	4,644
<u>177</u>	<u>127</u>	<u>-</u>	<u>304</u>	<u>327</u>
15,644	48,976	3,073	124,988	138,752
293,187	1,081,551	93,577	2,939,846	2,661,171
585,237	2,116,660	186,588	5,742,621	7,935,081
50,538	189,332	17,061	525,665	527,838
<u>64,547</u>	<u>216,190</u>	<u>18,893</u>	<u>577,315</u>	<u>590,310</u>
993,509	3,603,733	316,120	9,785,447	11,714,401
<u>181,723</u>	<u>660,601</u>	<u>54,976</u>	<u>1,767,731</u>	<u>302,677</u>
1,394,754	5,064,249	420,329	13,545,098	13,022,960
1,877	6,302	761	14,166	35,385
<u>181,723</u>	<u>660,601</u>	<u>54,976</u>	<u>1,767,731</u>	<u>302,677</u>
<u>183,599</u>	<u>666,903</u>	<u>55,737</u>	<u>1,781,898</u>	<u>338,962</u>
<u>\$1,211,155</u>	<u>\$ 4,397,347</u>	<u>\$ 364,592</u>	<u>\$11,763,200</u>	<u>\$12,683,998</u>

	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
<b>ADDITIONS</b>		
Members contributions	\$ 10,577	\$ 106,648
Employers contributions	<u>10,627</u>	<u>23,482</u>
Total contributions	21,203	130,130
<b>INVESTMENT INCOME</b>		
From Investing Activities		
Net appreciation in fair value of investments	(19,341)	(549,461)
Interest	8,237	134,627
Dividends	2,722	51,229
Real estate operating income (Net)	<u>41</u>	<u>2,209</u>
Total investing activity income	(8,341)	(361,396)
Investment expense	<u>109</u>	<u>2,141</u>
Net income from investing activities	(8,449)	(363,537)
From securities lending activities		
Securities lending income	5,115	37,814
Securities lending expense:		
Custodial fee	1	7
Security borrower rebates	4,603	34,027
Security lending agent fees	<u>121</u>	<u>892</u>
Net income from securities lending activities	<u>391</u>	<u>2,889</u>
Total net investment income	<u>(8,059)</u>	<u>(360,648)</u>
<b>TOTAL ADDITIONS</b>	13,145	(230,518)
<b>DEDUCTIONS</b>		
Benefit payments	7,996	291,704
Refunds	1,253	6,968
Administrative expenses	302	3,826
Other deductions (Net)	<u>(29)</u>	<u>(125)</u>
Total deductions	<u>9,522</u>	<u>302,374</u>
Net increase	3,623	(532,892)
<b>PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of Year	301,920	6,017,456
Prior Period Adjustment (Note J)	<u>-</u>	<u>-</u>
End of year	<u>\$ 305,544</u>	<u>\$ 5,484,564</u>

The accompanying notes are an integral part of these financial statements



KENTUCKY RETIREMENT SYSTEMS  
 COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS  
 PENSION FUNDS  
 June 30, 2001 and 2000

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2001 TOTAL</u>	<u>2000 TOTAL</u>
\$ 27,279	\$ 101,597	\$ 4,138	\$ 250,239	\$ 246,563
<u>20,983</u>	<u>48,914</u>	<u>1,516</u>	<u>105,522</u>	<u>305,231</u>
48,263	150,511	5,654	355,761	551,794
(101,236)	(395,343)	(41,837)	(1,107,218)	210,243
30,260	110,690	8,168	291,982	244,948
11,170	40,273	3,663	109,057	490,248
<u>335</u>	<u>1,197</u>	<u>181</u>	<u>3,964</u>	<u>40,600</u>
(59,470)	(243,182)	(29,826)	(702,214)	595,139
<u>462</u>	<u>1,646</u>	<u>150</u>	<u>4,508</u>	<u>5,082</u>
(59,933)	(244,828)	(29,975)	(706,722)	590,057
13,683	48,707	1,556	106,874	105,560
2	9		19	324
12,312	43,829	1,400	96,171	99,421
<u>323</u>	<u>1,148</u>	<u>37</u>	<u>2,520</u>	<u>2,455</u>
<u>1,045</u>	<u>3,721</u>	<u>119</u>	<u>8,165</u>	<u>3,360</u>
(58,887)	(241,107)	(29,856)	(698,558)	593,417
(10,625)	(90,596)	(24,202)	(342,796)	1,145,211
56,520	170,256	22,644	549,120	476,610
1,319	8,994	80	18,614	21,369
512	6,174	64	10,879	9,772
<u>(194)</u>	<u>(213)</u>	<u>(52)</u>	<u>(612)</u>	<u>180,345</u>
<u>58,157</u>	<u>185,212</u>	<u>22,737</u>	<u>578,001</u>	<u>688,095</u>
(68,782)	(275,808)	(46,939)	(920,797)	457,116
1,279,936	4,673,154	411,531	12,683,998	12,226,897
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 15)</u>
<u>\$1,211,155</u>	<u>\$ 4,397,347</u>	<u>\$364,592</u>	<u>\$11,763,200</u>	<u>\$12,683,998</u>

	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
<b>ASSETS</b>		
Cash and short-term investments		
Cash	\$ 1,356	\$ 6,955
Short-term investments	<u>21,935</u>	<u>64,427</u>
Total cash and short-term investments	23,291	71,383
Receivables		
Investments - accounts receivable	10	27
Due from Retirement Fund	-	-
Interest receivable - year end	255	989
Accounts receivable - year end	1,128	6,082
Accounts receivable – alternate plan	-	-
A/R – alternate plan – year end	<u>-</u>	<u>-</u>
Total receivables	1,393	7,098
Investments, at fair value		
Corporate and government bonds	10,260	38,850
Corporate stocks	72,392	276,317
Mortgages	<u>265</u>	<u>2,642</u>
Total investments, at fair value	82,917	317,809
Security lending collateral invested	<u>9,974</u>	<u>36,567</u>
Total assets	117,575	432,857
<b>LIABILITIES</b>		
Accounts payable	9	36
Deferred premium	-	-
Securities lending collateral	<u>9,974</u>	<u>36,567</u>
Total liabilities	<u>9,982</u>	<u>36,603</u>
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 107,592</u>	<u>\$ 396,254</u>

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND  
 COMBINING STATEMENTS OF PLAN NET ASSETS  
 POSTEMPLOYMENT HEALTHCARE  
 June 30, 2001 and 2000

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2001 TOTAL</u>	<u>2000 TOTAL</u>
\$ 3,300	\$ 6,709	\$ 834	\$ 19,154	\$ -
<u>31,695</u>	<u>58,219</u>	<u>11,770</u>	<u>188,046</u>	<u>85,503</u>
34,995	64,928	12,604	207,200	85,503
14	26	5	82	10
427	810	178	2,658	900
3,292	7,240	689	18,431	3,706
-	-	-	-	17,980
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3,733	8,076	872	21,171	22,596
16,696	31,686	7,019	104,512	224,782
117,104	224,402	48,890	739,105	669,515
<u>1,124</u>	<u>2,017</u>	<u>547</u>	<u>6,595</u>	<u>17,117</u>
134,924	258,105	56,457	850,212	911,414
<u>15,964</u>	<u>30,348</u>	<u>6,487</u>	<u>99,339</u>	<u>1,979</u>
189,615	361,457	76,419	1,177,923	1,021,492
15	42	7	108	191
<u>15,964</u>	<u>30,348</u>	<u>6,487</u>	<u>99,339</u>	<u>130</u>
15,979	30,390	6,493	99,448	1,979
<u>15,979</u>	<u>30,390</u>	<u>6,493</u>	<u>99,448</u>	<u>2,300</u>
<u>\$ 173,636</u>	<u>\$ 331,067</u>	<u>\$ 69,926</u>	<u>\$ 1,078,475</u>	<u>\$ 1,019,191</u>

	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
<b>ADDITIONS</b>		
Employers contributions	\$ 13,226	\$ 66,875
Total contributions	13,226	66,875
<b>INVESTMENT INCOME</b>		
From Investing Activities		
Net appreciation in fair value of investments	(6,011)	(27,776)
Interest	2,364	8,790
Dividends	<u>632</u>	<u>2,423</u>
Total income from investing activities	<u>(3,015)</u>	<u>(16,563)</u>
Investment activities expense	<u>9</u>	<u>36</u>
Net investment activities income	(3,023)	(16,599)
From securities lending activities		
Securities lending income	1,587	3,535
Securities lending expense:		
Security borrower rebates	1,415	3,153
Security lending agent fees	<u>34</u>	<u>77</u>
Net income from securities lending activities	<u>138</u>	<u>306</u>
Total net investment income	<u>(2,886)</u>	<u>(16,293)</u>
Total additions	10,341	50,582
<b>DEDUCTIONS</b>		
Healthcare premiums subsidies	1,984	37,301
Administrative fees	<u>25</u>	<u>308</u>
Total deductions	<u>2,009</u>	<u>37,609</u>
Net increase	8,332	12,973
<b>PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	99,260	383,281
Prior Period Adjustment	<u>-</u>	<u>-</u>
End of year	<u>\$ 107,592</u>	<u>\$ 396,254</u>

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND  
 COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS  
 POSTEMPLOYMENT HEALTHCARE  
 June 30, 2001 and 2000

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2001 TOTAL</u>	<u>2000 TOTAL</u>
\$ 32,149	\$ 62,292	\$ 8,113	\$ 182,656	\$ 180,350
32,149	62,292	8,113	182,656	180,350
(11,688)	(20,291)	(6,107)	(71,873)	31,230
3,948	7,100	1,589	23,791	17,624
<u>1,000</u>	<u>1,963</u>	<u>440</u>	<u>6,548</u>	<u>8,819</u>
<u>(6,740)</u>	<u>(11,228)</u>	<u>(4,077)</u>	<u>(41,624)</u>	<u>57,673</u>
<u>15</u>	<u>29</u>	<u>7</u>	<u>95</u>	<u>83</u>
(6,756)	(11,257)	(4,084)	(41,719)	57,590
2,231	3,106	636	11,095	5,522
1,989	2,769	567	9,892	5,223
<u>48</u>	<u>67</u>	<u>14</u>	<u>240</u>	<u>119</u>
<u>193</u>	<u>269</u>	<u>55</u>	<u>962</u>	<u>179</u>
<u>(6,562)</u>	<u>(10,988)</u>	<u>(4,029)</u>	<u>(40,757)</u>	<u>57,770</u>
25,587	51,305	4,085	141,899	238,120
11,531	27,539	3,547	81,901	66,487
<u>109</u>	<u>244</u>	<u>28</u>	<u>714</u>	<u>331</u>
<u>11,640</u>	<u>27,783</u>	<u>3,575</u>	<u>82,615</u>	<u>66,818</u>
13,948	23,521	510	59,284	171,302
159,688	307,545	69,416	1,019,191	847,874
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15</u>
<u>\$ 173,636</u>	<u>\$ 331,067</u>	<u>\$ 69,926</u>	<u>\$ 1,078,475</u>	<u>\$ 1,019,191</u>

Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) Kentucky Employees Retirement System (KERS); (2) County Employees Retirement System (CERS); and (3) State Police Retirement System (SPRS). KRS maintains separate accounting records for five insurance funds which also includes hazardous duty members of the Kentucky Employees and County Employees Retirement Systems. The assets of the various insurance funds are commingled for investment purposes. Legal counsel has advised there is no statutory authority to use the assets of one insurance fund to pay the liabilities of another insurance fund. The following notes apply to the various funds administered by Kentucky Retirement Systems.

**NOTE A. Summary of Significant Accounting Policies**

Basis of Accounting - KRS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

Component Unit - Kentucky Retirement Systems is a component unit of the Commonwealth of Kentucky. As such, the Commonwealth of Kentucky is the primary government in whose financial reporting entity The System is included.

The Kentucky Employees Retirement System was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.515. The County Employees Retirement System was created by the Kentucky General Assembly pursuant to the provisions of KRS 78.520. The State Police Retirement System was created by the Kentucky General Assembly pursuant to the provisions of KRS 16.510. The Kentucky Retirement Systems Insurance Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701. The Retirement Systems' and Insurance Fund's administrative budget is subject to approval by the Kentucky General Assembly. Employer contribution rates for KERS and SPRS are also subject to legislative approval. Employer contribution rates for CERS are determined by the Systems' Board of Trustees without further legislative review. The methods used to determine the employer rates for all Retirement Systems are specified in KRS 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Expense Allocation - Administrative and investment expenses of the Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
For The Years Ended June 30, 2001 and 2000

**NOTE B. Plan Descriptions and Contribution Information**

Membership of each Retirement plan consisted of the following at June 30, 2001 and 2000, the date of the latest actuarial valuation:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	<u>2000</u>			<u>2001</u>		
	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>
<u>Number of Members</u>						
Retirees and beneficiaries						
receiving benefits	23,760	924	24,684	25,118	1,053	26,171
Terminated plan members - vested	3,073	113	3,186	3,312	123	3,435
Terminated plan members - non-vested	11,886	646	12,532	13,429	799	14,228
Active plan members	<u>46,897</u>	<u>4,007</u>	<u>50,904</u>	<u>47,780</u>	<u>4,228</u>	<u>52,008</u>
Total	<u>85,616</u>	<u>5,690</u>	<u>91,306</u>	<u>89,639</u>	<u>6,203</u>	<u>95,842</u>
Number of participating employers			391			408

COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>2000</u>			<u>2001</u>		
	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>
<u>Number of Members</u>						
Retirees and beneficiaries						
receiving benefits	22,708	2,984	25,692	24,415	3,221	27,636
Terminated plan members - vested	3,500	112	3,612	4,080	148	4,228
Terminated plan members - non-vested	20,512	339	20,851	24,276	462	24,738
Active plan members	<u>77,419</u>	<u>7,951</u>	<u>85,370</u>	<u>78,773</u>	<u>8,586</u>	<u>87,359</u>
Total	<u>124,139</u>	<u>11,386</u>	<u>135,525</u>	<u>131,544</u>	<u>12,417</u>	<u>143,961</u>
Number of participating employers			1,218			1,297

STATE POLICE RETIREMENT SYSTEM

	<u>2000</u>		<u>2001</u>	
	Hazardous Position <u>Employees</u>		Hazardous Position <u>Employees</u>	
<u>Number of Members</u>				
Retirees and beneficiaries receiving benefits		797		842
Terminated plan members - vested		9		12
Terminated plan members - non-vested		69		78
Active plan members		<u>1,023</u>		<u>1,016</u>
Total		<u>1,898</u>		<u>1,948</u>
Number of participating employers		1		1

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts in force consisted of the following at June 30, 2001 and 2000, the date of the latest actuarial valuation:

	<u>2000</u>					<u>2001</u>				
	<u>Single</u>	<u>Couple/ Family</u>	<u>Parent +</u>	<u>Regular</u>	<u>High</u>	<u>Single</u>	<u>Couple/ Family</u>	<u>Parent +</u>	<u>Regular</u>	<u>High</u>
KERS Non-Hazardous	4,619	955	295	1,802	10,869	5,199	1,070	346	1,818	11,107
KERS Hazardous	268	175	37	43	375	302	185	51	52	420
CERS Non-Hazardous	3,813	745	186	2,035	8,341	4,215	791	204	2,212	8,974
CERS Hazardous	775	1,243	173	23	609	869	1,267	202	32	694
SPRS	<u>178</u>	<u>347</u>	<u>38</u>	<u>8</u>	<u>264</u>	<u>194</u>	<u>350</u>	<u>47</u>	<u>8</u>	<u>278</u>
Totals	9,653	3,465	729	3,911	20,458	10,779	3,663	850	4,122	21,473

**NOTE B. Plan Descriptions and Contribution Information (Continued)**

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

**Non-Hazardous Employees Pension Plan**

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in the System. 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. Cost-of-living (COLA) adjustments are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgement the welfare of the Commonwealth so demands.

Contributions - For the years ended June 30, 2001 and 2000, plan members were required to contribute 5% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2001 and 2000, the State contributed 5.89% and 8.03% respectively of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2001 and 2000 was 5.89% and 8.03% respectively of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

**Hazardous Employees Pension Plan**

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that cover substantially all regular full-time members employed in hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in the System. 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. Cost-of-living (COLA) adjustments are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgement the welfare of the Commonwealth so demands.

Contributions - For the years ended June 30, 2001 and 2000, plan members were required to contribute 8% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2001 and 2000, the State contributed 18.84% and 18.66% respectively of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2001 and 2000 was 18.84% and 18.66% respectively, of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.



**NOTE B. Plan Descriptions and Contribution Information (Continued)**

COUNTY EMPLOYEES RETIREMENT SYSTEM

**Non-Hazardous Employees Pension Plan**

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 2001 and 2000, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 2001 and 2000, participating employers contributed 6.34% and 7.28%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2001 and 2000 was 6.34% and 7.28%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**Hazardous Employees Pension Plan**

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. 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. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 2001 and 2000, plan members were required to contribute 8% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 2001 and 2000, participating employers contributed 16.28% and 17.55%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2001 and 2000 was 16.28% and 17.55%, respectively, of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

**NOTE B. Plan Descriptions and Contribution Information (Continued)**

STATE POLICE RETIREMENT SYSTEM

Plan Description - SPRS is a single-employer defined benefit pension plan that covers all full-time State Troopers employed in a hazardous duty position by the Kentucky State Police. 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. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 2001 and 2000, plan members were required to contribute 8% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2001 and 2000, the State contributed 21.58% and 23.41% respectively of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2001 and 2000 was 21.58% and 23.41%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the year insurance premiums withheld from benefit payments to members of the Systems approximated \$17,193,475 and \$369,916 for KERS and KERS hazardous, respectively, \$16,732,837 and \$1,328,687 for CERS and CERS hazardous, respectively, and \$292,648 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 2001 the Fund had 54,649 retirees and beneficiaries for whom benefits were available.

The amount of contribution paid by the Fund is based on years of service with the Systems. Years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Percent Paid by Insurance Fund</u>
20 or More	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less Than 4	0%

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed.

In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years. The increases commenced with the 1997 valuation and adjustments will be made every other valuation year to coincide with the valuation used by the General Assembly to establish employer contribution rates for the biennium.

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
For The Years Ended June 30, 2001 and 2000

**NOTE C. Cash and Short-Term Investments and Securities Lending Collateral**

The provisions of Governmental Accounting Standards Board Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions" require that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets on the financial statements. In conjunction with the adoption of Governmental Accounting Standard No. 28, the System has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	<u>2001</u>	<u>2000</u>
Cash, uninsured, unregistered & uncollateralized	\$ -	\$ -
Miscellaneous cash	16,694,421	47
Short-Term Investment Pool	870,430,971	139,651,805
Short-Term Investments	849,261,657	-
Repurchase agreements purchased with cash collateral	-	13,680,024
Other repurchase agreements	-	<u>400,995,739</u>
Total	<u>\$1,736,387,049</u>	<u>\$554,327,568</u>

COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>2001</u>	<u>2000</u>
Cash, uninsured, unregistered & uncollateralized	\$ -	\$ -
Miscellaneous Cash	15,474,032	-
Short-Term Investment Pool	842,324,041	128,053,183
Short-Term Investments	939,342,782	-
Repurchase agreements purchased with cash collateral	-	12,550,439
Other repurchase agreements	-	<u>442,896,850</u>
Total	<u>\$1,797,140,855</u>	<u>\$583,500,472</u>

STATE POLICE RETIREMENT SYSTEM

	<u>2001</u>	<u>2000</u>
Cash, uninsured, unregistered & uncollateralized	\$ -	\$ -
Miscellaneous Cash	1,094,951	-
Short-Term Investment Pool	54,976,448	7,796,698
Short-Term Investments	45,064,222	-
Repurchase agreements purchased with cash collateral	-	944,577
Other repurchase agreements	-	<u>23,238,262</u>
Total	<u>\$101,135,621</u>	<u>\$ 31,979,537</u>

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	<u>2001</u>	<u>2000</u>
Cash, uninsured, unregistered & uncollateralized	\$ -	\$ -
Miscellaneous Cash	19,154,421	-
Short-Term Investments	188,046,064	-
Repurchase agreements purchased with cash collateral	-	1,979,372
Other repurchase agreements	-	<u>85,502,549</u>
Total	<u>\$ 207,200,485</u>	<u>\$ 87,481,921</u>

**NOTE D. Investments**

The Board of Trustees of the Retirement Systems and Insurance Fund give priority to the investment of funds in obligations considered to improve the industrial development and enhance the economic welfare of the Commonwealth. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

Equity Investments - Investments may be made in common stock, securities convertible into common stock and in preferred stock of publicly traded corporations.

Fixed Income Investments - Publicly traded bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may be made in any debt instrument issued or guaranteed in whole or in part by the U.S. Government or any agency or instrumentality of the U.S. Government.

Mortgages - Investment may be made in real estate mortgages on a direct basis or in the form of mortgage pool instruments guaranteed by an agency of the U.S. Government or the Commonwealth of Kentucky.

Alternative Investments/Equity Real Estate – Subject to the specific approval of the investment committee of the board of trustees, investments may be made for the purpose of creating a diversified portfolio of income-producing properties of publicly or privately traded real estate securities with moderate to low levels of risk. In the construction of the equity real estate portfolio, the board of trustees requires diversification as to the location, age, type, purpose, and cost of holdings. In certain situations where the return appears to justify the investment, the board may invest in other real estate or alternative investments including, without limitation, venture capital, private equity and private placements which the investment committee believes has excellent potential to generate income and which may have a higher degree of risk. However, such investments shall not represent more than 2% of the entire portfolio and shall be undertaken only after approval of the board.

Mutual Fund Investments - Investments may be made in mutual funds which hold common stocks or fixed income securities.

Cash Equivalent Securities - The following short-term investment vehicles are considered acceptable:

Publicly traded investment grade corporate bonds, government and agency bonds, mortgages, and collective STIF's, money market funds or instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper) and repurchase agreements relating to the above instruments. Instruments may be selected from among those having a BBB or better rating by at least one recognized bond rating service. All instruments shall have a maturity at the time of purchase that does not exceed two years; notwithstanding the maturity of individual instruments, collective STIF's and money market funds shall have an average maturity not to exceed 91 days. Repurchase agreements shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur.

Derivatives – Investments may be made in derivative securities, or strategies which make use of derivative instruments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position. Investments in derivative securities which are subject to large or unanticipated changes in duration or cash flow, such as interest only (IO), principal only (PO), inverse floater, or structured note securities are expressly prohibited.

The Retirement Systems and Insurance Fund invest in collateral mortgage obligations (CMOs) and other asset-backed securities to increase return and adjust duration of the portfolio. The Systems and the Fund invest in exchange-traded funds to convert cash held in index funds to short-term equity investments. This practice is intended to make the performance of the index funds more closely track the performance of the index that the funds are intended to replicate.

**Note D: Investments (continued)**

Derivatives (continued)

Collateral mortgage obligations, asset-backed securities, and exchange-traded funds pose no greater risk than other similar investment grade holdings in the Systems' and the Fund's portfolios. The fair value of CMOs at June 30, 2001 and 2000 was approximately \$135 million and \$29 million respectively; the fair value of asset-backed securities at June 30, 2001 and 2000 was approximately \$263 million and \$428 million respectively; and the fair value of exchange-traded funds at June 30, 2001 and 2000 was approximately \$33 million and \$182 million respectively.

The Retirement Systems' and Insurance Fund's investments are categorized below to give an indication of the level of risk assumed by them at June 30, 2001 and 2000. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the Systems and Fund with the simultaneous receipt of cash collateral. The custodial agent purchases securities with the cash collateral in accordance with the Systems' and Fund's *Statement of Investment Policy*. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of Kentucky Retirement Systems. At June 30, 2001, the systems had a second agent who also loans securities owned by the systems with the simultaneous receipt of cash collateral. The second custodial agent invests cash collateral in a short-term investment pool that holds only U.S. dollar cash and U.S. securities.

**Note D: Investments (continued)**

## KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Investments - Categorized	<u>2001</u>			Market Value
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	
U.S. Government Securities	\$ 251,035,661	\$ -	\$ 10,107,139	\$ 261,142,799
Loaned for securities collateral	124,804,102			124,804,102
Corporate bonds	591,171,106		11,341,877	602,512,983
Loaned for securities collateral	9,310,764			9,310,764
Corporate stocks	2,479,798,756			2,479,798,756
Loaned for securities collateral	222			222
Short-term investments	<u>849,261,657</u>	<u>-</u>	<u>-</u>	<u>849,261,657</u>
Subtotal	\$4,305,382,268	\$ -	\$ 21,449,016	\$4,326,831,283
Investments - Not Categorized				
Short Term Investment Pool				\$ 870,430,971
Investments held by broker-dealers under securities loans				
U.S. Government Securities				414,965,006
Corporate bonds				58,795,295
Corporate stocks				374,337,005
Mortgages				268,732,891
Real Estate Investment				<u>277,684,389</u>
Total Investments				<u>\$6,591,776,840</u>
			<u>2000</u>	
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	Market Value
U.S. Government Securities	\$ 634,485,980	\$ -	\$ -	\$ 634,485,980
Loaned for securities collateral				
Corporate bonds	686,321,643			686,321,643
Loaned for securities collateral				
Corporate stocks	3,843,236,881			3,843,236,881
Loaned for securities collateral	345,323			345,323
Repurchase agreements	<u>400,995,739</u>	<u>-</u>	<u>13,680,024</u>	<u>414,675,763</u>
Subtotal	\$5,565,385,566	\$ 0	\$ 13,680,024	\$5,579,065,590
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				139,651,805
U.S. Government Securities				
Corporate bonds				
Corporate stocks				149,717,539
Mortgages				270,145,672
Real Estate Investment				<u>286,933,699</u>
Total Investments				<u>\$6,425,514,305</u>

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Years Ended June 30, 2001 and 2000

Note D: Investments (continued)

COUNTY EMPLOYEES RETIREMENT SYSTEM  
2001

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Market Value</u>
Investments - Categorized				
U.S. Government Securities	\$ 216,449,214	\$ -	\$ 9,442,356	\$ 225,891,570
Loaned for securities collateral	120,774,075			120,774,075
Corporate bonds	550,004,359		10,477,937	560,600,168
Loaned for securities collateral	9,010,112			9,010,112
Corporate stocks	2,339,647,418			2,339,647,418
Loaned for securities collateral	214			214
Short-term investments	<u>939,342,782</u>	<u>-</u>	<u>-</u>	<u>939,342,782</u>
Subtotal	\$4,175,228,174	\$ -	\$ 20,038,165	\$4,195,266,339
Investments - Not Categorized				
Short-Term Investment Pool				842,324,041
Investments held by broker-dealers under securities loans				
U.S. Government Securities				401,565,445
Corporate bonds				58,896,746
Corporate stocks				362,249,356
Mortgages				239,870,634
Real Estate Investment				<u>280,736,876</u>
Total Investments				<u>\$6,378,909,438</u>

2000

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Market Value</u>
Investments - Categorized				
U.S. Government Securities	\$ 613,809,633	\$ -	\$ -	\$ 13,809,633
Loaned for securities collateral				
Corporate bonds	649,161,998			649,161,998
Loaned for securities collateral				
Corporate stocks	3,528,716,054			3,528,716,054
Loaned for securities collateral	316,642			316,642
Repurchase agreements	<u>442,896,850</u>	<u>-</u>	<u>12,550,439</u>	<u>445,447,289</u>
Subtotal	\$5,234,901,177	\$ 0	\$ 12,550,439	\$5,247,451,616
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				128,053,183
U.S. Government Securities				
Corporate bonds				
Corporate stocks				137,289,538
Mortgages				239,916,469
Real Estate Investment				<u>283,815,607</u>
Total Investments				<u>\$6,036,526,413</u>

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
For The Years Ended June 30, 2001 and 2000

**Note D: Investments (continued)**

STATE POLICE RETIREMENT SYSTEM

				<u>2001</u>	
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Market Value</u>	
U.S. Government Securities	\$ 16,196,830	\$ -	\$ 642,732	\$ 16,839,562	
Loaned for securities collateral	7,882,631			7,882,631	
Corporate bonds	37,622,945		721,233	38,344,178	
Loaned for securities collateral	588,068			588,068	
Corporate stocks	162,945,265			162,945,265	
Loaned for securities collateral	14			14	
Short-term investments	<u>45,064,222</u>	<u>-</u>	<u>-</u>	<u>45,064,222</u>	
Subtotal	\$ 270,299,976	\$ -	\$ 1,363,966	\$ 271,663,942	
Investments - Not Categorized					
Short-Term Investment Pool				54,976,448	
Investments held by broker-dealers under securities loans					
U.S. Government Securities				26,209,203	
Corporate bonds				3,713,513	
Corporate stocks				23,643,137	
Mortgages				17,061,141	
Real Estate Investment				<u>18,893,323</u>	
Total Investments				<u>\$ 416,160,708</u>	
				<u>2000</u>	
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Market Value</u>	
U.S. Government Securities	\$ 32,384,494	\$ -	\$ -	\$32,384,494	
Loaned for securities collateral					
Corporate bonds	41,817,385			41,817,385	
Loaned for securities collateral					
Corporate stocks	266,899,568			266,899,568	
Loaned for securities collateral	19,280			19,280	
Repurchase agreements	<u>23,238,262</u>	<u>-</u>	<u>944,577</u>	<u>24,182,839</u>	
Subtotal	\$ 364,358,989	\$ 0	\$ 944,577	\$ 365,303,566	
Investments - Not Categorized					
Investments held by broker-dealers under securities loans				7,796,698	
U.S. Government Securities					
Corporate bonds					
Corporate stocks				8,540,127	
Mortgages				17,124,139	
Real Estate Investment				<u>19,560,901</u>	
Total Investments				<u>\$ 418,325,431</u>	



KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Years Ended June 30, 2001 and 2000

**Note D: Investments (continued)**

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	<u>2001</u>			<u>Market Value</u>
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	
U.S. Government Securities	\$ 64,843,456	\$ -	\$ -	\$ 64,843,456
Loaned for securities collateral				
Corporate bonds	1,843,891			1,843,891
Loaned for securities collateral				
Corporate stocks	681,320,455			681,320,435
Loaned for securities collateral				
Short-term investments	<u>188,046,064</u>	<u>-</u>	<u>-</u>	<u>188,046,064</u>
Subtotal	\$ 936,053,866	\$ -	\$ -	\$ 936,053,866
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				99,339,376
U.S. Government Securities				37,824,200
Corporate bonds				
Corporate stocks				57,784,278
Mortgages				<u>6,595,407</u>
Total Investments				<u>\$1,137,597,128</u>
	<u>2000</u>			<u>Market Value</u>
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	
U.S. Government Securities	\$ 116,859,452	\$ -	\$ -	\$ 116,859,452
Loaned for securities collateral				
Corporate bonds	107,649,776			107,649,776
Loaned for securities collateral				
Corporate stocks	667,540,279			667,540,279
Loaned for securities collateral				
Repurchase agreements	<u>85,502,549</u>	<u>-</u>	<u>1,979,372</u>	<u>87,481,921</u>
Subtotal	\$ 977,552,056	\$ 0	\$ 1,979,372	\$ 979,531,428
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				
Corporate bonds				
Corporate stocks				1,974,710
Mortgages				<u>17,116,661</u>
Total Investments				<u>\$ 998,622,799</u>

**NOTE E. SECURITIES LENDING TRANSACTIONS**

Kentucky Revised Statutes Sections 61.650 and 386.020(2) permit the Retirement Systems and Insurance Fund to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the Systems' and the Fund's custodial banks either cash collateral or other securities with a market value of 102 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. Securities lent for cash collateral are presented as unclassified above in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the securities loaned. At year-end, the Systems and Fund have no credit risk exposure to borrowers because the amounts the Systems and Fund owe to borrowers exceed the amounts the borrowers owe the Systems and Fund. The contracts with the custodial banks require them to indemnify the Systems or the Fund if the borrowers fail to return the securities and one or both of the custodial banks have failed to live up to their contractual responsibilities relating to the lending of securities.

All securities loans can be terminated on demand by either party to the transaction, although the average term of the loans was 6 days, 10 days, and 24 days for the three investment portfolios subject to security lending agreements. One custodial bank invests cash collateral in securities that are permitted for investment by state statute and board policy, which at year-end has a weighted-average maturity of 3 days for the Retirement Systems and the Insurance Fund. The other custodial bank invests cash collateral in the agent's short term investment pool as permitted by state statute and Board policy, which at year-end has a weighted-average maturity of 24 days for the Retirement Systems only. Neither the Systems nor the Fund can pledge or sell collateral securities received unless the borrower defaults.

**NOTE F. RISKS OF LOSS**

The Systems are exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of negligence of the agency or any of its employees. Awards are limited to \$100,000 for a single claim and \$250,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

Claims against the Board of Trustees of Kentucky Retirement Systems or any of its staff as result of actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$25,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66 2/3%) of wages for temporary disability. Each agency pays premiums based on fund reserves and payroll.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. Settlements did not exceed insurance coverage in any of the past three fiscal years. There were no claims which were appealed to the Kentucky Workers Compensation Board.

**NOTE G. CONTINGENCIES**

In the normal course of business, the Retirement Systems and Insurance Fund are involved in various litigation concerning the right of participants or their beneficiaries to receive benefits. The System does not anticipate any material losses as a result of the contingent liabilities.

**NOTE H. INCOME TAX STATUS**

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax under income tax law.

**NOTE J. CHANGE IN ACCOUNTING ESTIMATE**

As of July 1, 2000, the Systems entered into a Master Custody Agreement with Northern Trust Corporation. The Master Custody Agreement changed the way the Systems hold assets in the investment portfolio. Asset ownership had been an indication of individual security ownership. Under the Master Custody Agreement, asset ownership is reflected as a percentage of the portfolio. The change in accounting estimate has no effect on the Kentucky Retirement Systems' investment portfolio as a whole. The initial effect of the change on the individual funds is as follows:

**PENSION FUNDS**

	Book Value	Book Value	Portfolio	Market Value	Portfolio	Restated
		<u>6/30/2000</u>	Percentage	Percentage	Percentage	Book Value
		<u>6/30/2000</u>	<u>6/30/2000</u>	<u>6/30/2000</u>	<u>6/30/2000</u>	<u>7/1/2000</u>
KERS	\$ 4,740,654,296		47.0544%	47.4828%		\$ 4,783,815,498
CERS	3,732,292,416		37.0457%	36.8195%		3,709,509,383
KSP	315,799,384		3.1345%	3.2564%		328,080,622
CERH	1,030,710,828		10.2305%	10.0565%		1,013,178,221
KERH	<u>255,386,326</u>		<u>2.5249%</u>	<u>2.3847%</u>		<u>240,259,526</u>
<b>TOTAL</b>	<b><u>\$10,074,843,250</u></b>		<b><u>100.0000%</u></b>	<b><u>100.0000%</u></b>		<b><u>\$10,074,843,250</u></b>

**INSURANCE FUNDS**

	Book Value	Book Value	Portfolio	Market Value	Portfolio	Restated
		<u>6/30/2000</u>	Percentage	Percentage	Percentage	Book Value
		<u>6/30/2000</u>	<u>6/30/2000</u>	<u>6/30/2000</u>	<u>6/30/2000</u>	<u>7/1/2000</u>
KERS	\$303,231,563		37.5506%	37.6022%		\$303,648,695
CERS	244,469,319		30.2738%	30.1173%		243,205,485
KSP	53,986,398		6.6854%	6.8726%		55,498,194
CERH	126,884,648		15.7127%	15.6783%		126,607,005
KERH	<u>78,956,426</u>		<u>9.7775%</u>	<u>9.7296%</u>		<u>78,568,975</u>
<b>TOTAL</b>	<b><u>\$807,528,354</u></b>		<b><u>100.0000%</u></b>	<b><u>100.0000%</u></b>		<b><u>\$807,528,354</u></b>

**NOTE K. PRIOR PERIOD ADJUSTMENT**

In the prior year, certain amounts which should have been posted to the Insurance Fund were posted to the Retirement Systems. The error was discovered and corrected in the current year resulting in a \$15,000 increase in the Insurance Fund and a corresponding clearance in the Retirement Systems.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age Normal <u>(b)</u>	Unfunded (Overfunded) AAL (UAAL) <u>(b-a)</u>
<u>Non-Hazardous</u>			
June 30, 1996	\$3,237,983,129	\$3,295,362,361	\$ 7,379,232
June 30, 1997	\$3,683,995,005	\$3,463,047,650	(\$ 220,947,355)
June 30, 1998	\$4,356,072,625	\$3,800,014,746	(\$ 556,057,879)
June 30, 1999	\$5,264,340,397	\$4,327,622,821	(\$ 936,717,576)
June 30, 2000	\$6,806,675,460	\$4,876,825,772	(\$1,929,849,688)
June 30, 2001	\$6,844,742,687	\$5,444,035,294	(\$1,400,707,393)
 <u>Hazardous</u>			
June 30, 1996	\$137,312,448	\$120,042,122	(\$17,270,326)
June 30, 1997	\$166,717,238	\$140,918,460	(\$25,798,778)
June 30, 1998	\$212,214,618	\$171,735,076	(\$40,479,542)
June 30, 1999	\$259,839,319	\$204,282,788	(\$55,556,531)
June 30, 2000	\$336,213,464	\$243,365,557	(\$92,847,907)
June 30, 2001	\$361,677,475	\$285,193,761	(\$76,483,714)

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2001

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.983	\$1,232,974,460	0.047
1.064	\$1,234,798,738	(0.179)
1.146	\$1,321,004,266	(0.421)
1.216	\$1,330,766,100	(0.704)
1.396	\$1,409,504,668	(1.369)
1.257	\$1,505,299,220	(0.931)
1.144	\$ 85,933,543	(0.201)
1.183	\$ 87,757,075	(0.294)
1.236	\$ 93,130,996	(0.435)
1.272	\$103,464,123	(0.537)
1.382	\$115,639,439	(0.803)
1.268	\$122,857,992	(0.623)

COUNTY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age Normal <u>(b)</u>	Unfunded (Overfunded) AAL (UAAL) <u>(b-a)</u>
<u>Non-Hazardous</u>			
June 30, 1996	\$2,237,808,033	\$2,083,374,317	(\$ 154,433,716)
June 30, 1997	\$2,750,196,558	\$2,390,620,093	(\$ 359,576,465)
June 30, 1998	\$3,346,205,003	\$2,663,946,276	(\$ 682,258,727)
June 30, 1999	\$4,072,227,435	\$2,991,420,884	(\$1,080,806,551)
June 30, 2000	\$5,284,033,534	\$3,368,601,134	(\$1,915,432,400)
June 30, 2001	\$5,423,834,549	\$3,706,282,212	(\$1,717,552,337)
 <u>Hazardous</u>			
June 30, 1996	\$ 642,220,505	\$ 694,942,156	\$ 52,721,651
June 30, 1997	\$ 763,829,310	\$ 754,308,810	(\$ 9,520,500)
June 30, 1998	\$ 927,057,492	\$ 865,966,626	(\$ 61,090,866)
June 30, 1999	\$1,124,651,486	\$ 963,711,775	(\$160,939,711)
June 30, 2000	\$1,445,542,794	\$1,084,553,697	(\$360,989,097)
June 30, 2001	\$1,486,666,016	\$1,193,860,442	(\$292,806,574)

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2001

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>(b-a)/c)</u>
1.074	\$1,137,192,560	(0.136)
1.150	\$1,297,116,204	(0.277)
1.256	\$1,437,594,574	(0.475)
1.361	\$1,346,601,939	(0.803)
1.569	\$1,452,058,248	(1.319)
1.463	\$1,544,973,296	(1.112)
0.924	\$ 211,638,457	0.249
1.013	\$225,094,837	(0.042)
1.071	\$236,180,023	(0.257)
1.167	\$256,201,726	(0.628)
1.333	\$288,575,870	(1.251)
1.245	\$316,700,304	(0.925)

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2001

STATE POLICE RETIREMENT SYSTEM

<u>Year Ended</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age Normal <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
June 30, 1996	\$237,515,346	\$244,540,812	\$ 7,025,466	0.971	\$34,698,957	0.202
June 30, 1997	\$279,643,275	\$255,784,758	(\$ 23,858,517)	1.093	\$41,586,211	(0.574)
June 30, 1998	\$306,318,918	\$294,427,019	(\$ 11,891,899)	1.040	\$38,727,361	(0.307)
June 30, 1999	\$357,623,196	\$314,021,673	(\$ 43,601,523)	1.139	\$40,433,405	(1.078)
June 30, 2000	\$459,168,574	\$336,579,763	(\$122,588,811)	1.364	\$43,619,383	(2.810)
June 30, 2001	\$456,160,709	\$356,211,860	(\$ 99,948,849)	1.281	\$44,646,678	(2.237)



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KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

KERS <u>Non-Hazardous</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Targeted Rate <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>
June 30, 1996**	\$138,382,213	\$1,127,128,023	\$ 988,745,810
June 30, 1997	\$168,479,973	\$1,153,952,891	\$ 985,472,918
June 30, 1998	\$210,105,184	\$1,242,183,993	\$1,032,078,809
June 30, 1999	\$283,704,887	\$1,273,364,800	\$ 989,659,913
June 30, 2000	\$399,560,252	\$1,457,475,358	\$1,057,915,106
June 30, 2001	\$449,630,605	\$1,769,583,098	\$1,319,952,493
KERS <u>Hazardous</u>			
June 30, 1996**	\$ 34,263,992	\$ 95,266,115	\$61,002,123
June 30, 1997	\$ 42,684,374	\$120,511,351	\$77,826,977
June 30, 1998	\$ 54,606,786	\$137,394,162	\$82,787,376
June 30, 1999	\$ 74,579,649	\$149,158,586	\$74,578,937
June 30, 2000	\$102,212,237	\$175,167,613	\$72,955,376
June 30, 2001	\$119,372,742	\$214,450,822	\$95,078,080

\*\* Asset valuation method was changed from book value to a five-year average of market to book values. - June 30, 1996 valuation.

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2001

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.123	\$1,232,974,460	0.802
0.146	\$1,234,798,738	0.798
0.169	\$1,321,004,266	0.781
0.223	\$1,330,766,100	0.743
0.274	\$1,409,504,668	0.751
0.254	\$1,505,299,220	0.877
0.360	\$ 85,933,543	0.710
0.354	\$ 87,757,075	0.887
0.397	\$ 93,130,996	0.889
0.500	\$103,464,123	0.721
0.584	\$115,639,439	0.631
0.557	\$122,857,992	0.774

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

<u>CERS Non-Hazardous</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Targeted Rate <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>
June 30, 1996**	\$110,203,861	\$1,011,215,398	\$ 901,011,537
June 30, 1997	\$134,688,096	\$1,091,055,849	\$ 956,367,753
June 30, 1998	\$168,531,296	\$1,213,339,747	\$1,044,808,451
June 30, 1999	\$231,937,169	\$1,282,874,286	\$1,050,937,117
June 30, 2000	\$319,642,694	\$1,466,716,928	\$1,147,074,234
June 30, 2001	\$371,758,628	\$1,793,710,768	\$1,421,952,140
<u>CERS Hazardous</u>			
June 30, 1996**	\$ 57,332,380	\$ 375,444,348	\$318,111,968
June 30, 1997	\$ 69,832,681	\$450,304,608	\$380,471,927
June 30, 1998	\$ 87,055,079	\$493,286,363	\$406,231,284
June 30, 1999	\$114,590,223	\$518,280,115	\$403,689,892
June 30, 2000	\$168,657,912	\$599,936,029	\$431,278,117
June 30, 2001	\$197,875,249	\$721,605,292	\$523,730,043

\*\* Asset valuation method was changed from book value to a five-year average of market to book values. - June 30, 1996 valuation.

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2001

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.109	\$1,137,192,560	0.792
0.123	\$1,297,116,204	0.737
0.139	\$1,437,594,574	0.727
0.180	\$1,346,601,939	0.780
0.218	\$1,452,058,248	0.780
0.207	\$1,544,973,296	0.920
0.153	\$ 211,638,457	1.503
0.155	\$225,094,837	1.690
0.176	\$236,180,023	1.720
0.221	\$256,201,726	1.576
0.281	\$288,575,870	1.500
0.274	\$316,700,304	1.654

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2001

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

<u>SPRS</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Targeted Rate <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
June 30, 1996**	\$27,809,267	\$101,132,886	\$73,323,619	0.275	\$34,698,957	2.113
June 30, 1997	\$33,876,483	\$117,361,754	\$83,485,271	0.289	\$41,586,211	2.008
June 30, 1998	\$41,410,500	\$124,501,076	\$83,090,576	0.333	\$38,727,361	2.146
June 30, 1999	\$53,929,859	\$125,797,150	\$71,867,291	0.429	\$40,433,405	1.777
June 30, 2000	\$71,711,712	\$138,867,085	\$67,155,373	0.516	\$43,619,383	1.540
June 30, 2001	\$79,863,577	\$158,261,479	\$78,397,902	0.505	\$44,646,678	1.756

\*\* Asset valuation method was changed from book value to a five-year average of market to book values. - June 30, 1996 valuation.

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2001

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

EMPLOYER CONTRIBUTIONS

**NON-HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$107,885,265	\$ 99,296,569	0.920
June 30, 1997	\$109,773,608	\$102,967,907	0.935
June 30, 1998	\$117,437,279	\$112,082,480	0.954
June 30, 1999	\$106,860,518	\$107,514,778	1.006
June 30, 2000	\$113,183,225	\$115,055,476	1.017
June 30, 2001	\$ 88,662,124	\$ 90,356,951	1.019

**HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$15,511,004	\$14,420,406	0.930
June 30, 1997	\$15,682,189	\$15,151,328	0.966
June 30, 1998	\$16,642,509	\$15,997,189	0.961
June 30, 1999	\$19,306,405	\$19,443,818	1.007
June 30, 2000	\$21,578,319	\$21,633,272	1.003
June 30, 2001	\$23,146,446	\$23,852,961	1.031

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2001

COUNTY EMPLOYEES RETIREMENT SYSTEM  
 EMPLOYER CONTRIBUTIONS

**NON-HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$101,665,015	\$ 95,660,478	0.941
June 30, 1997	\$112,200,552	\$105,773,743	0.942
June 30, 1998	\$124,351,931	\$107,490,256	0.864
June 30, 1999	\$109,074,757	\$110,591,016	1.014
June 30, 2000	\$105,709,840	\$106,587,217	1.008
June 30, 2001	\$ 97,951,307	\$111,206,820	1.135

**HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$38,539,363	\$35,951,348	0.933
June 30, 1997	\$42,070,225	\$39,552,085	0.938
June 30, 1998	\$44,142,046	\$42,297,090	0.958
June 30, 1999	\$46,526,233	\$48,290,617	1.037
June 30, 2000	\$50,645,065	\$51,739,272	1.022
June 30, 2001	\$51,558,809	\$53,132,792	1.031



KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2001

STATE POLICE RETIREMENT SYSTEM

EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$ 7,998,110	\$ 7,089,072	0.886
June 30, 1997	\$11,053,615	\$ 9,627,692	0.871
June 30, 1998	\$10,293,733	\$ 9,573,742	0.930
June 30, 1999	\$ 9,465,460	\$ 9,463,188	0.999
June 30, 2000	\$10,211,298	\$10,215,824	1.000
June 30, 2001	\$ 9,634,753	\$ 9,628,912	0.999

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2001

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

EMPLOYER CONTRIBUTIONS

**KERS  
NON-HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$ 38,838,695	\$36,690,182	0.940
June 30, 1997	\$38,896,160	\$37,709,736	0.970
June 30, 1998	\$54,029,074	\$39,503,545	0.731
June 30, 1999	\$56,690,636	\$56,769,539	1.001
June 30, 2000	\$76,818,004	\$76,926,320	1.001
June 30, 2001	\$66,874,871	\$66,874,871	1.000

**KERS  
HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$ 6,410,642	\$ 5,931,007	0.930
June 30, 1997	\$ 6,546,678	\$ 6,278,931	0.960
June 30, 1998	\$ 9,341,039	\$ 6,632,037	0.710
June 30, 1999	\$10,760,269	\$10,773,916	1.001
June 30, 2000	\$12,026,502	\$12,047,095	1.002
June 30, 2001	\$13,226,298	\$13,226,298	1.000

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2001

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

EMPLOYER CONTRIBUTIONS

**CERS  
NON-HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$26,837,744	\$25,234,550	0.940
June 30, 1997	\$30,611,942	\$27,504,331	0.898
June 30, 1998	\$48,303,178	\$29,271,074	0.606
June 30, 1999	\$47,939,029	\$47,901,837	0.999
June 30, 2000	\$55,033,008	\$55,213,973	1.003
June 30, 2001	\$62,292,385	\$62,292,385	1.000

**CERS  
HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$13,396,714	\$12,381,700	0.920
June 30, 1997	\$14,248,503	\$13,305,317	0.934
June 30, 1998	\$20,783,842	\$14,275,040	0.687
June 30, 1999	\$23,647,419	\$23,382,957	0.989
June 30, 2000	\$27,991,859	\$28,345,377	1.013
June 30, 2001	\$32,149,432	\$32,149,432	1.000

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2001

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

EMPLOYER CONTRIBUTIONS

**SPRS**  
**HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1996	\$ 4,930,722	\$4,603,921	0.930
June 30, 1997	\$5,909,401	\$5,125,678	0.867
June 30, 1998	\$6,808,270	\$5,120,037	0.752
June 30, 1999	\$7,237,579	\$7,251,787	1.002
June 30, 2000	\$7,807,870	\$7,817,613	1.001
June 30, 2001	\$8,098,907	\$8,113,391	1.002

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
For The Year Ended June 30, 2001

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

PENSION FUNDS

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 2000	June 30, 2000
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation	30 years - Commencing with 1990 Valuation
Asset Valuation Method -	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Postretirement Benefit Increase	1.6%	1.6%
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

POST-EMPLOYMENT HEALTHCARE

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 2000	June 30, 2000
Actuarial Cost Method	Targeted Rate	Targeted Rate
Asset Valuation Method - Started with 1996 Valuation	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF ADMINISTRATIVE EXPENSES  
For the Year Ended June 30, 2001

**SUPPORTING SCHEDULE #1**

Personal Services:		
Salaries and Per Diem	\$6,371,154	
Fringe Benefits	1,424,598	
Tuition Assistance	<u>35,003</u>	
Total Personal Services		\$ 7,830,755
Contractual Services:		
Actuarial	129,450	
Audit	29,000	
Legal	156,473	
Medical	102,264	
Contractual	329,414	
Miscellaneous	<u>375</u>	
Total Contractual Services		746,976
Communication:		
Printing	137,722	
Telephone	69,872	
Postage	507,481	
Travel	<u>72,236</u>	
Total Communication		787,311
Rentals:		
Office Space	441,333	
Equipment	<u>34,660</u>	
Total Rentals		475,993
Miscellaneous:		
Utilities	64,984	
Supplies	133,310	
Insurance	33,803	
Maintenance	436,756	
Other	<u>118,664</u>	
Total Miscellaneous		787,517
Capital Outlay:		
Equipment Purchases	129,959	
Lease Purchases	<u>-</u>	
Total Capital Outlay		<u>129,959</u>
TOTAL ADMINISTRATIVE EXPENSES		<u>\$10,758,511</u>

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTAL INFORMATION  
 SCHEDULE OF INVESTMENT EXPENSES  
 For the Year Ended June 30, 2001

**SUPPORTING SCHEDULE #2**

**Retirement Funds**

Security Lending Fees:		
Broker Rebates	\$96,171,191	
Lending Agent Fees	2,519,719	
Custodial Fee	<u>18,750</u>	
Total Security Lending		\$ 98,709,660
Contractual Services:		
Investment Management	4,437,749	
Security Custody	45,456	
Investment Consultant	<u>25,000</u>	
Total Contractual Services		4,508,205

**Insurance Funds**

Security Lending Fees:		
Broker Rebates	9,892,293	
Lending Agent Fees	<u>240,455</u>	
Total Security Lending		10,132,748
Investment Management		<u>94,997</u>
TOTAL INVESTMENT EXPENSES		<u>\$113,445,610</u>

Information on fees paid to investment professionals can be found in the investment section of the Comprehensive Annual Financial Report.

KENTUCKY RETIREMENT SYSTEMS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PAYMENT TO CONSULTANTS  
For the Year Ended June 30, 2001

**SUPPORTING SCHEDULE #3**

Actuarial Services	\$129,450
Medical Review Services	102,264
Audit Services	29,000
Legal Counsel	<u>156,473</u>
 TOTAL	 <u>\$417,187</u>



*Charles T. Mitchell Company, LLP*

Certified Public Accountants

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FRANKFORT, KENTUCKY 40602-0698  
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TELESCOPIER - (502) 227-8005

**|| C T M**

DON C. GILES, C.P.A.  
WILLIAM G. JOHNSON, JR., C.P.A.  
LARRY T. WILLIAMS, C.P.A.  
JAMES CLOUSE, C.P.A.  
BERNADETTE SMITH, C.P.A.  
KIM FIELD, C.P.A.

CHARLES T. MITCHELL, C.P.A.  
CONSULTANT

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Kentucky Retirement Systems  
Frankfort, Kentucky

We have audited the general purpose financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 31, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Retirement Systems= general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Retirement Systems= internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Charles T. Mitchell Co.*

October 31, 2001