

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

June 30, 2002

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
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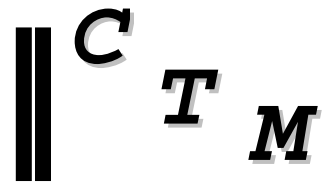
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the accompanying general purpose statements of plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2002 and 2001 and the related statements of changes in plan net assets for the years then ended. These component unit general-purpose financial statements are the responsibility of the Kentucky Retirement System's management. Our responsibility is to express an opinion on these general-purpose 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose 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 Systems, a component unit of the Commonwealth of Kentucky, at June 30, 2002 and 2001 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 October 31, 2002 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, 2002 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.

October 31, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Retirement System's financial performance provides an overview of the pension fund's and insurance fund's financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the Pension Fund's financial statements and Insurance Fund's financial statements, which begin on page 18.

FINANCIAL HIGHLIGHTS—PENSION FUND

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 \$856.4 million during the 2001-2002 fiscal year.
- Salaries totaling \$3.8 billion requiring both employee and employer pension contributions were reported during the year. The covered payroll increased \$238 million over the prior reporting period. The corresponding employer contributions increased by \$5.5 million for a total employer contribution amount of \$293.6 million. Of the total employer contribution amount, \$26.3 million was posted to the pension fund while \$267.3 million was posted to the insurance fund. Contributions paid by employees were \$286.8 and \$250.2 million respectively for the years ended June 30, 2002 and June 30, 2001. This increase in employee contributions is a reflection of the increase in covered payroll.
- The fair value of investments depreciated by \$872.6 million for the year ended June 30, 2002 compared to net depreciation of \$1.1 billion for the prior fiscal year. Included in this net depreciation were realized losses on sales of investments of \$664.3 million. In comparison, the pension funds realized gains of \$992.7 million for the year ended June 30, 2001. The net realized loss experienced by the pension funds is due to less favorable market conditions.
- Investment income net of investment expense from all sources including securities lending was \$374.5 million representing a decline in investment income of approximately \$34 million compared to last fiscal year. This decline is due to less favorable market conditions.
- Pension benefits paid to retirees and beneficiaries increased \$91.7 million bringing total benefit payments to \$640.9 million. Refund of contributions paid to former members upon termination of employment decreased from \$18.6 million to \$17.9 million.
- Administrative expense and other deductions totaling \$12.6 million increased \$2.4 million.

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 \$117.9 million during the 2001-2002 fiscal year.
- Employer contributions of \$267.3 were received. This is an increase of \$84.6 million over the prior fiscal year. This increase is due to the increase in covered payroll reported and also an increase in the insurance transfer rate.
- After applying a \$61 million Anthem demutualization (See Note K to the Financial Statements), the fair value of investments depreciated \$73 million compared to net depreciation of \$72 million for the prior fiscal year. After netting the \$61 million Anthem demutualization (See Note K to the Financial Statements) against current year losses, the insurance fund realized net gains on sales of investments of \$12 million compared to \$42.7 million realized gains in the prior fiscal year. This decline in net appreciation and decline in realized gains is due to less favorable market conditions.
- Investment income net of investment expense from all sources including securities lending was \$20.6 million representing a decrease of approximately \$10.5 million compared to last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage increased \$14.2 million to total \$96.1 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 \$778 thousand compared to \$714 thousand for the prior year. This increase is due to an increase in retirees.

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 18-21) 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 22-29) 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 46-56) 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 57-62) 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, 2002 by \$738.5 million from \$12,841.7 million to \$12,103.2 million. Plan net assets for the prior fiscal year decreased by \$861.5 million. The decrease for the plan year ended June 30, 2002 is attributable to unfavorable market conditions. 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	
	2002	2001	2002	2001	2002	2001
Cash & Investments	\$13,492.8	\$13,420.1	\$1,372.5	\$1,156.7	\$14,865.3	\$14,576.8
Receivables	\$132.0	\$125.0	\$29.6	\$21.2	\$161.6	\$146.2
Total Assets	\$13,624.8	\$13,545.1	\$1,402.1	\$1,177.9	\$15,026.9	\$14,723.0
Total Liabilities	(2,718.0)	(1,781.9)	(205.7)	(99.4)	(2,923.7)	(1,881.3)
Plan Net Assets	\$10,906.8	\$11,763.2	\$1,196.4	\$1,078.5	\$12,103.2	\$12,841.7

Table 2
Changes in Plan Net Assets
(In Millions)

	Pension Funds		Insurance Fund		Total	
	2002	2001	2002	2001	2002	2001
Additions:						
Members' Contributions	\$286.8	\$250.2	\$0.0	\$0.0	\$286.8	\$250.2
Employer Contributions	26.3	105.5	267.3	182.6	293.6	288.1
Investment Income(net)	(498.0)	(698.5)	(52.5)	(40.7)	(550.5)	(739.2)
Total additions	(184.9)	(342.8)	214.8	141.9	29.9	(200.9)
Program deductions						
Benefit payments	640.9	549.1	0.0	0.0	640.9	549.1
Refunds	17.9	18.6	0.0	0.0	17.9	18.6
Administrative Expense	12.6	10.9	0.8	0.7	13.4	11.6
Healthcare premiums	0.0	0.0	96.1	81.9	96.1	81.9
Tot. program deductions	671.4	578.6	96.9	82.6	768.3	661.2
Other deductions(net)	(0.0)	(0.6)	0.0	0.0	(0.0)	(0.6)
Total deductions	671.4	578.0	96.9	82.6	768.3	660.6
Increase (decrease) in plan net assets	(\$856.3)	(\$920.8)	\$117.9	\$59.3	(\$738.4)	(\$861.5)

Plan net assets of the pension funds decreased by 7.3% (\$10,906.8 million compared to \$11,763.2 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 10.9% (\$1,196.4 million compared to \$1,078.5 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. This increase in net plan assets is primarily attributable to the increase in the amount of employer contributions transferred into the insurance fund due to the increase in the actuarial set insurance transfer rate.

PENSION FUND ACTIVITIES

Member contributions increased (\$36.6 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 amount of elective service purchases also increased this fiscal year.

Employer contributions decreased (\$79.2 million). Even though salaries reported to Kentucky Retirement Systems increased (\$238 million), because the amount of employer contributions that were transferred to the insurance fund increased, employer contributions transferred to the pension funds decreased.

Net investment income increased by 28.7% (loss of \$498.0 million compared to loss of \$698.5 million). The pension funds continued to experience a net loss in income; however, the decline in net appreciation of fair value of investments was not as great as in the prior fiscal year. This can be illustrated as follows:

Appreciation in fair value of investments-June 30, 2002	212.5
Appreciation in fair value of investments-June 30, 2001	420.7
Net appreciation in fair value of investments	(208.2)
Investment income (net of investment expense)	374.5
Net loss on sale of investment	(664.3)
Investment income (net)-June 30, 2002	(498.0)

Program deductions increased by \$93.4 million caused principally by an increase of \$91.8 million in benefit payments. Retirees received an increase of 3.4% in benefits as of July 1, 2001. Also there was an increase of approximately 3400 members and beneficiaries on the retired payroll as of June 30, 2002. Refunds decreased by \$.7 million.

INSURANCE FUND ACTIVITIES

Employer contributions paid into the insurance fund increased by \$84.7 million over the prior year. An increase in the amount of covered payroll (\$238 million) reported to Kentucky Retirement Systems as well as the increase in the insurance transfer rate are responsible for the increased employer contributions paid into the insurance fund.

Net investment income decreased by 28.7 % (loss of \$52.4 million compared to loss of \$40.7 million). This decline in net investment income is attributable to the continuing decline in the fair value of investments and the decline in investment income. This can be illustrated as follows:

	In Millions
Appreciation in fair value of investments-June 30, 2002	(19.8)
Appreciation in fair value of investments-June 30, 2001	65.1
Net appreciation in fair value of investments	(84.9)
Investment income (net of investment expense)	20.5
Net gain on sale of investments	
(net of Anthem demutualization)	12.0
Investment Income (net)-June 30, 2002	(52.4)

Program deductions increased by \$14.3 million explained almost totally by an increase in payment of healthcare premiums of \$14.2 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 46-56). 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 of all participating employees groups.

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 57-62). This schedule indicates that employers are generally meeting their responsibilities to provide resources to the plans.

	2002		
	<u>Pensions</u>	<u>Post-Employment Healthcare</u>	<u>Total</u>
ASSETS			
Cash and Short Term Investments			
Cash	\$ 28,494	\$ 24,939	\$ 53,433
Short Term Investments	<u>548,058</u>	<u>142,008</u>	<u>690,066</u>
Total Cash and Short Term Investments	576,552	166,948	743,500
Receivables			
Investments - accounts receivable	720	70	790
Interest receivable - year end	70,486	3,027	73,513
Accounts receivable - year end	57,008	26,494	83,502
Accounts receivable - alternate plan	3,551		3,551
A/R - alternate plan - year end	<u>244</u>		<u>244</u>
Total receivables	132,009	29,591	161,600
Investments at fair value			
Corporate and government bonds	3,680,675	119,766	3,800,442
Corporate stocks	5,861,831	881,263	6,743,094
Mortgages	642,520		642,520
Real estate	<u>21,699</u>		<u>21,699</u>
Total investments at fair value	10,206,725	1,001,029	11,207,754
Securities lending collateral invested	<u>2,709,530</u>	<u>204,493</u>	<u>2,914,023</u>
Total assets	13,624,816	1,402,061	15,026,877
LIABILITIES			
Investments - accounts payable		1,193	1,193
Accounts payable	8,445		8,445
Securities lending collateral	<u>2,709,530</u>	<u>204,493</u>	<u>2,914,023</u>
Total Liabilities	<u>2,717,976</u>	<u>205,686</u>	<u>2,923,662</u>
Plan net assets held in trust for pension Benefits	<u>\$10,906,841</u>	<u>\$ 1,196,375</u>	<u>\$12,103,215</u>

(A schedule of funding progress for each plan is presented on pages 34 through 43.)

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

KENTUCKY RETIREMENT SYSTEMS
 COMBINED STATEMENTS OF PLAN NET ASSETS
 As of June 30, 2002 and 2001

Expressed In Thousands

2001		
<u>Pensions</u>	<u>Post-Employment Healthcare</u>	<u>Total</u>
\$ 33,263	\$ 19,154	\$ 52,417
<u>1,833,669</u>	<u>188,046</u>	<u>2,021,715</u>
1,866,932	207,200	2,074,133
820	82	902
58,287	2,658	60,945
61,414	18,431	79,845
4,162		4,162
<u>304</u>		<u>304</u>
124,988	21,171	146,159
2,939,846	104,512	3,044,358
5,742,621	739,105	6,481,726
525,665	6,595	532,260
<u>577,315</u>		<u>577,315</u>
9,785,447	850,212	10,635,659
<u>1,767,731</u>	<u>99,339</u>	<u>1,867,070</u>
13,545,098	1,177,922	14,723,020
	108	108
14,166		14,166
<u>1,767,731</u>	<u>99,339</u>	<u>1,867,070</u>
<u>1,781,897</u>	<u>99,447</u>	<u>1,881,345</u>
<u>\$11,763,200</u>	<u>\$ 1,078,475</u>	<u>\$12,841,676</u>

	2002		Total
	Pensions	Post-Employment Healthcare	
ADDITIONS			
Members' contributions	\$ 286,822	\$	\$ 286,822
Employers' contributions	<u>26,260</u>	<u>267,260</u>	<u>293,520</u>
Total contributions	313,082	267,260	580,342
Investment Income:			
From investing activities			
Net depreciation in fair value of investments	(872,569)	(134,657)	(1,007,226)
Demutualization Proceeds (NoteK)		61,603	61,603
Interest	240,540	13,147	253,687
Dividends	130,801	7,149	137,950
Real estate operating income (Net)			
Total investing activities income	(501,228)	(52,758)	(553,986)
Investment expense	<u>7,275</u>	<u>451</u>	<u>7,726</u>
Net income from investing activities	(508,503)	(53,209)	(561,712)
From securities lending activities			
Securities lending income	60,496	4,242	64,737
Securities lending expense:			
Custodial Fee	20		20
Security borrower rebate	47,021	3,325	50,346
Security lending agent fee	<u>2,964</u>	<u>186</u>	<u>3,150</u>
Net income from securities lending activities	<u>10,491</u>	<u>731</u>	<u>11,222</u>
Total net investment income	(498,012)	(52,479)	(550,490)
TOTAL ADDITIONS	(184,931)	214,782	29,851
DEDUCTIONS			
Benefit payments	640,860		640,860
Refunds	17,918		17,918
Administrative expenses	12,651	778	13,430
Healthcare premiums paid		96,104	96,104
Other deductions (Net)	<u>(1)</u>		<u>(1)</u>
TOTAL DEDUCTIONS	<u>671,428</u>	<u>96,882</u>	<u>768,311</u>
Net increase	(856,360)	117,900	(738,460)
Plan net assets held in trust for pension benefits and post-employment benefits			
Beginning of year	<u>11,763,200</u>	<u>1,078,475</u>	<u>12,841,676</u>
End of year	<u>\$10,906,840</u>	<u>\$ 1,196,375</u>	<u>\$12,103,216</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, 2002 and 2001

Expressed In Thousands

2001		
<u>Pensions</u>	<u>Post-Employment Healthcare</u>	<u>Total</u>
\$ 250,239	\$	\$ 250,239
<u>105,522</u>	<u>182,656</u>	<u>288,178</u>
355,761	182,656	538,417
(1,107,218)	(71,873)	(1,179,090)
291,982	23,701	315,683
109,057	6,548	115,605
<u>3,964</u>		<u>3,964</u>
(702,214)	(41,624)	(743,838)
<u>4,508</u>	<u>95</u>	<u>4,603</u>
(706,723)	(41,719)	(748,441)
106,484	11,095	117,578
19		19
96,171	9,892	106,063
<u>2,520</u>	<u>240</u>	<u>2,760</u>
<u>7,774</u>	<u>962</u>	<u>8,754</u>
(698,949)	(40,757)	739,687
(342,796)	141,899	(201,269)
549,120		549,120
18,614		18,614
10,879	714	11,593
	81,901	81,901
<u>(612)</u>		<u>(612)</u>
<u>578,001</u>	<u>82,615</u>	<u>660,616</u>
(920,797)	59,284	(861,885)
<u>12,683,998</u>	<u>1,019,191</u>	<u>13,703,189</u>
<u>\$11,763,201</u>	<u>\$ 1,078,475</u>	<u>\$12,841,676</u>

ASSETS	KERS <u>HAZARDOUS</u>	KERS <u>NON-HAZARDOUS</u>
Cash and short-term investments		
Cash	\$ 2,105	\$ 10,476
Short-term investments	<u>22,909</u>	<u>237,836</u>
Total cash and short-term investments	25,014	248,312
Receivables		
Investments - accounts receivable	24	276
Interest receivable - year end	1,993	32,305
Accounts receivable - year end	2,871	24,702
Accounts receivable - alternate plan A/R - alternate plan - year end	<u> </u>	<u> </u>
Total receivables	4,889	57,283
Investments at fair value		
Corporate and government bonds	99,477	1,695,472
Corporate stocks	153,251	2,702,708
Mortgages	17,449	295,890
Real estate	<u>2,047</u>	<u>9,057</u>
Total investments at fair value	272,224	4,703,127
Securities lending collateral invested	<u>74,700</u>	<u>1,244,141</u>
Total assets	376,826	6,252,863
LIABILITIES		
Accounts payable	327	3,531
Securities lending collateral	<u>74,700</u>	<u>1,244,141</u>
Total liabilities	<u>75,026</u>	<u>1,247,672</u>
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 301,800</u>	<u>\$ 5,005,191</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, 2002 and 2001

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2002 TOTAL</u>	<u>2001 TOTAL</u>
\$ 2,954	\$ 11,693	\$ 1,266	\$ 28,494	\$ 33,263
<u>60,351</u>	<u>209,119</u>	<u>17,843</u>	<u>548,058</u>	<u>1,833,669</u>
63,305	220,812	19,109	576,552	1,866,932
87	323	10	720	820
7,403	26,609	2,175	70,486	58,287
8,959	19,403	1,073	57,008	61,414
1,960	1,592		3,551	4,162
<u>130</u>	<u>114</u>		<u>244</u>	<u>304</u>
18,538	48,041	3,259	132,009	124,988
381,820	1,389,803	114,103	3,680,675	2,939,846
611,186	2,222,749	171,937	5,861,831	5,742,621
67,019	242,677	19,485	642,520	525,665
<u>3,381</u>	<u>6,200</u>	<u>1,015</u>	<u>21,699</u>	<u>577,315</u>
1,063,406	3,861,428	306,540	10,206,725	9,785,447
<u>283,120</u>	<u>1,025,732</u>	<u>81,838</u>	<u>2,709,530</u>	<u>1,767,731</u>
1,428,369	5,156,013	410,745	13,624,816	13,545,098
900	3,525	163	8,445	14,166
<u>283,120</u>	<u>1,025,732</u>	<u>81,838</u>	<u>2,709,530</u>	<u>1,767,731</u>
<u>284,020</u>	<u>1,029,257</u>	<u>82,001</u>	<u>2,717,976</u>	<u>1,781,897</u>
<u>\$1,144,349</u>	<u>\$ 4,126,756</u>	<u>\$328,744</u>	<u>\$10,906,841</u>	<u>\$11,763,200</u>

	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
ADDITIONS		
Members= contributions	\$ 10,807	\$ 111,992
Employers= contributions	<u>7,934</u>	<u>1,760</u>
Total contributions	18,741	113,752
INVESTMENT INCOME		
From Investing Activities		
Net appreciation in fair value of investments	(21,332)	(408,185)
Interest	6,592	111,107
Dividends	<u>3,584</u>	<u>60,418</u>
Total investing activity income	(11,156)	(236,661)
Investment expense	<u>193</u>	<u>3,305</u>
Net income from investing activities	(11,348)	(239,966)
From securities lending activities		
Securities lending income	3,231	20,555
Securities lending expense:		
Custodial fee	1	7
Security borrower rebates	2,510	15,980
Security lending agent fees	<u>158</u>	<u>1,007</u>
Net income from securities lending activities	<u>562</u>	<u>3,561</u>
Total net investment income	<u>(10,786)</u>	<u>(236,405)</u>
TOTAL ADDITIONS	7,954	(122,653)
DEDUCTIONS		
Benefit payments	10,203	345,666
Refunds	1,141	6,657
Administrative expenses	354	4,399
Other deductions (Net)	<u>(1)</u>	<u>(2)</u>
Total deductions	<u>11,698</u>	<u>356,720</u>
Net increase	(3,744)	(479,373)
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>305,544</u>	<u>5,484,564</u>
End of year	<u>\$ 301,800</u>	<u>\$ 5,005,191</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, 2002 and 2001
 Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2002 TOTAL</u>	<u>2001 TOTAL</u>
\$ 37,096	\$ 122,428	\$ 4,499	\$ 286,822	\$ 250,239
<u>11,055</u>	<u>5,528</u>	<u>(18)</u>	<u>26,260</u>	<u>105,522</u>
48,151	127,956	4,482	313,081	355,761
(89,092)	(327,253)	(26,707)	(872,569)	(1,107,218)
25,270	90,339	7,233	240,540	405,394
<u>13,741</u>	<u>49,124</u>	<u>3,933</u>	<u>130,801</u>	
(50,080)	(187,790)	(15,541)	(501,228)	(701,823)
<u>745</u>	<u>2,835</u>	<u>197</u>	<u>7,275</u>	<u>4,508</u>
(50,825)	(190,625)	(15,738)	(508,503)	(706,332)
10,173	24,524	2,012	60,496	106,484
3	8	1	20	19
7,903	19,065	1,562	47,021	96,171
<u>498</u>	<u>1,202</u>	<u>98</u>	<u>2,964</u>	<u>2,520</u>
<u>1,768</u>	<u>4,249</u>	<u>350</u>	<u>10,491</u>	<u>7,774</u>
<u>(49,057)</u>	<u>(186,375)</u>	<u>(15,388)</u>	<u>(498,012)</u>	<u>(698,558)</u>
(906)	(58,419)	(10,906)	(184,931)	(342,796)
63,494	196,659	24,839	640,860	549,120
1,770	8,325	25	17,918	18,614
635	7,187	76	12,651	10,879
		<u>1</u>	<u>(1)</u>	<u>(612)</u>
<u>65,900</u>	<u>212,171</u>	<u>24,941</u>	<u>671,429</u>	<u>578,001</u>
(66,806)	(270,590)	(35,848)	(856,360)	(920,797)
<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>\$1,144,349</u>	<u>\$ 4,126,756</u>	<u>\$328,744</u>	<u>\$10,906,841</u>	<u>\$11,763,200</u>

	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
ASSETS		
Cash And short-term investments		
Cash	\$ 1,633	\$ 8,591
Short-term investments	<u>7,971</u>	<u>93,020</u>
Total cash and short-term investments	9,604	101,611
Receivables		
Investments - accounts receivable	9	23
Interest receivable - year end	288	1,129
Accounts receivable - year end	1,381	8,590
Accounts receivable - alternate plan A/R - alternate plan - year end	<u> </u>	<u> </u>
Total receivables	1,678	9,741
Investments, at fair value		
Corporate and government bonds	11,569	43,160
Corporate stocks	86,978	311,828
Mortgages	<u> </u>	<u> </u>
Total investments, at fair value	98,547	354,988
Security lending collateral invested	<u>18,937</u>	<u>79,933</u>
Total assets	128,766	546,274
LIABILITIES		
Accounts payable	60	676
Securities lending collateral	<u>18,937</u>	<u>79,933</u>
Total liabilities	<u>18,996</u>	<u>80,609</u>
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 109,769</u>	<u>\$ 465,665</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, 2002 and 2001

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2002 TOTAL</u>	<u>2001 TOTAL</u>
\$ 4,358 <u>12,381</u> 16,739 12 481 4,457 <hr/> 4,949 19,134 146,842 <hr/> 165,977 <u>31,992</u> 219,657 131 <u>31,992</u> <hr/> 32,123 <u>\$ 187,534</u>	\$ 9,375 <u>23,930</u> 33,305 22 948 11,261 <hr/> 12,231 38,489 281,588 <hr/> 320,078 <u>61,877</u> 427,491 282 <u>61,877</u> <hr/> 62,159 <u>\$ 365,333</u>	\$ 982 <u>4,706</u> 5,689 4 182 805 <hr/> 991 7,413 54,026 <hr/> 61,439 <u>11,754</u> 79,873 45 <u>11,754</u> <hr/> 11,799 <u>\$ 68,074</u>	\$ 24,940 <u>142,008</u> 166,948 70 3,027 26,494 <hr/> 29,591 119,766 881,263 <hr/> 1,001,029 <u>204,493</u> 1,402,061 1,193 <u>204,493</u> <hr/> 205,686 <u>\$ 1,196,375</u>	\$ 19,154 <u>188,046</u> 207,200 82 2,658 18,431 <hr/> 21,171 104,512 739,105 6,595 <hr/> 850,212 <u>99,339</u> 1,177,922 108 <u>99,339</u> <hr/> 99,447 <u>\$ 1,078,475</u>

	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
ADDITIONS		
Employers= contributions	\$ 15,887	\$ 93,912
Total contributions	15,887	93,912
INVESTMENT INCOME		
From Investing Activities		
Net appreciation in fair value of investments	(13,248)	(49,693)
Demutualization Proceeds (NoteK)		61,603
Interest	1,281	4,929
Dividends	<u>696</u>	<u>2,681</u>
Total income from investing activities	<u>(11,271)</u>	<u>19,520</u>
Investment activities expense	<u>45</u>	<u>163</u>
Net investment activities income	(11,316)	19,357
From securities lending activities		
Securities lending income	508	1,308
Securities lending expense:		
Security borrower rebates	398	1,025
Security lending agent fees	<u>22</u>	<u>57</u>
Net income from securities lending activities	<u>87</u>	<u>225</u>
Total net investment income	<u>(11,229)</u>	<u>19,582</u>
Total additions	4,659	113,494
DEDUCTIONS		
Healthcare premiums subsidies	2,453	43,738
Administrative fees	<u>29</u>	<u>345</u>
Total deductions	<u>2,482</u>	<u>44,083</u>
Net increase	2,177	69,410
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Prior Period Adjustment	<u>107,592</u>	<u>396,254</u>
End of year	<u>\$ 109,769</u>	<u>\$ 465,665</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, 2002 and 2001

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2002 TOTAL</u>	<u>2001 TOTAL</u>
\$ 45,730	\$ 102,151	\$ 9,580	\$ 267,260	\$ 182,656
45,730	102,151	9,580	267,260	182,656
(21,857)	(41,217)	(8,642)	(134,657)	(71,873)
2,097	4,033	807	61,603	23,701
<u>1,140</u>	<u>2,193</u>	<u>439</u>	<u>7,149</u>	<u>6,548</u>
<u>(18,620)</u>	<u>(34,991)</u>	<u>(7,396)</u>	<u>(52,758)</u>	<u>(41,624)</u>
<u>72</u>	<u>142</u>	<u>29</u>	<u>451</u>	<u>95</u>
(18,692)	(35,133)	(7,425)	(53,209)	(41,719)
816	1,360	250	4,242	11,095
640	1,066	196	3,326	9,892
<u>36</u>	<u>59</u>	<u>11</u>	<u>186</u>	<u>240</u>
<u>141</u>	<u>234</u>	<u>43</u>	<u>731</u>	<u>962</u>
<u>(18,551)</u>	<u>(34,899)</u>	<u>(7,382)</u>	<u>(52,479)</u>	<u>(40,757)</u>
27,179	67,252	2,198	214,782	141,899
13,166	32,726	4,020	96,104	81,901
<u>115</u>	<u>260</u>	<u>29</u>	<u>778</u>	<u>714</u>
<u>13,281</u>	<u>32,986</u>	<u>4,049</u>	<u>96,882</u>	<u>82,615</u>
13,898	34,265	(1,851)	117,900	59,284
<u>173,636</u>	<u>331,067</u>	<u>69,926</u>	<u>1,078,475</u>	<u>1,019,191</u>
<u>\$ 187,534</u>	<u>\$ 365,333</u>	<u>\$ 68,074</u>	<u>\$ 1,196,375</u>	<u>\$ 1,078,475</u>

KENTUCKY RETIREMENT SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 2002 and 2001

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. 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 consisting of the Kentucky employees Insurance Fund, Kentucky Employee Hazardous Insurance Fund, county Employees Insurance Fund, county Employees Hazardous Insurance Fund and State Police 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, 2002 and 2001

NOTE B. Plan Descriptions and Contribution Information

Membership of each Retirement plan consisted of the following at June 30, 2002 and 2001, the date of the latest actuarial valuation:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2001			2002		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
<u>Number of Members</u>						
Retirees and beneficiaries receiving benefits	25,118	1,053	26,171	26,703	1,208	27,911
Inactive Vested Retirements	3,312	123	3,435	3,415	127	3,542
Inactive Vested Memberships	13,429	799	14,228	14,299	946	15,245
Active plan members	<u>47,780</u>	<u>4,228</u>	<u>52,008</u>	<u>48,555</u>	<u>4,211</u>	<u>52,766</u>
Total	<u>89,639</u>	<u>6,203</u>	<u>95,842</u>	<u>92,972</u>	<u>6,492</u>	<u>99,464</u>
Number of participating employers			408			404

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2001			2002		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
<u>Number of Members</u>						
receiving benefits	24,415	3,221	27,636	26,147	3,483	29,630
Inactive Vested Retirements	4,080	148	4,228	4,470	148	4,618
Inactive Vested Memberships	24,276	462	24,738	26,508	552	27,060
Active plan members	<u>78,773</u>	<u>8,586</u>	<u>87,359</u>	<u>79,850</u>	<u>8,949</u>	<u>88,799</u>
Total	<u>131,544</u>	<u>12,417</u>	<u>143,961</u>	<u>136,975</u>	<u>13,132</u>	<u>150,107</u>
Number of participating employers			1,297			1,314

STATE POLICE RETIREMENT SYSTEM

	2001	2002
	Hazardous Position Employees	Hazardous Position Employees
<u>Number of Members</u>		
Retirees and beneficiaries receiving benefits	842	897
Inactive Vested Retirements	12	20
Inactive Vested Memberships	78	83
Active plan members	<u>1,016</u>	<u>1,002</u>
Total	<u>1,948</u>	<u>2,002</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, 2002 and 2001, the date of the latest actuarial valuation:

	2001					2002				
	Single	Couple and Family	Parent +	Medicare Regular	Medicare High	Single	Couple and Family	Parent +	Medicare Regular	Medicare High
KERS Non-Hazardous	5,199	1,070	346	1,818	11,107	5,822	1,182	396	1,838	11,229
KERS Hazardous	302	185	51	52	420	359	205	57	66	451
CERS Non-Hazardous	4,215	791	204	2,212	8,974	4,530	800	224	2,446	9,517
CERS Hazardous	869	1,267	202	32	694	956	1,321	210	38	734
SPRS	<u>194</u>	<u>350</u>	<u>47</u>	<u>8</u>	<u>278</u>	<u>199</u>	<u>364</u>	<u>50</u>	<u>11</u>	<u>303</u>
Totals	10,779	3,663	850	4,122	21,473	11,866	3,872	937	4,399	22,234

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, 2002 and 2001, 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, 2002 and 2001, the State contributed 5.89% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 5.89% 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, 2002 and 2001, plan members were required to contribute 7% 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, 2002 and 2001, the State contributed 18.84% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 18.84% 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, 2002 and 2001, 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, 2002 and 2001, participating employers contributed 6.34% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 6.34% 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, 2002 and 2001, 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, 2002 and 2001, participating employers contributed 16.28% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 16.28% 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, 2002 and 2001 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, 2002 and 2001, the State contributed 21.58% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 21.58% 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 \$16,462,261 and \$355,816 for KERS and KERS hazardous, respectively, \$15,190,421 and \$1,299,220 for CERS and CERS hazardous, respectively, and \$285,755 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, 2002 the Fund had 58,020 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.

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

	2002	2001
Miscellaneous cash	12,580,710	16,694,421
Short-Term Investment Pool	1,318,840,638	870,430,971
Short-Term Investments	260,745,038	849,261,657
Total	\$1,592,166,386	\$1,736,387,049

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2002	2001
Miscellaneous Cash	14,647,210	15,474,032
Short-Term Investment Pool	1,308,851,954	842,324,041
Short-Term Investments	269,469,918	939,342,782
Total	\$1,592,969,082	\$1,797,140,855

STATE POLICE RETIREMENT SYSTEM

	2002	2001
Miscellaneous Cash	1,266,091	1,094,951
Short-Term Investment Pool	81,837,844	54,976,448
Short-Term Investments	17,843,020	45,064,222
Total	\$ 100,946,955	\$ 101,135,621

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	2002	2001
Miscellaneous Cash	24,939,638	19,154,421
Short-Term Investment Pool	204,492,843	
Short-Term Investments	142,008,460	188,046,064
Total	\$ 371,440,941	\$ 207,200,485

NOTE D. Investments

The Board of Trustees of the Retirement Systems and Insurance Fund recognize their duty to invest funds in accordance with the Prudent Person Rule and manage those funds consistent with the long term nature of the Systems. 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 domestic and international common stock, securities convertible into common stock and in preferred stock of publicly traded corporations.

Fixed Income Investments - Publicly traded corporate 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 also 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.

NOTE D - INVESTMENTS (continued)

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 alternative investments. The board may invest in 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.

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. 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.

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, 2002 and 2001 was approximately \$137 million and \$135 million respectively; the fair value of asset-backed securities at June 30, 2002 and 2001 was approximately \$141 million and \$263 million respectively; and the fair value of exchange-traded funds at June 30, 2002 and 2001 was approximately \$191 million and \$33 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, 2002 and 2001. 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, 2002, 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.

KENTUCKY RETIREMENT SYSTEMS
 NOTES TO THE FINANCIAL STATEMENTS
 For The Years Ended June 30, 2002 and 2001

Note D: Investments (continued)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

2002				
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
U.S. Government Securities	\$ 113,768,072	\$	\$ 6,257,731	\$ 120,025,803
Loaned for securities collateral	250,546,768			250,546,768
Corporate bonds	545,042,869			545,042,869
Loaned for securities collateral	5,102,948			5,102,948
Corporate stocks	2,452,194,242		129	2,452,194,371
Loaned for securities collateral	444,848			444,848
Short-term investments	<u>259,255,343</u>		<u>1,495,823</u>	<u>260,751,166</u>
Subtotal	<u>\$3,626,355,090</u>	<u>\$</u>	<u>\$ 7,753,683</u>	3,634,108,773
Investments - Not Categorized				
Short Term Investment Pool				1,318,840,638
Investments held by broker-dealers under securities loans				
U.S. Government Securities				806,544,819
Corporate bonds				67,680,028
Corporate stocks				403,320,388
Mortgages				313,339,066
Real Estate Investment				<u>11,103,333</u>
Total Investments				<u>\$6,554,937,045</u>
2001				
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
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			223
Repurchase agreements	<u>849,261,657</u>			<u>849,261,657</u>
Subtotal	<u>\$4,305,382,268</u>	<u>\$</u>	<u>\$ 21,449,016</u>	4,326,831,283
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				870,430,971
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>

KENTUCKY RETIREMENT SYSTEMS
 NOTES TO THE FINANCIAL STATEMENTS
 For The Years Ended June 30, 2002 and 2001

Note D: Investments (continued)

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2002			Market Value
Investments - Categorized	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 106,558,509	\$	\$ 6,176,453	\$ 112,734,961
Loaned for securities collateral	248,649,168			248,649,168
Corporate bonds	537,565,238			537,565,238
Loaned for securities collateral	5,064,299			5,064,299
Corporate stocks	2,433,226,793		124	2,433,226,917
Loaned for securities collateral	441,479			441,479
Short-term investments	<u>267,991,504</u>		<u>1,478,414</u>	<u>269,469,918</u>
Subtotal	<u>\$3,599,496,989</u>	<u>\$</u>	<u>\$ 7,654,990</u>	3,607,151,979
Investments - Not Categorized				
Short-Term Investment Pool				1,308,851,954
Investments held by broker-dealers under securities loans				
U.S. Government Securities				800,442,229
Corporate bonds				67,167,431
Corporate stocks				400,265,705
Mortgages				309,695,477
Real Estate Investment				<u>9,580,920</u>
Total Investments				<u>\$6,503,155,695</u>
	2001			
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
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
Repurchase agreements	<u>939,342,782</u>			<u>939,342,782</u>
Subtotal	<u>\$4,175,228,174</u>	<u>\$</u>	<u>\$ 20,038,165</u>	4,195,266,339
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				842,324,041
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>

KENTUCKY RETIREMENT SYSTEMS
 NOTES TO THE FINANCIAL STATEMENTS
 For The Years Ended June 30, 2002 and 2001

Note D: Investments (continued)

STATE POLICE RETIREMENT SYSTEM

Investments - Categorized	2002			Market
	Category 1	Category 2	Category 3	Value
U.S. Government Securities	\$ 8,834,474	\$	\$ 397,807	\$ 9,232,273
Loaned for securities collateral	15,547,146			15,547,146
Corporate bonds	34,758,002			34,758,002
Loaned for securities collateral	316,653			316,653
Corporate stocks	146,882,275			146,882,283
Loaned for securities collateral	27,604			27,604
Short-term investments	<u>17,750,580</u>	<u>\$</u>	<u>92,440</u>	<u>17,843,020</u>
Subtotal	<u>\$ 224,116,733</u>	<u>\$</u>	<u>490,247</u>	224,606,980
Investments - Not Categorized				
Short-Term Investment Pool				81,837,844
Investments held by broker-dealers under securities loans				
U.S. Government Securities				50,048,419
Corporate bonds				4,199,740
Corporate stocks				25,027,187
Mortgages				19,484,961
Real Estate Investment				<u>1,014,934</u>
Total Investments				<u>\$ 406,220,066</u>

Investments - Categorized	2001			Market
	Category 1	Category 2	Category 3	Value
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
Repurchase agreements	<u>45,064,222</u>	<u>\$</u>	<u></u>	<u>45,064,222</u>
Subtotal	<u>\$ 270,299,976</u>	<u>\$</u>	<u>1,363,966</u>	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>

KENTUCKY RETIREMENT SYSTEMS
 NOTES TO THE FINANCIAL STATEMENTS
 For The Years Ended June 30, 2002 and 2001

Note D: Investments (continued)

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	2002			Market Value
Investments - Categorized	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 14,644,105	\$	\$	\$ 14,644,105
Loaned for securities collateral	12,342,559			12,342,559
Corporate stocks	758,949,817			758,949,817
Loaned for securities collateral	2,647,879			2,647,879
Short-term investments	141,428,879		579,581	142,008,459
Subtotal	\$ 930,013,238	\$	\$ 579,581	930,592,818
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				204,492,843
U.S. Government Securities				92,779,528
Corporate stocks				119,665,028
Mortgage				
Total Investments				\$1,347,530,217

	2001			Market Value
Investments - Categorized	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 64,843,456	\$	\$	\$ 64,843,456
Corporate bonds	1,843,891			1,843,891
Corporate stocks	681,320,455			681,320,435
Repurchase agreements	188,046,064			188,046,064
Subtotal	\$ 936,053,866	\$ 0	\$	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 stocks				57,784,278
Mortgages				6,595,407
Total Investments				\$1,137,597,128

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 \$200,000 for a single claim and \$350,000 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 (66⅔%) 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 6/30/2000	Book Value Portfolio Percentage 6/30/2000	Market Value Portfolio Percentage 6/30/2000	Restated Book Value 7/1/2000
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>
TOTAL	<u>\$10,074,843,250</u>	<u>100.0000%</u>	<u>100.0000%</u>	<u>\$10,074,843,250</u>

INSURANCE FUNDS

	Book Value 6/30/2000	Book Value Portfolio Percentage 6/30/2000	Market Value Portfolio Percentage 6/30/2000	Restated Book Value 7/1/2000
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>
TOTAL	<u>\$807,528,354</u>	<u>100.0000%</u>	<u>100.0000%</u>	<u>\$807,528,354</u>

NOTE K - ANTHEM DEMUTUALIZATION

In 2001, Anthem Insurance Companies, Inc., an Indiana corporation, underwent a demutualization, as authorized by the Indiana statutes. The demutualization provided, among other things, that "eligible statutory members", as defined by Indiana statutory provision, would receive cash or stock in consideration for giving up their membership interest in Anthem. In some instances application of the statute led to the determination by Anthem that individual members of the retirement plans administered by Kentucky Retirement Systems were the "statutory members" and in other instances the Kentucky Retirement Systems was identified by Anthem as the eligible statutory member to receive cash or stock under the Anthem demutualization plan. According to Anthem, this determination was based upon which of Anthem's subsidiaries was the original provider. The determination was confirmed by the Indiana Department of Insurance.

The \$61,603,207 distribution which Kentucky Retirement Systems received on January 4, 2002 under the Anthem demutualization has been deposited in the Kentucky Employees Retirement Systems Insurance Fund. The retirement systems included within the Kentucky Retirement Systems for purposes of the Anthem demutualization are the Kentucky Employees Retirement System, (hazardous and non-hazardous), the County Employees Retirement System (hazardous and non-hazardous), the State Police Retirement System, the Legislators' Retirement Plan, and the Judicial Retirement Plan. Anthem has not yet provided the Kentucky Retirement System with the information necessary to divide the distribution among these retirement funds. Accordingly, the distribution will remain in the Kentucky Employees Retirement Systems Insurance Fund until the interests of the various retirement funds are determined. Given the unusual and non-recurring nature of the transaction, it is reported in these financial statements as a separate component of income.

NOTE L - CONTINGENT LIABILITY - ANTHEM DEMUTUALIZATION

In relation to the above noted Anthem demutualization, Kentucky Retirement System is a defendant in a case entitled Jean C. Love, David E. Wiseman and Belvia Campbell v. Board of Trustees of the Kentucky Retirement Systems, which is in Franklin Circuit Court. At issue is how to distribute the proceeds resulting from Anthem's demutualization, which resulted in Kentucky Retirement System receiving approximately \$61 million dollars in proceeds. The plaintiffs seek to recover the full amount of the proceeds or, alternatively, the pro rata amount of proceeds attributable to insurance premiums that the employees and/or their beneficiaries paid directly to Anthem. Kentucky Retirement System believes that the claims are without merit and intends to vigorously defend its position. The ultimate outcome of this litigation cannot presently be determined. However, in management's opinion, the likelihood of a material adverse outcome is unlikely. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.

NOTE M - EXCHANGE GAIN OR LOSS

Foreign currency translations resulted in an aggregate exchange gain of \$77,489,388 for the Pension Funds and \$12,284,741 for the Insurance Funds.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
<u>Non-Hazardous</u>			
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)
June 30, 2002*	6,654,084,196	6,026,094,764	(627,989,432)
 <u>Hazardous</u>			
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)
June 30, 2002*	376,384,302	322,069,164	(54,315,138)

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 2002

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
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)
1.104	1,595,809,458	(0.393)
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)
1.169	125,275,925	(0.434)

COUNTY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
<u>Non-Hazardous</u>			
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)
June 30, 2002*	5,397,787,158	4,165,355,149	(1,232,432,009)
 <u>Hazardous</u>			
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)
June 30, 2002*	1,485,511,793	1,327,291,273	(158,220,520)

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 2002

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
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)
1.296	1,663,183,629	(0.741)
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)
1.119	345,849,277	(0.457)

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 2002

STATE POLICE RETIREMENT SYSTEM

<u>Year Ended</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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)
June 30, 2002*	438,955,465	380,790,346	(58,165,119)	1.153	44,314,696	(1.312)

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

KERS <u>Non-Hazardous</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
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
June 30, 2002*	521,250,455	1,907,683,881	1,386,433,426
KERS <u>Hazardous</u>			
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
June 30, 2002*	135,874,582	236,819,050	100,944,468

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 2002

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
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
0.273	1,595,809,458	0.869
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
0.574	125,275,925	0.806

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

CERS <u>Non-Hazardous</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
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
June 30, 2002*	450,497,307	1,977,577,038	1,527,079,731
CERS <u>Hazardous</u>			
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
June 30, 2002*	234,683,878	781,184,974	546,501,096

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 2002

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.123	1,297,116,204	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
0.228	1,663,183,629	0.918
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
0.301	345,849,279	1.580

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 2002

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

<u>SPRS</u>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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
June 30, 2002*	86,867,391	165,445,412	78,578,021	0.525	44,314,696	1.773

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 For The Year Ended June 30, 2002

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, 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
June 30, 2002	93,993,177	95,672,345	1.018

HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
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
June 30, 2002	23,601,984	23,821,216	1.009

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 For The Year Ended June 30, 2002

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, 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
June 30, 2002	105,445,842	107,678,891	1.021

HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
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
June 30, 2002	56,304,262	56,785,282	1.009

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For The Year Ended June 30, 2002

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, 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
June 30, 2002	9,563,111	9,562,256	0.999

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 For The Year Ended June 30, 2002

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, 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
June 30, 2002	93,993,177	93,912,017	0.999

KERS
HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
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
June 30, 2002	15,859,932	15,887,399	1.002

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 For The Year Ended June 30, 2002

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, 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
June 30, 2002	102,119,475	102,150,543	1.000

CERS
HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
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
June30, 2001	32,149,432	32,149,432	1.000
June 30, 2002	45,721,274	45,730,333	1.000

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For The Year Ended June 30, 2002

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, 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
June 30, 2002	9,563,111	9,579,899	1.001

KENTUCKY RETIREMENT SYSTEMS
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 For The Year Ended June 30, 2002

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, 2002	June 30, 2002
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, 2002	June 30, 2002
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, 2002

SUPPORTING SCHEDULE #1

Personal Services:		
Salaries and Per Diem	\$7,596,287	
Fringe Benefits	1,574,458	
Tuition Assistance	<u>35,533</u>	
Total Personal Services		\$ 9,206,278
Contractual Services:		
Actuarial	36,150	
Audit	27,500	
Legal	245,907	
Medical	139,172	
Contractual	62,071	
Miscellaneous	<u>286,106</u>	
Total Contractual Services		796,906
Communication:		
Printing	143,111	
Telephone	120,965	
Postage	684,694	
Travel	<u>135,182</u>	
Total Communication		1,083,952
Rentals:		
Office Space	512,298	
Equipment	<u>43,071</u>	
Total Rentals		555,369
Miscellaneous:		
Utilities	66,159	
Supplies	177,384	
Insurance	36,032	
Maintenance	449,578	
Other	<u>45,844</u>	
Total Miscellaneous		774,997
Capital Outlay:		
Equipment Purchases	<u>75,974</u>	
Total Capital Outlay		75,974
Year End Accruals:		
Investment management	451,025	
Sick Leave Expense	105,930	
Year End Accounts payable	<u>379,089</u>	
Total Year End Accruals		<u>936,044</u>
TOTAL ADMINISTRATIVE EXPENSES		<u>\$13,429,520</u>

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF INVESTMENT EXPENSES
 For the Year Ended June 30, 2002

SUPPORTING SCHEDULE #2

Retirement Funds

Security Lending Fees:		
Broker Rebates	\$47,020,886	
Lending Agent Fees	2,965,049	
Custodial Fee	<u>18,750</u>	
Total Security Lending		\$ 50,004,685
Contractual Services:		
Investment Management	7,154,941	
Security Custody	440,680	
Investment Consultant	<u>130,000</u>	
Total Contractual Services		7,725,621

Insurance Funds

Security Lending Fees:		
Broker Rebates	3,325,556	
Lending Agent Fees	<u>185,598</u>	
Total Security Lending		3,511,154
Investment Management		<u>(451,025)</u>
TOTAL INVESTMENT EXPENSES		<u>\$ 60,790,435</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, 2002

SUPPORTING SCHEDULE #3

Actuarial Services	\$ 36,150
Medical Review Services	139,172
Audit Services	27,500
Legal Counsel	<u>245,907</u>
TOTAL	<u>\$448,729</u>

Charles T. Mitchell Company, LLP

Certified Public Accountants

DON C. GILES, C.P.A.

WILLIAM G. JOHNSON, JR., C.P.A.

LARRY T. WILLIAMS, C.P.A.

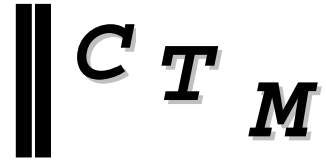
JAMES CLOUSE, C.P.A.

BERNADETTE SMITH, C.P.A.

KIM FIELD, C.P.A.

GREG MIKLAVCIC, C.P.A.

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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, 2002, and have issued our report thereon dated October 31, 2002. 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, 2002