

Financial Statements

KENTUCKY RETIREMENT SYSTEMS

June 30, 2004 and 2003

KENTUCKY RETIREMENT SYSTEMS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Kentucky Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, as of June 30, 2004 and 2003 and the changes in 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 September 16, 2004 on our consideration of the Kentucky Retirement Systems' 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.

Management's Discussion and Analysis (pages 2 through 6) and the supplementary information included in the schedule of funding progress and schedule of employer contributions (pages 27 through 35) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional supporting schedules (pages 37 through 43) are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

September 16, 2004
Louisville, Kentucky

KENTUCKY RETIREMENT SYSTEMS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004 and 2003

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, 2004. Please read it in conjunction with the Pension Fund's financial statements and Insurance Fund's financial statements, which begin on page 7.

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 increased by \$966.1 million during the 2003-2004 fiscal year.
- Covered payroll for 2003-2004 was \$4.048 billion compared to covered payroll for the 2002-2003 plan year of \$3.955 billion, increasing approximately \$93 million. The corresponding employer contributions increased by \$65.1 million for a total employer contribution amount of \$342.1 million. Of the total employer contribution amount, \$104.3 million was posted to the pension fund while \$237.8 million was posted to the insurance fund. Contributions paid by employees were \$306.7 and \$314.8 million respectively for the years ended June 30, 2004 and June 30, 2003. This decrease in employee contributions is a reflection of a decrease in voluntary service purchases.
- The net appreciation in the fair value of investments was \$1.14 billion for the year ended June 30, 2004 compared to net appreciation of \$110 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$227.6 million. In comparison, the pension funds realized losses of \$155.2 million for the year ended June 30, 2003. The net realized gain experienced by the pension funds is due to a favorable change in market conditions.
- Investment income net of investment expense from all sources including securities lending was \$298.2 million compared to \$321 million net investment income in last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased \$100.2 million bringing total benefit payments to \$849.2 million. Refund of contributions paid to former members upon termination of employment increased from \$20.5 million to \$23.4 million.
- Administrative expense increased \$.8 million totaling \$15.2 million compared to \$14.4 million in the prior year.

FINANCIAL HIGHLIGHTS--INSURANCE FUND

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

- The combined plan net assets of the post-employment healthcare (insurance) fund administered by Kentucky Retirement Systems increased by \$358 million during the 2003-2004 fiscal year.
- Employer contributions of \$237.8 million were received. This is an increase of \$4.5 million over the prior fiscal year. This increase is due to an increase in covered payroll reported during the 2003-2004 plan year.
- The net appreciation in the fair value of investments was \$228.6 million compared to net appreciation of 6.3 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$22 million.
- Investment income net of investment expense from all sources including securities lending was \$24.6 million compared to net investment income of \$22 million in last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage increased \$18.6 million to total \$131.9 million for the year.

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KENTUCKY RETIREMENT SYSTEMS

MANAGEMENT'S DISCUSSION AND ANALYSIS--CONTINUED

June 30, 2004 and 2003

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 for the Pension Fund on page 7 and for the Post-employment Healthcare fund on page 9 provides a snapshot of the financial position of each of the three systems at June 30, 2004. The Combined Statement of Changes in Plan Net Assets for the Pension Fund on page 8 and for the Post-employment Healthcare Fund on page 10 summarize the additions and deductions that occurred for each of the three systems during the period from July 1, 2003 through June 30, 2004.

The Schedule of Funding Progress on pages 27-32 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 33-35 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 increased during the year ended June 30, 2004 by \$1,324.1 million from \$12,257.3 million to \$13,581.4 million. Plan net assets for the prior fiscal year increased by \$152.9 million. The increase in plan net assets for the plan year ended June 30, 2004 is attributable to the change in 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		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Cash & Investments	\$13,327.7	\$14,240.2	\$13,492.8	\$2,000.8	\$1,664.2	\$1,372.5	\$15,328.5	\$15,904.4	\$14,865.3
Receivables	123.3	124.9	132.0	21.4	25.2	29.6	144.7	150.1	161.6
Equipment, net of depreciation	0.9	1.0	1.2	0.0	0.0	0.0	0.9	1.0	1.2
Total Assets	<u>\$13,451.9</u>	<u>\$14,366.1</u>	<u>\$13,626.0</u>	<u>\$2,022.2</u>	<u>\$1,689.4</u>	<u>\$1,402.1</u>	<u>\$15,474.1</u>	<u>\$16,055.5</u>	<u>\$15,028.1</u>
Total Liabilities	<u>\$(1,572.3)</u>	<u>\$(3,452.5)</u>	<u>\$(2,718.0)</u>	<u>\$(320.4)</u>	<u>\$(345.7)</u>	<u>\$(205.7)</u>	<u>\$(1,892.7)</u>	<u>\$(3,798.2)</u>	<u>\$(2,923.7)</u>
Plan Net Assets	<u>\$11,879.6</u>	<u>\$10,913.6</u>	<u>\$10,908.0</u>	<u>\$1,701.8</u>	<u>\$1,343.7</u>	<u>\$1,196.4</u>	<u>\$13,581.4</u>	<u>\$12,257.3</u>	<u>\$12,104.4</u>

Continued

KENTUCKY RETIREMENT SYSTEMS

MANAGEMENT'S DISCUSSION AND ANALYSIS--CONTINUED

June 30, 2004 and 2003

Table 2
Changes in Plan Net Assets
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Additions:									
Member Cont.	\$ 306.7	\$ 314.8	\$ 286.8	\$ 0.0	\$ 0.0	\$ 0.0	\$ 306.7	\$ 314.8	\$ 286.8
Employer Cont.	104.3	43.7	26.3	237.8	233.4	267.3	342.1	277.1	293.6
Invest. Inc. (net)	<u>1,442.9</u>	<u>430.9</u>	<u>(498.0)</u>	<u>253.1</u>	<u>28.2</u>	<u>(52.5)</u>	<u>1,696</u>	<u>459.1</u>	<u>(550.5)</u>
Total additions	<u>\$1,853.9</u>	<u>\$ 789.4</u>	<u>\$(184.9)</u>	<u>\$490.9</u>	<u>\$261.6</u>	<u>\$214.8</u>	<u>\$2,344.8</u>	<u>\$1,051.0</u>	<u>\$ 29.9</u>
Deductions:									
Benefit payments	\$ 849.2	\$ 749.0	\$ 640.9	\$ 0.0	\$ 0.0	\$ 0.0	\$ 849.2	\$ 749.0	\$ 640.9
Refunds	23.4	20.5	17.9	0.0	0.0	0.0	23.4	20.5	17.9
Administrative Expense	15.2	14.4	12.6	1.0	0.9	0.8	16.2	15.3	13.4
Healthcare Premiums	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>131.9</u>	<u>113.3</u>	<u>96.1</u>	<u>131.9</u>	<u>113.3</u>	<u>96.1</u>
Total deductions	<u>\$ 887.8</u>	<u>\$ 783.9</u>	<u>\$ 671.4</u>	<u>\$132.9</u>	<u>\$114.2</u>	<u>\$ 96.9</u>	<u>\$1,020.7</u>	<u>\$ 898.1</u>	<u>\$ 768.3</u>
Increase (decrease)									
in plan net assets	<u>\$ 966.1</u>	<u>\$ 5.5</u>	<u>\$(856.3)</u>	<u>\$358.0</u>	<u>\$147.4</u>	<u>\$117.9</u>	<u>\$1,324.1</u>	<u>\$ 152.9</u>	<u>\$(738.4)</u>

Plan net assets of the pension funds increased by \$966.1 million (\$11,879.6 million compared to \$10,913.5 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 increase is attributable primarily to the net appreciation in the fair value of investments due to the change in market conditions in general.

Plan net assets of the insurance fund increased by \$358 million (\$1,701.8 million compared to \$1,343.8 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 net appreciation in the fair value of investments, which is due to the change in market conditions in general.

PENSION FUND ACTIVITIES

Member contributions decreased by \$8.1 million. Retirement contributions are calculated by applying a percentage factor to salary and are remitted by each employer on behalf of the 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 decreased this fiscal year.

Employer contributions increased (\$60.6 million) due to the increase in covered payroll and the increase in the contribution rates applied to the pension funds.

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KENTUCKY RETIREMENT SYSTEMS

MANAGEMENT'S DISCUSSION AND ANALYSIS--CONTINUED

June 30, 2004 and 2003

Net investment income increased by \$1,012 million (income of \$1,442.9 million compared to net investment income of \$430.9 million in the prior year). The pension funds experienced an increase in income primarily due to the appreciation in the fair value of investments. This can be illustrated as follows:

	<u>In Millions</u>
Appreciation in fair value of investments-June 30, 2004	\$ 1,394.8
Appreciation in fair value of investments-June 30, 2003	<u>477.7</u>
Net appreciation in fair value of investments	917.1
Investment income (net of investment expense)	298.2
Net gain on sale of investments	<u>227.6</u>
Investment income (net)-June 30, 2004	<u>\$ 1,442.9</u>

Pension fund deductions increased by \$103.8 million caused principally by an increase of \$100.2 million in benefit payments. Retirees received an increase of 1.6% in benefits as of July 1, 2003. Refunds of member contributions increased by \$2.8 million.

INSURANCE FUND ACTIVITIES

Employer contributions paid into the insurance fund increased by \$4.5 million over the prior year. This increase is a result of the increase (\$93 million) in covered payroll reported.

Net investment income increased by \$224.9 million. This increase in net income is due primarily to the increase in net appreciation in the fair value of assets. This can be illustrated as follows:

	<u>In Millions</u>
Appreciation in fair value of investments-June 30, 2004	\$ 217.7
Appreciation in fair value of investments-June 30, 2003	<u>11.2</u>
Net appreciation in fair value of investments	206.5
Investment income (net of investment expense)	24.6
Net gain on sale of investments	<u>22.0</u>
Investment Income (net)-June 30, 2004	<u>\$ 253.1</u>

Pension fund deductions increased by \$18.7 million primarily due to the increase of \$18.6 million in health insurance premiums paid.

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KENTUCKY RETIREMENT SYSTEMS

MANAGEMENT'S DISCUSSION AND ANALYSIS--CONTINUED

June 30, 2004 and 2003

HISTORICAL TRENDS

Accounting standards require that the statement of plan net assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative 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 27-32. 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 cost funding 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 33-35. The difference in the annual required contributions made by employers in the KERS and SPRS funds is attributable to the statutory employer contribution rate set by the Kentucky General Assembly being less than the rate computed by the actuary.

KENTUCKY RETIREMENT SYSTEMS

COMBINED STATEMENTS OF PLAN NET ASSETS--PENSION FUNDS

June 30, 2004 and 2003

(Dollars in Thousands)

	2004			2003	
	KERS	CERS	State Police	Total	Total
ASSETS					
Cash and short-term investments					
Cash	\$ 828	\$ 1,041	\$ 86	\$ 1,955	\$ 1,493
Short-term investments	<u>109,455</u>	<u>152,957</u>	<u>3,607</u>	<u>266,019</u>	<u>485,752</u>
Total cash and short-term investments	110,283	153,998	3,693	267,974	487,245
Receivables					
Contributions	26,806	35,675	966	63,447	65,296
Investment income	<u>28,121</u>	<u>30,009</u>	<u>1,727</u>	<u>59,857</u>	<u>59,582</u>
Total receivables	54,927	65,684	2,693	123,304	124,878
Investments, at fair value					
Corporate and government bonds	1,722,643	1,838,555	107,006	3,668,204	3,845,290
Corporate stocks	3,464,583	3,543,644	205,072	7,213,299	5,886,202
Mortgages	272,632	316,200	16,860	605,692	560,005
Real estate	<u>4,493</u>	<u>4,912</u>	<u>493</u>	<u>9,898</u>	<u>17,256</u>
Total investments at fair value	5,464,351	5,703,311	329,431	11,497,093	10,308,753
Securities lending collateral invested	740,416	778,008	44,251	1,562,675	3,444,164
Equipment (net of accumulated depreciation)	<u>344</u>	<u>579</u>	<u>6</u>	<u>929</u>	<u>1,012</u>
Total Assets	<u>6,370,321</u>	<u>6,701,580</u>	<u>380,074</u>	<u>13,451,975</u>	<u>14,366,052</u>
LIABILITIES					
Accounts payable	4,342	5,225	102	9,669	8,340
Securities lending collateral	<u>740,416</u>	<u>778,008</u>	<u>44,251</u>	<u>1,562,675</u>	<u>3,444,164</u>
Total Liabilities	<u>744,758</u>	<u>783,233</u>	<u>44,353</u>	<u>1,572,344</u>	<u>3,452,504</u>
Plan Net Assets Held in Trust for Pension Benefits	<u>\$ 5,625,563</u>	<u>\$ 5,918,347</u>	<u>\$ 335,721</u>	<u>\$ 11,879,631</u>	<u>\$ 10,913,548</u>

(A schedule of funding progress for each plan is presented on pages 27-32)

See accompanying independent auditor's report and notes to financial statements

KENTUCKY RETIREMENT SYSTEMS

COMBINED STATEMENTS OF CHANGES IN PLAN NET ASSETS--PENSION FUNDS

Years Ended June 30, 2004 and 2003
(Dollars in Thousands)

	2004			2003	
	KERS	CERS	State Police	Total	Total
ADDITIONS					
Members' contributions	\$ 140,625	\$ 161,152	\$ 4,875	\$ 306,652	\$ 314,855
Employers' contributions	<u>31,466</u>	<u>71,669</u>	<u>1,153</u>	<u>104,288</u>	<u>43,661</u>
Total contributions	172,091	232,821	6,028	410,940	358,516
INVESTMENT INCOME					
From investing activities					
Net appreciation in fair value of investments	554,217	557,392	33,053	1,144,662	109,972
Interest/Dividends	<u>144,522</u>	<u>152,961</u>	<u>8,806</u>	<u>306,289</u>	<u>326,259</u>
Total investing activities income	698,739	710,353	41,859	1,450,951	436,231
Investment expense	3,856	4,105	223	8,184	7,385
Commissions	<u>2,476</u>	<u>2,616</u>	<u>145</u>	<u>5,237</u>	<u>3,101</u>
Total investing activities expense	<u>6,332</u>	<u>6,721</u>	<u>368</u>	<u>13,421</u>	<u>10,486</u>
Net income from investing activities	<u>692,407</u>	<u>703,632</u>	<u>41,491</u>	<u>1,437,530</u>	<u>425,745</u>
From Securities Lending Activities					
Securities lending income	11,734	12,337	701	24,772	35,925
Securities lending expense:					
Security borrower rebates	8,467	8,896	506	17,869	29,191
Security lending agent fees	<u>739</u>	<u>776</u>	<u>44</u>	<u>1,559</u>	<u>1,554</u>
Net income from securities lending activities	<u>2,528</u>	<u>2,665</u>	<u>151</u>	<u>5,344</u>	<u>5,180</u>
Total net investment income	<u>694,935</u>	<u>706,297</u>	<u>41,642</u>	<u>1,442,874</u>	<u>430,925</u>
Total Additions	867,026	939,118	47,670	1,853,814	789,441

	2004				2003
	KERS	CERS	State Police	Total	Total
DEDUCTIONS					
Benefit payments	\$ 476,230	\$ 342,065	\$ 30,877	\$ 849,172	\$ 748,980
Refunds	9,411	13,854	96	23,361	20,522
Administrative expenses	5,654	9,453	91	15,198	14,430
Total deductions	<u>491,295</u>	<u>365,372</u>	<u>31,064</u>	<u>887,731</u>	<u>783,932</u>
Net increase in plan assets	375,731	573,746	16,606	966,083	5,509
Plan net assets held in trust for Pension Benefits					
Beginning of Year	<u>5,249,832</u>	<u>5,344,601</u>	<u>319,115</u>	<u>10,913,548</u>	<u>10,908,039</u>
End of Year	<u>\$ 5,625,563</u>	<u>\$ 5,918,347</u>	<u>\$ 335,721</u>	<u>\$ 11,879,631</u>	<u>\$ 10,913,548</u>

See accompanying independent auditor's report and notes to financial statements

KENTUCKY RETIREMENT SYSTEMS

COMBINED STATEMENTS OF PLAN NET ASSETS--POST-EMPLOYMENT HEALTHCARE

June 30, 2004 and 2003
(Dollars in Thousands)

	2004			2003	
	KERS	CERS	State Police	Total	Total
ASSETS					
Cash and short-term investments					
Cash	\$ 38	\$ 37	\$ 5	\$ 80	\$ 216
Short-term investments	<u>118,411</u>	<u>82,813</u>	<u>6,526</u>	<u>207,750</u>	<u>147,010</u>
Total cash and short-term investments	118,449	82,850	6,531	207,830	147,226
Receivables					
Contributions	4,607	12,175	351	17,133	21,790
Investment income	<u>1,870</u>	<u>2,166</u>	<u>242</u>	<u>4,278</u>	<u>3,434</u>
Total receivables	6,477	14,341	593	21,411	25,224
Investments, at fair value					
Corporate and government bonds	73,244	82,178	9,445	164,867	133,241
Corporate stocks	<u>552,048</u>	<u>683,348</u>	<u>73,926</u>	<u>1,309,322</u>	<u>1,039,366</u>
Total investments	625,292	765,526	83,371	1,474,189	1,172,607
Security lending collateral invested	<u>140,967</u>	<u>160,804</u>	<u>17,043</u>	<u>318,814</u>	<u>344,416</u>
Total Assets	<u>891,185</u>	<u>1,023,521</u>	<u>107,538</u>	<u>2,022,244</u>	<u>1,689,473</u>
LIABILITIES					
Accounts payable	410	1,103	75	1,588	1,258
Securities lending collateral obligations	<u>140,967</u>	<u>160,804</u>	<u>17,043</u>	<u>318,814</u>	<u>344,416</u>
Total Liabilities	<u>141,377</u>	<u>161,907</u>	<u>17,118</u>	<u>320,402</u>	<u>345,674</u>
Plan Net Assets Held in Trust for Post-Employment Healthcare Benefits	<u>\$ 749,808</u>	<u>\$ 861,614</u>	<u>\$ 90,420</u>	<u>\$ 1,701,842</u>	<u>\$ 1,343,799</u>

(A schedule of funding progress for each plan is presented on pages 27-32)

See accompanying independent auditor's report and notes to financial statements

KENTUCKY RETIREMENT SYSTEMS

COMBINED STATEMENTS OF CHANGES IN PLAN NET ASSETS--POST-EMPLOYMENT HEALTHCARE

Years Ended June 30, 2004 and 2003
(Dollars in Thousands)

	2004			2003	
	KERS	CERS	State Police	Total	Total
ADDITIONS					
Employers' contributions	\$ 92,976	\$ 136,381	\$ 8,456	\$ 237,813	\$ 233,351
Total contributions	92,976	136,381	8,456	237,813	233,351
INVESTMENT INCOME					
From investing activities:					
Net appreciation in fair value of investments	97,913	117,623	13,048	228,584	6,272
Interest/Dividends	10,645	13,147	1,451	25,243	22,305
Total income from investing activities	108,558	130,770	14,499	253,827	28,577
Investment activities expense	399	471	57	927	522
Commissions	252	298	36	586	378
Total investing activities expense	651	769	93	1,513	900
Net income from investing activities	107,907	130,001	14,406	252,314	27,677
From Securities Lending Activities					
Securities lending income	1,538	1,757	185	3,480	2,980
Securities lending expense:					
Security borrower rebates	1,089	1,242	132	2,463	2,286
Security lending agent fees	86	99	10	195	140
Net income from securities lending activities	363	416	43	822	554
Total net investment income	108,270	130,417	14,449	253,136	28,231
Total Additions	201,246	266,798	22,905	490,949	261,582

	2004			2003
	KERS	CERS	State Police	Total
DEDUCTIONS				
Healthcare premiums subsidies	\$ 63,526	\$ 63,354	\$ 4,992	\$ 131,872
Administrative fees	<u>505</u>	<u>498</u>	<u>31</u>	<u>1,034</u>
Total deductions	<u>64,031</u>	<u>63,852</u>	<u>5,023</u>	<u>132,906</u>
Net increase in plan assets	137,215	202,946	17,882	358,043
Plan net assets held in trust for post-employment healthcare benefit				
Beginning of Year	<u>612,593</u>	<u>658,668</u>	<u>72,538</u>	<u>1,343,799</u>
End of Year	<u>\$ 749,808</u>	<u>\$ 861,614</u>	<u>\$ 90,420</u>	<u>\$ 1,701,842</u>

See accompanying independent auditor's report and notes to financial statements

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

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). 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.

Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Equipment - Equipment is valued at historical cost and depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets ranging from three to ten years.

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.

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.

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

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.

NOTE B--PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

Membership of each Retirement plan consisted of the following at June 30, 2004 and 2003:

	KENTUCKY EMPLOYEES RETIREMENT SYSTEM					
	2004			2003		
	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>
Number of Members						
Retirees and beneficiaries receiving benefits	28,892	1,549	30,441	27,182	1,365	28,547
Inactive Vested Retirements	4,833	260	5,093	3,892	169	4,061
Inactive Vested Memberships	20,951	1,772	22,723	17,320	1,233	18,553
Active plan members	<u>47,599</u>	<u>4,014</u>	<u>51,613</u>	<u>49,586</u>	<u>4,203</u>	<u>53,789</u>
Total	<u>102,275</u>	<u>7,595</u>	<u>109,870</u>	<u>97,980</u>	<u>6,970</u>	<u>104,950</u>
Number of participating employers			<u>411</u>			<u>410</u>

	COUNTY EMPLOYEES RETIREMENT SYSTEM					
	2004			2003		
	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>
Number of Members						
Retirees and beneficiaries receiving benefits	29,129	4,005	33,134	27,057	3,787	30,844
Inactive Vested Retirements	6,927	361	7,288	5,147	193	5,340
Inactive Vested Memberships	37,509	1,287	38,796	30,573	873	31,446
Active plan members	<u>80,922</u>	<u>9,349</u>	<u>90,271</u>	<u>83,142</u>	<u>9,587</u>	<u>92,729</u>
Total	<u>154,487</u>	<u>15,002</u>	<u>169,489</u>	<u>145,919</u>	<u>14,440</u>	<u>160,359</u>
Number of participating employers			<u>1,389</u>			<u>1,367</u>

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE B--PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION--CONTINUED

STATE POLICE RETIREMENT SYSTEM

	<u>2004</u>	<u>2003</u>
	Hazardous Position Employees	Hazardous Position Employees
<u>Number of Members</u>		
Retirees and beneficiaries receiving benefits	992	966
Inactive Vested Retirements	46	43
Inactive Vested Memberships	201	186
Active plan members	<u>999</u>	<u>1,022</u>
Total	<u>2,238</u>	<u>2,217</u>
Number of participating employers	<u>1</u>	<u>1</u>

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts in force consisted of the following at June 30, 2004 and 2003:

	<u>2004</u>					<u>2003</u>				
	<u>Single</u>	Couple/ <u>Family</u>	<u>Parent +</u>	Medicare <u>Regular</u>	Medicare <u>High</u>	<u>Single</u>	Couple/ <u>Family</u>	<u>Parent +</u>	Medicare <u>Regular</u>	Medicare <u>High</u>
KERS Non-Hazardous	7,313	1,462	443	1,932	11,437	6,602	1,298	428	1,855	11,311
KERS Hazardous	502	276	65	65	531	417	234	53	62	494
CERS Non-Hazardous	5,598	946	246	2,756	10,424	5,054	855	244	2,630	9,958
CERS Hazardous	1,087	1,463	223	45	913	1,010	1,379	223	40	808
SPRS	<u>226</u>	<u>400</u>	<u>45</u>	<u>13</u>	<u>326</u>	<u>218</u>	<u>384</u>	<u>44</u>	<u>13</u>	<u>312</u>
Totals	<u>14,726</u>	<u>4,547</u>	<u>1,022</u>	<u>4,811</u>	<u>26,631</u>	<u>13,301</u>	<u>4,150</u>	<u>992</u>	<u>4,600</u>	<u>22,883</u>

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 judgment the welfare of the Commonwealth so demands.

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE B--PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION--CONTINUED

Contributions - For the years ended June 30, 2004 and 2003, 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 year ended June 30, 2004, participating employers contributed 5.89% of each employee's creditable compensation. For the year ended June 30, 2003, the contribution rate for some employers participating in KERS was 3.76% of creditable compensation and 5.89% of creditable compensation for some employers pursuant to legislation enacted by the 2003 General Assembly [HB269, FCCRI, Part III, General Provisions, Paragraph 18 (2003)]. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 was 7.53% and 5.89%, respectively, of each employee's 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 covers 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 judgment the welfare of the Commonwealth so demands.

Contributions - For the years ended June 30, 2004 and 2003, 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 year ended June 30, 2004, participating employers contributed 18.84% of each employee's creditable compensation. For the year ended June 30, 2003, the contribution rate for some employers participating in KERS was 17.60% of creditable compensation and 18.84% of creditable compensation for some employers pursuant to legislation enacted by the 2003 General Assembly [HB269, FCCRI, Part III, General Provisions, Paragraph 18 (2003)]. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 was 18.84% of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

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 certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 2004 and 2003, 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, 2004 and 2003, participating employers contributed 7.34% and 6.34%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 was 7.34% and 6.34%, respectively. Administrative costs of Kentucky Retirement Systems 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, 2004 and 2003, 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, 2004 and 2003, participating employers contributed 18.51% and 16.28%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 was 18.51% and 16.28%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

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, 2004 and 2003 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, 2004 and 2003, the State contributed 21.58% and 17.37%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 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 fiscal 2004, insurance premiums withheld from benefit payments to members of the Systems were \$25,004,536 and \$793,183 for KERS and KERS hazardous, respectively, \$22,201,996 and \$2,517,308 for CERS and CERS hazardous, respectively, and \$664,487 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, 2004 the Fund had 64,567 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. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

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

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE B--PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION--CONTINUED

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, such employee's spouse receives ten dollars (\$10) per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

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.

NOTE C--CASH AND SHORT-TERM INVESTMENTS AND SECURITIES LENDING COLLATERAL

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

	KENTUCKY EMPLOYEES RETIREMENT SYSTEM	
	<u>2004</u>	<u>2003</u>
Miscellaneous cash	\$ 827,932	\$ 525,299
Short-Term Investment Pool	740,416,197	1,656,597,564
Repurchase agreements	<u>109,455,167</u>	<u>170,917,610</u>
Total	<u>\$ 850,699,296</u>	<u>\$ 1,828,040,473</u>

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE C--CASH AND SHORT-TERM INVESTMENTS AND SECURITIES LENDING COLLATERAL--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>2004</u>	<u>2003</u>
Miscellaneous Cash	\$ 1,041,182	\$ 832,473
Short-Term Investment Pool	778,007,759	1,686,604,839
Repurchase agreements	<u>152,957,527</u>	<u>306,549,501</u>
Total	<u>\$ 932,006,468</u>	<u>\$ 1,993,986,813</u>

STATE POLICE RETIREMENT SYSTEM

	<u>2004</u>	<u>2003</u>
Miscellaneous Cash	\$ 85,664	\$ 134,759
Short-Term Investment Pool	44,251,527	100,961,178
Repurchase agreements	<u>3,606,746</u>	<u>8,285,357</u>
Total	<u>\$ 47,943,937</u>	<u>\$ 109,381,294</u>

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	<u>2004</u>	<u>2003</u>
Miscellaneous Cash	\$ 79,960	\$ 215,516
Short-Term Investment Pool	318,814,039	344,416,324
Repurchase agreements	<u>207,750,238</u>	<u>147,009,999</u>
Total	<u>\$ 526,644,237</u>	<u>\$ 491,641,839</u>

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.

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.

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE D--INVESTMENTS--CONTINUED

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, 2004 and 2003 was approximately \$67 million and \$80 million respectively; the fair value of asset-backed securities at June 30, 2004 and 2003 was approximately \$277 million and \$310 million respectively; and the fair value of exchange-traded funds at June 30, 2004 and 2003 was approximately \$299 million and \$188 million, respectively.

The Retirement Systems' and Insurance Fund's investments are categorized on pages 20 through 23 to give an indication of the level of risk assumed by them at June 30, 2004 and 2003. Category 1 includes investments that are either insured or registered or for which the securities are held by the System or its agent in the Systems' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Systems' custodial agent in the Systems' name. Category 3 includes securities held by the Systems' 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, 2004, 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.

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE D--INVESTMENTS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEM

Investments - Categorized	2004			Fair Value
	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 167,700,557	\$ -	\$ 3,304,358	\$ 171,004,915
Loaned for securities collateral	483,521,727	-	-	483,521,727
Corporate bonds	460,074,146	-	-	460,074,146
Loaned for securities collateral	5,047,609	-	-	5,047,609
Corporate stocks	3,184,464,154	-	-	3,184,464,154
Loaned for securities collateral	13,724,905	-	-	13,724,905
Repurchase agreements	<u>82,747,424</u>	<u>-</u>	<u>70,210,103</u>	<u>152,957,527</u>
Subtotal	4,397,280,522	-	73,514,461	4,470,794,983
Investments - Not Categorized				
Short-Term Investment Pool	-	-	-	778,007,759
Investments held by broker-dealers under securities loans:				
U.S. Government Securities	-	-	-	562,309,398
Corporate bonds	-	-	-	156,597,783
Corporate stocks	-	-	-	345,454,294
Mortgages	-	-	-	316,199,740
Real Estate Investment	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,911,995</u>
Total Investments	<u>\$4,397,280,522</u>	<u>\$ -</u>	<u>\$ 73,514,461</u>	<u>\$6,634,275,952</u>

Investments - Categorized	2003			Fair Value
	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 209,130,474	\$ -	\$ 3,879,310	\$ 213,009,784
Loaned for securities collateral	483,521,727	-	-	483,521,727
Corporate bonds	574,044,312	-	-	574,044,312
Loaned for securities collateral	5,047,609	-	-	5,047,609
Corporate stocks	2,265,011,128	-	133	2,265,011,261
Loaned for securities collateral	13,724,905	-	-	13,724,905
Repurchase agreements	<u>303,566,399</u>	<u>-</u>	<u>2,983,102</u>	<u>306,549,501</u>
Subtotal	3,854,046,554	-	6,862,545	3,860,909,099
Investments - Not Categorized				
Short-Term Investment Pool	-	-	-	1,686,604,839
Investments held by broker-dealers under securities loans:				
U.S. Government Securities	-	-	-	513,146,864
Corporate bonds	-	-	-	62,840,762
Corporate stocks	-	-	-	571,683,924
Mortgages	-	-	-	269,920,205
Real Estate Investment	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,796,669</u>
Total Investments	<u>\$3,854,046,554</u>	<u>\$ -</u>	<u>\$ 6,862,545</u>	<u>\$6,972,902,362</u>

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE D--INVESTMENTS--CONTINUED

STATE POLICE RETIREMENT SYSTEM

Investments - Categorized	2004			Fair Value
	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 11,052,618	\$ -	\$ 179,283	\$ 11,231,901
Loaned for securities collateral	28,943,901	-	-	28,943,901
Corporate bonds	32,048,956	-	-	32,048,956
Loaned for securities collateral	302,153	-	-	302,153
Corporate stocks	170,029,412	-	-	170,029,412
Loaned for securities collateral	821,581	-	-	821,581
Repurchase agreements	-	-	3,606,746	3,606,746
Subtotal	243,198,531	-	3,786,029	246,984,650
Investments - Not Categorized				
Short-Term Investment Pool	-	-	-	44,251,527
Investments held by broker-dealers under securities loans:				
U.S. Government Securities	-	-	-	30,717,279
Corporate bonds	-	-	-	3,761,686
Corporate stocks	-	-	-	34,221,343
Mortgages	-	-	-	16,860,141
Real Estate Investment	-	-	-	493,000
Total Investments	<u>\$ 243,198,531</u>	<u>\$ -</u>	<u>\$ 3,786,029</u>	<u>\$ 377,289,626</u>

Investments - Categorized	2003			Fair Value
	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 16,405,761	\$ -	\$ 232,170	\$ 16,637,931
Loaned for securities collateral	28,943,901	-	-	28,943,901
Corporate bonds	36,425,347	-	-	36,425,347
Loaned for securities collateral	302,153	-	-	302,153
Corporate stocks	138,380,614	-	8	138,380,622
Loaned for securities collateral	821,581	-	-	821,581
Repurchase agreements	8,106,824	-	178,533	8,285,357
Subtotal	229,386,181	-	410,711	229,796,892
Investments - Not Categorized				
Short-Term Investment Pool	-	-	-	100,961,178
Investments held by broker-dealers under securities loans:				
U.S. Government Securities	-	-	-	30,717,279
Corporate bonds	-	-	-	3,761,686
Corporate stocks	-	-	-	34,221,343
Mortgages	-	-	-	16,969,831
Real Estate Investment	-	-	-	823,918
Total Investments	<u>\$ 229,386,181</u>	<u>\$ -</u>	<u>\$ 410,711</u>	<u>\$ 417,252,127</u>

Continued

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE D--INVESTMENTS--CONTINUED

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	2004			
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 2,003,959	\$ -	\$ -	\$ 2,003,959
Loaned for securities collateral	69,032,483	-	-	69,032,483
Corporate stocks	1,024,278,961	-	-	1,024,278,961
Loaned for securities collateral	19,365,667	-	-	19,365,667
Repurchase agreements	<u>171,042,829</u>	<u>-</u>	<u>36,707,409</u>	<u>207,750,238</u>
Subtotal	1,285,723,899	-	36,707,409	1,322,431,308
Investments - Not Categorized				
Short-term investment pool	-	-	-	318,814,039
Investments held by broker-dealers under securities loans:	-	-	-	-
U.S. Government Securities	-	-	-	93,830,603
Corporate stocks	<u>-</u>	<u>-</u>	<u>-</u>	<u>265,677,741</u>
Total Investments	<u>\$1,285,723,899</u>	<u>\$ -</u>	<u>\$ 36,707,409</u>	<u>\$2,000,753,691</u>
	2003			
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
U.S. Government Securities	\$ -	\$ -	\$ -	\$ -
Loaned for securities collateral	104,484,853	-	-	104,484,853
Corporate stocks	827,298,990	-	-	827,298,990
Loaned for securities collateral	16,750,685	-	-	16,750,685
Repurchase agreements	<u>145,186,891</u>	<u>-</u>	<u>1,823,108</u>	<u>147,009,999</u>
Subtotal	1,093,721,419	-	1,823,108	1,095,544,527
Investments - Not Categorized				
Short-term investment pool	-	-	-	344,416,324
Investments held by broker-dealers under securities loans:	-	-	-	28,755,858
U.S. Government Securities	-	-	-	195,316,898
Corporate stocks	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$1,093,721,419</u>	<u>\$ -</u>	<u>\$ 1,823,108</u>	<u>\$1,664,033,607</u>

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE E--SECURITIES LENDING TRANSACTIONS

Kentucky Revised Statutes Sections 61.650 and 386.020(2) permit the Pension and Insurance Funds to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the Funds' custodial banks either cash collateral or other securities with a fair 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 June 30, 2004, the Funds have no credit risk exposure to borrowers because the amounts the Funds owe to borrowers exceed the amounts the borrowers owe the Funds. The contracts with the custodial banks require them to indemnify the Funds 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 Funds. 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 Pension Fund only. Neither of the Funds can pledge or sell collateral securities received unless the borrower defaults.

NOTE F--RISKS OF LOSS

KRS is 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 \$100,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

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

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

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE G--CONTINGENCIES

In the normal course of business, KRS is involved in various litigation concerning the right of participants or their beneficiaries to receive benefits. KRS 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 KRS qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax under income tax law.

NOTE I--ANTHEM DEMUTUALIZATION

In 2002, 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 was 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.

NOTE J--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, there is a reasonable possibility that an adverse outcome will occur, but an estimate of such amount cannot be determined. Accordingly, no amounts that might result from this outcome have been reflected in the financial statements.

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2004 and 2003

NOTE K--DEFINED BENEFIT PENSION PLAN

All eligible employees of Kentucky Retirement Systems (KRS) participate in the Kentucky Employees Retirement System (non-hazardous), a cost-sharing, multiple-employer defined pension plan that covers substantially all regular full-time employees in non-hazardous positions of any Kentucky 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. Plan benefits are extended to beneficiaries of plan members under certain circumstances. KRS contributed 5.89% of covered payroll for the period July 1, 2003 – June 30, 2004. KRS contributed 3.76% of covered payroll for the period July 1, 2002 – December 15, 2002 and 5.89% for the period December 16, 2002 – June 30, 2003. Plan members were required to contribute 5% of creditable compensation for the plan years ended June 30, 2004 and 2003. Covered payroll was approximately \$9,035,000 and \$8,265,000 for 2004 and 2003, respectively. KRS contributed approximately \$532,000 and \$408,000 for 2004 and 2003, respectively.

NOTE L--EQUIPMENT

Equipment consists of the following:

	June 30	
	<u>2004</u>	<u>2003</u>
Equipment, at cost	\$ 3,337,099	\$ 3,343,869
Less accumulated depreciation	<u>(2,407,794)</u>	<u>(2,332,240)</u>
	<u>\$ 929,305</u>	<u>\$ 1,011,629</u>

Depreciation expense for the years ended June 30, 2004 and 2003 amounted to \$303,562 and \$352,054, respectively.

NOTE M--COLLATERALIZATION OF DEPOSITS

At June 30, 2004, KRS had cash deposits at a financial institution, which totaled approximately \$2,035,000. The balance is insured by the Federal Deposit Insurance Corporation up to \$100,000. The remaining balance of approximately \$1,935,000 was collateralized by securities recorded in KRS's name and held by the financial institution.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)--PENSION FUNDS

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 1999	\$ 5,264,340,397	\$ 4,327,622,821	\$ (936,717,576)	121.6%	\$ 1,330,766,100	(70.4)%
June 30, 2000	6,806,675,460	4,876,825,772	(1,929,849,688)	139.6	1,409,504,668	(136.9)
June 30, 2001	6,844,742,687	5,444,035,294	(1,400,707,393)	125.7	1,505,299,220	(93.1)
June 30, 2002*	6,654,084,196	6,026,094,764	(627,989,432)	110.4	1,595,809,458	(39.3)
June 30, 2003**	6,351,318,832	6,520,463,188	169,144,356	97.4	1,658,604,696	10.2
June 30, 2004**	6,000,513,743	7,049,613,171	1,049,099,428	85.1	1,645,412,496	63.8
<u>Hazardous</u>						
June 30, 1999	\$ 259,839,319	\$ 204,282,788	\$ (55,556,531)	127.2%	\$ 103,464,123	(53.7)%
June 30, 2000	336,213,464	243,365,557	(92,847,907)	138.2	115,639,439	(80.3)
June 30, 2001	361,677,475	285,193,761	(76,483,714)	126.8	122,857,992	(62.3)
June 30, 2002*	376,384,302	322,069,164	(54,315,138)	116.9	125,275,925	(43.4)
June 30, 2003**	385,925,722	356,879,133	(29,046,589)	108.1	129,088,956	(22.5)
June 30, 2004**	397,212,763	403,578,036	6,365,273	98.4	126,664,812	5.0
<u>Total</u>						
June 30, 1999	\$ 5,524,179,716	\$ 4,531,905,609	\$ (992,274,107)	121.9%	\$ 1,434,230,223	(69.2)%
June 30, 2000	7,142,888,924	5,120,191,329	2,022,697,595	139.5	1,525,144,107	132.6
June 30, 2001	7,206,420,162	5,729,229,055	1,477,191,107	125.8	1,628,157,212	90.7
June 30, 2002*	7,030,468,498	6,348,163,928	682,304,570	110.7	1,721,085,383	39.6
June 30, 2003**	6,737,244,554	6,877,342,321	198,190,945	98.0	1,787,693,652	11.1
June 30, 2004**	6,397,726,506	7,453,191,207	1,055,464,701	85.8	1,772,077,308	59.6

*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.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)--PENSION FUNDS

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 1999	\$ 4,072,227,435	\$ 2,991,420,884	\$ (1,080,806,551)	136.1%	\$ 1,346,601,939	(80.3)%
June 30, 2000	5,284,033,534	3,368,601,134	(1,915,432,400)	156.9	1,452,058,248	(131.9)
June 30, 2001	5,423,834,549	3,706,282,212	(1,717,552,337)	146.3	1,544,973,296	(111.2)
June 30, 2002*	5,397,787,158	4,165,355,149	(1,232,432,009)	129.6	1,663,183,629	(74.1)
June 30, 2003**	5,286,580,047	4,417,597,802	(868,982,245)	119.7	1,796,451,180	(48.4)
June 30, 2004**	5,187,851,530	4,936,459,488	(251,392,042)	105.1	1,826,870,880	(13.8)
<u>Hazardous</u>						
June 30, 1999	\$ 1,124,651,486	\$ 963,711,775	\$ (160,939,711)	116.7%	\$ 256,201,726	(62.8)%
June 30, 2000	1,445,542,794	1,084,553,697	(360,989,097)	133.3	288,575,870	(125.1)
June 30, 2001	1,486,666,016	1,193,860,442	(292,805,574)	124.5	316,700,304	(92.5)
June 30, 2002*	1,485,511,793	1,327,291,273	(158,220,520)	111.9	345,849,277	(45.7)
June 30, 2003**	1,467,004,856	1,499,628,782	32,623,926	97.8	374,700,732	8.7
June 30, 2004**	1,457,612,042	1,640,830,120	183,218,078	88.8	392,562,624	46.7
<u>Total</u>						
June 30, 1999	\$ 5,196,878,921	\$ 3,955,132,659	\$ (1,241,746,262)	131.4%	\$ 1,602,803,665	(77.5)%
June 30, 2000	6,729,576,328	4,453,154,831	(2,276,421,497)	151.1	1,740,634,118	(130.8)
June 30, 2001	6,910,500,565	4,900,142,654	(2,010,357,911)	141.0	1,861,673,600	(108.0)
June 30, 2002*	6,883,298,951	5,492,646,422	(1,390,652,529)	125.3	2,009,032,906	(69.2)
June 30, 2003**	6,753,584,903	5,917,226,584	(836,358,319)	114.1	2,171,151,912	(38.5)
June 30, 2004**	6,645,463,572	6,577,289,608	(68,173,964)	101.0	2,219,433,504	(3.1)

*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.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS--CONTINUED

STATE POLICE RETIREMENT SYSTEM (SPRS)--PENSION FUNDS

<u>Year Ended</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age Normal (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Percent Funded (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll [(b-a)/c]</u>
June 30, 1998	\$ 306,318,918	\$ 294,427,019	\$ (11,891,899)	104.0%	\$ 38,727,361	(30.7)%
June 30, 1999	357,623,196	314,021,673	(43,601,523)	113.9	40,433,405	(107.8)
June 30, 2000	459,168,574	336,579,763	(122,588,811)	136.4	43,619,383	(281.0)
June 30, 2001	456,160,709	356,211,860	(99,948,849)	128.1	44,646,678	(223.7)
June 30, 2002*	438,955,465	380,790,346	(58,165,119)	115.3	44,314,696	(131.2)
June 30, 2003**	413,063,576	414,881,459	1,817,883	99.6	43,760,832	4.2
June 30, 2004**	385,077,195	437,482,425	52,405,230	88.0	43,835,208	119.6

*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.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS--CONTINUED

KENTUCKY EMPLOYEES RETIREMENT SYSTEMS (KERS)--POST-EMPLOYMENT HEALTHCARE

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 1999	\$ 283,704,887	\$ 1,273,364,800	\$ 989,659,913	22.3%	\$ 1,330,766,100	74.3%
June 30, 2000	399,560,252	1,457,475,358	1,057,915,106	27.4	1,409,504,668	75.1
June 30, 2001	449,630,605	1,769,583,098	1,319,952,493	25.4	1,505,299,220	87.7
June 30, 2002*	521,250,455	1,907,683,881	1,386,433,426	27.3	1,595,809,458	86.9
June 30, 2003**	553,885,082	2,093,210,321	1,539,325,239	26.5	1,658,604,696	92.8
June 30, 2004**	600,586,961	2,335,905,365	1,735,318,404	25.7	1,645,412,496	105.5
<u>Hazardous</u>						
June 30, 1999	\$ 74,579,649	\$ 149,158,586	\$ 74,578,937	50.0%	\$ 103,464,123	72.1%
June 30, 2000	102,212,237	175,167,613	72,955,376	58.4	115,639,439	63.1
June 30, 2001	119,372,742	214,450,822	95,078,080	55.7	122,857,992	77.4
June 30, 2002*	135,874,582	236,819,050	100,944,468	57.4	125,275,925	80.6
June 30, 2003**	151,459,500	283,178,335	131,718,835	53.5	129,088,956	102.0
June 30, 2004**	169,158,879	323,503,563	154,344,684	52.3	126,664,812	121.9
<u>Total</u>						
June 30, 1999	\$ 358,284,536	\$ 1,422,523,386	\$ 1,064,238,850	25.2%	\$ 1,434,230,223	74.2%
June 30, 2000	501,772,489	1,632,642,971	1,130,870,482	30.7	1,525,144,107	74.1
June 30, 2001	569,003,347	1,984,033,920	1,415,030,573	28.7	1,628,157,212	86.9
June 30, 2002*	657,125,037	2,144,502,931	1,487,377,894	30.6	1,721,085,383	86.4
June 30, 2003**	705,344,582	2,376,388,656	1,671,044,074	29.7	1,787,693,652	93.5
June 30, 2004**	769,745,840	2,659,408,928	1,889,663,088	28.9	1,772,077,308	106.6

*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.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEMS (CERS)--POST-EMPLOYMENT HEALTHCARE

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
Non-Hazardous						
June 30, 1999	\$ 231,937,169	\$ 1,282,874,286	\$ 1,050,937,117	18.0%	\$ 1,346,601,939	78.0%
June 30, 2000	319,642,694	1,466,716,928	1,147,074,234	21.8	1,452,058,248	79.0
June 30, 2001	371,758,628	1,793,710,768	1,421,952,140	20.7	1,544,973,296	92.0
June 30, 2002*	450,497,307	1,977,577,038	1,527,079,731	22.8	1,663,183,629	91.8
June 30, 2003**	520,060,105	2,176,963,259	1,656,903,154	23.9	1,796,451,180	92.2
June 30, 2004**	585,399,072	2,438,734,696	1,853,335,624	24.0	1,826,870,880	101.5
Hazardous						
June 30, 1999	\$ 114,590,223	\$ 518,280,115	\$ 403,689,892	22.1%	\$ 256,201,726	157.6%
June 30, 2000	168,657,912	599,936,029	431,278,117	28.1	288,575,870	149.5
June 30, 2001	197,875,249	721,605,292	523,730,043	27.4	316,700,304	165.4
June 30, 2002*	234,683,878	781,184,974	546,501,096	30.1	345,849,279	158.0
June 30, 2003**	269,190,080	935,650,662	666,460,582	28.8	374,700,732	177.9
June 30, 2004**	310,578,162	1,025,684,477	715,106,315	30.3	392,562,624	182.2
Total						
June 30, 1999	\$ 346,527,392	\$ 1,801,154,401	\$ 1,454,627,009	19.2%	\$ 1,602,803,665	90.8%
June 30, 2000	488,300,606	2,066,652,957	1,578,352,351	23.6	1,740,634,118	90.7
June 30, 2001	569,633,877	2,515,316,060	1,945,682,183	22.6	1,861,673,600	104.5
June 30, 2002*	685,181,185	2,758,762,012	2,073,580,827	24.8	2,009,032,908	103.2
June 30, 2003**	789,250,185	3,112,613,921	2,323,363,736	25.4	2,171,151,912	107.0
June 30, 2004**	895,977,234	3,464,419,173	2,568,441,939	25.9	2,219,433,504	115.7

*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.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS--CONTINUED

STATE POLICE RETIREMENT SYSTEMS (SPRS)--POST-EMPLOYMENT HEALTHCARE

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
June 30, 1999	\$ 53,929,859	\$ 125,797,150	\$ 71,867,291	42.9%	\$ 40,433,405	177.7%
June 30, 2000	71,711,712	138,867,085	67,155,373	51.6	43,619,383	154.0
June 30, 2001	79,863,577	158,261,479	78,397,902	50.5	44,646,678	175.6
June 30, 2002*	86,867,391	165,445,412	78,578,021	52.5	44,314,696	177.3
June 30, 2003**	90,747,967	184,501,205	93,753,238	49.2	43,760,832	214.2
June 30, 2004**	96,622,908	197,604,301	100,981,393	48.9	43,835,208	230.4

*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.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)

<u>Year Ended</u>	<u>Pension</u>			<u>NON-HAZARDOUS Insurance</u>			<u>Total</u>		
	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
June 30, 1999	\$ 50,169,882	\$ 50,745,239	101.1%	\$ 56,690,636	\$ 56,769,539	100.1%	\$ 106,860,518	\$ 107,514,778	100.6%
June 30, 2000	36,365,221	38,129,156	104.9	76,818,004	76,926,320	100.1	113,183,225	115,055,476	100.7
June 30, 2001	21,787,253	23,482,080	107.8	66,874,871	66,874,871	100.0	88,662,124	90,356,951	101.9
June 30, 2002	-	1,760,328	-	93,993,177	93,912,017	99.9	93,993,177	95,672,345	101.8
June 30, 2003	4,905,399	7,597,450	134.9	92,052,561	65,335,219	71.0	96,957,960	72,932,669	75.2
June 30, 2004	47,739,067	21,696,543	45.4	77,951,553	78,016,737	100.1	125,690,620	99,713,280	79.3

<u>Year Ended</u>	<u>Pension</u>			<u>HAZARDOUS Insurance</u>			<u>Total</u>		
	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
June 30, 1999	\$ 8,546,136	\$ 8,669,902	101.4%	\$ 10,760,269	\$ 10,773,916	100.1%	\$ 19,306,405	\$ 19,443,818	100.7%
June 30, 2000	9,551,817	9,586,177	100.4	12,026,502	12,047,095	100.2	21,578,319	21,633,272	100.3
June 30, 2001	9,920,148	10,626,663	107.1	13,226,298	13,226,298	100.0	23,146,446	23,852,961	103.1
June 30, 2002	7,742,052	7,933,817	102.5	15,859,932	15,887,399	100.2	23,601,984	23,821,216	100.9
June 30, 2003	8,511,402	7,322,607	86.0	15,839,215	15,883,263	100.3	24,350,617	23,205,870	95.3
June 30, 2004	9,600,978	9,769,580	101.8	14,942,092	14,959,617	100.1	24,543,070	24,729,197	100.8

<u>Year Ended</u>	<u>Pension</u>			<u>TOTAL Insurance</u>			<u>Total</u>		
	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
June 30, 1999	\$ 58,716,018	\$ 59,415,141	101.2%	\$ 67,450,905	\$ 67,543,455	100.1%	\$ 126,166,923	\$ 126,958,596	100.6%
June 30, 2000	45,917,038	47,715,333	103.9	88,844,506	88,973,415	100.1	134,761,544	136,688,748	101.4
June 30, 2001	31,707,401	34,108,743	107.6	80,101,169	80,101,169	100.0	111,808,570	114,209,912	102.1
June 30, 2002	7,742,052	9,694,145	125.2	109,853,109	109,799,416	100.0	117,595,161	119,493,561	101.6
June 30, 2003	13,416,801	14,920,057	111.2	107,891,776	81,218,482	75.3	121,308,577	96,138,539	79.3
June 30, 2004	57,340,045	31,466,123	54.9	92,893,645	92,976,354	100.1	150,233,690	124,442,477	82.8

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

<u>Year Ended</u>	<u>NON-HAZARDOUS</u>								
	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1999	\$ 61,135,728	\$ 62,689,179	102.5%	\$ 47,939,029	\$ 47,901,837	99.9%	\$ 109,074,757	\$ 110,591,016	101.4%
June 30, 2000	50,676,832	51,373,244	101.4	55,033,008	55,213,973	100.3	105,709,840	106,587,217	100.8
June 30, 2001	35,658,922	48,914,435	137.2	62,292,385	62,292,385	100.0	97,951,307	111,206,820	113.5
June 30, 2002	3,326,367	5,528,348	166.2	102,119,475	102,150,543	100.0	105,445,842	107,678,891	102.1
June 30, 2003	8,682,257	11,855,694	136.6	102,038,427	99,234,843	97.3	110,720,684	111,090,537	100.3
June 30, 2004	43,111,505	44,028,465	102.1	89,289,520	89,344,241	100.1	132,401,025	133,372,706	100.7

<u>Year Ended</u>	<u>HAZARDOUS</u>								
	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1999	\$ 22,878,814	\$ 24,907,660	108.9%	\$ 23,647,419	\$ 23,382,957	98.9%	\$ 46,526,233	\$ 48,290,617	103.8%
June 30, 2000	22,653,206	23,393,895	103.3	27,991,859	28,345,377	101.3	50,645,065	51,739,272	102.2
June 30, 2001	19,409,377	20,983,360	108.1	32,149,432	32,149,432	100.0	51,558,809	53,132,792	103.1
June 30, 2002	10,582,988	11,054,949	104.5	45,721,274	45,730,333	100.0	56,304,262	56,785,282	100.9
June 30, 2003	19,920,223	16,905,556	84.9	43,502,755	45,243,950	104.0	63,422,978	62,149,506	98.0
June 30, 2004	27,050,382	27,640,775	102.2	47,018,046	47,036,777	100.0	74,068,428	74,677,552	100.8

<u>Year Ended</u>	<u>TOTAL</u>								
	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1999	\$ 84,014,542	\$ 87,596,839	104.3%	\$ 71,586,448	\$ 71,284,794	99.6%	\$ 155,600,990	\$ 158,881,633	102.1%
June 30, 2000	73,330,038	74,767,139	102.0	83,024,867	83,559,350	100.6	156,354,905	158,326,489	101.3
June 30, 2001	55,068,299	69,897,795	126.9	94,441,817	94,441,817	100.0	149,510,116	164,339,612	109.9
June 30, 2002	13,909,355	16,583,297	119.2	147,840,749	147,880,876	100.0	161,750,104	164,464,173	101.7
June 30, 2003	28,602,480	28,761,250	100.6	145,541,182	144,478,793	99.3	174,143,662	173,240,043	99.5
June 30, 2004	70,161,887	71,669,240	102.1	136,307,566	136,381,018	100.1	206,469,453	208,050,258	100.8

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS--CONTINUED

STATE POLICE RETIREMENT SYSTEM (SPRS)

<u>Year Ended</u>	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1999	\$ 2,657,190	\$ 4,343,151	163.4%	\$ 6,808,270	\$ 5,120,037	75.2%	\$ 9,465,460	\$ 9,463,188	100.0%
June 30, 2000	2,973,719	2,964,037	99.7	7,237,579	7,251,787	100.2	10,211,298	10,215,824	100.0
June 30, 2001	1,826,883	1,811,299	99.1	7,807,870	7,817,613	100.1	9,634,753	9,628,912	99.9
June 30, 2002	1,464,204	1,448,865	99.0	8,098,907	8,113,391	100.2	9,563,111	9,562,256	100.0
June 30, 2003	-	(20,061)	-	9,443,588	7,654,313	81.1	9,443,588	7,634,252	80.8
June 30, 2004	1,175,711	1,152,752	98.0	8,434,834	8,455,498	100.2	9,610,545	9,608,250	100.0

KENTUCKY RETIREMENT SYSTEMS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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, 2004	June 30, 2004
Actuarial Cost Method	Entry Age	Entry Age
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 Smoothing of Investment Gains and Losses	Five-year Smoothing of Investment Gains and Losses
Post-retirement Benefit Increase	2.85%	2.85%
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, 2004	June 30, 2004
Actuarial Cost Method	Targeted Rate	Targeted Rate
Asset Valuation Method - Started with 1996 Valuation	Five-year Smoothing of Investment Gains and Losses	Five-year Smoothing of Investment Gains and Losses
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

ADDITIONAL SUPPORTING SCHEDULES

KENTUCKY RETIREMENT SYSTEMS

SCHEDULE OF ADMINISTRATIVE EXPENSES

	Years ended June 30	
	<u>2004</u>	<u>2003</u>
	(Dollars in thousands)	
Personal Services		
Salaries and per diem	\$ 9,268	\$ 8,681
Fringe benefits	1,930	1,679
Tuition assistance	<u>50</u>	<u>45</u>
Total personal services	11,248	10,405
Contractual Services		
Actuarial	141	66
Audit	40	59
Legal	288	575
Medical	326	211
Contractual	<u>100</u>	<u>452</u>
Total contractual services	895	1,363
Communication		
Printing	139	142
Telephone	150	134
Postage	571	337
Travel	<u>152</u>	<u>168</u>
Total communication	1,012	781
Rentals		
Office space	982	814
Equipment	<u>50</u>	<u>52</u>
Total rentals	1,032	866
Miscellaneous		
Utilities	120	101
Supplies	113	123
Insurance	51	48
Maintenance	170	225
Other	<u>253</u>	<u>166</u>
Total miscellaneous	707	663
Depreciation	304	352
Healthcare Administrative Fees	<u>1,034</u>	<u>862</u>
Total Administrative Expenses	<u>\$ 16,232</u>	<u>\$ 15,292</u>

KENTUCKY RETIREMENT SYSTEMS

SCHEDULE OF INVESTMENT EXPENSES

Years Ended June 30, 2004 and 2003

	Years ended June 30	
	<u>2004</u>	<u>2003</u>
	(Dollars in thousands)	
RETIREMENT FUNDS		
Security Lending Fees		
Broker rebates	\$ 17,869	\$ 29,191
Lending agent fees	<u>1,559</u>	<u>1,554</u>
Total security lending	19,428	30,745
Common Stock Commissions	5,237	3,101
Contractual Services		
Investment management	7,253	6,609
Security custody	727	591
Investment consultant	184	185
Investment related travel	<u>20</u>	<u>-</u>
Total contractual services	8,184	7,385
INSURANCE FUNDS		
Security Lending Fees		
Broker rebates	2,463	2,286
Lending agent fees	<u>195</u>	<u>140</u>
Total security lending	2,658	2,426
Common Stock Commissions	586	378
Investment Management	<u>927</u>	<u>522</u>
Total investment expenses	<u>\$ 37,020</u>	<u>\$ 44,557</u>

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

KENTUCKY RETIREMENT SYSTEMS

SCHEDULE OF PROFESSIONAL CONSULTANT FEES

	Years ended June 30	
	<u>2004</u>	<u>2003</u>
	(Dollars in thousands)	
Actuarial Services	\$ 141	\$ 66
Medical Review Services	326	211
Audit Services	40	59
Legal Counsel	<u>288</u>	<u>575</u>
Total	<u>\$ 795</u>	<u>\$ 911</u>

KENTUCKY RETIREMENT SYSTEMS

COMBINING SCHEDULES OF PLAN NET ASSETS--PENSION FUNDS

June 30, 2004 and 2003

(Dollars in Thousands)

	2004					2003	
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	State Police	Total	Total
ASSETS							
Cash and short-term investments							
Cash	\$ 67	\$ 761	\$ 228	\$ 813	\$ 86	\$ 1,955	\$ 1,493
Short-term investments	<u>11,330</u>	<u>98,125</u>	<u>34,290</u>	<u>118,667</u>	<u>3,607</u>	<u>266,019</u>	<u>485,752</u>
Total cash and short-term investments	11,397	98,886	34,518	119,480	3,693	267,974	487,245
Receivables							
Contributions	2,047	24,759	10,061	25,614	966	63,447	65,296
Investment income	<u>1,747</u>	<u>26,374</u>	<u>6,481</u>	<u>23,528</u>	<u>1,727</u>	<u>59,857</u>	<u>59,582</u>
Total receivables	3,794	51,133	16,542	49,142	2,693	123,304	124,878
Investments, at fair value							
Corporate and government bonds	105,309	1,617,334	394,924	1,443,631	107,006	3,668,204	3,845,290
Corporate stocks	227,386	3,237,197	788,758	2,754,886	205,072	7,213,299	5,886,202
Mortgages	17,062	255,570	69,113	247,087	16,860	605,692	560,005
Real estate	<u>1,913</u>	<u>2,580</u>	<u>2,416</u>	<u>2,496</u>	<u>493</u>	<u>9,898</u>	<u>17,256</u>
Total investments at fair value	351,670	5,112,681	1,255,211	4,448,100	329,431	11,497,093	10,308,753
Securities lending collateral invested	48,210	692,206	171,294	606,714	44,251	1,562,675	3,444,164
Equipment (net of accumulated depreciation)	<u>25</u>	<u>319</u>	<u>48</u>	<u>531</u>	<u>6</u>	<u>929</u>	<u>1,012</u>
Total Assets	<u>415,096</u>	<u>5,955,225</u>	<u>1,477,613</u>	<u>5,223,967</u>	<u>380,074</u>	<u>13,451,975</u>	<u>14,366,052</u>
LIABILITIES							
Accounts payable	318	4,024	1,307	3,918	102	9,669	8,340
Securities lending collateral	<u>48,210</u>	<u>692,206</u>	<u>171,294</u>	<u>606,714</u>	<u>44,251</u>	<u>1,562,675</u>	<u>3,444,164</u>
Total Liabilities	<u>48,528</u>	<u>696,230</u>	<u>172,601</u>	<u>610,632</u>	<u>44,353</u>	<u>1,572,344</u>	<u>3,452,504</u>
Plan Net Assets Held in Trust for Pension Benefits	<u>\$ 366,568</u>	<u>\$ 5,258,995</u>	<u>\$ 1,305,012</u>	<u>\$ 4,613,335</u>	<u>\$ 335,721</u>	<u>\$ 11,879,631</u>	<u>\$ 10,913,548</u>

KENTUCKY RETIREMENT SYSTEMS

COMBINING SCHEDULES OF CHANGES IN PLAN NET ASSETS--PENSION FUNDS

Years Ended June 30, 2004 and 2003
(Dollars in Thousands)

	2004					2003	
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	State Police	Total	Total
ADDITIONS							
Members' contributions	\$ 11,548	\$ 129,077	\$ 38,668	\$ 122,484	\$ 4,875	\$ 306,652	\$ 314,855
Employers' contributions	<u>9,769</u>	<u>21,697</u>	<u>27,641</u>	<u>44,028</u>	<u>1,153</u>	<u>104,288</u>	<u>43,661</u>
Total contributions	21,317	150,774	66,309	166,512	6,028	410,940	358,516
INVESTMENT INCOME							
From investing activities							
Net appreciation in fair value							
of investments	34,350	519,867	122,104	435,288	33,053	1,144,662	109,972
Interest/Dividends	<u>9,295</u>	<u>135,227</u>	<u>33,400</u>	<u>119,560</u>	<u>8,806</u>	<u>306,289</u>	<u>326,259</u>
Total investing activities income	43,645	655,094	155,505	554,848	41,859	1,450,951	436,231
Investment expense	246	3,610	886	3,219	223	8,184	7,385
Commissions	<u>160</u>	<u>2,316</u>	<u>578</u>	<u>2,038</u>	<u>145</u>	<u>5,237</u>	<u>3,101</u>
Total investing activities expense	<u>406</u>	<u>5,926</u>	<u>1,464</u>	<u>5,257</u>	<u>368</u>	<u>13,421</u>	<u>10,486</u>
Net income from investing activities	<u>43,239</u>	<u>649,168</u>	<u>154,041</u>	<u>549,591</u>	<u>41,491</u>	<u>1,437,530</u>	<u>425,745</u>
From Securities Lending Activities							
Securities lending income	764	10,970	2,716	9,621	701	24,772	35,925
Securities lending expense:							
Security borrower rebates	552	7,915	1,958	6,938	506	17,869	29,191
Security lending agent fees	<u>48</u>	<u>691</u>	<u>171</u>	<u>605</u>	<u>44</u>	<u>1,559</u>	<u>1,554</u>
Net income from securities lending activities	<u>164</u>	<u>2,364</u>	<u>587</u>	<u>2,078</u>	<u>151</u>	<u>5,344</u>	<u>5,180</u>
Total net investment income	<u>43,403</u>	<u>651,532</u>	<u>154,628</u>	<u>551,669</u>	<u>41,642</u>	<u>1,442,874</u>	<u>430,925</u>
Total Additions	64,720	802,306	220,937	718,181	47,670	1,853,814	789,441

	2004					2003	
	<u>KERS Hazardous</u>	<u>KERS Non-Hazardous</u>	<u>CERS Hazardous</u>	<u>CERS Non-Hazardous</u>	<u>State Police</u>	<u>Total</u>	<u>Total</u>
DEDUCTIONS							
Benefit payments	\$ 16,863	\$ 459,367	\$ 81,422	\$ 260,643	\$ 30,877	\$ 849,172	\$ 748,980
Refunds	1,410	8,001	2,520	11,334	96	23,361	20,522
Administrative expenses	392	5,262	759	8,694	91	15,198	14,430
Total deductions	<u>18,665</u>	<u>472,630</u>	<u>84,701</u>	<u>280,671</u>	<u>31,064</u>	<u>887,731</u>	<u>783,932</u>
Net increase in plan assets	46,055	329,676	136,236	437,510	16,606	966,083	5,509
Plan net assets held in trust for Pension Benefits							
Beginning of Year	<u>320,513</u>	<u>4,929,319</u>	<u>1,168,776</u>	<u>4,175,825</u>	<u>319,115</u>	<u>10,913,548</u>	<u>10,908,039</u>
End of Year	<u>\$ 366,568</u>	<u>\$ 5,258,995</u>	<u>\$ 1,305,012</u>	<u>\$ 4,613,335</u>	<u>\$ 335,721</u>	<u>\$ 11,879,631</u>	<u>\$ 10,913,548</u>

KENTUCKY RETIREMENT SYSTEMS

COMBINING SCHEDULES OF PLAN NET ASSETS--POST-EMPLOYMENT HEALTHCARE

June 30, 2004 and 2003
(Dollars in Thousands)

ASSETS	2004					Total	2003
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	State Police		Total
Cash and short-term investments							
Cash	\$ 5	\$ 33	\$ 7	\$ 30	\$ 5	\$ 80	\$ 216
Short-term investments	<u>15,050</u>	<u>103,361</u>	<u>30,510</u>	<u>52,303</u>	<u>6,526</u>	<u>207,750</u>	<u>147,010</u>
Total cash and short-term investments	15,055	103,394	30,517	52,333	6,531	207,830	147,226
Receivables							
Contributions	617	3,990	3,811	8,364	351	17,133	21,790
Investment income	<u>424</u>	<u>1,446</u>	<u>765</u>	<u>1,401</u>	<u>242</u>	<u>4,278</u>	<u>3,434</u>
Total receivables	1,041	5,436	4,576	9,765	593	21,411	25,224
Investments, at fair value							
Corporate and government bonds	16,491	56,753	30,331	51,847	9,445	164,867	133,241
Corporate stocks	<u>129,646</u>	<u>422,402</u>	<u>232,519</u>	<u>450,829</u>	<u>73,926</u>	<u>1,309,322</u>	<u>1,039,366</u>
Total investments	146,137	479,155	262,850	502,676	83,371	1,474,189	1,172,607
Security lending collateral invested	<u>30,556</u>	<u>110,411</u>	<u>55,608</u>	<u>105,196</u>	<u>17,043</u>	<u>318,814</u>	<u>344,416</u>
Total Assets	<u>192,789</u>	<u>698,396</u>	<u>353,551</u>	<u>669,970</u>	<u>107,538</u>	<u>2,022,244</u>	<u>1,689,473</u>
LIABILITIES							
Accounts payable	106	304	206	897	67	1,588	1,258
Securities lending collateral obligations	<u>30,556</u>	<u>110,411</u>	<u>55,608</u>	<u>105,196</u>	<u>17,043</u>	<u>318,814</u>	<u>344,416</u>
Total Liabilities	<u>30,662</u>	<u>110,715</u>	<u>55,814</u>	<u>106,093</u>	<u>17,110</u>	<u>320,402</u>	<u>345,674</u>
Plan Net Assets Held in Trust for Post-Employment Healthcare Benefits	<u>\$ 162,127</u>	<u>\$ 587,681</u>	<u>\$ 297,737</u>	<u>\$ 563,877</u>	<u>\$ 90,420</u>	<u>\$ 1,701,842</u>	<u>\$ 1,343,799</u>

KENTUCKY RETIREMENT SYSTEMS

COMBINING SCHEDULES OF CHANGES IN PLAN NET ASSETS--POST-EMPLOYMENT HEALTHCARE

Years Ended June 30, 2004 and 2003
(Dollars in Thousands)

	2004					2003	
	KERS <u>Hazardous</u>	KERS <u>Non-Hazardous</u>	CERS <u>Hazardous</u>	CERS <u>Non-Hazardous</u>	State <u>Police</u>	<u>Total</u>	<u>Total</u>
ADDITIONS							
Employers' contributions	\$ 14,959	\$ 78,017	\$ 47,037	\$ 89,344	\$ 8,456	\$ 237,813	\$ 233,351
Total contributions	14,959	78,017	47,037	89,344	8,456	237,813	233,351
INVESTMENT INCOME							
From investing activities							
Net appreciation in fair value of investments	23,300	74,613	39,950	77,673	13,048	228,584	6,272
Interest/Dividends	1,980	8,665	4,499	8,648	1,451	25,243	22,305
Total income from investing activities	25,280	83,278	44,449	86,321	14,499	253,827	28,577
Investment expense	95	304	156	315	57	927	522
Commissions	59	193	100	198	36	586	378
Total investing activities expense	154	497	256	513	93	1,513	900
Net income from investing activities	25,126	82,781	44,193	85,808	14,406	252,314	27,677
From Securities Lending Activities							
Securities lending income	334	1,204	608	1,149	185	3,480	2,980
Securities lending expense:							
Security borrower rebates	236	853	429	813	132	2,463	2,286
Security lending agent fees	18	68	35	64	10	195	140
Net income from securities lending activities	80	283	144	272	43	822	554
Total net investment income	25,206	83,064	44,337	86,080	14,449	253,136	28,231
Total Additions	40,165	161,081	91,374	175,424	22,905	490,949	261,582

	2004					2003	
	<u>KERS Hazardous</u>	<u>KERS Non-Hazardous</u>	<u>CERS Hazardous</u>	<u>CERS Non-Hazardous</u>	<u>State Police</u>	<u>Total</u>	<u>Total</u>
DEDUCTIONS							
Healthcare premiums subsidies	\$ 3,539	\$ 59,987	\$ 16,700	\$ 46,654	\$ 4,992	\$ 131,872	\$ 113,296
Administrative fees	<u>21</u>	<u>484</u>	<u>105</u>	<u>393</u>	<u>31</u>	<u>1,034</u>	<u>862</u>
Total deductions	<u>3,560</u>	<u>60,471</u>	<u>16,805</u>	<u>47,047</u>	<u>5,023</u>	<u>132,906</u>	<u>114,158</u>
Net increase in plan assets	36,605	100,610	74,569	128,377	17,882	358,043	147,424
Plan net assets held in trust for post-employment healthcare benefit							
Beginning of Year	<u>125,522</u>	<u>487,071</u>	<u>223,168</u>	<u>435,500</u>	<u>72,538</u>	<u>1,343,799</u>	<u>1,196,375</u>
End of Year	<u>\$ 162,127</u>	<u>\$ 587,681</u>	<u>\$ 297,737</u>	<u>\$ 563,877</u>	<u>\$ 90,420</u>	<u>\$ 1,701,842</u>	<u>\$ 1,343,799</u>

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 financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 16, 2004. 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' 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 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 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 the 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 the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

September 16, 2004
Louisville, Kentucky