Financial Statements

KENTUCKY RETIREMENT SYSTEMS

June 30, 2005 and 2004

KENTUCKY RETIREMENT SYSTEMS

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June 30, 2005 and 2004

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, 2005 and 2004, 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 audits 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 audits provide 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, 2005 and 2004 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 August 24, 2005 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 grant agreements and other matters. 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 30 through 38) are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional supporting schedules (pages 40 through 46) 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.

August 24, 2005
Louisville, Kentucky

KENTUCKY RETIREMENT SYSTEMS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005 and 2004

This discussion and analysis of Kentucky Retirement System's financial performance provides an overview of the pension and insurance fund financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS--PENSION FUNDS

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 $525.6 million during the 2004-2005 fiscal year.
- Covered payroll for 2004-2005 was $4,160.4 million compared to covered payroll for the 2003-2004 plan year of $4,048 million, increasing approximately $112 million. The corresponding employer contributions increased by $48.1 million for a total employer contribution amount of $390.2 million. Of the total employer contribution amount, $157.5 million was posted to the pension fund while $232.7 million was posted to the insurance fund. Contributions paid by employees were $310.8 and $306.7 million respectively for the years ended June 30, 2005 and June 30, 2004. This increase in employee contributions is attributable to the increase of contributions reported on covered payroll.
- The net appreciation in the fair value of investments was $723.8 million for the year ended June 30, 2005 compared to net appreciation of $1,144.7 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of $474.9 million. In comparison, the pension funds realized gains of $227.6 million for the year ended June 30, 2004. The increase in realized gain experienced by the pension funds is due to a favorable change in market conditions and investment strategies.
- Investment income net of investment expense from all sources including securities lending was $335.3 million compared to $298.2 million net investment income in last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased $111.3 million bringing total benefit payments to $960.5 million. Refund of contributions paid to former members upon termination of employment increased from $23.4 million to $23.9 million.
- Administrative expense increased $2.2 million totaling $17.4 million compared to $15.2 million in the prior year.

FINANCIAL HIGHLIGHTS--INSURANCE FUNDS

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

- The combined plan net assets of the insurance fund administered by Kentucky Retirement Systems increased by $226.8 million during the 2004-2005 fiscal year.
- Employer contributions of $232.7 million were received. This is a decrease of $5.1 million over the prior fiscal year. This decrease is due to the difference in the distribution of the employer rate between pension and insurance funds this year and last fiscal year.
- The net appreciation in the fair value of investments was $122.1 million compared to net appreciation of $228.6 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of $35.9 million. In comparison, the insurance funds realized gains on investments of $22 million. This increase in realized gains is due to a favorable change in market conditions and investment strategies.
- Investment income net of investment expense from all sources including securities lending was $35.5 million compared to net investment income of $24.6 million in last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage increased $35 million to total $166.9 million for the year.

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan and insurance 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 Insurance Fund on page 9 provides a snapshot of the financial position of the each of the three systems at June 30, 2005. The Combined Statement of Changes in Plan Net Assets for the Pension Fund on page 8 and for the Insurance Fund on page 10 summarize the additions and deductions that occurred for each of the three systems during the period from July 1, 2004 through June 30, 2005.

The Schedule of Funding Progress on pages 30-35 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 36-38 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, 2005 by $ 752.4 million from $13,581.4 million to $14,333.8 million. Plan net assets for the prior fiscal year increased by $1,324.1 million. The increase in plan net assets for the plan year ended June 30, 2005 is primarily attributable to the gains on investment due to favorable 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 funds.

Table 1
Plan Net Assets
(In Millions)

	Pension Funds			Insurance Funds			Total		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Cash & Invest.	$14,926.9	$13,327.7	$14,240.2	$2,338.9	$2,000.8	$1,664.2	$17,265.8	$15,328.5	$15,904.4
Receivables	123.4	123.3	124.9	23.5	21.4	25.2	146.9	144.7	150.1
Equip., net of dep.	0.8	0.9	1.0	0.0	0.0	0.0	0.8	0.9	1.0
Total Assets	$15,051.1	$13,451.9	$14,366.1	$2,362.4	$2,022.2	$1,689.4	$17,413.5	$15,474.1	$16,055.5
Total Liabilities	($2,645.9)	($1,572.3)	($3,452.5)	($433.8)	($320.4)	($345.7)	($3,079.7)	($1,892.7)	($3,798.2)
Plan Net Assets	$12,405.2	$11,879.6	$10,913.6	$1,928.6	$1,701.8	$1,343.7	$14,333.8	$13,581.4	$12,257.3

Continued

Table 2
Changes in Plan Net Assets
(In Millions)

	Pension Funds			Insurance Funds			Total		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Additions:									
Member Cont.	$310.8	$306.7	$314.8	$0.0	$0.0	$0.0	$310.8	$306.7	$314.8
Employer Cont.	157.5	104.3	43.7	232.7	237.8	233.4	390.2	342.1	277.1
Insurance Approp	0.0	0.0	0.0	4.6	0.0	0.0.	4.6	0.0	0.0
Invest. Inc. (net)	1,059.1	1,442.9	430.9	157.6	253.1	28.2	1,216.7	1,696.0	459.1
Total additions	$1,527.4	$1,853.9	$789.4	$394.9	$490.9	$261.6	$1,922.3	$2,344.8	$1,051.0
Deductions									
Benefit payments	$960.5	$849.2	$749.0	$0.0	$0.0	$0.0	$960.5	$849.2	$749.0
Refunds	23.9	23.4	20.5	0.0	0.0	0.0	23.9	23.4	20.5
Administrative Ex.	17.4	15.2	14.4	1.2	1.0	0.9	18.6	16.2	15.3
Healthcare Prem.	0.0	0.0	0.0	166.9	131.9	113.3	166.9	131.9	113.3
Total deductions	$1,001.8	$887.8	$783.9	$168.1	$132.9	$114.2	$1,169.9	$1,020.7	$898.1
Inc. (decrease) in plan net assets	$525.6	$966.1	$5.5	$226.8	$358.0	$147.4	$752.4	$1,324.1	$152.9

Plan net assets of the pension funds increased by $525.6 million ($12,405.2 million compared to $11,879.6 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 funds increased by $226.8 million ($1,928.6 million compared to $1,701.8 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 increased by $4.1 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.

Employer contributions increased ($53.2 million) due to the increase in covered payroll and the increase in the contribution rates applied to the pension funds.

Continued

Net investment income decreased by $383.8 million (income of $1,059.1 million compared to net investment income of $1,442.9 million in the prior year). The pension funds experienced a decrease in income primarily due to the decrease in the net appreciation in the fair value of investments. This can be illustrated in Table 3 as follows:

Table 3 **Investment Income (Pension)**	**In Millions** 2005	 2004	 2003
Appreciation in fair value of investments current year end	$1,643.7	$1,394.8	$477.7
Appreciation in fair value of investments prior year end	1,394.8	477.7	212.5
Net appreciation in fair value of investments	248.9	917.1	265.2
Investment Income net of Investment Expense	335.3	298.2	321.0
Gain (loss) on sale of investments	474.9	227.6	(155.2)
Investment Income (net)	$1,059.1	$1,442.9	$431.0

Pension fund deductions increased by approximately $114 million caused principally by an increase of $111.3 million in benefit payments. Retirees received an increase of 2.3% in benefit payments as of July 1, 2004. Refunds of member contributions increased by $.5 million.

INSURANCE FUND ACTIVITIES

Employer contributions paid into the insurance fund decreased by $5.1 million over the prior year. This decrease is a result of the change in the employer rate applied to the insurance fund.

Net investment income decreased by $95.5 million. This decrease in net income is due primarily to the decrease in the net appreciation in the fair value of assets. This can be illustrated in Table 4 as follows:

Table 4 **Investment Income (Insurance)**	**In Millions** 2005	 2004	 2003
Appreciation in fair value of investments current year end	$304.0	$217.7	$11.2
Appreciation in fair value of investments prior year end	217.7	11.2	(19.8)
Net appreciation in fair value of investments	86.3	206.5	31.0
Investment Income net of Investment Expense	35.5	24.6	22.0
Gain (loss) on sale of investments	35.9	22.0	(24.8)
Investment Income (net)	$157.7	$253.1	$28.2

Insurance fund deductions increased by $35.2 million primarily due to the increase of $35 million in health insurance premiums paid.

Continued

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 funds is provided in the Schedule of Funding Progress on pages 30-35. The asset value stated in the Schedule of Funding Progress is the actuarial value of assets determined by calculating the difference between the expected value of 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 difference in value between the actuarial accrued liability and the actuarial value of assets is known as the unfunded actuarial accrued liability. This unfunded actuarial accrued liability is the measure of the cost of benefits that have been earned to date by KRS members, but not yet paid for.

The unfunded actuarial accrued liability in the pension funds increased by $1,768.9 million for a total unfunded amount of $2,808.6 million for the year ended June 30, 2005 compared to an unfunded amount of $1,039.7 for the year end June 30, 2004.

The insurance funds continue to have a large unfunded actuarial accrued liability increasing to $5,455.3 million for the plan year ended June 30, 2005 from $4,559.1 million for the plan year ended June 30, 2004. This is an increase in the unfunded amount of $896.2 million.

Annual required contributions of the employers as actuarially determined and actual contributions made by the employers in relation to the required contributions are provided in the Schedule of Employer Contributions on pages 36-38. The difference in the annual required contributions and actual 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, 2005 and 2004
(Dollars in Thousands)

	2005				2004
ASSETS	KERS	CERS	SPRS	Total	Total
Cash and short-term investments					
Cash	$ 726	$ 666	$ 107	$ 1,499	$ 1,955
Short-term investments	118,148	240,738	(5,831)	353,055	266,019
Total cash and short-term investments	118,874	241,404	(5,724)	354,554	267,974
Receivables					
Contributions	28,608	36,979	1,012	66,599	63,447
Investment income	26,267	28,908	1,585	56,760	59,857
Total receivables	54,875	65,887	2,597	123,359	123,304
Investments, at fair value					
Corporate and government bonds	1,819,200	2,024,701	111,322	3,955,223	3,668,204
Corporate stocks	3,488,198	3,627,596	214,139	7,329,933	7,213,299
Mortgages	280,166	345,083	16,700	641,949	605,692
Real estate	4,385	4,820	488	9,693	9,898
Total investments at fair value	5,591,949	6,002,200	342,649	11,936,798	11,497,093
Securities lending collateral invested	1,225,389	1,337,960	72,169	2,635,518	1,562,675
Equipment (net of accumulated depreciation)	309	518	5	832	929
Total Assets	6,991,396	7,647,969	411,696	15,051,061	13,451,975
LIABILITIES					
Accounts payable	5,068	5,163	121	10,352	9,669
Securities lending collateral	1,225,389	1,337,960	72,169	2,635,518	1,562,675
Total Liabilities	1,230,457	1,343,123	72,290	2,645,870	1,572,344
Plan Net Assets Held in Trust for Pension Benefits	$ 5,760,939	$ 6,304,846	$ 339,406	$ 12,405,191	$ 11,879,631

(A schedule of funding progress for each plan is presented on pages 30-35)

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, 2005 and 2004
(Dollars in Thousands)

	2005				2004
	KERS	CERS	SPRS	Total	Total
ADDITIONS					
Members' contributions	$ 139,426	$ 167,152	$ 4,228	$ 310,806	$ 306,652
Employers' contributions	60,091	94,565	2,852	157,508	104,288
Total contributions	199,517	261,717	7,080	468,314	410,940
INVESTMENT INCOME					
From investing activities					
Net appreciation in fair value of investments	340,385	363,002	20,444	723,831	1,144,662
Interest/Dividends	160,144	175,242	9,543	344,929	306,289
Total investing activities income	500,529	538,244	29,987	1,068,760	1,450,951
Investment expense	4,709	5,149	280	10,138	8,184
Commissions	2,828	2,885	105	5,818	5,237
Total investing activities expense	7,537	8,034	385	15,956	13,421
Net income from investing activities	492,992	530,210	29,602	1,052,804	1,437,530
From Securities Lending Activities					
Securities lending income	25,821	28,534	1,517	55,872	24,772
Securities lending expense:					
Security borrower rebates	22,241	24,285	1,310	47,836	17,869
Security lending agent fees	811	886	48	1,745	1,559
Net income from securities lending activities	2,769	3,363	159	6,291	5,344
Total net investment income	495,761	533,573	29,761	1,059,095	1,442,874
Total Additions	695,278	795,290	36,841	1,527,409	1,853,814

	2005				2004
	KERS	CERS	SPRS	Total	Total
DEDUCTIONS					
Benefit payments	$ 542,891	$ 384,709	$ 32,921	$ 960,521	$ 849,172
Refunds	10,584	13,181	131	23,896	23,361
Administrative expenses	6,427	10,901	104	17,432	15,198
Total deductions	559,902	408,791	33,156	1,001,849	887,731
Net increase in plan assets	135,376	386,499	3,685	525,560	966,083
Plan net assets held in trust for Pension Benefits					
Beginning of Year	5,625,563	5,918,347	335,721	11,879,631	10,913,548
End of Year	$ 5,760,939	$ 6,304,846	$ 339,406	$ 12,405,191	$ 11,879,631

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

KENTUCKY RETIREMENT SYSTEMS

COMBINED STATEMENTS OF PLAN NET ASSETS—INSURANCE FUNDS

June 30, 2005 and 2004
(Dollars in Thousands)

	2005				2004
ASSETS	KERS	CERS	SPRS	Total	Total
Cash and short-term investments					
Cash	$ 109	$ 78	$ 20	$ 207	$ 80
Short-term investments	101,120	100,563	8,389	210,072	207,750
Total cash and short-term investments	101,229	100,641	8,409	210,279	207,830
Receivables					
Contributions	3,603	14,736	278	18,617	17,133
Investment income	2,078	2,568	263	4,909	4,278
Total receivables	5,681	17,304	541	23,526	21,411
Investments, at fair value					
Corporate and government bonds	85,619	102,272	11,298	199,189	164,867
Corporate stocks	608,282	810,311	79,248	1,497,841	1,309,322
Total investments	693,901	912,583	90,546	1,697,030	1,474,189
Security lending collateral invested	179,860	229,300	22,392	431,552	318,814
Total Assets	980,671	1,259,828	121,888	2,362,387	2,022,244
LIABILITIES					
Accounts payable	1,039	1,103	88	2,230	1,588
Securities lending collateral obligations	179,860	229,300	22,392	431,552	318,814
Total Liabilities	180,899	230,403	22,480	433,782	320,402
Plan Net Assets Held in Trust for Insurance Benefits	$ 799,772	$ 1,029,425	$ 99,408	$ 1,928,605	$ 1,701,842

(A schedule of funding progress for each plan is presented on pages 30-35)

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

KENTUCKY RETIREMENT SYSTEMS

COMBINED STATEMENTS OF CHANGES IN PLAN NET ASSETS—INSURANCE FUNDS

Years Ended June 30, 2005 and 2004
(Dollars in Thousands)

	2005				2004
	KERS	CERS	SPRS	Total	Total
ADDITIONS					
Employers' contributions	$ 65,305	$ 160,745	$ 6,631	$ 232,681	$ 237,813
Insurance appropriation	1,780	2,439	343	4,562	-
Total contributions	67,085	163,184	6,974	237,243	237,813
INVESTMENT INCOME					
From investing activities:					
Net appreciation in fair value of investments	48,958	66,795	6,374	122,127	228,584
Interest/Dividends	15,224	19,235	1,940	36,400	25,243
Total income from investing activities	64,182	86,030	8,314	158,526	253,827
Investment activities expense	565	798	65	1,428	927
Commissions	230	302	31	563	586
Total investing activities expense	795	1,100	96	1,991	1,513
Net income from investing activities	63,387	84,930	8,218	156,535	252,314
From Securities Lending Activities					
Securities lending income	3,740	4,827	472	9,039	3,480
Securities lending expense:					
Security borrower rebates	3,196	4,075	398	7,669	2,463
Security lending agent fees	109	140	13	262	195
Net income from securities lending activities	435	612	61	1,108	822
Total net investment income	63,822	85,542	8,279	157,643	253,136
Total Additions	130,907	248,726	15,253	394,886	490,949

	2005				2004
	KERS	CERS	SPRS	Total	Total
DEDUCTIONS					
Healthcare premiums subsidies	$ 80,424	$ 80,247	$ 6,221	$ 166,892	$ 131,872
Administrative fees	519	668	44	1,231	1,034
Total deductions	80,943	80,915	6,265	168,123	132,906
Net increase in plan assets	49,964	167,811	8,988	226,763	358,043
Plan net assets held in trust for insurance benefits					
Beginning of Year	749,808	861,614	90,420	1,701,842	1,343,799
End of Year	$ 799,772	$ 1,029,425	$ 99,408	$ 1,928,605	$ 1,701,842

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

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

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, 2005 and 2004:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2005			2004		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	30,770	1,752	32,522	28,892	1,549	30,441
Inactive Vested Retirements	5,240	307	5,547	4,833	260	5,093
Inactive Vested Memberships	23,105	1,997	25,102	20,951	1,772	22,723
Active plan members	47,118	4,274	51,392	47,599	4,014	51,613
Total	106,233	8,330	114,563	102,275	7,595	109,870
Number of participating employers			350			411

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2005			2004		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	31,347	4,361	35,708	29,129	4,005	33,134
Inactive Vested Retirements	7,771	482	8,253	6,927	361	7,288
Inactive Vested Memberships	41,098	1,489	42,587	37,509	1,287	38,796
Active plan members	81,240	9,464	90,704	80,922	9,349	90,271
Total	161,456	15,796	177,252	154,487	15,002	169,489
Number of participating employers			1,400			1,389

Continued

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

STATE POLICE RETIREMENT SYSTEM

Number of Members	2005 Hazardous Position Employees	2004 Hazardous Position Employees
Retirees and beneficiaries receiving benefits	1,036	992
Inactive Vested Retirements	42	46
Inactive Vested Memberships	210	201
Active plan members	987	999
Total	2,275	2,238
Number of participating employers	1	1

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUNDS

Hospital and medical contracts in force consisted of the following at June 30, 2005 and 2004:

	2005					2004				
	Single	Couple/ Family	Parent +	Medicare Regular	Medicare High	Single	Couple/ Family	Parent +	Medicare Regular	Medicare High
KERS Non-Hazardous	7,928	1,679	461	1,915	11,764	7,313	1,462	443	1,932	11,437
KERS Hazardous	570	319	65	61	567	502	276	65	65	531
CERS Non-Hazardous	6,014	1,022	255	2,853	11,005	5,598	946	246	2,756	10,424
CERS Hazardous	1,220	1,579	195	55	1,004	1,087	1,463	223	45	913
SPRS	257	388	34	10	348	226	400	45	13	326
Totals	15,989	4,987	1,010	4,894	24,688	14,726	4,547	1,022	4,811	26,631

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

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

Contributions - For the years ended June 30, 2005 and 2004, plan members were required to contribute 5% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2005 and 2004, participating employers contributed 5.89% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 10.29% and 7.53%, 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, 2005 and 2004, 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, 2005 and 2004, participating employers contributed 18.84% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 19.47% and 18.84%, respectively, of each employee's creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Continued

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, 2005 and 2004, 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, 2005 and 2004, participating employers contributed 8.48% and 7.34%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 8.48% and 7.34%, 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, 2005 and 2004, 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, 2005 and 2004, participating employers contributed 22.08% and 18.51%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 22.08% and 18.51%, respectively, of each employee’s creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

Continued

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, 2005 and 2004 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, 2005 and 2004, the State contributed 21.58% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 28.08% and 21.58%, respectively, of each employee’s creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUNDS

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 2005, insurance premiums withheld from benefit payments to members of the Systems were $25,491,575 and $781,396 for KERS and KERS hazardous, respectively, $23,110,726 and $1,983,786 for CERS and CERS hazardous, respectively, and $494,223 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, 2005 the Fund had 69,266 retirees and beneficiaries for whom benefits were available.

The amount of contribution paid by the Funds 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:

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

Continued

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

	2005	2004
Cash	$ 726,023	$ 827,932
Short-Term Investments	118,148,292	740,416,197
Securities Lending Collateral Invested	1,225,388,483	109,455,167
Total	$1,344,262,798	$ 850,699,296

Continued

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2005	2004
Cash	$ 665,927	$ 1,041,182
Short-Term Investments	240,737,425	778,007,759
Securities Lending Collateral Invested	1,337,960,409	152,957,527
Total	$1,579,363,761	$ 932,006,468

STATE POLICE RETIREMENT SYSTEM

	2005	2004
Cash	$ 106,821	$ 85,664
Short-Term Investments	(5,830,993)	44,251,527
Securities Lending Collateral Invested	72,168,911	3,606,746
Total	$ 66,444,739	$ 47,943,937

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUNDS

	2005	2004
Cash	$ 207,089	$ 79,960
Short-Term Investments	210,072,016	318,814,039
Securities Lending Collateral Invested	431,551,814	207,750,238
Total	$ 253,430,919	$ 526,644,237

NOTE D--INVESTMENTS

The Board of Trustees of the Retirement Systems and Insurance Funds 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.

Continued

NOTE D—INVESTMENTS--CONTINUED

Alternative Investments/Equity Real Estate - Subject to the specific approval of the investment committee of the Board of Trustees, investments may be made for the purpose of creating a diversified portfolio of alternative investments. The Board may invest in real estate or alternative investments including, without limitation, venture capital, private equity and private placements which the investment committee believes has excellent potential to generate income and which may have a higher degree of risk.

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

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

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

The Retirement Systems and Insurance Fund invest in collateralized 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.

Collateralized 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, 2005 and 2004 was approximately \$82 million and \$67 million respectively; the fair value of asset-backed securities at June 30, 2005 and 2004 was approximately \$252 million and \$277 million respectively; and the fair value of exchange-traded funds at June 30, 2005 and 2004 was approximately \$318 million and \$299 million, respectively.

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the System’s deposits may not be returned. All non-investment related bank balances are held locally by Farmers Bank & Capital Trust Company. All non-investment related bank balances are held in KRS’ name and each individual account is insured up to \$100,000. These cash balances are invested daily by the local institution in overnight repurchase agreements which are required by Kentucky Administrative Regulation (200 KAR 14:081) to be collateralized at 102% of the principal amount.

At June 30, 2005 and 2004, deposits for KRS pension funds were \$1,498,771 and \$1,954,779, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

At June 30, 2005 and 2004, deposits for KRS insurance funds were \$207,089 and \$79,960, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

Continued

NOTE D--INVESTMENTS--CONTINUED

Investment Policies - The Kentucky Revised Statutes (KRS 61.650) grant the responsibility for the investment of plan assets to the Board of Trustees of the Kentucky Retirement Systems. The Board of Trustees has established an Investment Committee which is specifically charged with the oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the Prudent Person Rule and manage those funds consistent with the long-term nature of the Systems. The Committee has adopted a Statement of Investment Policy that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of the Kentucky Retirement Systems. The Statement of Investment Policy – Pension contains the specific guidelines for the investment of pension assets. The Statement of Investment Policy – Insurance contains the specific guidelines for the investment of insurance assets.

Investment Summary
The following tables present a summary of the investments by type as of June 30, 2005 and 2004.

Pension Funds
Years Ended June 30, 2005 and 2004

Investment Summary	2005	2004
U.S. Gov't & Agency Fixed Income Securities	$ 3,313,946,410	$ 2,954,464,596
U.S. Corporate Fixed Income Securities	1,268,342,165	1,306,976,137
Municipal Debt Securities	14,883,806	12,936,421
Short-term Investments	353,054,725	266,019,440
Equity Securities	7,219,482,637	7,127,553,444
Private Equity Limited Partnerships	110,450,122	85,264,271
Real Estate	9,694,317	9,898,468
	$12,289,854,182	$11,763,112,777

Insurance Funds
Years Ended June 30, 2005 and 2004

Investment Summary	2005	2004
U.S. Gov't & Agency Fixed Income Securities	$ 189,294,988	$ 164,867,042
Short-term Investments	219,965,717	207,750,247
Equity Securities	1,485,569,035	1,299,848,563
Private Equity Limited Partnerships	12,272,237	9,473,806
	$1,907,101,978	$1,681,939,659

NOTE D--INVESTMENTS--CONTINUED

Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, KRS will not be able to recover the value of investments or collateral securities that are in the possession of an outside third party. At June 30, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the System's name.

Pension Funds	2005	2004
Foreign Currency Investments	$ 3,059,869	$ 152,709
Insurance Funds	2005	2004
Foreign Currency Investments	$ 124,692	$ 1

Credit Risk of Debt Securities - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The debt security portfolios are managed by the Investment Division staff and by external professional investment management firms. All portfolio managers are required by the Statement of Investment Policy to maintain diversified portfolios. Each portfolio is also required to be in compliance with risk management guidelines that are assigned to them based upon the portfolio's specific mandate. In total, the pension fund debt securities portfolio is managed using the following guidelines adopted by the KRS Board of Trustees:

- Bonds, notes or other obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- The average credit quality of the total portfolio must be A or better.
- Debt obligations must have an investment grade rating at the time of purchase.
- Debt obligations that have been downgraded to below investment grade may be held in the portfolio up to a maximum of 1.5 percent of the total portfolio at market value.
- Debt obligations in the lowest investment grade rating category may not exceed 15 percent of the total portfolio at market value.

Continued

NOTE D--INVESTMENTS--CONTINUED

The following tables present the KRS pension fund debt ratings at June 30, 2005 and 2004.

Pension Funds

Debt Securities Investments at Fair Value

For Years Ended June 30, 2005 and 2004

Quality Rating	2005	2004
AAA	$1,481,814,394	$1,297,085,238
AA+	1,439,266	4,087,950
AA	41,927,341	45,731,606
AA-	84,766,981	104,426,635
A+	196,920,079	192,973,774
A	153,635,654	156,294,715
A-	94,502,023	93,046,599
BBB+	138,345,630	123,085,471
BBB	47,195,847	90,952,068
BBB-	81,970,376	43,458,261
BB+	20,332,710	64,791,545
BB	0	49,345,339
NR	26,838,395	13,169,106
Total Credit Risk Debt Securities	2,369,688,696	2,278,448,307
U.S. Government & Agencies	2,172,535,022	1,995,447,827
Pooled Investments	54,948,663	-
Total Debt Securities	$4,597,172,381	$4,273,896,134

At June 30, 2005 and 2004, the weighted average quality rating of the pension fund debt securities portfolio was AA+ and AA+, respectively. The Systems had no below investment grade rated debt securities in the pension portfolio at June 30, 2005 and 2004. The fair value of securities in the lowest investment grade rating category was $0 and $49,345,339 or 0.0% and 1.15% of the debt securities portfolio at June 30, 2005 and 2004, respectively.

The insurance fund debt securities portfolio, by guidelines, is to be invested in US government securities.

Continued

NOTE D--INVESTMENTS--CONTINUED

The following tables present the KRS insurance fund debt ratings at June 30, 2005 and 2004.

Insurance Funds
Credit Risk of Debt Securities
For Years Ended June 30, 2005 and 2004

	2005	2004
U.S Government & Agencies	$189,294,988	$164,867,042
Pooled Investments	9,893,700	-
Total Credit Risk	$199,188,688	$164,867,042

Concentration of Credit Risk Debt Securities - Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's exposure in a single issuer.

The total debt securities portfolio is managed using the following general guidelines adopted by the KRS Board of Trustees:

- Bonds, notes or other obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- Debt obligations of any single U.S. corporation shall be limited to a maximum of 5 percent of the total portfolio at market value.

Except for US government debt securities, there were no individual investments held in either the KRS pension or insurance portfolios at June 30, 2005 or June 30, 2004, that exceeded the maximum issuer 5% limit.

Interest Rate Risk - Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to changes in the yield curve. Effective duration is the most accurate duration measure when a significant portion of the securities are callable (redeemable) prior to maturity. The pension fund portfolio contains a number of securities that are callable and therefore interest rate risk is most appropriately measured by effective duration. The Systems do not have a formal policy that constrains the duration of its fixed income portfolio.

The KRS pension fund debt securities portfolio benchmarks its debt securities portfolio to a blended benchmark consisting of the Lehman Brothers Government Credit Index, the Lehman Brothers Aggregate Index and the Lehman Brothers U.S. TIPS index. At June 30, 2005 and 2004, the effective duration of the blended benchmark was 5.34 and 4.83, respectively. At the same points in time, the effective duration of the KRS pension fund debt securities portfolio was 4.44 and 3.90, respectively.

Continued

NOTE D--INVESTMENTS--CONTINUED

KRS Pension Funds Interest Rate Risk

	2005	**Weighted Average Effective Duration**	**2004**	**Weighted Average Effective Duration**
Asset Backed Securities	$252,331,426	1.12	$276,625,217	0.92
Commercial Mortgage Backed Securities	109,238,989	3.33	25,980,951	2.03
Corporate Bonds	824,979,866	5.89	936,913,085	5.07
Government Agencies	479,638,805	3.30	458,514,019	2.46
Government Bonds	2,189,525,343	5.06	1,956,394,813	4.38
Government Mortgage Backed Securities	589,833,599	2.91	539,555,764	3.05
Municipal Bonds	14,883,806	12.64	12,936,421	12.64
Non-Government Backed Collateralized Mortgage Obligations	81,791,885	1.19	66,975,864	1.68
Pooled Investments	54,948,663		-	
Total	$4,597,172,381	4.44	$4,273,896,134	3.90

The KRS insurance fund long-term debt securities portfolio consists entirely of US government issued bonds which are not callable (redeemable) prior to maturity. The modified duration, similar to effective duration, measures the sensitivity of the market prices to changes in the yield curve but does not assume that securities will be called prior to maturity. Since the modified duration measure most accurately reflects the interest rate sensitivity of the insurance fund portfolio, this measure is used for comparative purposes. The KRS insurance fund debt securities portfolio benchmarks its debt securities portfolio to the Lehman Brothers U.S. TIPS Index. At June 30, 2005 and 2004, the modified duration of the benchmark was 8.45 and 8.75 years, respectively. At the same points in time, the modified duration of the KRS insurance fund debt securities portfolio, excluding the pooled fund, was 8.64 and 8.62 years, respectively.

Insurance Funds

Debt Securities Investments at Fair Value

For Years Ended June 30, 2005 and 2004

	2005		**2004**	
Investment	**Fair Value**	**Weighted Duration**	**Fair Value**	**Weighted Duration**
Index Linked Government Bonds	$189,294,988	8.62	$164,867,042	8.64
Pooled Debt Securities	9,893,700	NA	-	
	$199,188,688	8.62	$164,867,042	8.64

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Systems do not have a formal policy to limit foreign currency risk. The following tables present the Systems exposure at June 30, 2005 and 2004.

Continued

NOTE D--INVESTMENTS--CONTINUED

Pension Funds
Investments at Fair Value
June 30, 2005 and 2004

	2005	2004
Foreign Equities		
Australian dollar	$52,122,988	$59,299,679
British pound sterling	300,642,320	313,285,570
Canadian dollar	-	2,077,749
Danish krone	6,807,087	18,391,775
Euro	492,597,015	466,888,412
Hong Kong dollar	23,082,401	34,539,384
Japanese yen	346,791,634	347,332,087
New Zealand dollar	3,535,112	1,030,244
Norwegian krone	8,805,025	14,357,141
Singapore dollar	21,641,967	10,663,676
South Korean won	3,366,341	20,569,874
Swedish krona	49,787,195	42,220,254
Swiss franc	109,308,104	146,715,237
International equity mutual fund (various currencies)	484,952,191	-
Total Securities subject to		
Foreign Currency Risk	1,903,439,380	1,477,371,082
USD (securities held by Int'l Investment Managers)	78,764,548	26,620,320
Total Int'l Investment Securities	$1,982,203,928	$1,503,991,402

Continued

NOTE D--INVESTMENTS--CONTINUED

Insurance Funds
Investments at Fair Value
June 30, 2005 and 2004

Foreign Equities	2005	2004
Australian dollar	$21,058,561	$13,664,773
British pound sterling	81,925,423	55,426,507
Danish krone	3,540,224	5,219,450
Euro	125,362,499	86,212,060
Hong Kong dollar	6,984,939	4,718,849
Japanese yen	85,596,433	73,534,460
New Zealand dollar	905,291	289,725
Norwegian krone	4,558,628	4,037,545
Singapore dollar	3,851,828	2,153,301
Swedish krona	22,215,317	11,880,888
Swiss franc	32,258,586	24,457,395
Total Securities subject to Foreign Currency Risk	388,257,729	281,594,953
USD (securities held by International Investment Managers)	3,610,171	5,499,427
Total International Investment Securities	$391,867,900	$287,094,380

NOTE E--SECURITIES LENDING TRANSACTIONS

Kentucky Revised Statues 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, 2005, 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.

Continued

NOTE E--SECURITIES LENDING TRANSACTIONS--CONTINUED

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.

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 $62 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.

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, 2004 – June 30, 2005 and July 1, 2003 – June 30, 2004, respectively. 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, 2005 and the periods ending June 30, 2004 and June 30, 2003, respectively. Covered payroll was approximately $9,891,000, $9,035,000 and $8,265,000 for 2005, 2004 and 2003, respectively. KRS contributed approximately $572,400, $532,000 and $408,000 for 2005, 2004, and 2003, respectively.

NOTE L--EQUIPMENT

Equipment consists of the following:

	June 30 2005	June 30 2004
Equipment, at cost	$ 3,408,106	$ 3,337,099
Less accumulated depreciation	(2,576,490)	(2,407,794)
	$ 831,615	$ 929,305

Depreciation expense for the years ended June 30, 2005 and 2004 amounted to $318,840 and $303,562, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)--PENSION FUNDS

Non-Hazardous	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]
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
June 30, 2005**	5,578,685,746	7,579,074,839	2,000,389,093	73.6	1,655,907,288	120.8
Hazardous						
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
June 30, 2005**	405,288,662	439,013,910	33,725,248	92.3	131,687,088	25.6
Total						
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
June 30, 2005**	5,983,974,408	8,018,088,749	2,034,114,341	74.6	1,787,594,376	113.8

*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

Non-Hazardous	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]
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)
June 30, 2005**	5,059,208,687	5,385,306,505	326,097,818	93.9	1,885,275,000	17.3
Hazardous						
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
June 30, 2005**	1,452,353,023	1,795,617,335	343,264,312	80.9	411,121,728	83.5
Total						
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)
June 30, 2005**	6,511,561,710	7,180,923,840	669,362,130	90.7	2,296,396,728	29.2

*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

Year Ended	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]
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
June 30, 2005**	353,511,622	458,593,576	105,081,954	77.1	43,720,092	240.4

*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.

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS--CONTINUED

KENTUCKY EMPLOYEES RETIREMENT SYSTEMS (KERS)—INSURANCE FUNDS

Non-Hazardous	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]
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
June 30, 2005**	607,068,351	2,680,559,188	2,073,490,837	22.7	1,655,907,288	125.2
Hazardous						
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
June 30, 2005**	187,947,644	386,844,695	198,897,051	48.6	131,687,088	151.0
Total						
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
June 30, 2005**	795,015,995	3,067,403,883	2,272,387,888	25.9	1,787,594,376	127.1

*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

COUNTY EMPLOYEES RETIREMENT SYSTEMS (CERS)—INSURANCE FUNDS

Non-Hazardous	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, 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
June 30, 2005**	663,941,949	2,788,754,654	2,124,812,705	23.8	1,885,275,000	112.7
Hazardous						
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
June 30, 2005**	359,180,461	1,283,299,092	924,118,631	28.0	411,121,728	224.8
Total						
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
June 30, 2005**	1,023,122,410	4,072,053,746	3,048,931,336	25.1	2,296,396,728	132.8

*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)—INSURANCE FUNDS

	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, 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
June 30, 2005**	100,207,082	234,159,510	133,952,428	42.8	43,720,092	306.4

*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)

NON-HAZARDOUS

	Pension			Insurance			Total		
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2005	85,798,943	50,332,750	58.7	86,974,271	49,909,228	57.4	172,773,214	100,241,978	58.0

HAZARDOUS

	Pension			Insurance			Total		
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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	17,933,817	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
June 30, 2005	9,449,878	9,758,547	103.3	15,892,977	15,395,977	96.9	25,342,855	25,154,524	99.3

TOTAL

	Pension			Insurance			Total		
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2005	95,248,821	60,091,297	63.1	102,867,248	65,305,205	63.5	198,116,069	125,396,502	63.3

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

NON-HAZARDOUS

	Pension			Insurance			Total		
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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	189,289,520	89,344,241	100.1	132,401,025	133,372,706	100.7
June 30, 2005	53,117,955	54,616,800	102.8	106,612,633	106,638,253	100.0	159,730,588	161,255,053	101.0

HAZARDOUS

	Pension			Insurance			Total		
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2005	39,437,725	39,947,747	101.3	54,094,495	54,106,577	100.0	93,532,220	94,054,324	100.6

TOTAL

	Pension			Insurance			Total		
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2005	92,555,680	94,564,547	102.2	160,707,128	160,744,830	100.0	253,262,808	255,309,377	100.8

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS--CONTINUED

STATE POLICE RETIREMENT SYSTEM (SPRS)

	Pension			Insurance			Total		
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	$ 2,403,428	$ 2,398,211	99.8%	$ 7,807,870	$ 7,817,613	100.1%	$ 10,211,298	$ 10,215,824	100.0%
June 30, 2001	1,535,846	1,515,521	98.7	8,098,907	8,113,391	100.2	9,634,753	9,628,912	99.9
June 30, 2002	-	(17,643)	-	9,563,111	9,579,899	100.1	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
June 30, 2005	3,730,805	2,851,461	76.4	8,608,536	6,631,031	77.0	12,339,341	9,482,492	76.8

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

	Non-Hazardous	Hazardous
Valuation Date	June 30, 2005	June 30, 2005
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	5.00%	5.00%

INSURANCE FUNDS

	Non-Hazardous	Hazardous
Valuation Date	June 30, 2005	June 30, 2005
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	5.00%	5.00%

ADDITIONAL SUPPORTING SCHEDULES

KENTUCKY RETIREMENT SYSTEMS

SCHEDULE OF ADMINISTRATIVE EXPENSES

	Years ended June 30 2005	2004
	(Dollars in thousands)	
Personal Services		
Salaries and per diem	$ 10,139	$ 9,268
Fringe benefits	2,500	1,930
Tuition assistance	66	50
Total personal services	12,705	11,248
Contractual Services		
Actuarial	157	141
Audit	41	40
Legal	397	288
Medical	224	326
Contractual	735	100
Total contractual services	1,554	895
Communication		
Printing	219	139
Telephone	136	150
Postage	549	571
Travel	157	152
Total communication	1,061	1,012
Rentals		
Office space	981	982
Equipment	58	50
Total rentals	1,039	1,032
Miscellaneous		
Utilities	147	120
Supplies	137	113
Insurance	56	51
Maintenance	330	170
Other	84	253
Total miscellaneous	754	707
Depreciation	319	304
Healthcare Administrative Fees	1,231	1,034
Total Administrative Expenses	$ 18,663	$ 16,232

KENTUCKY RETIREMENT SYSTEMS

SCHEDULE OF INVESTMENT EXPENSES

Years Ended June 30, 2005 and 2004

	Years ended June 30 2005	2004
PENSION FUNDS	(Dollars in thousands)	
Security Lending Fees		
Broker rebates	$ 47,836	$ 17,869
Lending agent fees	1,745	1,559
Total security lending	49,581	19,428
Common Stock Commissions	5,818	5,237
Contractual Services		
Investment management	9,026	7,253
Security custody	749	727
Investment consultant	313	184
Investment related travel	50	20
Total contractual services	10,138	8,184
INSURANCE FUNDS		
Security Lending Fees		
Broker rebates	7,668	2,463
Lending agent fees	263	195
Total security lending	7,931	2,658
Common Stock Commissions	563	586
Investment Management	1,428	927
Total investment expenses	$ 75,459	$ 37,020

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 2005	2004
	(Dollars in thousands)	
Actuarial Services	$ 157	$ 141
Medical Review Services	224	326
Audit Services	41	40
Legal Counsel	397	288
Compliance	79	74
Workflow	236	-
Healthcare	298	-
Banking	60	42
Miscellaneous	62	(16)
Total	$ 1,554	$ 895

KENTUCKY RETIREMENT SYSTEMS

COMBINING SCHEDULES OF PLAN NET ASSETS--PENSION FUNDS

June 30, 2005 and 2004
(Dollars in Thousands)

	2005						2004
ASSETS	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
Cash and short-term investments							
Cash	$ 106	$ 620	$ 97	$ 569	$ 107	$ 1,499	$ 1,955
Short-term investments	16,899	101,249	61,360	179,378	(5,831)	353,055	266,019
Total cash and short-term investments	17,005	101,869	61,457	179,947	(5,724)	354,554	267,974
Receivables							
Contributions	2,106	26,502	10,134	26,845	1,012	66,599	63,447
Investment income	1,694	24,573	6,228	22,680	1,585	56,760	59,857
Total receivables	3,800	51,075	16,362	49,525	2,597	123,359	123,304
Investments, at fair value							
Corporate and government bonds	116,546	1,702,655	434,812	1,589,889	111,322	3,955,223	3,668,204
Corporate stocks	241,107	3,247,090	822,879	2,804,717	214,139	7,329,933	7,213,299
Mortgages	18,255	261,911	74,211	270,872	16,700	641,949	605,692
Real estate	1,942	2,443	2,424	2,396	488	9,693	9,898
Total investments at fair value	377,850	5,214,099	1,334,326	4,667,874	342,649	11,936,798	11,497,093
Securities lending collateral invested	84,478	1,140,910	299,059	1,038,902	72,169	2,635,518	1,562,675
Equipment (net of accumulated depreciation)	23	286	43	475	5	832	929
Total Assets	483,156	6,508,239	1,711,247	5,936,723	411,696	15,051,061	13,451,975
LIABILITIES							
Accounts payable	370	4,698	942	4,221	121	10,352	9,669
Securities lending collateral	84,478	1,140,910	299,059	1,038,902	72,169	2,635,518	1,562,675
Total Liabilities	84,848	1,145,608	300,001	1,043,123	72,290	2,645,870	1,572,344
Plan Net Assets Held in Trust for Pension Benefits	$ 398,308	$ 5,362,631	$ 1,411,246	$ 4,893,600	$ 339,406	$ 12,405,191	$ 11,879,631

KENTUCKY RETIREMENT SYSTEMS

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

Years Ended June 30, 2005 and 2004
(Dollars in Thousands)

	2005						2004
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
ADDITIONS							
Members' contributions	$ 11,625	$ 127,801	$ 39,515	$ 127,637	$ 4,228	$ 310,806	$ 306,652
Employers' contributions	9,758	50,333	39,948	54,617	2,852	157,508	104,288
Total contributions	21,383	178,134	79,463	182,254	7,080	468,314	410,940
INVESTMENT INCOME							
From investing activities							
Net appreciation in fair value of investments	22,621	317,764	82,516	280,486	20,444	723,831	1,144,662
Interest/Dividends	10,733	149,411	38,354	136,888	9,543	344,929	306,289
Total investing activities income	33,354	467,175	120,870	417,374	29,987	1,068,760	1,450,951
Investment expense	335	4,374	1,172	3,977	280	10,138	8,184
Commissions	125	2,703	574	2,311	105	5,818	5,237
Total investing activities expense	460	7,077	1,746	6,288	385	15,956	13,421
Net income from investing activities	32,894	460,098	119,124	411,086	29,602	1,052,804	1,437,530
From Securities Lending Activities							
Securities lending income	1,818	24,003	6,403	22,131	1,517	55,872	24,772
Securities lending expense:							
Security borrower rebates	1,533	20,708	5,428	18,857	1,310	47,836	17,869
Security lending agent fees	56	755	198	688	48	1,745	1,559
Net income from securities lending activities	229	2,540	777	2,586	159	6,291	5,344
Total net investment income	33,123	462,638	119,901	413,672	29,761	1,059,095	1,442,874
Total Additions	54,506	640,772	199,364	595,926	36,841	1,527,409	1,853,814

	2005						2004
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
DEDUCTIONS							
Benefit payments	$ 20,495	$ 522,396	$ 90,119	$ 294,590	$ 32,921	$ 960,521	$ 849,172
Refunds	1,760	8,824	2,139	11,042	131	23,896	23,361
Administrative expenses	511	5,916	872	10,029	104	17,432	15,198
Total deductions	22,766	537,136	93,130	315,661	33,156	1,001,849	887,731
Net increase in plan assets	31,740	103,636	106,234	280,265	3,685	525,560	966,083
Plan net assets held in trust for Pension Benefits							
Beginning of Year	366,568	5,258,995	1,305,012	4,613,335	335,721	11,879,631	10,913,548
End of Year	$ 398,308	$ 5,362,,631	$ 1,411,246	$ 4,893,600	$ 339,406	$ 12,405,191	$ 11,879,631

KENTUCKY RETIREMENT SYSTEMS

COMBINING SCHEDULES OF PLAN NET ASSETS—INSURANCE FUNDS

June 30, 2005 and 2004
(Dollars in Thousands)

	2005						2004
ASSETS	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
Cash and short-term investments							
Cash	$ 41	$ 68	$ 28	$ 50	$ 20	$ 207	$ 80
Short-term investments	16,910	84,210	35,091	65,472	8,389	210,072	207,750
Total cash and short-term investments	16,951	84,278	35,119	65,522	8,409	210,279	207,830
Receivables							
Contributions	721	2,882	4,209	10,527	278	18,617	17,133
Investment income	488	1,590	917	1,651	263	4,909	4,278
Total receivables	1,209	4,472	5,126	12,178	541	23,526	21,411
Investments, at fair value							
Corporate and government bonds	20,078	65,541	37,421	64,851	11,298	199,189	164,867
Corporate stocks	150,796	457,486	283,618	526,693	79,248	1,497,841	1,309,322
Total investments	170,874	523,027	321,039	591,544	90,546	1,697,030	1,474,189
Security lending collateral invested	42,499	137,361	80,601	148,699	22,392	431,552	318,814
Total Assets	231,533	749,138	441,885	817,943	121,888	2,362,387	2,022,244
LIABILITIES							
Accounts payable	163	876	344	759	88	2,230	1,588
Securities lending collateral obligations	42,499	137,361	80,601	148,699	22,392	431,552	318,814
Total Liabilities	42,662	138,237	80,945	149,458	22,480	433,782	320,402
Plan Net Assets Held in Trust for Insurance Benefits	$ 188,871	$ 610,901	$ 360,940	$ 668,485	$ 99,408	$ 1,928,605	$ 1,701,842

KENTUCKY RETIREMENT SYSTEMS

COMBINING SCHEDULES OF CHANGES IN PLAN NET ASSETS—INSURANCE FUNDS

Years Ended June 30, 2005 and 2004
(Dollars in Thousands)

	2005						2004
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
ADDITIONS							
Employers' contributions	$ 15,396	$ 49,909	$ 54,107	$ 106,638	$ 6,631	$ 232,681	$ 237,813
Insurance Appropriation	257	1,523	1,445	994	343	4,562	-
Total contributions	15,653	51,432	55,552	107,632	6,974	237,243	237,813
INVESTMENT INCOME							
From investing activities							
Net appreciation in fair value of investments	12,473	36,485	23,209	43,586	6,374	122,127	228,584
Interest/Dividends	3,603	11,621	6,753	12,482	1,940	36,400	25,243
Total income from investing activities	16,076	48,106	29,962	56,068	8,314	158,526	253,827
Investment expense	129	436	253	545	65	1,428	927
Commissions	59	170	108	195	31	563	586
Total investing activities expense	188	606	361	740	96	1,991	1,513
Net income from investing activities	15,888	47,500	29,601	55,328	8,218	156,535	252,314
From Securities Lending Activities							
Securities lending income	892	2,848	1,699	3,128	472	9,039	3,480
Securities lending expense:							
Security borrower rebates	755	2,441	1,432	2,642	398	7,669	2,463
Security lending agent fees	26	84	49	91	13	262	195
Net income from securities lending activities	111	323	218	395	61	1,108	822
Total net investment income	15,999	47,823	29,819	55,723	8,279	157,643	253,136
Total Additions	31,652	99,255	85,371	163,355	15,253	394,886	490,949

	2005						2004
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
DEDUCTIONS							
Healthcare premiums subsidies	$ 4,853	$ 75,571	$ 21,985	$ 58,262	$ 6,221	$ 166,892	$ 131,872
Administrative fees	55	464	183	485	44	1,231	1,034
Total deductions	4,908	76,035	22,168	58,747	6,265	168,123	132,906
Net increase in plan assets	26,744	23,220	63,203	104,608	8,988	226,763	358,043
Plan net assets held in trust for insurance benefits							
Beginning of Year	162,127	587,681	297,737	563,877	90,420	1,701,842	1,343,799
End of Year	$ 188,871	$ 610,901	$ 360,940	$ 668,485	$ 99,408	$ 1,928,605	$ 1,701,842

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, 2005, and have issued our report thereon dated August 24, 2005. 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.

August 24, 2005
Louisville, Kentucky