Financial Statements

KENTUCKY RETIREMENT SYSTEMS

June 30, 2007

KENTUCKY RETIREMENT SYSTEMS

Table of Contents

June 30, 2007

Mountjoy & Bressler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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 fiscal year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Kentucky Retirement Systems' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2007 and the changes in plan net assets for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2007 on our consideration of the Kentucky Retirement Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis (pages 2 through 6) and the schedule of funding progress and schedule of contributions from the employers and other contributing entities (pages 31 through 39) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The additional supporting schedules (pages 41 through 43) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mountjoy & Bressler, LLP

November 15, 2007
Louisville, Kentucky

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KENTUCKY RETIREMENT SYSTEMS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

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, 2007. Please read it in conjunction with the financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS—PENSION FUND

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

- The combined plan net assets of all pension funds administered by Kentucky Retirement Systems increased by $1,276.1 million during the 2006-2007 fiscal year.
- Actual covered payroll reported for 2006-2007 was $4,484.4 million compared to covered payroll for the 2005-2006 plan year of $4,348 million, increasing approximately $136.4 million. The corresponding employer contributions increased by $131.2 million for a total employer contribution amount of $601.1 million. Of the total employer contribution amount, $293.4 million was posted to the pension funds while $307.7 million was posted to the insurance funds. Contributions paid by employees were $300.3 and $275.9 million respectively for the years ended June 30, 2007 and June 30, 2006. This increase in employee contribution is a result of an increase in covered payroll and an increase in service purchased by employees.
- The net appreciation in the fair value of investments was $1,507.8 million for the year ended June 30, 2007 compared to net appreciation of $803.6 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of $870.7 million. In comparison, the pension funds realized gains of $601.6 million for the year ended June 30, 2006. The increase in realized gain experienced by the pension funds is due to a favorable change in market conditions.
- Interest, dividend and securities lending income net of their respective expenses was $407.9 million compared to $358.8 million net investment income in last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased $124.5 million bringing total benefit payments to $1,187.1 million. Refund of contributions paid to former members upon termination of employment increased from $24.9 million to $25.2 million.
- Administrative expense increased $.7 million totaling $21.1 million compared to $20.4 million in the prior year.

FINANCIAL HIGHLIGHTS—INSURANCE FUND

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

- The combined plan net assets of the insurance fund administered by Kentucky Retirement Systems increased by $530.6 million during the 2006-2007 fiscal year.
- Premiums received from retirees that participated in the self-funded plan totaled $26.6 million.
- Employer contributions of $307.7 million were received. This is an increase of $54.3 million over the prior fiscal year. This increase is due to the increase of covered payroll reported by participating employers and the employers' increased percentage of covered payroll contributed.
- Retiree drug subsidies received were $21.5 million.
- The net appreciation in the fair value of investments was $366.8 million compared to net appreciation of $188.2 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of $129.5 million. In comparison, the insurance funds realized gains on investments of $77.9 million in the prior fiscal year. This increase in realized gains is due to a favorable change in market conditions.
- Interest, dividend and securities lending income net of their respective expenses was $56.6 million compared to net investment income of approximately $42.6 million in last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage totaled $151.5 million. Payments for the self-funded healthcare reimbursements totaled $89.6 million. The total of insurance premiums paid plus self-funded reimbursements was $241.1 million for the 2006-2007 plan year. Insurance premium paid plus self-funded healthcare reimbursements for the prior plan year totaled $212.8 million.

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, the 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 Statements of Plan Net Assets for the Pension Fund on page 7 and the Combining Statement of Plan Net Assets for the Insurance Fund on page 9 provides a snapshot of the financial position of the each of the three systems at June 30, 2007. The Combined Statement of Changes in Plan Net Assets for the Pension Fund on page 8 and the Combining Statement of Changes in Plan Net Assets 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, 2006 through June 30, 2007.

The Schedule of Funding Progress on pages 31-36 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 Contributions from the Employers and Other Contributing Entities on pages 37-39 presents historical trend information about the annual required contributions and the contributions made 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, 2007 by $1,806.7 million from $15,152.7 million to $16,959.4 million. Plan net assets for the prior fiscal year increased by $818.9 million. The increase in plan net assets for the plan year ended June 30, 2007 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 fund.

Table 1
Plan Net Assets
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Cash & Invest.	$ 17,245.3	$ 16,299.5	$ 14,926.9	$ 3,441.6	$ 2,691.6	$ 2,338.9	$ 20,686.9	$ 18,991.1	$ 17,265.8
Receivables	125.2	123.4	123.4	41.4	35.7	23.5	166.6	159.1	146.9
Equip., net of dep.	1.9	1.3	0.8				1.9	1.3	0.8
Total Assets	$ 17,372.4	$ 16,424.2	$ 15,051.1	$ 3,483.0	$ 2,727.3	$ 2,362.4	$ 20,855.4	$ 19,151.5	$ 17,413.5
Total Liabilities	(3,144.2)	(3,472.1)	(2,645.9)	(751.8)	(526.7)	(433.8)	(3,896.0)	(3,998.8)	(3,079.7)
Plan Net Assets	$ 14,228.2	$ 12,952.1	$ 12,405.2	$ 2,731.2	$ 2,200.6	$ 1,928.6	$ 16,959.4	$ 15,152.7	$ 14,333.8

Table 2
Changes in Plan Net Assets
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Additions:									
Member Cont.	$ 300.3	$ 275.9	$ 310.8	$	$	$	$ 300.3	$ 275.9	$ 310.8
Employer Cont.	293.4	216.5	157.5	307.7	253.4	232.7	601.1	469.9	390.2
Premiums Rec'd				26.6	12.3		26.6	12.3	
Insurance Approp					11.9	4.6		11.9	4.6
Medicare Subsidy				21.5			21.5		
Invest. Inc. (net)	1,915.8	1,162.4	1,059.1	423.4	230.8	157.6	2,339.2	1,393.2	1,216.7
Total additions	$ 2,509.5	$ 1,654.8	$ 1,527.4	$ 779.2	$ 508.4	$ 394.9	$ 3,288.7	$ 2,163.2	$ 1,922.3
Deductions:									
Benefit payments	$ 1,187.1	$ 1,062.6	$ 960.5	$	$	$	$ 1,187.1	$ 1,062.6	$ 960.5
Refunds	25.2	24.9	23.9				25.2	24.9	23.9
Administrative Ex.	21.1	20.4	17.4	6.7	3.6	1.2	27.8	24.0	18.6
Healthcare Costs				241.1	212.8	166.9	241.1	212.8	166.9
Demut. Refund				0.8	20.0		0.8	20.0	
Total deductions	$ 1,233.4	$ 1,107.9	$ 1,001.8	$ 248.6	$ 236.4	$ 168.1	$ 1,482.0	$ 1,344.3	$ 1,169.9
Inc. (decrease) in plan net assets	$ 1,276.1	$ 546.9	$ 525.6	$ 530.6	$ 272.0	$ 226.8	$ 1,806.7	$ 818.9	$ 752.4

Plan net assets of the pension funds increased by $1,276.1 million ($14,228.2 million compared to $12,952.1 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries. This plan net asset increase is attributable primarily to the net appreciation in the fair value of investments due to the change in market conditions in general.

Plan net assets of the insurance fund increased by approximately $530.6 million ($2,731.2 million compared to $2,200.6 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 $24.4 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. The increase in member contributions is a result of an increase in elective service purchases by KRS members over the prior period.

Employer contributions increased by $76.9 million due to the increase in covered payroll reported to KRS and the increase in the employer contribution rate applied to covered payroll.

Net investment income increased by $753.4 million (net investment income of $1,915.8 million compared to net investment income of $1,162.4 million in the prior year). The pension funds experienced an increase in income primarily due to the increase in gains on sale of investments. This can be illustrated in Table 3 as follows:

Table 3 **Investment Income (Pension)**	**In Millions** 2007	 2006	 2005
Increase in fair value of investments current year end	$ 2,483	$ 1,845	$ 1,644
Increase in fair value of investments prior year end	$ 1,845	$ 1,644	$ 1,395
Increase in fair value of investments	$ 638	$ 201	$ 249
Investment Income net of Investment Expense	$ 408	$ 359	$ 335
Gain (loss) on sale of investments	$ 870	$ 602	$ 475
Investment Income (net)	$ 1,916	$ 1,162	$ 1,059

Pension fund deductions increased by $125.5 million caused principally by an increase of $124.5 million in benefit payments**.** Retirees received a C.O.L.A. increase of 3.2% in benefit payments as of July 1, 2006. Refunds of member contributions increased by $.3 million and administrative expenses increased by $.7 million.

INSURANCE FUND ACTIVITIES

Employer contributions paid into the insurance fund increased by $54.3 million over the prior year. This increase is a result of the increase in covered payroll reported to KRS and the increase in the rate applied to covered payroll.

Net investment income increased by $192.6 million. This increase in net income is due primarily to the increase in the gains on sale of investments. This can be illustrated in Table 4 as follows:

Table 4 **Investment Income (Insurance)**	**In Millions** 2007	 2006	 2005
Increase in fair value of investments current year end	$ 652	$ 415	$ 304
Increase in fair value of investments prior year end	$ 415	$ 304	$ 218
Increase in fair value of investments	$ 237	$ 111	$ 86
Investment Income net of Investment Expense	$ 56	$ 42	$ 36
Gain (loss) on sale of investments	$ 130	$ 78	$ 36
Investment Income (net)	$ 423	$ 231	$ 158

Insurance fund deductions increased by $12.2 million primarily due to the increase in healthcare costs.

HISTORICAL TRENDS

Accounting standards require that the statement of plan net assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the pension funds and insurance fund is provided in the Schedule of Funding Progress on pages 31-36. The asset value stated in the Schedule of Funding Progress is the actuarial value of assets determined by calculating the difference between the expected valuation assets and the actual market value of assets adjusted for any unrecognized gains or losses and amortized over a five-year period. The actuarial accrued liability is calculated using the entry age normal cost funding method. The 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 plans increased by $765.5 million for a total unfunded amount of $6,141.1 million for the fiscal year ended June 30, 2007 compared to an unfunded amount of $5,375.6 for the fiscal year ended June 30, 2006. In recent years, funding levels for the pension funds have fallen dramatically in response to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, the 2007 assumption changes, and increasing expenditures for retiree Cost of Living Adjustments. Within the KERS and SPRS plans, employer contribution rate reductions enacted by the State Legislature have limited the plans ability to correct the declining funding levels.

The insurance plan's unfunded actuarial accrued liability has made some improvement for the plan year ended June 30, 2007, decreasing to $8,658.3 million from $13,424.7 million for the plan year ended June 30, 2006. This is a decrease in the unfunded actuarial accrued liability of $4,766.4 million. While the funding level relative to the insurance fund has improved steadily since 1990, medical inflation rates in excess of the assumed rates as well as recent employer contribution rate reductions under KERS and SPRS have significantly limited this improvement. The recent adoption of new actuarial assumptions and the application of GASB Statement 43 requirements have further reduced the measured funding level.

Annual required contributions of the employers as actuarially determined and actual contributions made by the employers and other contributing entities in relation to the required contributions are provided in the Schedule of Contributions from the Employers and Other Contributing Entities on pages 37-39. The difference in the annual required contributions and actual contributions made by employers and other contributing entities 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 STATEMENT OF PLAN NET ASSETS--PENSION FUNDS

As of June 30, 2007 (with Comparative Totals as of June 30, 2006)
(Dollars in Thousands)

	2007						2006
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Restated Total
ASSETS							
Cash and short-term investments							
Cash	$ 101	$ 310	$ 381	$ 333	$ 56	$ 1,181	$ 3,010
Short-term investments	20,977	184,957	63,155	67,102	6,137	342,328	240,887
Total cash and short-term investments	21,078	185,267	63,536	67,435	6,193	343,509	243,897
Receivables							
Contributions	1,787	21,811	11,753	31,236	1,167	67,754	64,896
Investment income	2,111	22,755	7,180	23,843	1,553	57,442	58,484
Total receivables	3,898	44,566	18,933	55,079	2,720	125,196	123,380
Investments, at fair value							
Corporate and government bonds	133,395	1,326,277	432,239	1,434,224	94,457	3,420,592	3,835,399
Corporate stocks	303,951	3,645,970	1,060,131	3,624,492	234,365	8,868,909	7,909,480
Mortgages	46,952	572,802	178,666	633,529	38,274	1,470,223	845,536
Real estate	1,943	2,346	2,415	2,360	482	9,546	9,545
Total investments at fair value	486,241	5,547,395	1,673,451	5,694,605	367,578	13,769,270	12,599,960
Securities lending collateral invested	118,723	1,137,425	349,591	1,386,461	140,338	3,132,538	3,455,693
Equipment (net of accumulated depreciation)	54	643	97	1,089	11	1,894	1,277
Total Assets	629,994	6,915,296	2,105,608	7,204,669	516,840	17,372,407	16,424,207
LIABILITIES							
Accounts payable	496	4,714	1,082	5,272	121	11,685	16,400
Securities lending collateral	118,723	1,137,425	349,591	1,386,461	140,338	3,132,538	3,455,693
Total Liabilities	119,219	1,142,139	350,673	1,391,733	140,459	3,144,223	3,472,093
Plan Net Assets Held in Trust for Pension Benefits	$ 510,775	$ 5,773,157	$ 1,754,935	$ 5,812,936	$ 376,381	$ 14,228,184	$ 12,952,114

(A schedule of funding progress for each plan is presented on pages 31-33)
See accompanying independent auditor’s report and notes to financial statements

KENTUCKY RETIREMENT SYSTEMS

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

For The Fiscal Year Ended June 30, 2007 (with Comparative Totals for the Fiscal Year Ended June 30, 2006)
(Dollars in Thousands)

	2007						2006 Restated
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
ADDITIONS							
Members' contributions	$ 13,245	$ 116,254	$ 43,650	$ 121,979	$ 5,152	$ 300,280	$ 275,904
Employers' contributions	13,237	88,249	61,553	124,261	6,142	293,442	216,538
Total contributions	26,482	204,503	105,203	246,240	11,294	593,722	492,442
INVESTMENT INCOME							
From investing activities							
Net appreciation in fair value of investments	63,641	620,802	190,027	594,889	38,496	1,507,855	803,596
Interest/Dividends	14,820	169,521	51,758	173,310	11,318	420,727	370,009
Total investing activities income	78,461	790,323	241,785	768,199	49,814	1,928,582	1,173,605
Investment expense	456	4,843	1,654	4,731	307	11,991	10,611
Commissions	262	3,154	842	2,927	201	7,386	8,212
Total investing activities expense	718	7,997	2,496	7,658	508	19,377	18,823
Net income from investing activities	77,743	782,326	239,289	760,541	49,306	1,909,205	1,154,782
From Securities Lending Activities							
Securities lending income	7,109	67,410	20,692	82,521	8,343	186,075	134,770
Securities lending expense:							
Security borrower rebates	6,774	64,323	19,707	78,613	7,960	177,377	124,694
Security lending agent fees	82	761	239	953	94	2,129	2,463
Net income from securities lending activities	253	2,326	746	2,955	289	6,569	7,613
Total net investment income	77,996	784,652	240,035	763,496	49,595	1,915,774	1,162,395
Total Additions	104,478	989,155	345,238	1,009,736	60,889	2,509,496	1,654,837

	2007						2006
		KERS		CERS			Restated
	KERS	Non-	CERS	Non-			
	Hazardous	Hazardous	Hazardous	Hazardous	SPRS	Total	Total
DEDUCTIONS							
Benefit payments	$ 28,514	$ 640,201	$ 115,604	$ 365,648	$ 37,187	$ 1,187,154	$ 1,062,608
Refunds	1,662	9,489	2,563	11,396	47	25,157	24,937
Administrative expenses	611	7,070	1,073	12,197	126	21,077	20,369
Capital project expenses	1	13	2	22		38	
Total deductions	30,788	656,773	119,242	389,263	37,360	1,233,426	1,107,914
Net increase in plan assets	73,690	332,382	225,996	620,473	23,529	1,276,070	546,923
Plan Net Assets Held in Trust for Pension Benefits							
Beginning of Year	437,085	5,440,775	1,528,939	5,192,463	352,852	12,952,114	12,405,191
End of Year	$ 510,775	$ 5,773,157	$ 1,754,935	$ 5,812,936	$ 376,381	$ 14,228,184	$ 12,952,114

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

KENTUCKY RETIREMENT SYSTEMS

COMBINING STATEMENT OF PLAN NET ASSETS—INSURANCE FUND

As of June 30, 2007 (with Comparative Totals as of June 30, 2006)
(Dollars in Thousands)

	2007						2006
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
ASSETS							
Cash and short-term investments							
Cash	$ 10	$ 1	$ 16	$ 21	$ 6	$ 54	$ 265
Short-term investments	27,737	33,998	51,975	100,996	9,879	224,585	233,850
Total cash and short-term investments	27,747	33,999	51,991	101,017	9,885	224,639	234,115
Receivables							
Contributions	1,077	6,116	6,743	19,514	366	33,816	30,293
Investment income	733	1,822	1,607	3,050	368	7,580	5,440
Total receivables	1,810	7,938	8,350	22,564	734	41,396	35,733
Investments, at fair value							
Corporate and government bonds	23,331	67,683	64,034	121,460	12,835	289,343	220,782
Corporate stocks	228,045	555,185	445,919	840,203	109,324	2,178,676	1,735,264
Alternative Investment	15	15	37	61	7	135	135
Total investments	251,391	622,883	509,990	961,724	122,166	2,468,154	1,956,181
Security lending collateral invested	82,368	110,898	179,488	344,074	31,974	748,802	501,343
Total Assets	363,316	775,718	749,819	1,429,379	164,759	3,482,991	2,727,372
LIABILITIES							
Accounts payable	62	1,262	175	1,262	211	2,972	5,407
Demutualization proceeds payable							20,000
Securities lending collateral obligations	82,368	110,898	179,488	344,074	31,974	748,802	501,343
Total Liabilities	82,430	112,160	179,663	345,336	32,185	751,774	526,750
Plan Net Assets Held in Trust for Insurance Benefits	$ 280,886	$ 663,558	$ 570,156	$ 1,084,043	$ 132,574	$ 2,731,217	$ 2,200,622

(A schedule of funding progress is presented on pages 34-36)

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

KENTUCKY RETIREMENT SYSTEMS

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS—INSURANCE FUND

For The Year Fiscal Ended June 30, 2007 (with Comparative Totals for the Fiscal Year Ended June 30, 2006)
(Dollars in Thousands)

	2007						2006
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
ADDITIONS							
Employers' contributions	$ 19,535	$ 64,014	$ 70,073	$ 147,609	$ 6,489	$ 307,720	$ 253,397
Premiums received from retirees	204	12,196	191	13,997	8	26,596	12,326
Retiree drug subsidy	105	10,744	657	9,623	361	21,490	
Insurance appropriation							11,852
Total contributions	19,844	86,954	70,921	171,229	6,858	355,806	277,575
INVESTMENT INCOME							
From investing activities:							
Net appreciation in fair value of investments	38,760	64,426	78,402	166,070	19,151	366,809	188,231
Interest/Dividends	5,888	14,737	11,789	22,244	2,786	57,444	43,583
Total income from investing activities	44,648	79,163	90,191	188,314	21,937	424,253	231,814
Investment activities expense	202	367	380	721	93	1,763	1,889
Commissions	84	187	155	277	40	743	567
Total investing activities expense	286	554	535	998	133	2,506	2,456
Net income from investing activities	44,362	78,609	89,656	187,316	21,804	421,747	229,358
From Securities Lending Activities							
Securities lending income	4,055	5,750	8,706	16,645	1,620	36,776	22,094
Securities lending expense:							
Security borrower rebates	3,839	5432	8,240	15,751	1,534	34,796	20,294
Security lending agent fees	37	50	81	155	14	337	366
Net income from securities lending activities	179	268	385	739	72	1,643	1,434
Total net investment income	44,541	78,877	90,041	188,055	21,876	423,390	230,792
Total Additions	64,385	165,831	160,962	359,284	28,734	779,196	508,367

	2007						2006
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
DEDUCTIONS							
Healthcare premiums subsidies	$ 6,472	$ 66,590	$ 28,991	$ 44,141	$ 5,288	$ 151,482	$ 177,477
Administrative fees	83	3,199	320	3,040	105	6,747	3,562
Self funding insurance costs	402	44,264	2,616	41,058	1,227	89,567	35,311
Demutualization proceeds refunded		805				805	20,000
Total deductions	6,957	114,858	31,927	88,239	6,620	248,601	236,350
Net increase in plan assets	57,428	50,973	129,035	271,045	22,114	530,595	272,017
Plan Net Assets Held in Trust for Insurance Benefits							
Beginning of Year	223,458	612,585	441,121	812,998	110,460	2,200,622	1,928,605
End of Year	$ 280,886	$ 663,558	$ 570,156	$ 1,084,043	$ 132,574	$ 2,731,217	$ 2,200,622

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 insurance fund 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 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. The capitalization threshold used by KRS for the 2007 and 2006 plan years was $750.

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 for financial reporting purposes.

Continued

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

The Kentucky Employees Retirement System (KERS) was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statue 61.515. The County Employees Retirement System (CERS) was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statue 78.520. The State Police Retirement System (SPRS) was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statue 16.510. The Kentucky Retirement Systems Insurance Fund was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statue 61.701. KRS' 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 Kentucky Revised Statue 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, 2007 and 2006:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2007			2006		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	33,900	2,206	36,106	32,140	1,980	34,120
Inactive Vested Retirements	5,326	287	5,613	4,998	265	5,263
Inactive Vested Memberships	25,667	2,453	28,120	24,145	2,236	26,381
Active plan members	48,033	4,352	52,385	46,707	4,320	51,027
Total	112,926	9,298	122,224	107,990	8,801	116,791
Number of participating employers			359			353

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2007			2006		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	35,564	5,159	40,723	33,102	4,712	37,814
Inactive Vested Retirements	8,027	573	8,600	7,379	393	7,772
Inactive Vested Memberships	43,501	4,089	47,590	42,667	1,562	44,229
Active plan members	85,367	10,097	95,464	83,694	9,635	93,329
Total	172,459	19,918	192,377	166,842	16,302	183,144
Number of participating employers			1,400			1,391

Continued

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

STATE POLICE RETIREMENT SYSTEM

Number of Members	2007 Hazardous Position Employees	2006 Hazardous Position Employees
Retirees and beneficiaries receiving benefits	1,105	1,067
Inactive Vested Retirements	47	48
Inactive Vested Memberships	228	218
Active plan members	970	1,028
Total	2,350	2,361
Number of participating employers	1	1

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts in force consisted of the following at June 30, 2007 and 2006:

	2007					2006				
	Single	Couple/ Family	Parent	Medicare Without Prescription	Medicare With Prescription	Single	Couple/ Family	Parent+	Medicare Without Prescription	Medicare With Prescription
KERS Non-Hazardous	9,144	2,023	538	941	13,144	8,393	1,826	490	1,672	12,000
KERS Hazardous	738	571	82	85	658	656	378	58	74	603
CERS Non-Hazardous	6,919	915	280	1,412	13,734	6,298	1,058	249	2,502	11,803
CERS Hazardous	1,379	2,199	219	69	1,230	1,275	1,739	198	52	1,105
SPRS	252	296	19	15	380	260	406	29	9	368
Totals	18,432	6,004	1,138	2,522	29,146	16,882	5,407	1,024	4,309	25,879

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 adjustments (COLA) 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 fiscal years ended June 30, 2007 and 2006, 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 fiscal years ended June 30, 2007 and 2006, participating employers contributed 7.75% and 5.89%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2007 and 2006 was 17.13% and 13.62%, 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 adjustments (COLA) 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 fiscal years ended June 30, 2007 and 2006, 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 fiscal years ended June 30, 2007 and 2006, participating employers contributed 22% and 18.84%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2007 and 2006 was 23.32% and 21.59%, 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 adjustments (COLA) are provided at the discretion of the State legislature.

Contributions - For the fiscal years ended June 30, 2007 and 2006, 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 fiscal years ended June 30, 2007 and 2006, participating employers contributed 13.19% and 10.98%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2007 and 2006 was 13.19% and 10.98%, 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 adjustments (COLA) are provided at the discretion of the State legislature.

Contributions - For the fiscal years ended June 30, 2007 and 2006, 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 fiscal years ended June 30, 2007 and 2006, participating employers contributed 28.21% and 25.01%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2007 and 2006 was 28.21% and 25.01%, 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 adjustments (COLA) are provided at the discretion of the State legislature.

Contributions - For the fiscal years ended June 30, 2007 and 2006 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 fiscal years ended June 30, 2007 and 2006, the Commonwealth contributed 25.50% and 21.58%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2007 and 2006 was 42.30% and 34.83%, 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 FUND

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For fiscal year ended 2007, insurance premiums withheld from benefit payments for members of the Systems were $24,604,832 and $761,803 for KERS and KERS hazardous, respectively, $23,940,964 and $1,437,509 for CERS and CERS hazardous, respectively, and $163,211 for SPRS. For fiscal 2006, insurance premiums withheld from benefit payments for members of KRS were $23,925,504 and $697,822 for KERS and KERS hazardous, respectively, $23,353,491 and $1,392,261 for CERS and CERS hazardous, respectively, and $203,189 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, 2007 the Fund had 77,934 retirees and beneficiaries for whom benefits were available.

The amount of contribution paid by the Funds is based on years of service. 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, the 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.

Kentucky Retirement Systems commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan is one in which Kentucky Retirement Systems assumes the financial risk for providing healthcare benefits to its retirees. The self-funded plan pays for claims out-of-pocket as they are presented instead of paying a pre-determined premium to an insurance carrier for a fully-insured plan. Kentucky Retirement Systems funds the risk directly from its assets. Kentucky Retirement Systems becomes directly responsible for administering benefits under the plan.

Kentucky Retirement Systems' plan is defined by statute. Kentucky Retirement Systems selected Walgreens Health Initiatives and Fiserv Health (Wausau Benefits, Inc.) to administer the pharmaceutical and medical benefits for its retirees.

Stop-loss insurance can be arranged to limit the Kentucky Retirement Systems' loss to a specified amount to ensure that catastrophic claims do not upset the financial integrity of the self-funded plan. The amount of stop-loss insurance is a function of Kentucky Retirement Systems' size, nature of its business, financials, and tolerance for risk. Kentucky Retirement Systems continues to evaluate the use of stop-loss insurance.

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, KRS 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

	2007	2006
Cash	$ 410,633	$ 1,965,448
Short-Term Investments	205,934,152	120,776,512
Securities Lending Collateral Invested	1,256,147,832	1,254,181,656
Total	$1,462,492,617	$ 1,376,923,616

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2007	2006
Cash	$ 713,861	$ 953,952
Short-Term Investments	130,256,739	108,000,545
Securities Lending Collateral Invested	1,736,052,690	2,093,410,581
Total	$1,867,023,290	$ 2,202,365,078

STATE POLICE RETIREMENT SYSTEM

	2007	2006
Cash	$ 56,384	$ 89,840
Short-Term Investments	6,136,950	12,110,352
Securities Lending Collateral Invested	140,337,713	108,100,996
Total	$ 146,531,047	$ 120,301,188

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUNDS

	2007	2006
Cash	$ 53,838	$ 265,217
Short-Term Investments	224,584,472	233,849,473
Securities Lending Collateral Invested	748,802,051	501,343,495
Total	$ 973,440,361	$ 735,458,185

NOTE D--INVESTMENTS

The Board of Trustees of the Kentucky Retirement Systems (KRS) recognizes their duty to invest funds in accordance with the Prudent Person Rule and manage those funds consistent with the long-term nature of KRS. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

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

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

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

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

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 Pension and Insurance Funds invest in collateralized mortgage obligations (CMOs) and other asset-backed securities to increase return and adjust duration of the portfolio. The Pension and Insurance Funds 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.

Continued

NOTE D--INVESTMENTS--CONTINUED

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, 2007 and 2006 was approximately $356 million and $225 million respectively; the fair value of asset-backed securities at June 30, 2007 and 2006 was approximately $225 million and $195 million respectively; and the fair value of exchange-traded funds at June 30, 2007 and 2006 was approximately $427 million and $328 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, 2007 and 2006, deposits for KRS pension funds were $3,217,697 and $4,175,409, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

At June 30, 2007 and 2006, deposits for KRS insurance fund were $146,289 and $242,866, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

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. KRS does not have an explicit policy with regards to Custodial Credit Risk for investments. At June 30 2007 and 2006, 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	2007	2006
Foreign Currency Investments	$ 3,838,653	$ 4,747,304
Insurance Fund		
Foreign Currency Investments	$ 37,588	$ 25,598

Investment Policies - Kentucky Revised Statute 61.650 grants 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. Additionally, the Committee establishes specific investment guidelines in the Investment Management Agreement for each investment management firm.

Continued

NOTE D--INVESTMENTS--CONTINUED

Investment Summary
The following tables present a summary of the investments by type as of June 30, 2007 and 2006.

Pension Funds
As of June 30, 2007 and 2006

Investment Summary	2007	2006
U.S. Gov't & Agency Fixed Income Securities	$ 1,621,746,405	$ 3,251,063,919
U.S. Corporate Fixed Income Securities	3,267,332,169	1,416,970,614
Municipal Debt Securities	1,736,261	12,901,977
Short-term Investments	342,327,842	240,887,409
Equity Securities	8,339,372,635	7,640,279,994
Private Equity Limited Partnerships	529,536,766	269,198,441
Real Estate	9,545,575	9,545,575
	$ 14,111,597,653	$ 12,840,847,929

NOTE D--INVESTMENTS--CONTINUED

Insurance Fund
As of June 30, 2007 and 2006

Investment Summary

	2007	2006
U.S. Gov't & Agency Fixed Income Securities	$ 289,343,176	$ 220,781,808
Short-term Investments	224,584,472	233,849,474
Equity Securities	2,119,830,709	1,705,352,668
Private Equity Limited Partnerships	58,845,081	29,910,939
Alternative Investment	135,000	135,000
	$2,692,738,438	$2,190,029,889

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, 2007 and 2006.

Pension Funds
Debt Securities Investments at Fair Value
As of June 30, 2007 and 2006

Quality Rating	2007	2006
AAA	$3,697,018,926	$1,677,053,070
AA+	4,019,782	
AA	53,385,523	56,357,290
AA-	98,556,277	106,521,997
A+	40,611,902	117,467,811
A	117,081,402	129,605,231
A-	77,178,845	97,696,399
BBB+	100,891,605	93,215,626
BBB	119,298,748	68,755,102
BBB-	73,693,095	54,767,049
BB+	5,470,138	479,238
BB	2,227,931	
BB-	705,765	
NR		104,104,572
Total Credit Risk Debt Securities	4,390,139,939	2,506,023,384
U.S. Government & Agencies	500,674,896	2,174,913,125
Total Debt Securities	$4,890,814,835	$4,680,936,510

At June 30, 2007 and 2006, the weighted average quality rating of the pension fund debt securities portfolio was AA+ and AA+, respectively. As of June 30, 2007 and 2006, the KRS pension portfolio had $8,403,834 and $479,238, respectively, in debt securities rated BBB-. The fair value of securities in the BBB- rating category was $73,693,095 and $54,767,049, respectively, as of June 30, 2007 and 2006.

Continued

NOTE D--INVESTMENTS--CONTINUED

The insurance fund debt securities portfolio, by guidelines, is to be invested in US government securities. As shown below, as of June 30, 2007, the entire insurance fund was invested in Treasury Inflation Protected Securities (TIPS) which carry a US Government treasury rating. As of June 30, 2006, the entire insurance fund consisted of TIPS and US Governmental Short-Term Investment Funds (STIF's).

Insurance Fund
Credit Risk of Debt Securities
As of June 30, 2007 and 2006

	2007	**2006**
U.S Government & Agencies	$289,343,163	$220,781,808

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, 2007 or June 30, 2006, 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, 2007 and 2006, the effective duration of the blended benchmark was 4.77 and 5.70, respectively. At the same points in time, the effective duration of the KRS pension fund debt securities portfolio was 4.92 and 4.45, respectively.

Continued

NOTE D--INVESTMENTS--CONTINUED

KRS Pension Funds Interest Rate Risk

	2007	Weighted Average Effective Duration	2006	Weighted Average Effective Duration
Asset Backed Securities	$ 255,198,379	.85	$ 195,474,695	.80
Commercial Mortgage Backed Securities	359,777,307	3.97	270,294,818	3.50
Corporate Bonds	654,647,912	5.94	733,297,247	5.67
Government Agencies	165,620,722	4.36	457,938,065	3.58
Government Bonds	1,983,611,183	6.61	2,167,249,022	4.83
Government Mortgage Backed Securities	1,114,227,990	3.72	625,876,832	4.59
Municipal Bonds	1,736,261	14.93	12,901,977	11.78
Non-Government Backed Collateralized Mortgage Obligations	355,995,081	1.43	217,903,854	2.00
Pooled Investments				
Total	$ 4,890,814,835	4.92	$ 4,680,936,510	4.45

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, 2007 and 2006, the modified duration of the benchmark was 6.37 and 7.69, respectively. At the same points in time, the modified duration of the KRS insurance fund debt securities portfolio, excluding the pooled fund, was 7.85 and 8.09, respectively.

Insurance Fund
Debt Securities Investments at Fair Value
As of June 30, 2007 and 2006

	2007		2006	
Investment	**Fair Value**	**Weighted Duration**	**Fair Value**	**Weighted Duration**
Index Linked Government Bonds	$289,343,163	7.85	$220,781,808	8.09

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. KRS does not have a formal policy to limit foreign currency risk. The following tables present the KRS' exposure at June 30, 2007 and 2006.

Continued

NOTE D--INVESTMENTS--CONTINUED

Pension Funds
Investments at Fair Value
June 30, 2007 and 2006

	2007	2006
Foreign Equities		
Australian dollar	$ 99,886,855	$ 69,810,185
British pound sterling	440,922,544	326,927,792
Danish krone	1,678	5,555,604
Euro	666,152,958	534,096,705
Hong Kong dollar	36,321,861	19,200,448
Japanese yen	423,200,251	420,352,056
Malaysian ringgit	4,940,420	
New Zealand dollar		
Norwegian krone	18,449,939	13,999,004
Singapore dollar	27,463,397	29,048,766
South African rand	4,212,526	2,950,033
South Korean won	10,265,258	
Swedish krona	21,968,065	46,216,722
Swiss franc	158,519,487	121,430,006
International equity mutual fund (various currencies)	629,475,754	508,273,254
Total Securities subject to		
Foreign Currency Risk	2,541,780,993	2,097,860,575
USD (securities held by International Investment Managers)	61,178,192	45,147,664
Total International Investment Securities	$ 2,602,959,185	$ 2,143,008,239

Continued

NOTE D--INVESTMENTS--CONTINUED

Insurance Fund
Investments at Fair Value
June 30, 2007 and 2006

	2007	2006
Foreign Equities		
Australian dollar	$ 34,120,308	$ 25,007,521
British pound sterling	120,674,789	96,076,217
Danish krone		2,834,941
Euro	195,444,217	135,800,378
Hong Kong dollar	9,666,934	6,257,704
Japanese yen	108,817,816	111,488,690
New Zealand dollar		
Norwegian krone	9,480,847	7,061,386
Singapore dollar	8,952,357	5,388,276
Swedish krona	7,170,720	21,656,351
Swiss franc	49,914,778	35,962,006
Total Securities subject to Foreign Currency Risk	544,242,766	447,533,470
USD (securities held by International Investment Managers)	3,783,791	3,676,958
Total International Investment Securities	$548,026,557	$451,210,428

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, 2007, 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 a result of an 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 distribution of approximately $62 million, which Kentucky Retirement Systems received on January 4, 2002 under the Anthem demutualization, was deposited in the Kentucky Employees Retirement Systems Insurance Fund. As of November 30, 2006, the date on which all funds were disbursed, the Insurance Fund had earned approximately $4 million in interest, and had appreciated in value approximately $2.8 million. As a result, the value of the distribution at the time of disbursement amounted to approximately $68.8 million. 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.

Kentucky Retirement Systems was 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 was in Franklin Circuit Court. At issue was how to distribute the proceeds resulting from Anthem’s demutualization. The plaintiffs sought 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.

On June 30, 2006, the parties in the case entered into a Settlement Agreement that was approved on a preliminary basis by the Circuit Court. The Agreement received final approval from the Circuit Court on September 28, 2006. In accordance with the Agreement, $20 million was transferred to the “Northern Trust Institutional Funds Prime Obligations Portfolio” operated by the Northern Trust Company of Chicago, Illinois (which is the investment custodian for Kentucky Retirement Systems), with such account (“Settlement Fund Savings Account”) to be held and controlled exclusively by Kentucky Retirement Systems. This account was created on July 11, 2006.

On, or about, the effective date of the Settlement Agreement of October 29, 2006, Kentucky Retirement Systems caused all funds contained in the Settlement Fund Savings Account, including any interest earned, to be paid to the Plaintiffs’ Counsel in trust for the full, complete and final satisfaction of all claims released pursuant to the Settlement Agreement. The Settlement Fund Savings Account was distributed by the Plaintiffs’ Counsel as ordered by the Court.

The remaining balance of approximately $48.8 million, plus earnings thereon, was distributed on November 30, 2006, as follows: Judicial Retirement Plan, $376,105; Legislators’ Retirement Plan, $112,343; and, Kentucky Retirement Systems, $48,356,362. Accrued interest was transferred to each account on December 5, 2006, in the following amounts: Judicial Retirement Plan, $1,545; Legislators’ Retirement Plan, $462; and, Kentucky Retirement Systems, $198,666. The balance transferred to Kentucky Retirement Systems was further segregated among the various plans it manages, as follows: Kentucky Employees Retirement System-Non-Hazardous, $24,777,800, or 51.24%; Kentucky Employees Retirement System-Hazardous, $676,989, or 1.4%; County Employees Retirement System-Non-Hazardous, $21,523,417, or 44.51%; County Employees Retirement System-Hazardous, $913,935, or 1.89%; and, State Police Retirement System, $464,221, or .96%. The manner of distribution was determined by the Segal Company, the former actuaries of Kentucky Retirement Systems.

NOTE J--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. Plan members contributed 5.0% of creditable compensation for the periods ending June 30, 2007, June 30, 2006, and June 30, 2005. KRS contributed 7.75%, 5.89%, and 5.89% of covered payroll for the periods ending June 30, 2007, June 30, 2006, and June 30, 2005, respectively. The chart below includes the covered payroll and contribution amounts for KRS for the three periods included in this discussion.

	2007	2006	2005
Covered Payroll	$11,269,800	$10,960,000	$ 9,891,000
Employer Contributions	$ 873,400	$ 641,200	$ 572,400

NOTE K--EQUIPMENT

Equipment consists of the following:	June 30 2007	June 30 2006
Equipment, at cost	$ 4,886,710	$ 4,039,537
Less accumulated depreciation	(2,992,574)	(2,763,017)
	$ 1,894,136	$ 1,276,520

Depreciation expense for the fiscal years ended June 30, 2007 and 2006 amounted to $438,278 and $387,292, respectively.

NOTE L--ALTERNATIVE INVESTMENT

On February 6, 2006, the health insurance fund of Kentucky Retirement Systems loaned to KRS Perimeter Park West, Inc., a related party, $700,000 for the purchase of real property at 1300 Louisville Road, Frankfort, Kentucky. The loan was not documented by a note, mortgage contract, or security interest in the property. Subsequent to the lending and purchase, the real property was valued by appraisal from $135,000 to $290,000. The range of appraisal values is based upon considerations of zoning classifications, site preparations and improvements, and other matters. Kentucky Retirement Systems is reflecting the alternative investment at the lowest appraisal value for the property. Because of the significant difference in the appraised value of the property and the loan amount, and also because the loan was not documented by a note, mortgage contract, or security interest in the property, the Kentucky Retirement Systems is uncertain whether it will be able to collect any principal (or interest) in excess of the minimum appraised property value. Therefore, as of June 30, 2006, KRS management elected to write-down the value of the Alternative Investment to an estimated collectible value of $135,000.

NOTE M--PRIOR-PERIOD ADJUSTMENT

The Pension Funds' Net Assets as of June 30, 2006, and the net increase in the Pension Funds' Net Assets for the fiscal year then ended, have been restated to correct for an error in accrued wages at June 30, 2006. The net effect of this correction for reporting purposes was a $1,888,000 decrease in Administrative Expenses (Salaries and Per Diem) for the fiscal year ended June 30, 2006 and a corresponding increase in Pension Funds' Net Assets as of June 30, 2006.

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, 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
June 30, 2006**	5,394,086,323	8,994,826,247	3,600,739,924	60.0	1,702,230,777	211.5
June 30, 2007**	5,396,782,459	9,485,939,278	4,089,156,819	56.9	1,780,223,493	229.7
Hazardous						
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
June 30, 2006**	427,984,192	508,655,903	80,671,711	84.1	138,747,320	58.1
June 30, 2007**	467,287,809	558,992,327	91,704,518	83.6	144,838,020	63.3
Total						
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	140,097,767	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
June 30, 2006**	5,822,070,515	9,503,482,151	3,681,411,635	61.3	1,840,978,097	200.0
June 30, 2007**	5,864,070,268	10,044,931,605	4,180,861,337	58.4	1,925,061,513	217.2

*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

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, 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
June 30, 2006**	5,162,894,136	6,179,569,267	1,016,675,131	83.5	1,982,437,473	51.3
June 30, 2007**	5,467,824,480	6,659,446,126	1,191,621,646	82.1	2,076,848,328	57.4
Hazardous						
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
June 30, 2006**	1,515,075,017	2,020,142,770	505,067,753	75.0	426,927,550	118.3
June 30, 2007**	1,639,288,294	2,208,736,179	569,447,255	74.2	458,998,956	124.1
Total						
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
June 30, 2006**	6,677,969,153	8,199,712,037	1,521,742,884	81.4	2,409,365,023	63.2
June 30, 2007**	7,107,113,404	8,868,182,305	1,761,068,901	80.1	2,535,847,284	69.4

*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

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, 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
June 30, 2006**	344,016,197	516,482,298	172,466,101	66.6	47,743,865	361.2
June 30, 2007**	348,806,508	547,955,286	199,148,778	63.7	49,247,580	404.4

*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 FUND

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, 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
June 30, 2006**	611,350,765	7,815,480,774	7,204,130,009	7.8	1,702,230,777	423.2
June 30, 2007**	621,171,658	5,201,355,055	4,580,183,397	11.9	1,780,223,493	257.3
Hazardous						
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
June 30, 2006**	212,833,818	621,237,856	408,404,538	34.3	138,747,320	294.4
June 30, 2007**	251,536,756	504,842,981	253,306,225	49.8	144,838,020	174.9
Total						
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
June 30, 2006**	824,184,083	8,436,718,630	7,612,534,547	9.8	1,840,178,097	413.5
June 30, 2007**	872,708,414	5,706,198,036	4,833,489,622	15.3	1,925,061,513	251.1

*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 FUND

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, 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
June 30, 2006**	777,726,590	4,607,223,639	3,829,497,049	16.9	1,982,437,473	193.2
June 30, 2007**	960,285,900	3,333,966,070	2,373,680,170	28.8	2,076,848,328	114.3
Hazardous						
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
June 30, 2006**	422,785,042	1,928,481,371	1,505,696,329	21.9	426,927,550	352.7
June 30, 2007**	512,926,549	1,646,460,011	1,133,533,462	31.2	458,998,956	247.0
Total						
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
June 30, 2006**	1,200,511,632	6,535,705,010	5,335,193,378	18.4	2,409,365,023	221.4
June 30, 2007**	1,473,212,449	4,980,426,081	3,507,213,632	29.6	2,535,847,284	138.3

*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 FUND

	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, 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
June 30, 2006**	105,580,269	582,580,867	477,000,598	18.1	47,743,865	999.1
June 30, 2007**	115,215,912	432,763,229	317,547,317	26.6	49,247,580	644.8

*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.

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

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, 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
June 30, 2006	137,330,718	60,680,607	44.2	100,942,451	43,748,669	43.3	238,273,169	104,429,276	43.8
June 30, 2007	190,299,462	88,248,677	46.4	114,928,046	74,758,381	65.0	305,227,508	163,007,058	53.4

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, 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
June 30, 2006	12,128,538	10,803,206	89.1	18,605,633	16,243,103	87.3	30,734,171	27,046,309	88.0
June 30, 2007	13,644,045	13,237,321	97.0	20,642,499	19,639,488	95.1	34,286,544	32,876,809	95.9

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, 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
June 30, 2006	149,459,256	71,483,813	47.8	119,548,084	59,991,772	50.2	269,007,340	131,475,585	48.9
June 30, 2007	203,943,507	101,485,998	49.8	135,570,545	94,397,869	69.6	339,514,052	195,883,867	57.7

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES--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, 2001	$ 35,658,922	$ 48,914,435	137.2	$ 62,292,385	$ 62,292,385	100.0	$ 97,951,307	$ 111,206,820	113.5
June 30, 2002	3,326,367	5,528,348	166.2	102,119,475	102,150,543	100.0	105,445,842	107,678,891	102.1
June 30, 2003	8,682,257	11,855,694	136.6	102,038,427	99,234,843	97.3	110,720,684	111,090,537	100.3
June 30, 2004	43,111,505	44,028,465	102.1	89,289,520	89,344,241	100.1	132,401,025	133,372,706	100.7
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
June 30, 2006	89,486,365	90,834,052	101.5	126,460,952	126,480,816	100.0	215,947,317	217,314,868	100.6
June 30, 2007	121,931,495	124,260,850	101.9	147,461,540	157,232,232	106.6	269,393,035	281,493,082	104.5

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, 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
June 30, 2006	49,589,149	49,976,485	100.8	60,947,804	60,933,604	100.0	110,536,953	110,910,089	100.3
June 30, 2007	60,782,567	61,553,118	101.3	70,008,907	70,729,308	101.0	130,791,474	132,282,426	101.1

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, 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
June 30, 2006	139,075,514	140,810,537	101.2	187,408,756	187,414,420	100.0	326,484,270	328,224,957	100.5
June 30, 2007	182,714,062	185,813,968	101.7	217,470,447	227,961,540	104.8	400,184,509	413,775,508	103.4

Continued

KENTUCKY RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES--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, 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
June 30, 2006	6,888,805	4,244,445	61.6	9,669,999	5,990,265	61.9	16,558,804	10,234,710	61.8
June 30, 2007	10,227,713	6,142,326	60.1	10,733,152	6,850,092	63.8	20,960,865	12,992,418	62.0

KENTUCKY RETIREMENT SYSTEMS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

PENSION FUNDS

	Non-Hazardous	Hazardous
Valuation Date	June 30, 2007	June 30, 2007
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	30 Years	30 Years
Asset Valuation Method	Five-year smoothed Market	Five-year smoothed Market
Actuarial Assumptions:		
Investment Return	7.75%	7.75%
Projected Salary Increases	4.0-13.5%	4.0-14.5%
Cost-of-Living Adjustment	None	None
Includes Inflation Rate at	3.50%	3.50%

INSURANCE FUND

	Non-Hazardous	Hazardous
Valuation Date	June 30, 2007	June 30, 2007
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	30 Years	30 Years
Asset Valuation Method	Five-year smoothed Market	Five-year smoothed Market
Medical Trend Assumption	12.00-5.00%	12.00-5.00%
Year of Ultimate Trend	2015	2015
Actuarial Assumptions:		
Investment Return	4.50%	7.75%
Includes Inflation Rate at	3.50%	3.50%

ADDITIONAL SUPPORTING SCHEDULES

KENTUCKY RETIREMENT SYSTEMS

SCHEDULE OF ADMINISTRATIVE EXPENSES

Fiscal years ended June 30

	2007	(Restated) 2006
	(Dollars in thousands)	
Personal Services		
Salaries and per diem	$ 11,429	$ 11,153
Fringe benefits	3,230	2,964
Tuition assistance	53	91
Total personal services	14,712	14,208
Contractual Services		
Actuarial	470	161
Audit	42	23
Legal	395	522
Medical	255	288
Contractual	637	1,354
Total contractual services	1,799	2,348
Communication		
Printing	331	254
Telephone	147	172
Postage	633	637
Travel	236	218
Total communication	1,347	1,281
Rentals		
Office space	979	980
Equipment	67	57
Total rentals	1,046	1,037
Miscellaneous		
Utilities	274	221
Supplies	268	165
Insurance	64	61
Maintenance	441	300
Other	687	361
Total miscellaneous	1,734	1,108
Depreciation	439	387
Healthcare Administrative Fees	6,748	3,562
Total Administrative Expenses	$ 27,825	$ 23,931

KENTUCKY RETIREMENT SYSTEMS

SCHEDULE OF INVESTMENT EXPENSES

Fiscal years ended June 30

	2007	2006
PENSION FUNDS	(Dollars in thousands)	
Security Lending Fees		
Broker rebates	$ 177,377	$ 124,694
Lending agent fees	2,129	2,463
Total security lending	179,506	127,157
Common Stock Commissions	7,386	8,212
Contractual Services		
Investment management	10,573	10,156
Security custody	381	288
Investment consultant	377	111
Investment related travel	25	57
Total contractual services	11,356	10,612
INSURANCE FUND		
Security Lending Fees		
Broker rebates	34,796	20,294
Lending agent fees	338	366
Total security lending	35,134	20,660
Common Stock Commissions	744	567
Investment Management	1,438	1,889
Total investment expenses	$ 235,564	$ 169,097

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

Fiscal years ended June 30

	2007	2006
	(Dollars in thousands)	
Actuarial Services	$ 470	$ 161
Medical Review Services	255	288
Audit Services	42	23
Legal Counsel	395	522
Compliance	180	136
Workflow	245	364
Healthcare	133	750
Banking	53	51
Miscellaneous	26	53
Total	$ 1,799	$ 2,348

Mountjoy & Bressler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 fiscal year ended June 30, 2007, and have issued our report thereon dated November 15, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Retirement Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kentucky Retirement Systems' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kentucky Retirement Systems' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely 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.

Mountjoy & Bressler, LLP

November 15, 2007
Louisville, Kentucky

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KENTUCKY RETIREMENT SYSTEMS

SCHEDULE OF FINDING AND RESPONSE

CURRENT YEAR

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.

PRIOR YEAR

Item 2006-1, Management Override of Internal Controls, was addressed adequately by management.