Comprehensive Annual Financial Report For the Year Ended June 30, 2001

KENTUCKY RETIREMENT SYSTEMS

Kentucky Employees Retirement Systems
County Employees Retirement System
State Police Retirement System

A Component Unit of the
Commonwealth of Kentucky

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KENTUCKY RETIREMENT SYSTEMS

A Component Unit of the
Commonwealth of Kentucky

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2001

Prepared by the executive staff of
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The cost of printing this CAFR
is part of the administrative expense of the system.

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KENTUCKY RETIREMENT SYSTEMS

Introductory Section

Comprehensive Annual Financial Report
June 30, 2001

KENTUCKY RETIREMENT SYSTEMS
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

Kentucky Employees Retirement System
County Employees Retirement System
State Police Retirement System

William P. Hanes, Esq.
General Manager
Phone 502-564-4646
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November 15, 2001

The Board of Trustees
Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124

I am pleased to present the comprehensive annual financial report (CAFR) of the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), State Police Retirement System (SPRS) and Insurance Fund for the fiscal year ended June 30, 2001.

The CAFR is divided into six sections:

- An Introductory Section, containing the administrative organization and letter of transmittal.
- A Financial Section, containing the report of the independent Auditor, the financial statements of the three systems and insurance fund and certain required supplementary information.
- An Investment Section, containing a report on investment activity, investment policies, investment results and various investment schedules.
- An Actuarial Section, containing the Actuary's Certification Letter and the results of the annual actuarial valuation.
- A Statistical Section, containing information about plan participants and recipients.
- A Compliance Section, containing a report on compliance and internal control.

The management of the systems is responsible for the accuracy of the data as well as the completeness and fairness of the presentation. We present this information to help you and the members of the retirement systems understand the systems' financial and actuarial status. This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standard Board. Transactions of the system are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

History

KERS was created in 1956 by the Kentucky General Assembly in order to supplement the benefits provided by Social Security. When the first actuarial valuation was done June 30, 1957, there were 16,000 employees participating in KERS and assets of $2.8 million. CERS and SPRS were established in 1958. The first actuarial valuation of SPRS was conducted June 30, 1959. No actuarial valuation of CERS was conducted until June 30, 1960 because the statutes prohibited retirements from the system prior to July 1, 1960. On June 30, 1960, there were 68 counties and 2,617 employees participating in CERS, and SPRS included 415 uniformed state troopers.

As of June 30, 2001, there were more than 240,000 active and retired members in the three systems and approximately $11.7 billion in assets. A breakdown of membership by system is provided in the statistical section.

The staff of Kentucky Retirement Systems provides detailed benefit estimates to members upon request. Counselors are available at the Frankfort office for individual counseling. In addition, staff conducts individual counseling sessions at sites throughout the state and holds preretirement seminars to help members prepare for retirement.

Major Initiatives

Kentucky Retirement Systems completed an asset modeling study, and the new asset allocation can be found in the Investment Section of the CAFR.

In conjuction with the asset modeling study, the actuary performed a five-year experience study which resulted in several assumption changes, including a new method of valuing assets. A description of the assumptions can be found in the Actuarial Section of the CAFR.

The systems began a comprehensive fiduciary compliance review utilizing the expertise of Ice Miller, Indianapolis, Indiana. The investment review was completed.

Kentucky voters amended the state constitution to allow for annual sessions. Thus, the first annual session was held in 2001. During the 2001 General Assembly, legislation was passed creating a final compensation based on the three highest years of earnings for nonhazardous employees of KERS and CERS who retire between August 1, 2001, and January 1, 2009, and who have 27 years of service and whose age and service are at least equal to 75. The General Assembly also changed the cost of most service purchases to 100% of actuarial cost effective July 1, 2001. This change resulted in a tremendous influx of requests to purchase service before the service increased in cost, increasing the already significant work backlog of the systems.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the Kentucky Retirement Systems for its CAFR for the fiscal year ended June 30, 2000. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Additions To Plan Net Assets

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement and insurance benefits.

(dollar amounts expressed in thousand)	***2001***	***2000***	***Increase (Decrease) Amount***	***Increase (Decrease) Percentage***
Member Contributions	$250,239	$ 246,563	$3,676	1.5%
Employer Contributions	$288,178	$ 305,231	($17,053)	(5.6%)
Net Investment Income	($739,315)	$ 651,187	($1,390,501)	(213.5%)
Total	($200,898)	$1,202,981	($1,403,879)	(116.7%)

The increase in member contributions is a result of an increase in the covered payroll from the previous year, as well as a steady number of service purchases. The decrease in employer contributions can be attributed to decreases in the actuarially required rates. The decrease in Net Investment Income is a result of the considerably less favorable financial markets than for fiscal year 2000.

Deductions To Plan Net Assets

The Kentucky Retirement Systems administers the retirement programs established by the Kentucky General Assembly. The costs associated with those programs include the monthly retirement allowances of retired members under normal, early or disability retirement; payments to beneficiaries; monthly insurance benefits; member refunds and the administrative expenses of the system.

(dollar amounts expressed in thousand)	***2001***	***2000***	***Increase (Decrease) Amount***	***Increase (Decrease) Percentage***
Retirement Allowances	$549,120	$476,610	$72,510	15.2%
Refunds	$ 18,614	$ 21,369	($2,755)	(12.9%)
Administrative Expense	$ 11,593	$ 10,103	$ 1,490	14.7%
Medical Insurance Expenses	$ 82,615	$ 66,818	$15,797	23.6%
Total	$661,942	$574,900	$87,042	15.1%

Retirement allowances increased due to a 2.2% cost of living adjustment added to recipients' monthly benefits in July and the increase in the number of retired members. Administrative expenses increased due to equipment purchases, overtime and additional personnel.

Investments

The Board of Trustees of the Kentucky Retirement Systems has a statutory obligation to invest the systems' funds in accordance with the "prudent person rule." The prudent person rule states that fiduciaries shall discharge their investment duties with the same degree of diligence, care and skill which a prudent person would ordinarily exercise under similar circumstances in a like position.

The Board has managed the funds in recognition of the basic long term nature of the systems. The Board has interpreted this to mean that the assets of the three systems should be actively managed — that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. The Board has further recognized that proper diversification of assets must be maintained. The asset allocation can be found in the Investment Section of this CAFR. The Board's policies have provided significant returns over the long term while holding down investment related expenses. Due to short-term market conditions for the fiscal year ending June 30, 2001, the systems' pension funds had a total return of -5.4% and the insurance fund had a total return of -3.8%.

Funding

The Kentucky Retirement Systems' funding objective is to meet long-term benefit promises through contributions that remain fairly level as a percent of member payroll. Funding of the pension benefits for all systems as of June 30, 2001 is greater than 100% using the ratio of assets at actuarial value to the total actuarial accrued liability.

The medical insurance benefit, created in 1978, is not at the same level of funding. Total insurance liabilities exceed assets in the Insurance Fund by $3.4 billion, although insurance fund assets increased to $1.2 billion. The medical insurance liability continues to be the primary funding concern of the Kentucky Retirement Systems.

A detailed discussion of the funding status of the systems can be found in the Financial Section of this report.

Professional Services

A listing of the Board's contracted consultants can be found in the organizational chart on page 15. A listing of the external investment managers can be found on page 85 in the Investment Section.

Other Information

Kentucky statutes require an annual audit by an independent certified public accountant or the Auditor of Public Accounts. The Charles T. Mitchell Co. performed the audit for the fiscal year ended June 30, 2001. The results of that audit are contained in the Financial Section. It is the opinion of the auditing firm that the general purpose financial statements present fairly the plan net assets.

The compilation of this report reflects the combined efforts of Lauren Stewart, Bob Leggett and Mark Roberts under the leadership of the Board of Trustees. It is intended to provide complete and reliable information to be used in making management decisions, determining compliance with statutory provisions and determining responsible stewardship of the funds.

The report is being mailed to all employers participating in the Kentucky Retirement Systems. They form the link between the systems and its membership. Their cooperation contributes significantly to the success of the Kentucky Retirement Systems. We hope the employers and their employees find this report informative. This and past CAFRs can be found at www.kyret.com.

On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff, the advisors and the many people who have worked so diligently to assure the successful operation of the Kentucky Retirement Systems.

William P. Hanes

William P. Hanes, Esq.
General Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kentucky Retirement Systems

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Anne Spray Kinney
President

Jeffrey L. Esser
Executive Director

Board of Trustees

KENTUCKY RETIREMENT SYSTEMS
ORGANIZATIONAL CHART

CONSULTANTS

Actuarial Services
William M. Mercer Inc.
Suite 1500
462 S. Fourth St.
Louisville, KY 40202

Auditing Services
Charles T. Mitchell Co.
201 W. Main St.
Frankfort, KY 40601

Legal Consultant
Robert D. Klausner, P.A.
10059 N.W. 1st Court
Plantation, FL 33324

Legal Services
Stoll Keenon & Park
300 West Vine Street, Suite 2100
Lexington, KY 40507

Asset Management
William M. Mercer Investment
Consulting, Inc.
10 S. Wacker Drive
Chicago, IL 60606

Fiduciary Review Consultant
Ice Miller
One American Square
Box 82001
Indianapolis, IN 46282

Information on Investment Managers may be found on page 85 in the Investment Section

Board of Trustees

Investment Committee

General Manager
William P. Hanes

Administrative Issues Only

Operations Deputy Commissioner
Lauren Stewart

- **Accounting Director**
  Glenn Valley
- **Information Technology Director**
  Connie Goins

Benefit Services Deputy Commissioner
Gerri Miller

- **Employment Services Director**
  Becky Stephens
- **Membership Support Director**
  Lorrie Gritton
- **Support Services Director**
  Terri Price
- **Disabilities Director**
  Pamela Kyler
- **Retired Services Director**
  Connie Coleman

Investments Deputy Commissioner
Robert S. Leggett

- **Fixed Assets Director**
  Kenton Bottoms
- **Equity Assets Director**
  Jane Hawkins

KENTUCKY RETIREMENT SYSTEMS

Financial Section

Comprehensive Annual Financial Report
June 30, 2001

Charles T. Mitchell Company, LLP
Certified Public Accountants
201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40602-0698
TELEPHONE - (502) 227-7395
TELECOPIER - (502) 227-8005

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Retirement System
Frankfort, Kentucky

We have audited the accompanying statements of plan net assets of the Kentucky Retirement System as of June 30, 2001 and 2000 and the related statements of changes in plan net assets for the years then ended. These component unit financial statements are the responsibility of Kentucky Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Kentucky Retirement System, a component unit of the Commonwealth of Kentucky, at June 30, 2001 and 2000 and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2001 on our consideration of the Kentucky Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The financial section supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the System's management. Such schedules as of and for the year ended June 30, 2001 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of the report and therefore express no opinion on them.

Charles T. Mitchell Co.

November 26, 2001

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Retirement System's financial performance provides an overview of the retirement systems' and insurance fund's financial activities for the fiscal year ended June 30, 2001. Please read it in conjunction with the Retirement Systems' financial statements and Insurance Fund's financial statements, which begin on page 18.

FINANCIAL HIGHLIGHTS—RETIREMENT SYSTEMS

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

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

FINANCIAL HIGHLIGHTS—INSURANCE FUND

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

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

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

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The Combined Statement of Plan Net Assets and Combined Statements of Changes in Plan Net Assets (on pages 24-27) provide information about the activities of the pension funds and insurance fund as a whole. Kentucky Retirement Systems is the fiduciary of funds held in trust for five distinct groups of members. The Combining Statements of Plan Net Assets and Combining Statements of Changes in Plan Net Assets (on pages 28-35) provide more detailed information about each plan assets, liabilities, plan net assets, and changes in plan net assets.

The Schedule of Funding Progress (on pages 50-60) includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions (on pages 61-66) presents historical trend information about the annual required contributions of employers and the contributions made by employers in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

KENTUCKY RETIREMENT SYSTEMS AS A WHOLE

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

Table 1
Plan Net Assets
(In Millions)

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

Table 2
Changes in Plan Net Assets
(In Millions)

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

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

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

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

PENSION FUND ACTIVITIES

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

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

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

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

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

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

INSURANCE FUND ACTIVITIES

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

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

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

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

HISTORICAL TRENDS

Accounting standards require that the statement of plan net assets state asset value at **fair value** and include only benefits and refund due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the pension funds and insurance fund is provided in the Schedule of Funding Progress (on pages 50-60). The asset value stated in the Schedule of Funding Progress is the **actuarial value** of assets determined by calculating the difference between the expected valuation assets and the actual market value of assets adjusted for any unrecognized gains or losses and amortized over a five year period. The actuarial accrued liability is calculated using the entry age normal fund method.

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

Annual required contributions of the employers and contributions made by the employers in relation to the required contributions are provided in the Schedule of Employer Contributions (on pages 61-66). This schedule indicates that employers are generally meeting their responsibilities to provide resources to the plans.

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

(A schedule of funding progress for each plan is presented on pages 50 through 60.)

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

Expressed In Thousands

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

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

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

Expressed In Thousands

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

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

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

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

Expressed In Thousands

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

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

The accompanying notes are an integral part of these financial statements

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

Expressed In Thousands

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

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

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

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

Expressed In Thousands

CERS HAZARDOUS	CERS NON-HAZARDOUS	STATE POLICE	2001 TOTAL	2000 TOTAL
$ 3,300	$ 6,709	$ 834	$ 19,154	$ -
31,695	58,219	11,770	188,046	85.503
34,995	64,928	12,604	207,200	85,503
14	26	5	82	10
				900
427	810	178	2,658	3,706
3,292	7,240	689	18,431	17,980
-	-	-	-	-
-	-	-	-	-
3,733	8,076	872	21,171	22,596
16,696	31,686	7,019	104,512	224,782
117,104	224,402	48,890	739,105	669,515
1,124	2,017	547	6,595	17,117
134,924	258,105	56,457	850,212	911,414
15,964	30,348	6,487	99,339	1,979
189,615	361,457	76,419	1,177,923	1,021,492
15	42	7	108	191
				130
15,964	30,348	6,487	99,339	1,979
15,979	30,390	6,493	99,448	2,300
$ 173,636	$ 331,067	$ 69,926	$ 1,078,475	$ 1,019,191

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

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

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

Expressed In Thousands

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

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

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

NOTE A. Summary of Significant Accounting Policies

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

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

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

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

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

NOTE B. Plan Descriptions and Contribution Information

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

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

STATE POLICE RETIREMENT SYSTEM

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

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

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

NOTE B. Plan Descriptions and Contribution Information (Continued)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Non-Hazardous Employees Pension Plan

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

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

Hazardous Employees Pension Plan

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

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

NOTE B. Plan Descriptions and Contribution Information (Continued)

COUNTY EMPLOYEES RETIREMENT SYSTEM

Non-Hazardous Employees Pension Plan

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

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

Hazardous Employees Pension Plan

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

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

NOTE B. Plan Descriptions and Contribution Information (Continued)

STATE POLICE RETIREMENT SYSTEM

Plan Description - SPRS is a single-employer defined benefit pension plan that covers all full-time State Troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

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

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

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

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

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

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

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

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

STATE POLICE RETIREMENT SYSTEM

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

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

NOTE D. Investments

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

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

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

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

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

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

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

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

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

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

Note D: Investments (continued)

Derivatives (continued)

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

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

Note D: Investments (continued)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

2001

Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	$ 251,035,661	$ -	$ 10,107,139	$ 261,142,799
Loaned for securities collateral	124,804,102			124,804,102
Corporate bonds	591,171,106		11,341,877	602,512,983
Loaned for securities collateral	9,310,764			9,310,764
Corporate stocks	2,479,798,756			2,479,798,756
Loaned for securities collateral	222			222
Short-term investments	849,261,657	-	-	849,261,657
Subtotal	$4,305,382,268	$ -	$ 21,449,016	$4,326,831,283
Investments - Not Categorized				
Short Term Investment Pool				$ 870,430,971
Investments held by broker-dealers under securities loans				
U.S. Government Securities				414,965,006
Corporate bonds				58,795,295
Corporate stocks				374,337,005
Mortgages				268,732,891
Real Estate Investment				277,684,389
Total Investments				$6,591,776,840

2000

Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	$ 634,485,980	$ -	$ -	$ 634,485,980
Loaned for securities collateral				
Corporate bonds	686,321,643			686,321,643
Loaned for securities collateral				
Corporate stocks	3,843,236,881			3,843,236,881
Loaned for securities collateral	345,323			345,323
Repurchase agreements	400,995,739	-	13,680,024	414,675,763
Subtotal	$5,565,385,566	$ 0	$ 13,680,024	$5,579,065,590
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				139,651,805
U.S. Government Securities				
Corporate bonds				
Corporate stocks				149,717,539
Mortgages				270,145,672
Real Estate Investment				286,933,699
Total Investments				$6,425,514,305

Note D: Investments (continued)

COUNTY EMPLOYEES RETIREMENT SYSTEM

2001

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

2000

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

Note D: Investments (continued)

STATE POLICE RETIREMENT SYSTEM

2001

Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	$ 16,196,830	$ -	$ 642,732	$ 16,839,562
Loaned for securities collateral	7,882,631			7,882,631
Corporate bonds	37,622,945		721,233	38,344,178
Loaned for securities collateral	588,068			588,068
Corporate stocks	162,945,265			162,945,265
Loaned for securities collateral	14			14
Short-term investments	45,064,222	-	-	45,064,222
Subtotal	$ 270,299,976	$ -	$ 1,363,966	$ 271,663,942
Investments - Not Categorized				
Short-Term Investment Pool				54,976,448
Investments held by broker-dealers under securities loans				
U.S. Government Securities				26,209,203
Corporate bonds				3,713,513
Corporate stocks				23,643,137
Mortgages				17,061,141
Real Estate Investment				18,893,323
Total Investments				$ 416,160,708

2000

Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	$ 32,384,494	$ -	$ -	$32,384,494
Loaned for securities collateral				
Corporate bonds	41,817,385			41,817,385
Loaned for securities collateral				
Corporate stocks	266,899,568			266,899,568
Loaned for securities collateral	19,280			19,280
Repurchase agreements	23,238,262	-	944,577	24,182,839
Subtotal	$ 364,358,989	$ 0	$ 944,577	$ 365,303,566
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				7,796,698
U.S. Government Securities				
Corporate bonds				
Corporate stocks				8,540,127
Mortgages				17,124,139
Real Estate Investment				19,560,901
Total Investments				$ 418,325,431

Note D: Investments (continued)

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

2001

Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	$ 64,843,456	$ -	$ -	$ 64,843,456
Loaned for securities collateral				
Corporate bonds	1,843,891			1,843,891
Loaned for securities collateral				
Corporate stocks	681,320,455			681,320,435
Loaned for securities collateral				
Short-term investments	188,046,064	-	-	188,046,064
Subtotal	$ 936,053,866	$ -	$ -	$ 936,053,866
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				99,339,376
U.S. Government Securities				37,824,200
Corporate bonds				
Corporate stocks				57,784,278
Mortgages				6,595,407
Total Investments				$1,137,597,128

2000

Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	$ 116,859,452	$ -	$ -	$ 116,859,452
Loaned for securities collateral				
Corporate bonds	107,649,776			107,649,776
Loaned for securities collateral				
Corporate stocks	667,540,279			667,540,279
Loaned for securities collateral				
Repurchase agreements	85,502,549	-	1,979,372	87,481,921
Subtotal	$ 977,552,056	$ 0	$ 1,979,372	$ 979,531,428
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				
Corporate bonds				
Corporate stocks				1,974,710
Mortgages				17,116,661
Total Investments				$ 998,622,799

NOTE E. SECURITIES LENDING TRANSACTIONS

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

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

NOTE F. RISKS OF LOSS

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

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

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

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

NOTE G. CONTINGENCIES

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

NOTE H. INCOME TAX STATUS

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

NOTE J. CHANGE IN ACCOUNTING ESTIMATE

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

PENSION FUNDS

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

INSURANCE FUNDS

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

NOTE K. PRIOR PERIOD ADJUSTMENT

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

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

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

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

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

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

STATE POLICE RETIREMENT SYSTEM

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

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KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

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

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

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

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

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

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

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

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

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

HAZARDOUS

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

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

HAZARDOUS

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

STATE POLICE RETIREMENT SYSTEM

EMPLOYER CONTRIBUTIONS

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

EMPLOYER CONTRIBUTIONS

KERS
NON-HAZARDOUS

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

KERS
HAZARDOUS

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

EMPLOYER CONTRIBUTIONS

CERS
NON-HAZARDOUS

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

CERS
HAZARDOUS

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

EMPLOYER CONTRIBUTIONS

SPRS
HAZARDOUS

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

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

POST-EMPLOYMENT HEALTHCARE

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

SUPPORTING SCHEDULE #1

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

SUPPORTING SCHEDULE #2

Retirement Funds		
Security Lending Fees:		
Broker Rebates	$96,171,191	
Lending Agent Fees	2,519,719	
Custodial Fee	18,750	
Total Security Lending		$ 98,709,660
Contractual Services:		
Investment Management	4,437,749	
Security Custody	45,456	
Investment Consultant	25,000	
Total Contractual Services		4,508,205
Insurance Funds		
Security Lending Fees:		
Broker Rebates	9,892,293	
Lending Agent Fees	240,455	
Total Security Lending		10,132,748
Investment Management		94,997
TOTAL INVESTMENT EXPENSES		$113,445,610

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

SUPPORTING SCHEDULE #3

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

KENTUCKY RETIREMENT SYSTEMS

Investment Section

Comprehensive Annual Financial Report
June 30, 2001

INVESTMENT SECTION
PREFACE

The Board of Trustees is charged with the responsibility of investing the systems' assets to provide for the benefits of the members of the systems. To achieve that goal the Board follows a policy of preserving capital, while seeking means of enhancing revenues and protecting against undue losses in any particular investment area.

The Board recognizes its fiduciary duty not only to invest the funds in formal compliance with the Prudent Person Rule, but also to manage the funds in continued recognition of the basic long term nature of the systems. In order to maintain quality while maximizing the long range return, the Board diversifies the investment of the assets among classes of securities.

The assets are managed by the Investment Division staff and by external professional managers based on these investment policies.

Objectives

> Long-Term: The total assets of the systems should achieve a return measured over two market cycles (estimated to be six to ten years) which exceeds the rate of inflation for the period, as measured by the Consumer Price Index for All Urban Consumers, by at least 4%.
>
> Short-Term: The returns of the particular asset classes of the managed funds of the systems, measured on a year-to-year basis, should exceed the returns achieved by comparable unmanaged market indices.

In keeping with its responsibility as trustee and wherever consistent with its fiduciary responsibility, the Board encourages the investment of the systems' assets in securities of corporations which provide a positive contribution to the economy of the Commonwealth of Kentucky.

Investments Performance Review Procedures

At least once each quarter, the Investment Committee, on behalf of the Board of Trustees, reviews the performance of the portfolio for determination of compliance with the Statement of Investment Policy. Each month the Investment Division performs tests to assure compliance with the restrictions imposed by the Investment Policy.

Investment Consulting

The Board employs William M. Mercer Investment Consulting to review the asset allocation guidelines and the performance of both the internally managed and externally managed assets. A letter from that firm follows this introduction and discusses current allocations, performance and significant changes over the fiscal year.

WILLIAM M.
MERCER

Investment Consulting

September 19, 2001

The Board of Trustees of the
Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601

Re: Annual Fund Review

Dear Trustees:

Mercer is charged with the duty to advise the Board in its asset management activities. This is our annual review of the asset management of the Kentucky Retirement Systems. Although we recognize that the Board of Trustees is charged with the responsibility of managing the Funds in a manner consistent with the basic long term nature of the participating systems, our comments focus on the annual period ended June 30, 2001. In managing the Funds, the Board must maintain formal compliance with the Prudent Person Rule. Therefore, it seeks to maintain proper and appropriate diversification for the Fund.

Market Highlights

Overall, despite a second quarter recovery, the equity markets slumped sharply over the trailing twelve months. Large Cap stocks, as measured by the S&P 500, have fallen 14.8% through June 30 despite the 5.9% return in the second quarter of 2001. Conversely, aided by the flight to quality and lower short-term interest rates, the Lehman Brothers Aggregate Index returned 11.2% over the trailing year.

Systems Highlights

The System's assets contracted over the trailing twelve months because of the poor investment environment for equities. According to the FundAnalytic statements from Northern Trust, The Retirement Fund's assets decreased from \$12.6 billion to \$11.7 billion due to a return of -5.4% and negative cash flow. The Insurance Fund increased from \$1.0 billion to \$1.1 billion mainly through contributions made during the year, as the plan returned -3.8% over the trailing year. The Total Fund return for both the Retirement and Insurance Fund's outperformed their Reference Indices over the trailing year. These results were achieved

William M. Mercer
Investment Consulting, Inc.
10 South Wacker Street
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A Marsh & McLennan Company

at a risk or volatility level similar to the Reference Indices. The Reference Indices are constructed according to the individual target asset allocations of the Funds.
The asset allocation targets were adjusted during the second quarter of 2001 after the ALM study was completed. A TIPS portfolio was added to the investment lineup in both the Retirement Fund and Insurance Fund as a means to protect assets from inflation. As of June 30th, the allocation to the ADR portfolios was underweight relative to targets in both plans. In the Retirement and Insurance Funds, cash and equivalents was above target allocations while in the Insurance Fund, the allocation to Domestic Equities was above targets.

The June 30th asset allocation of the Retirement and Insurance Funds are compared in the table below to their individual asset allocation targets:

	Retirement Fund		Insurance Fund	
Asset Classes	Actual Allocation 6/30/01	Target Asset Allocation	Actual Allocation 6/30/01	Target Asset Allocation
Domestic Equity	40.1	40	65.4	60
International Equity	9.8	15	9.4	20
Fixed Income	29.3	27	1.3	0
Alternatives *	5.3	5	0.0	5
TIPS	8.5	10	9.8	10
Cash	7.0	3	14.1	5

* Includes Real Estate and Private Equity.

We note that the Insurance Fund's allocations are beyond ranges in Domestic Equity, International Equity, and Cash. The large cash allocation is partly due to a contribution of $74.6 million in June.

Investment Manager Highlights

The Retirement Fund

One new portfolio was initiated during 2001:

· NAMCO began managing the TIPS mandate in June.

The System's domestic equity managers performed well on a relative basis over the trailing twelve months. The NAMCO portfolio returned –7.2% vs. the –14.8% return of the S&P 500. AllianceBernstein, the System's large cap growth manager, outperformed the S&P Growth return of –32.4%, returning –23.2%.

The fixed income managers' results were strong on an absolute and relative basis over the past year. NAMCO, the active manager, and Lincoln, the passive manager, each added value returning 11.2% and 11.4%, respectively.

- The mandate for Weaver Barksdale was changed from short duration to core fixed income.

The System's Real Estate managers posted mixed results over the past year. All of Real Estate managers underperformed their respective benchmarks except the Heitman portfolio. However, the strong absolute and relative performance of the Heitman portfolio resulted in the asset class outperforming the benchmark.

- In a review of the portfolio structure, Mercer recommended the use of active management in the implementation of the international equity allocation. This recommendation was approved and a manager search was initiated during the second quarter.

The Insurance Fund

- The TIPS mandate was funded in June and is managed by NAMCO.

NAMCO is the Fund's only external investment manager. The portfolio continued to post competitive results relative to its benchmarks and acted as a crutch over the trailing twelve months returning 11.5%. On an absolute basis the ADR portfolio was the largest drag on performance but performed well on a relative basis. The poor relative performance of the Small Cap portfolio over the past year hurt relative performance but still posted positive returns.

<u>Summary</u>

The Systems' assets have contracted over the past year, as equity markets contracted in the second half of 2000 and first half of 2001. The large allocation to domestic equities hurt performance on an absolute basis, while the System's active managers performed well against their peers. The Board continues to monitor the Systems' results and has initiated changes to improve investment returns.

Sincerely,

WILLIAM M. MERCER INVESTMENT CONSULTING, INC.

Louis Finney, Ph.D.
(312) 902-7802

Douglas J. Kryscio
(312) 902-7147

LF/DJK:otj

cc: B. Aldridge, Kentucky Retirement Systems
R. Leggett, Kentucky Retirement Systems
S. Gagel, Mercer-Louisville

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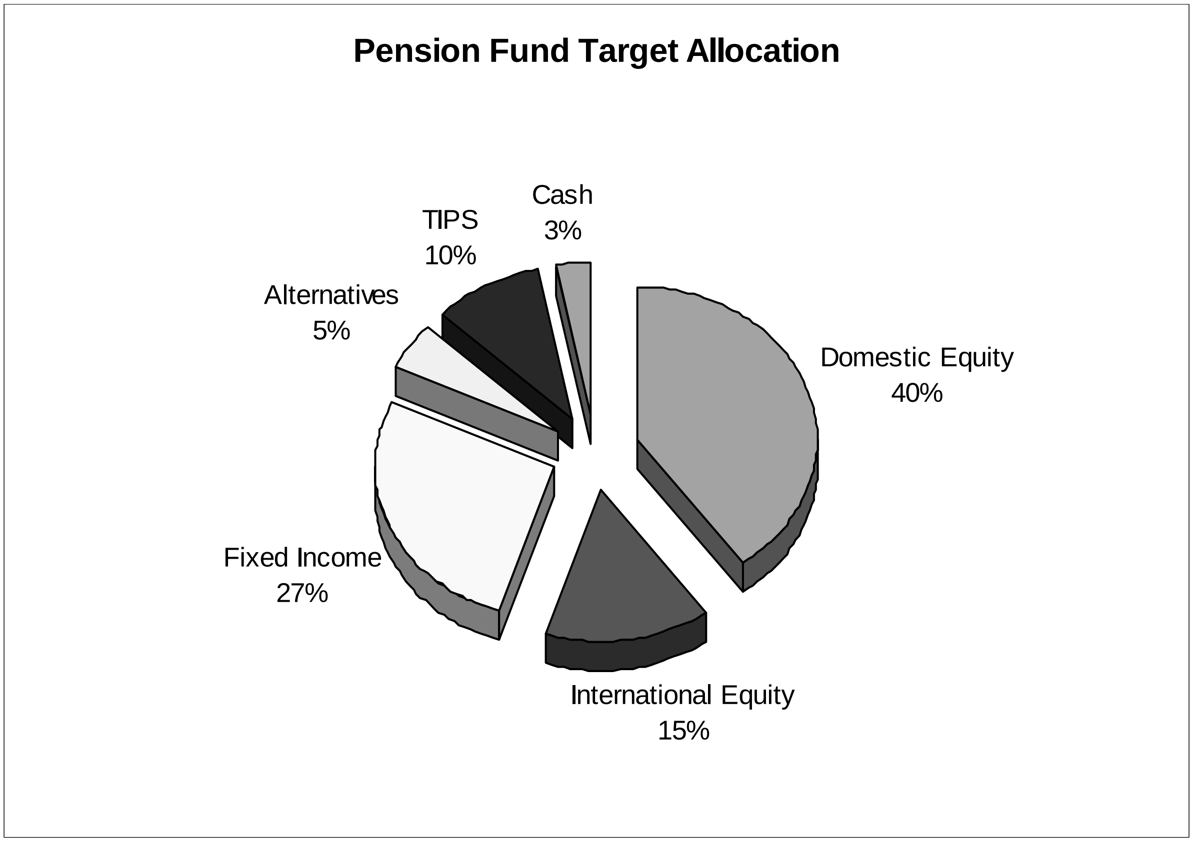
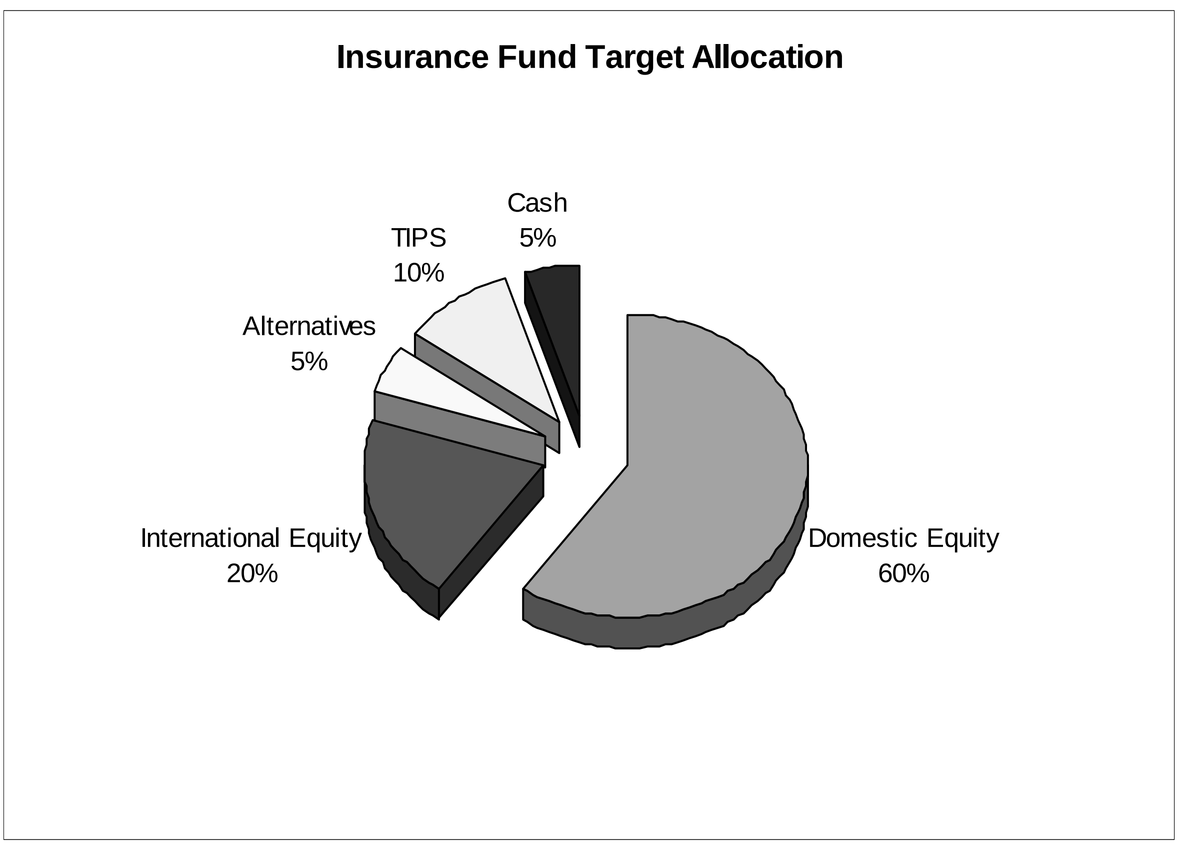
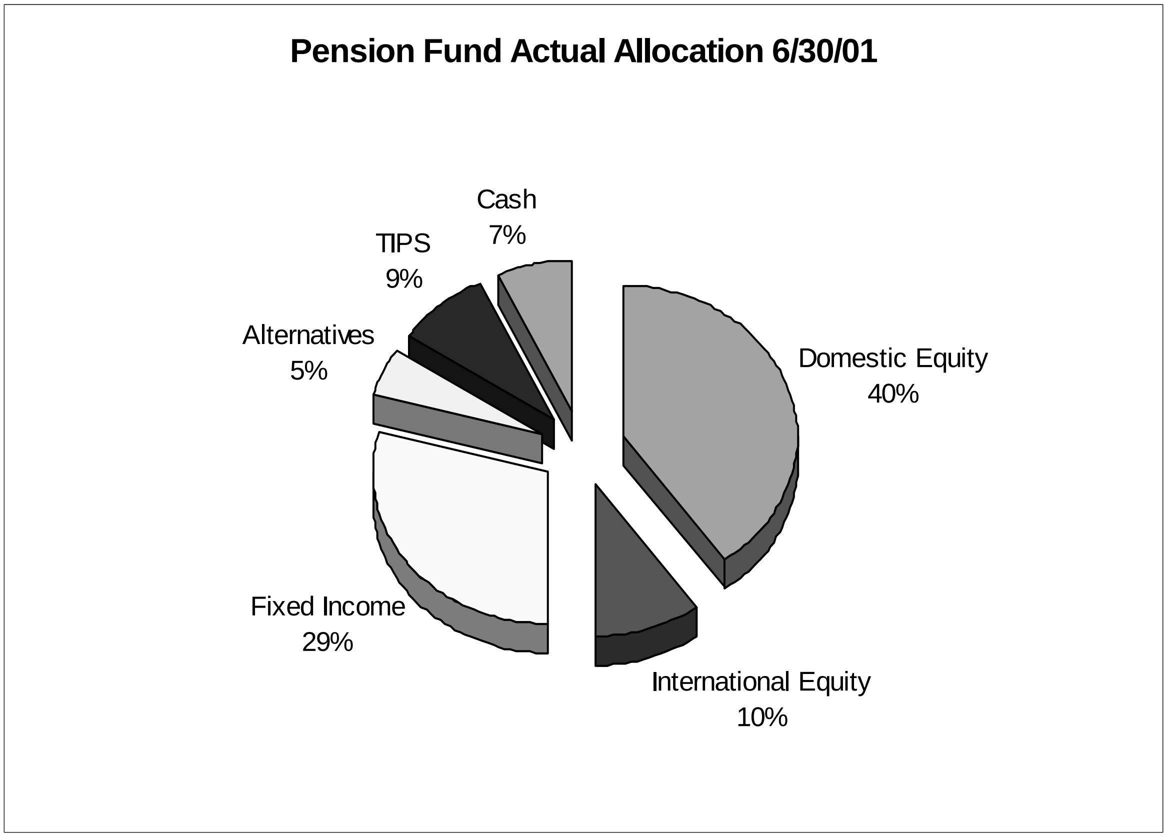
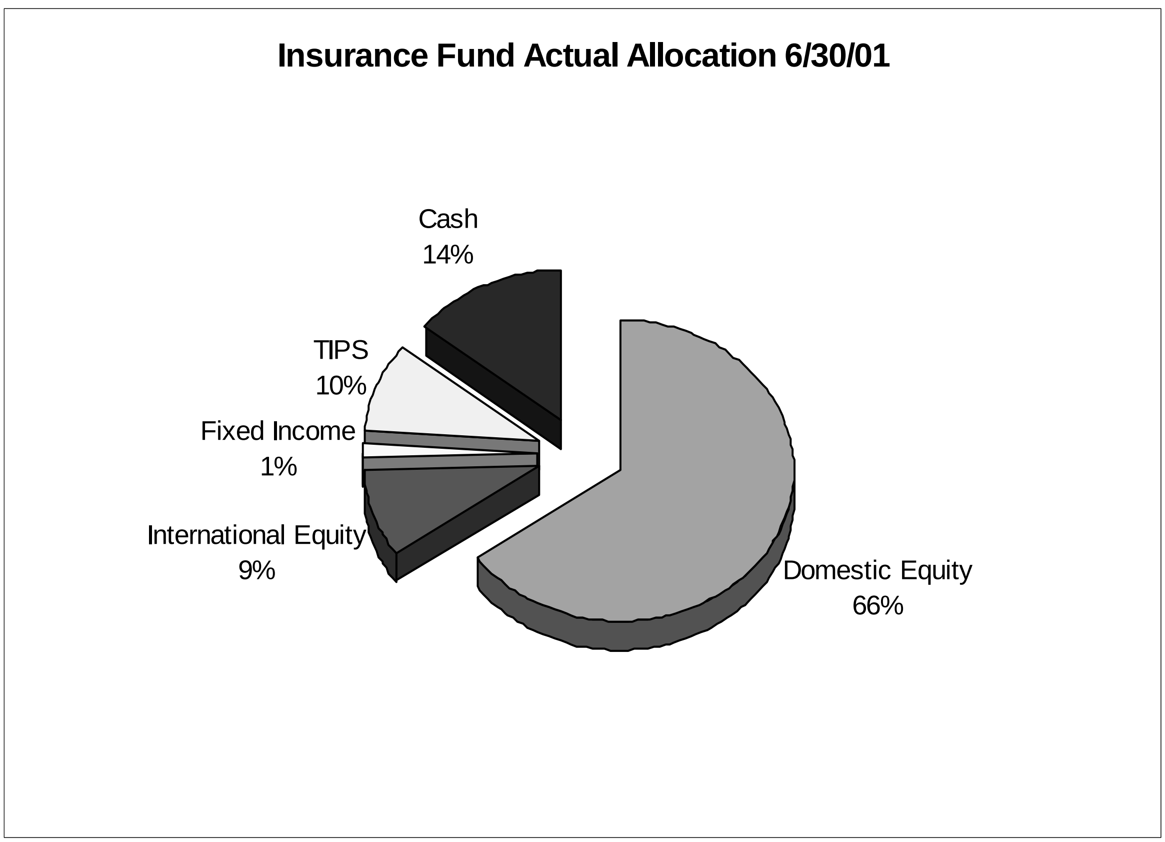

Pension Fund Target Allocation
Cash
3%
TIPS
10%
Alternatives
5%
Domestic Equity
40%
Fixed Income
27%
International Equity
15%


Insurance Fund Target Allocation
Cash
5%
TIPS
10%
Alternatives
5%
International Equity
20%
Domestic Equity
60%



Pension Fund Actual Allocation 6/30/01
Cash 7%
TIPS 9%
Alternatives 5%
Domestic Equity 40%
Fixed Income 29%
International Equity 10%



Insurance Fund Actual Allocation 6/30/01
Cash 14%
TIPS 10%
Fixed Income 1%
International Equity 9%
Domestic Equity 66%

KENTUCKY RETIREMENT SYSTEMS
PERFORMANCE EVALUATION

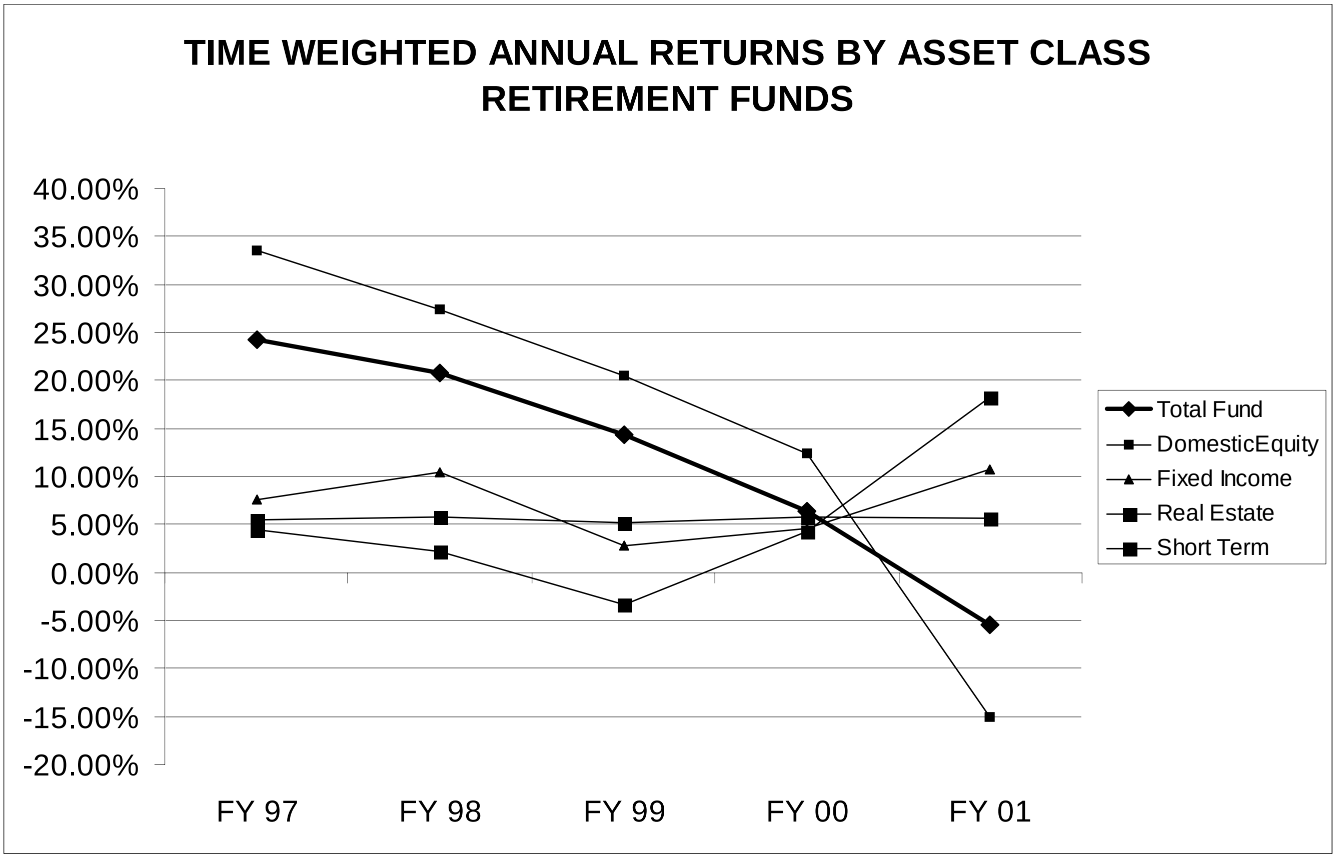
PENSION FUNDS

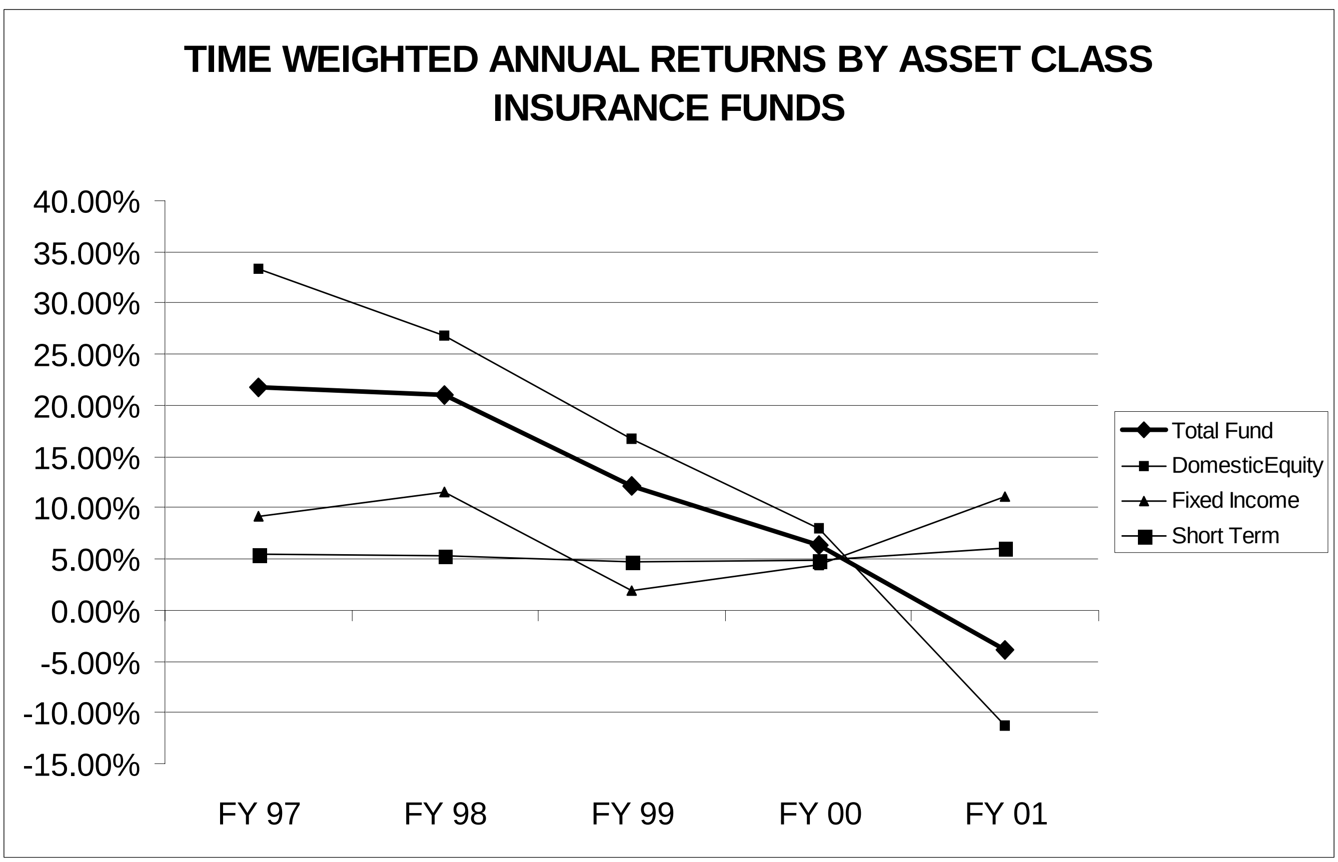
	Fiscal Year	3-Year	5-Year
Total KRS Retirement Fund	**(5.42%)**	**4.77%**	**11.51%**
CPI	3.31%	2.98%	2.56%
KRS Equities	**(15.09%)**	**4.75%**	**14.38%**
S&P 500	(14.83%)	3.89%	14.48%
KRS Fixed Income	**10.69%**	**5.98%**	**7.25%**
Lehman Bros. Govt./Credit Bond Index	11.14%	5.98%	7.38%
KRS Real Estate	**18.28%**	**6.06%**	**4.97%**
WARESI	24.60%	6.62%	11.50%
KRS Cash Reserves	**6.74%**	**5.92%**	**5.82%**
Salomon Bros. 3 Month T-Bill	5.64%	5.22%	5.23%

INSURANCE FUNDS

Total KRS Insurance Fund	**(3.81%)**	**4.70%**	**11.07%**
CPI	3.31%	2.98%	2.56%
KRS Insurance Fund Equities	**(11.22%)**	**3.69%**	**12.86%**
S&P 500	(14.83%)	3.89%	14.48%
KRS Insurance Fund Fixed Income	**11.02%**	**5.71%**	**7.56%**
Lehman Bros. Govt./Credit Bond Index	11.14%	5.98%	7.38%
KRS Insurance Fund Cash Reserves	**6.07%**	**5.19%**	**5.25%**
Salomon Bros. 3 Month T-Bill	5.64%	5.22%	5.23%

Performance figures were calculated using a time-weighted rate of return.


TIME WEIGHTED ANNUAL RETURNS BY ASSET CLASS
RETIREMENT FUNDS
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
-15.00%
-20.00%
FY 97
FY 98
FY 99
FY 00
FY 01
Total Fund
DomesticEquity
Fixed Income
Real Estate
Short Term


TIME WEIGHTED ANNUAL RETURNS BY ASSET CLASS
INSURANCE FUNDS
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
-15.00%
FY 97
FY 98
FY 99
FY 00
FY 01
Total Fund
DomesticEquity
Fixed Income
Short Term

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARIES
JUNE 30, 2001

	KERS NONHAZARDOUS 6/30/2000		KERS NONHAZARDOUS 6/30/2001		% OF MKT VALUE 6/30/2001
CLASS	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	$1,272,662,428	$1,250,243,765	$1,394,064,525	$1,399,391,916	25%
Mortgages	260,531,097	258,776,437	253,571,947	256,644,045	5%
Short-Term	369,291,371	369,291,371	808,232,979	808,362,901	15%
Real Estate	55,559,021	54,689,568	36,152,097	33,897,012	1%
Reit Real Estate	217,593,169	211,865,186	195,336,827	223,086,956	4%
Equities	2,565,017,210	3,827,370,073	2,540,157,224	2,714,016,310	50%
Total Portfolio	$4,740,654,296	$5,972,236,400	$5,227,515,599	$5,435,399,140	100%

	KERS HAZARDOUS 6/30/2000		KERS HAZARDOUS 6/30/2001		% OF MKT VALUE 6/30/2001
CLASS	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	$ 71,832,888	$ 70,563,859	$ 72,114,723	$ 72,139,033	24%
Mortgages	11,549,128	11,369,234	11,938,221	12,088,847	4%
Short-Term	31,704,368	31,704,368	57,586,144	57,593,177	19%
Real Estate	2,970,452	2,971,432	2,569,130	2,513,806	1%
Reit Real Estate	17,523,003	17,407,512	15,924,354	18,186,615	6%
Equities	119,806,487	165,929,671	136,235,944	140,119,672	46%
Total Portfolio	$255,386,326	$299,946,076	$296,368,516	$302,641,150	100%

For these porfolio summaries, market value is equivalent to fair value. A summary of acceptable types of investments by class is contained in Note D to the financial statements in the Financial Section.

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARIES
JUNE 30, 2001

	CERS NONHAZARDOUS 6/30/2000		CERS NONHAZARDOUS 6/30/2001		% OF MKT VALUE 6/30/2001
CLASS	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	$1,014,245,242	$ 995,323,535	$1,079,737,947	$1,081,551,116	25%
Mortgages	190,477,017	188,628,882	187,018,218	189,332,391	4%
Short-Term	347,820,741	347,820,741	750,835,711	750,938,933	17%
Real Estate	32,508,441	32,282,421	21,389,796	19,835,123	1%
Reit Real Estate	190,995,358	186,941,070	171,929,969	196,354,849	4%
Equities	1,956,245,617	2,880,048,794	1,993,605,427	2,116,659,800	49%
Total Portfolio	$3,732,292,416	$4,631,045,443	$4,204,517,068	$4,354,672,212	100%

	CERS HAZARDOUS 6/30/2000		CERS HAZARDOUS 6/30/2001		% OF MKT VALUE 6/30/2001
CLASS	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	$ 272,902,791	$ 267,648,097	$ 292,898,364	$ 293,187,001	24%
Mortgages	51,973,158	51,287,587	49,916,145	50,538,244	4%
Short-Term	95,076,109	95,076,109	203,849,653	203,877,881	17%
Real Estate	9,975,889	10,018,781	7,258,020	7,044,568	1%
Reit Real Estate	56,419,698	54,573,334	50,349,532	57,502,335	5%
Equities	544,363,183	786,273,439	554,929,954	585,237,188	49%
Total Portfolio	$1,030,710,828	$1,264,877,347	$1,159,201,668	$1,197,387,217	100%

For these porfolio summaries, market value is equivalent to fair value. A summary of acceptable types of investments by class is contained in Note D to the financial statements in the Financial Section.

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARIES
JUNE 30, 2001

CLASS	SPRS 6/30/2000 BOOK VALUE	SPRS 6/30/2000 MARKET VALUE	SPRS 6/30/2001 BOOK VALUE	SPRS 6/30/2001 MARKET VALUE	% OF MKT VALUE 6/30/2001
Bonds	$ 75,464,125	$ 74,201,878	$ 93,279,304	$ 93,577,155	26%
Mortgages	17,213,682	17,124,139	16,856,293	17,061,141	5%
Short-Term	23,238,262	23,238,262	46,150,440	46,159,174	13%
Real Estate	4,797,829	4,690,136	3,206,928	3,037,992	1%
Reit Real Estate	15,445,316	14,870,766	13,883,062	15,855,331	4%
Equities	179,640,170	275,458,975	170,647,349	186,588,417	51%
Total Portfolio	$315,799,384	409,584,156	$344,023,376	$362,279,210	100%

CLASS	INSURANCE FUND 6/30/2000 BOOK VALUE	INSURANCE FUND 6/30/2000 MARKET VALUE	INSURANCE FUND 6/30/2001 BOOK VALUE	INSURANCE FUND 6/30/2001 MARKET VALUE	% OF MKT VALUE 6/30/2001
Bonds	$230,492,185	$224,509,227	$105,507,370	$ 104,511,548	10%
Mortgages	17,839,206	17,116,662	6,629,726	6,595,407	1%
Short-Term	85,502,549	85,502,549	207,200,485	207,200,484	20%
Equities	473,694,414	669,514,989	672,988,603	739,104,733	69%
Total Portfolio	$807,528,354	$996,643,427	$992,326,184	$1,057,412,172	100%

For these porfolio summaries, market value is equivalent to fair value. A summary of acceptable types of investments by class is contained in Note D to the financial statements in the Financial Section.

List of Largest Assets Held

PENSION FUND

Largest Stock Holdings
(By Market Value)
June 30, 2001

Rank	Shares	Stock	Market Value
1	3,523,600	GENERAL ELECTRIC CO	$171,775,500.00
2	1,729,430	MICROSOFT CORP	$126,248,390.00
3	2,122,876	CITIGROUP INC	$112,172,767.84
4	1,272,257	EXXON MOBIL CORP	$111,131,648.95
5	1,216,925	AMERICAN INTERNATIONAL	$104,655,550.00
6	2,570,770	PFIZER INC	$102,959,338.50
7	2,522,038	INTEL CORP	$ 73,769,611.50
8	1,392,960	WAL MART	$ 67,976,448.00
9	3,178,400	HOME DEPOT INC	$ 64,090,040.00
10	1,225,560	MEDTRONIC INC	$ 56,388,015.60

Largest Bond Holdings
(By Market Value)
June 30, 2001

Rank	Par	Bond	Market Value
1	$179,435,000	U S TSY NOTE 4.625 DUE 05/15/06 Rating AAA	$176,953,414
2	$119,150,000	U S TSY BOND 5.375 DUE 02/15/31 Rating AAA	$112,987,562
3	$ 98,400,000	U S TSY NOTE 5.000 DUE 02/15/11 Rating AAA	$ 95,478,504
4	$ 75,000,000	U S TSY NOTE 3.500 DUE 01/15/11 Rating AAA	$ 76,495,537
5	$ 60,655,000	U S TSY BOND 7.500 DUE 11/15/16 Rating AAA	$ 70,715,845
6	$ 67,560,000	U S TSY NOTE 6.250 DUE 02/15/03 Rating AAA	$ 69,707,732
7	$ 74,065,000	U S TSY BOND 5.250 DUE 02/15/29 Rating AAA	$ 67,824,283
8	$ 55,100,000	FNMA 7.130 DUE 06/15/10 Rating AAA	$ 58,797,761
9	$ 58,000,000	U S TSY NOTE 4.250 DUE 05/31/03 Rating AAA	$ 57,984,340
10	$ 50,000,000	U S TSY BOND 6.875 DUE 08/15/25 Rating AAA	$ 56,137,500

A complete listing of securities held is available upon request.

List of Largest Assets Held

INSURANCE FUND

Largest Stock Holdings
(By Market Value)
June 30, 2001

Rank	Shares	Stock	Market Value
1	492,500	GENERAL ELECTRIC CO	$24,009,375
2	265,200	MICROSOFT CORP	$19,359,600
3	249,600	CITIGROUP INC	$13,188,864
4	313,600	PFIZER INC	$12,559,680
5	215,100	AOL TIME WARNER	$11,400,300
6	222,000	WAL MART STORES INC	$10,833,600
7	115,700	AMER INTL GROUP	$ 9,950,200
8	334,500	INTEL CORP	$ 9,784,125
9	156,600	ROYAL DUTCH PETRO	$ 9,125,082
10	89,034	EXXON CORP	$ 7,777,119

Largest Bond Holdings
(By Market Value)
June 30, 2001

Rank	Par	Bond	Market Value
1	$20,895,000	US TSY NOTE 8.750 DUE 11/30/01 Rating AAA	$20,712,169
1	$18,500,000	US TSY INFLATION INDEX 3.625 DUE 04/15/28 Rating AAA	$20,664,770
2	$18,450,000	US TSY INFLATION INDEX 4.25 DUE 01/15/10 Rating AAA	$20,515,063
3	$13,600,000	US TSY INFLATION INDEX 3.875 DUE 04/15/29 Rating AAA	$15,627,537
4	$13,700,000	US TSY INFLATION INDEX 3.625 DUE 01/15/08 Rating AAA	$15,339,481
5	$13,500,000	US TSY INFLATION INDEX 3.375 DUE 01/15/07 Rating AAA	$15,262,414
6	$13,700,000	US TSY INFLATION INDEX 3.875 DUE 01/15/099 Rating AAA	$15,258,393
7	$ 6,528,112	NATIONSLINK FDG CORP 6.001 DUE 11/20/07 Rating AAA	$ 6,539,602
8	$ 1,750,000	BSCH ISSUANCES LTD NT 7.625 DUE 09/14/10 Rating AAA	$ 1,801,660
9	$ 56,186	FNMA POOL #429165 6.000 DUE 05/01/13 Rating AAA	$ 55,805
10	$ 42,093	FED EXPRESS CORP 7.520 DUE 01/15/18 Rating AAA	$ 42,231

A complete listing of securities held is available upon request.

Schedule of Fees and Commissions
Year Ended June 30, 2001

External Investment Manager Fees –	
– Equities and Fixed Income	
Pension Funds	$4,437,749
Insurance Funds	94,997
Investment Consulting Fees	*185,000
Security Lending Agent Fees	2,760,175
Brokerage Commissions — Equities	3,339,237
Total	$10,817,158

Total fees and commissions represent .084% of the fair value of the combined Pension and Insurance Fund portfolios.

*This figure consists of $25,000 for Investment Consultant included in Supporting Schedule #2 on page 69 and $160,000 for an asset liability modeling study which is included under Contractual Services in Supporting Schedule #1 on page 68.

INVESTMENT MANAGERS

Alliance Bernstein
1345 Avenue of the Americas
New York, NY 10105

C. B. Richard Ellis
865 South Figueroa Street, Suite 3500
Los Angeles, CA 90017

Heitman Capital Management Corp.
180 North LaSalle Street, Suite 3600
Chicago, IL 60601

Lend Lease
10 East 50th Street
New York, NY 10022

Lincoln Capital Management Co.
200 South Wacker Drive, Suite 2100
Chicago, IL 60606

Invesco-National Asset Management Corp.
Aegon Center
400 West Market Street, Suite 2500
Louisville, KY 40202

Northern Trust Quantitative Advisors, Inc.
50 South LaSalle Street
Chicago, IL 60675

Weaver C. Barksdale & Associates, Inc.
Two Creekside Crossing, Suite 450
10 Cadillac Drive
Brentwood, TN 37027

KENTUCKY RETIREMENT SYSTEMS

Actuarial Section

Comprehensive Annual Financial Report
June 30, 2001

WILLIAM M.
MERCER

November 7, 2001

Board of Trustees
Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

Members of the Board:

The forty-fifth annual actuarial valuation of the Kentucky Employees Retirement System, the forty-second annual actuarial valuation of the County Employees Retirement System, and the forty-third annual actuarial valuation of the State Police Retirement System have been completed and the reports prepared. The following comments are pertinent to the results of this valuation:

1. The funding objectives for the plan remain unchanged from the prior year's valuation. Relative to the retirement fund, a contribution rate has been established which consists of the normal cost and amortization payment on the unfunded actuarial accrued liability. The normal cost is expected to remain level as a percent of payroll in future years. The amortization of any unfunded actuarial accrued liability is made over 30 years from the establishment of the amortization base using a level percent of payroll amortization method. Each year any actuarial gains or losses, along with any other changes in the accrued liability (such as retiree COLA's, other benefit improvements, changes in actuarial assumptions, etc.) are established as a new amortization base to be amortized over the following 30 years.

Overall, the total funding for the retirement fund is expected to remain stable as a percentage of payroll over future years in the absence of benefit improvements. In particular, the current valuation funding rate does not anticipate any future cost of living increases to benefit recipients. Should these cost of living increases occur in the future, the funding rate for the retirement fund will be expected to increase as a percentage of payroll in the absence of material aggregate experience gains.

Relative to the insurance fund, the ultimate target funding is to reach the full amount of the entry age funding level including 30-year level percent of payroll amortization of the unfunded actuarial accrued liability. However, current insurance funding levels are less than this ultimate target rate, and will be systematically increased over the 20-year period beginning with 1997 until the target funding rate is reached. As such, the insurance funding rate is expected to increase over the next 20 years.

The administrative expenses are also included as part of the total funding amount. This portion of the funding is expected to remain stable as a percentage of payroll over future years.

To the extent that actual experience deviates from expected, an amortization base will be established and amortized over 30 years as a level percentage of payroll.

2. The progress towards achieving the intended funding objectives, both relative to the retirement and insurance funds, can be measured by the relationship of valuation assets of each fund to the accrued liabilities. The funded level for the retirement fund exceeds 100% in the 2001 valuation for all three systems (KERS, CERS and SPRS). This funded level will fluctuate over time with experience deviations, but should remain at or near the 100% funding level in the absence of material retirement benefit improvements. Since 1992, all three systems have had a funded level relative to the retirement fund of at least 90% in all valuations, with this funded level moving above 100% in recent years.

William M. Mercer, Incorporated
462 South Fourth Avenue
Suite 1500
Louisville, KY 40202-3431
Phone 502 561 4500

Relative to the insurance fund, the funded level is not anywhere near 100% at this time, and the funding objective is to increase this funded level consistently over future years. Since 1990, the funded level relative to the insurance fund has improved in each succeeding valuation for all three systems with the exception of 2001. This increasing trend in the funded level is the primary objective of the current funding policy.

3. Valuations of each system are prepared annually, with the most recent such valuation being as of June 30, 2001.

4. In completing the valuation of these systems, we have relied on employee data as provided by Kentucky Retirement Systems, as well as financial data provided by the plan's auditor. We have reviewed this data for reasonableness, and made some general edit checks to impute certain information that may not have been provided with the original employee data. However, we have not audited this data, nor has there been any reconciliation of data used in the prior year's valuation with this current valuation data.

5. I have prepared none of the supporting schedules included with this filing. However, I have reviewed these schedules, and the information included on them is consistent with the information provided in our actuarial valuation report.

6. Any schedules of trend data over the past ten years or less have been based on valuation reports fully prepared by William M. Mercer, with the undersigned having served as actuary in the preparation of each of these valuations.

7. The actuarial assumptions and methods used for the funding calculations of the valuation meet the parameters set for disclosure under GASB Statement No. 25. These assumptions have been adopted by the Board of Trustees of the Kentucky Retirement Systems in accordance with the recommendation of the actuary.

8. The information presented in items 1 through 7 of this letter describes the pertinent issues relative to the valuation. There are no other specific issues that need to be raised beyond these items in order to fairly assess the funded position of the plan as presented in the current valuation.

The three Retirement Systems are actuarially sound based on the continuation of current funding policies adopted by the Board. Adequate provision is being made for the funding of the Actuarial Accrued Liabilities of the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System as required by the Kentucky Revised Statutes, as appropriate funding rates have been established by the Board for this purpose.

Respectfully Submitted,
WILLIAM M. MERCER, INCORPORATED

By Stephen A. Gagel

Stephen A. Gagel, F.S.A.

SUMMARY OF BENEFIT PROVISIONS

Normal Retirement Eligibility

The age a participant becomes eligible for an unreduced age or service annuity is:

General Classification		Hazardous Classification	
Age	Service	Age	Service
65	**1 Month** (benefit based on account balance)	55	**1 Month** (benefit based on account balance)
	48 Months (benefit based on service & salary)		**5 Years** (benefit based on service & salary)
Any	27 Years	Any	20 Years

Normal Retirement Annuity

The annuity payable at Normal Retirement Age is based on Final Compensation (FC) and Creditable Service (CS) as follows:

Formula	**Group**
1.97% x FC x CS	Kentucky Employees Retirement General Participants
2.00% x FC x CS	Kentucky Employees Retirement General Participants who were employed January 1998 through January 1999.
2.20% x FC x CS	Kentucky Employees Retirement General Participants who were employed January 1998 through January 1999 and who retire between February 1999 and January 2009 with 20 or more years of service.
2.20% x FC x CS	County Employees Retirement General Participants
2.49% x FC x CS	Kentucky Employees Retirement Hazardous Duty Participants
2.50% x FC x CS	County Employees and State Police Hazardous Duty Participants

FC for General Participants is the average of the highest five fiscal years (July 1 – June 30) of earnings. These years do not have to be consecutive, but there must be a minimum of 48 months of earnings. Exception: for General Participants who retire no later than January 1, 2009 with at least 27 years and whose age and years of service total at least 75, the three highest fiscal years of earnings will be used . FC for Hazardous Duty Participants is the average of the three highest fiscal years of earnings. For FC based on the three highest fiscal years, the years do not have to be consecutive, but there must be a minimum of 25 months of earnings.

Early Retirement

A general participant may elect early retirement if the participant is age 55 or older and has at least 60 months of service credit.

Under early retirement the benefit is calculated the same as under normal retirement, except that benefits are reduced depending on the participant's age or years of service.

The following chart shows reductions for age or service. The retirement office reduces benefits by the lesser of the number of years to reach age 65 or to attain 27 years service.

	Years to Attain Age 65 or 27 Years Service									
	1	2	3	4	5	6	7	8	9	10
% of	95%	90%	85%	80%	75%	71%	67%	63%	59%	55% Benefit

A general participant under age 55 may also choose early retirement if the member has at least 25 years of service. The benefits are calculated the same as for normal retirement and are reduced 5% for each year of service credit less than 27.

State Police or hazardous position members of the County Employees or Kentucky Employees Retirement Systems may retire before age 55 if the member is at least age 50 and has at least 15 years of service credit.

Under early retirement, the benefit is calculated the same as under normal retirement, except that the benefits are reduced depending on the member's age or years of service. The following chart shows reductions for age or service. The retirement office reduces benefits by the lesser of the number of years to reach age 55 or to attain 20 years service.

	Years to Attain Age 55 or 20 Years Service				
	1	2	3	4	5
% of Benefit	94.5%	89.0%	83.5%	78.0%	72.5%

Voluntary Termination Before Immediate Benefit Eligibility

Participant may either (1) receive a refund of accumulated contributions and interest credited thereon, or (2) if vested, leave contributions on deposit and apply for a retirement annuity on or after the minimum retirement age based upon accrued service at the time of termination. Vesting requirements are included in each benefit described herein.

Disability Benefits

A general employee who is not eligible for an unreduced benefit may retire on account of disability. If the condition for disability (1) did not exist before the employee was employed, or (2) the disability is expected to last at least 12 months or result in death, and (3) the objective medical evidence is sufficient to prove the disability prevents the employee from performing his job or a job of similar duties, the employee will be deemed disabled. The employee must have at least 60 months of service, 12 of which are current service and must apply within 24 months of the last day of paid employment in a regular full-time position. Preexisting conditions can be considered if the employee has credit for 16 years of employment with participating employers. Benefits are calculated the same as for normal retirement except that additional years of service may be added to the employees account, depending on the employee's age and years of service.

A hazardous duty employee who is not eligible for an unreduced benefit may retire on account of disability. If the condition for disability: (1) did not exist before the employee was employed; or (2) the disability is expected to last at least 12 months or result in death; and (3) the objective medical evidence is sufficient to prove the employee is totally incapable of working in a hazardous position, but may still be capable of performing other types of work, the employee will be deemed disabled. The employee must have at least 60 months of service, 12 of which are current service and must apply within 24 months of the last day of paid employment in a regular full-time position. Preexisting conditions can be considered if the employee has credit for 16 years of employment with participating employers. Benefits are calculated the same as for normal retirement except that additional years of service may be added to the employees account, depending on the employee's age and years of service.

For both hazardous and nonhazardous members, if the disability is TOTAL and PERMANENT and results from an act IN LINE OF DUTY or a DUTY RELATED INJURY, the employee is eligible for a monthly benefit of no less than 25% of the employee's monthly Final Rate of Pay. In addition, each dependent child of such employee is eligible for a monthly benefit equal to 10% of the employee's monthly Final Rate of Pay. Aggregate dependent monthly payments cannot exceed 40 % of the employee's monthly Final Rate of Pay.

Death Before Retirement

If a general employee is employed with a participating agency at the time of death and has at least 60 months service credit 12 of which are current service, the beneficiary is eligible for monthly benefits. If the member is not working for a participating agency, but at the time of death has an account with at least 144 months service credit 12 of which are current service, the beneficiary is eligible for monthly benefits. The beneficiary of a member is also eligible if the member is 65 years old at the time of death and has 48 months service credit 12 of which are current service. Special death benefits may be offered if the employee dies because of a duty related injury.

If the named beneficiary is an individual, the beneficiary will have the option of a lifetime monthly benefit. In addition, the beneficiary, as well as multiple beneficiaries, an estate, or trust will be offered: (1) a lump sum actuarial refund, (2) monthly benefit for five years, or (3) monthly benefit for ten years.

Death benefits for hazardous duty employees whose death is not in the line of duty is similar to that of general employees. However, hazardous employees of Kentucky Employees, County Employees, and State Police Retirement Systems are eligible for death in line of duty benefits beginning the first day of employment. If the employee dies in the line of duty and the beneficiary is the employee's spouse, the beneficiary may elect a lump sum payment of $10,000 and a monthly benefit equal to 25% of the employee's Final Rate of Pay which will continue to remarriage or death. If the beneficiary is a dependent receiving at least 50% of his or her support from the employee, the beneficiary may elect a lump sum payment of $10,000. The beneficiary may elect this option or may choose from the benefit options offered under death not in the line of duty. Each dependent child will receive a monthly benefit equal to 10% of the employee's Final Rate of Pay. Aggregate dependent payments cannot exceed 40 % of the employee's monthly Final Rate of Pay.

Post Retirement Adjustments

Annuities are increased July 1 each year by 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. The Kentucky General Assembly reserves the right to suspend or reduce benefit increases if in their judgment the welfare of the State so demands.

Death After Retirement

If the member is receiving a monthly payment based on at least 48 months service credit, the retirement system will pay a $5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

Hospital and Medical Insurance Benefit

The retirement system provides group rates for medical insurance and, where available, health maintenance organization (HMO) and other managed care coverage for retirees. In addition, the member may pay the cost to obtain coverage for a spouse and dependents at group rates. Participation in the insurance program is optional.

Depending on the member's years of retirement service, the retirement system may pay a portion of the member's monthly premium for medical coverage. If coverage is for the member only, the system pays the same portion of the monthly contribution for both general and hazardous duty members. For hazardous duty members with a spouse the system will pay a portion of the monthly contribution for two-person coverage. For hazardous duty members with a spouse and dependent, the system will pay a portion of the monthly contribution for family coverage based on the member's hazardous duty service. Members may obtain enhanced coverage by paying an additional amount.

Percent of Monthly Contribution Paid by Retirement System

Years of Service	Percent Paid
Less than 4 years	*0%*
4 to 9 years	25%
10 to 14 years	50%
15 to 19 years	75%
20 or more years	100%

If a hazardous duty member becomes disabled in the line of duty, the retirement system will pay 100% of the monthly contribution for the member, spouse, and dependents. If a hazardous duty member dies in the line of duty, the retirement system will pay 100% of the monthly contribution for the beneficiary and dependent children.

Interest Credits

Member accounts have been credited with interest on July 1 each year at 3% compounded annually through June 30, 1980; 6% thereafter through June 30, 1986; and 4% thereafter.

Contribution Rates

Employer contribution rates are determined by the entry age normal cost funding method. Actuarial gains and losses reduce or increase the unfunded liability. For years beginning with the 1990 valuation, actuarial gains and losses have been amortized over a period of thirty years using the level percent of payroll method as required by state statute.

Statutory required participant contributions are 5% of creditable compensation for general employees, 8% of creditable compensation for hazardous employees.

A *SUMMARY PLAN DESCRIPTION* WHICH GIVES A MORE DETAILED DESCRIPTION OF PLAN PROVISIONS IS AVAILABLE UPON REQUEST.

THIS INFORMATION CAN ALSO BE FOUND IN KENTUCKY RETIREMENT SYSTEMS' HOME PAGE ON THE INTERNET AT http://www.kyret.com

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8.25% per year, net of investment related expenses, compounded annually. Adopted 2001.

2. The actuarial value of assets is determined in the following manner for both the Retirement Fund and Insurance Fund:

   a. Develop expected assets by projecting valuation assets from the prior valuation using the assumed valuation interest rate from the prior valuation and actual cash flows for the 12 months ending on the current valuation date.

   b. The current year investment gain/loss shall be determined as the difference between actual market value as of the current valuation date and expected assets as computed in (1), further adjusted for any amount of investment gain/loss from prior years not yet recognized as of the current valuation date.

   c. The amount of investment gain/loss for the current year shall be reflected equally over the current year and the following 4 years.

   d. Valuation assets will be equal to expected assets from (1) plus/minus the amount of investment gain/loss from the current and prior 4 years to be recognized in the current year.

   e. The starting point for this method shall be the actuarial value of assets as computed in the 2000 valuation under the prior asset valuation method then in effect. Only investment gains/losses occurring after June 30, 2000 shall be recognized and amortized under this method.

3. The percentage of participants assumed to retire at sample ages is shown in Schedule 1. Adopted 2001.

4. The mortality table used for active and retired lives was the 1983 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees. Mortality assumptions for disabled lives are based on Social Security Administration Disability Mortality Rates – Actuarial Study No. 75 (current rates used by PBGC for disabled lives receiving Social Security). Sample annual rates of mortality are shown in Schedule 2. Adopted 2001.

5. Select rates of termination before retirement are shown in Schedule 3. Adopted 2001.

6. Annual pay per member is assumed to increase 12% in the first year, 10% in the second year, 8% in the third year and 6.50% per year thereafter, compounded annually, which is based on experience rather than the effects of inflation. Adopted 2001.

7. Kentucky Revised Statutes require use of the entry age normal cost funding method to determine the actuarial accrued liability. Actuarial gains and losses reduce or increase the unfunded liability. For years beginning with the 1990 valuation, actuarial gains and losses have been amortized over a period of thirty years using the level percent of payroll method as required by state statute.

8. With respect to cost-of-living adjustments, effective August 1, 1996, and on July 1 of each year thereafter, state statutes require retirement benefits to be increased by 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. The State Legislature reserved the right to suspend or reduce cost-of-living adjustments if in their judgment the welfare of the Commonwealth so demands.

9. The most recent actuarial experience analysis was performed for the period from July 1, 1995 through June 30, 2000. All assumptions used in the most recent actuarial valuation were based on the study performed in 2001.

Assumptions used in determining the actuarial accrued liability for postemployment healthcare benefits are shown in Schedule 4. Adopted 2001.

Schedule 1

Percentage of Participants Assumed to Retire at Sample Ages

Age	55-57	58-59	60-61	62	63-64	65	66-67	68	69	70 & Over
Percent Retiring	4%	5%	6%	25%	10%	50%	20%	25%	40%	100%

At age 55-64 in lieu of age related rate, 25% are assumed to retire as soon as eligible for unreduced benefits with 27 years service credit.

For hazardous duty participants of the Kentucky Employees Retirement System it is assumed that 50% will retire as soon as eligible for unreduced benefits with 20 years service credit and the balance will continue to age 60.

For hazardous duty participants of the County Employees Retirement System it is assumed that 60% will retire as soon as eligible for unreduced benefits with 20 years service credit and the balance will continue to age 55.

For participants of the State Police Retirement System it is assumed that 60% will retire as soon as eligible for unreduced benefits with 20 years service credit and the balance will continue to age 55.

Schedule 2

Sample Annual Rates of Mortality

	Active Mortality*		Disabled Mortality	
Age	Males	Females	Males	Females
25	0.05%	0.03%	4.83%	2.63%
30	0.06%	0.03%	3.62%	2.37%
40	0.12%	0.07%	2.82%	2.09%
50	0.40%	0.16%	3.83%	2.57%
55	0.61%	0.25%	4.82%	2.95%
60	0.92%	0.42%	6.03%	3.31%

*Plus 0.05% duty death rate prior to retirement for hazardous duty participants.

Schedule 3

Select Rates of Termination Prior to Retirement

KERS

		Termination		Disablement	
Sample Ages	Years of Service	General Employees	Hazardous Employees	General Employees	Hazardous Employees
	1	35.00%	30.00%	**	**
	2	10.00%	8.00%	**	**
	3	7.00%	4.00%	**	**
	4	5.00%	4.00%	**	**
	5	4.00%	4.00%	**	**
25	Over 5	2.40%	3.04%	0.033%	0.042%
30		2.40%	3.38%	0.039%	0.050%
40		2.00%	1.50%	0.105%	0.132%
50		1.60%	0.00%	0.423%	0.530%
55		1.20%	0.00%	0.794%	0.992%
60		0.20%	0.00%	1.395%	1.743%

**Same as age-based rates for over five years of service.

CERS

		Termination		Disablement	
Sample Ages	Years of Service	General Employees	Hazardous Employees	General Employees	Hazardous Employees
	1	35.00%	**	**	**
	2	10.00%	**	**	**
	3	7.00%	**	**	**
	4	5.00%	**	**	**
	5	4.00%	**	**	**
25	Over 5	2.40%	3.04%	0.033%	0.042%
30		2.40%	3.38%	0.039%	0.050%
40		2.00%	1.50%	0.105%	0.132%
50		1.60%	0.00%	0.423%	0.530%
55		1.20%	0.00%	0.794%	0.992%
60		0.20%	0.00%	1.395%	1.743%

**Same as age-based rates for over five years of service.

SPRS

		Termination	Disablement
Sample Ages	Years of Service	Employees	Employees
	1	**	**
	2	**	**
	3	**	**
	4	**	**
	5	**	**
25	Over 5	1.82%	0.042%
30		2.03%	0.050%
40		0.90%	0.132%
50		0.00%	0.530%
55		0.00%	0.992%
60		0.00%	1.743%

**Same as age-based rates for over five years of service.

Schedule 4

Assumed Medical Premium Growth

Years	2001 – 2002	2003 – 2005	2006 – 2010	2011 -- 2015	2016 -- 2020	Thereafter
Increase Per Year	12%	10%	9%	8%	7.5%	7%

SUMMARY OF MEMBER VALUATION DATA

Kentucky Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1996	47,145	$1,184,165,952	$25,118	
6/30/1997	46,073	$1,208,230,632	$26,224	4.4%
6/30/1998	46,342	$1,272,316,548	$27,455	4.7%
6/30/1999	45,824	$1,330,937,460	$29,046	5.8%
6/30/2000	46,897	$1,432,316,220	$30,542	5.2%
6/30/2001	47,780	$1,525,188,532	$31,921	4.5%

Kentucky (Hazardous) Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1996	3,452	$ 79,514,184	$23,034	
6/30/1997	3,532	$ 84,231,840	$23,848	3.5%
6/30/1998	3,582	$ 88,891,680	$24,816	4.1%
6/30/1999	3,889	$103,970,148	$26,734	7.7%
6/30/2000	4,007	$115,135,008	$28,733	7.5%
6/30/2001	4,228	$123,647,407	$29,245	1.8%

County Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1996	66,273	$1,126,719,480	$17,001	
6/30/1997	69,219	$1,281,975,348	$18,521	8.9%
6/30/1998	71,426	$1,341,570,672	$18,783	1.4%
6/30/1999	74,151	$1,449,817,548	$19,552	4.1%
6/30/2000	77,419	$1,575,632,580	$20,352	4.1%
6/30/2001	78,773	$1,597,653,320	$20,282	-0.3%

County (Hazardous) Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1996	6,281	$197,337,300	$31,418	
6/30/1997	6,513	$210,180,588	$32,271	2.7%
6/30/1998	6,800	$227,851,248	$33,508	3.8%
6/30/1999	7,488	$260,279,940	$34,760	3.7%
6/30/2000	7,951	$291,062,928	$36,607	5.3%
6/30/2001	8,586	$322,819,064	$37,598	2.7%

State Police Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1996	1,002	$32,570,292	$32,505	
6/30/1997	943	$34,948,092	$37,061	14.0%
6/30/1998	954	$35,865,072	$37,594	1.4%
6/30/1999	985	$40,548,636	$41,166	9.5%
6/30/2000	1,023	$43,596,396	$42,616	3.5%
6/30/2001	1,016	$44,209,944	$43,514	2.1%

All Participants

Schedule of Active Member Valuation Data

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1996	1,367	124,153	$2,620,307,208	$21,105	
6/30/1997	1,412	126,280	$2,819,566,500	$22,328	5.8%
6/30/1998	1,841	129,104	$2,966,495,220	$22,978	2.9%
6/30/1999	1,531	132,337	$3,185,553,732	$24,072	4.8%
6/30/2000	1,610	137,297	$3,457,743,132	$25,184	4.6%
6/30/2001	1,706	140,383	$3,613,518,267	$25,740	2.2%

SUMMARY OF ACCRUED AND UNFUNDED LIABILITIES

Kentucky Employees Retirement System
(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1996	$3,415,404	$ 40,109	1.2%	$3,375,296	
6/30/1997	$3,603,966	($ 246,746)	(6.9%)	$3,850,712	$ 475,416
6/30/1998	$3,971,749	($ 596,537)	(15%)	$4,568,287	$ 717,575
6/30/1999	$4,531,905	($ 992,274)	(21.9%)	$5,524,179	$ 955,892
6/30/2000	$5,120,191	($2,022,698)	(39.5%)	$7,142,889	$1,618,710
6/30/2001*	$5,729,229	($1,477,191)	(25.8%)	$7,206,420	$ 63,531

*Change in asset valuation method. See Summary of Actuarial Assumptions and Methods.

Kentucky Employees Insurance Fund

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1996	$1,222,394	$1,049,748	85.9%	$172,646	
6/30/1997	$1,274,464	$1,063,300	83.4%	$211,164	$ 38,518
6/30/1998	$1,379,578	$1,114,866	80.8%	$264,711	$ 53,547
6/30/1999	$1,422,523	$1,064,238	74.8%	$358,284	$ 93,572
6/30/2000	$1,632,643	$1,130,871	69.3%	$501,772	$143,488
6/30/2001*	$1,984,034	$1,415,031	71.3%	$569,003	$ 67,231

*Change in asset valuation method. See Summary of Actuarial Assumptions and Methods.

County Employees Retirement System

(Expressed in Thousands)

Valuation Date	*Actuarial* Liability	*Unfunded* Liability	*Percent* Unfunded	*Actuarial* Value of Assets	*Increase* In Assets
6/30/1996	$2,778,316	($ 101,712)	(3.7%)	$2,880,029	
6/30/1997	$3,144,929	($ 369,097)	(11.7%)	$3,514,026	$ 633,997
6/30/1998	$3,529,912	($ 743,349)	(21.1%)	$4,273,262	$ 759,236
6/30/1999	$3,955,132	($1,241,746)	(31.4%)	$5,196,878	$ 923,616
6/30/2000	$4,453,155	($2,276,421)	(51.1%)	$6,729,576	$1,532,698
6/30/2001*	$4,900,143	($2,010,358)	(41.0%)	$6,910,500	$ 180,924

*Change in asset valuation method. See Summary of Actuarial Assumptions and Methods.

County Employees Insurance Fund

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1996	$1,386,660	$1,219,124	87.9%	$167,536	
6/30/1997	$1,541,360	$1,336,840	86.7%	$204,521	$ 36,985
6/30/1998	$1,706,626	$1,451,039	85.0%	$255,586	$ 51,065
6/30/1999	$1,801,154	$1,454,627	80.8%	$346,527	$ 90,941
6/30/2000	$2,066,653	$1,578,352	76.4%	$488,301	$141,774
6/30/2001*	$2,515,316	$1,954,682	77.4%	$569,634	$ 81,333

*Change in asset valuation method. See Summary of Actuarial Assumptions and Methods.

State Police Retirement System

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1996	$244,541	$ 7,025	2.9%	$237,515	
6/30/1997	$255,785	($ 23,859)	(9.3)%	$279,643	$ 42,128
6/30/1998	$294,427	($ 11,891)	(4.0)%	$306,318	$ 26,675
6/30/1999	$314,021	($ 43,601)	(13.9)%	$357,623	$ 51,304
6/30/2000	$336,580	($122,589)	(36.4)%	$459,169	$101,546
6/30/2001*	$356,212	($ 99,949)	(28.1%)	$456,161	($ 3,008)

*Change in asset valuation method. See Summary of Actuarial Assumptions and Methods.

State Police Insurance Fund

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1996	$101,133	$73,324	72.5%	$27,809	
6/30/1997	$117,361	$83,485	71.1%	$33,876	$ 6,100
6/30/1998	$124,501	$83,090	66.7%	$41,410	$ 7,534
6/30/1999	$125,797	$71,867	57.1%	$53,929	$12,519
6/30/2000	$138,867	$67,155	48.4%	$71,712	$17,783
6/30/2001*	$158,261	$78,398	49.5%	$79,864	$ 8,152

*Change in asset valuation method. See Summary of Actuarial Assumptions and Methods.

SOLVENCY TEST

Kentucky Employees Retirement System

(Expressed in Thousands)

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
6/30/1996	$654,343	$1,425,519	$1,335,543	$3,375,296	100%	100%	97.0%
6/30/1997	$691,058	$1,541,845	$1,371,063	$3,850,712	100%	100%	118.0%
6/30/1998	$752,816	$1,711,602	$1,507,332	$4,568,287	100%	100%	139.6%
6/30/1999	$862,558	$1,935,471	$1,733,877	$5,524,180	100%	100%	157.2%
6/30/2000	$900,839	$2,378,236	$1,841,116	$7,142,889	100%	100%	209.9%
6/30/2001	$895,839	$2,756,127	$2,077,262	$7,206,420	100%	100%	171.1%

County Employees Retirement System

(Expressed in Thousands)

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
6/30/1996	$546,014	$1,042,290	$1,190,012	$2,880,029	100%	100%	108.6%
6/30/1997	$617,592	$1,170,196	$1,357,141	$3,514,026	100%	100%	127.2%
6/30/1998	$685,806	$1,355,013	$1,489,094	$4,273,262	100%	100%	150.0%
6/30/1999	$759,922	$1,600,392	$1,594,819	$5,196,879	100%	100%	177.9%
6/30/2000	$821,630	$1,904,182	$1,727,343	$6,729,576	100%	100%	231.8%
6/30/2001	$855,815	$2,185,378	$1,858,950	$6,910,501	100%	100%	208.1%

State Police Retirement System

(Expressed in Thousands)

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
6/30/1996	$28,918	$152,503	$ 63,120	$237,515	100%	100%	88.9%
6/30/1997	$29,910	$153,693	$ 72,182	$279,643	100%	100%	133.1%
6/30/1998	$30,546	$183,652	$ 80,229	$306,319	100%	100%	114.8%
6/30/1999	$33,633	$187,163	$ 93,226	$357,623	100%	100%	146.8%
6/30/2000	$36,111	$199,749	$100,720	$459,169	100%	100%	221.7%
6/30/2001	$34,338	$224,433	$97,441	$456,161	100%	100%	202.6%

RETIRED LIVES SUMMARY

Kentucky Employees Retirement System

	Nonhazardous Retirees		Hazardous Retirees		Total	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Basic Form	8,389	$7,196,364	250	$151,979	8,639	$7,348,343
Joint and Survivor						
100 % to Beneficiary	2,198	$1,901,356	107	$71,333	2,305	$1,972,689
66-2/3% to Beneficiary	857	$1,261,211	42	$34,677	899	$1,295,888
50% to Beneficiary	1,404	$1,858,161	54	$49,919	1,458	$1,908,080
Pop-Up Option	2,433	$3,223,760	185	$147,958	2,618	$3,371,718
10 Years Certain	—	—	21	$15,395	21	$15,395
10 Years Certain and Life	2,573	$2,095,213	87	$48,989	2,660	$2,144,202
15 Years Certain and Life	647	$622,881	26	$18,655	673	$641,536
20 Years Certain and Life	483	$553,481	23	$17,776	506	$571,257
Social Security Option						
Basic Form	1,234	$1,719,216	42	$29,219	1,276	$1,748,435
Survivorship Option	1,221	$1,732,698	78	$72,417	1,299	$1,805,115
Dependent Child	1	$189	18	$3,969	19	$4,158
Total	**21,440**	**$22,164,530**	**933**	**$662,286**	**22,373**	**$22,826,816**

RETIRED LIVES SUMMARY

County Employees Retirement System

	Nonhazardous Retirees		Hazardous Retirees		Total	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Basic Form	9,807	$4,785,938	443	$653,736	10,250	$5,439,674
Joint and Survivor						
100 % to Beneficiary	2,261	$1,285,562	350	$492,695	2,611	$1,778,257
66-2/3% to Beneficiary	634	$667,160	164	$313,743	798	$980,903
50% to Beneficiary	1,132	$970,224	250	$432,795	1,382	$1,403,019
Pop-Up Option	2,259	$1,863,279	908	$1,580,208	3,167	$3,443,487
10 Years Certain	—	—	46	$83,432	46	$83,432
10 Years Certain and Life	3,209	$1,497,801	144	$210,672	3,353	$1,708,473
15 Years Certain and Life	755	$428,442	43	$55,199	798	$483,641
20 Years Certain and Life	501	$369,239	96	$135,254	597	$504,493
Social Security Option						
Basic Form	511	$508,708	100	$148,690	611	$657,398
Survivorship Option	634	$760,634	295	$410,583	929	$1,171,217
Dependent Child	2	$648	165	$46,418	167	$47,066
Five Years Only	1	$125	—	—	1	$125
Total	**21,706**	**$13,137,760**	**3,004**	**$4,563,425**	**24,710**	**$17,701,185**

RETIRED LIVES SUMMARY

State Police Retirement System

	Number	Monthly Benefits
Basic Form	74	$168,280
Joint and Survivor		
100 % to Beneficiary	108	$230,574
66-2/3% to Beneficiary	57	$151,925
50% to Beneficiary	58	$137,465
Pop-Up Option	187	$488,968
10 Years Certain	5	$14,816
10 Years Certain and Life	22	$54,358
15 Years Certain and Life	10	$21,371
20 Years Certain and Life	29	$57,583
Social Security Option		
Basic Form	35	$74,588
Survivorship Option	170	$349,630
Dependent Child	12	$3,154
Total	**767**	**$1,752,712**

BENEFICIARY SUMMARY

Kentucky Employees Retirement System

	Nonhazardous Retirees		Hazardous Retirees		Total	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Joint and Survivor						
100 % to Beneficiary	1,911	$1,057,764	55	$31,533	1,966	$1,089,297
66-2/3% to Beneficiary	271	$142,093	4	$2,249	275	$144,342
50% to Beneficiary	544	$198,977	8	$2,299	552	$201,276
Pop-Up Option	185	$138,643	9	$3,138	194	$141,781
5 Years Certain	124	$125,042	10	$3,606	134	$128,648
10 Years Certain	142	$112,969	9	$4,034	151	$117,003
10 Years Certain and Life	143	$108,398	10	$3,037	153	$111,435
15 Years Certain and Life	122	$92,932	1	$162	123	$93,094
20 Years Certain and Life	76	$65,641	4	$909	80	$66,550
Social Security Option						
Survivorship Option	143	$154,835	8	$6,491	151	$161,326
Beneficiary Under 60	17	$6,872	—	—	17	$6,872
Dependent Child	–	–	2	$563	2	$563
Total	**3,678**	**$2,204,166**	**120**	**$58,021**	**3,798**	**$2,262,187**

BENEFICIARY SUMMARY

County Employees Retirement System

	Nonhazardous Retirees		Hazardous Retirees		Total	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Joint and Survivor						
100 % to Beneficiary	1,313	$463,843	78	$74,590	1,391	$538,433
66-2/3% to Beneficiary	144	$48,429	15	$15,063	159	$63,492
50% to Beneficiary	273	$75,796	17	$9,530	290	$85,326
Pop-Up Option	201	$106,834	36	$46,007	237	$152,841
5 Years Certain	185	$97,477	7	$5,531	192	$103,008
10 Years Certain	150	$83,077	19	$32,244	169	$115,321
10 Years Certain and Life	197	$93,092	1	$37	198	$93,129
15 Years Certain and Life	121	$64,428	1	$75	122	$64,503
20 Years Certain and Life	71	$40,495	5	$8,199	76	$48,694
Social Security Option						
Survivorship Option	49	$45,143	34	$49,136	83	$94,279
Beneficiary Under 60	5	$1,009	3	$2,983	8	$3,992
Dependent Child	—	—	1	$290	1	$290
Total	**2,709**	**$1,119,623**	**217**	**$243,685**	**2,926**	**$1,363,308**

BENEFICIARY SUMMARY

State Police Retirement System

	Number	Monthly Benefits
Joint and Survivor		
100 % to Beneficiary	48	$92,896
66-2/3% to Beneficiary	1	$1,168
50% to Beneficiary	9	$11,490
Pop-Up Option	6	$15,094
5 Years Certain	–	–
10 Years Certain	–	–
10 Years Certain and Life	–	–
15 Years Certain and Life	1	$2,991
20 Years Certain and Life	2	$7,271
Social Security Option		
Basic Form	–	–
Survivorship Option	7	$15,508
Beneficiary Under 60	–	–
Dependent Child	1	$249
Total	**75**	**$146,667**

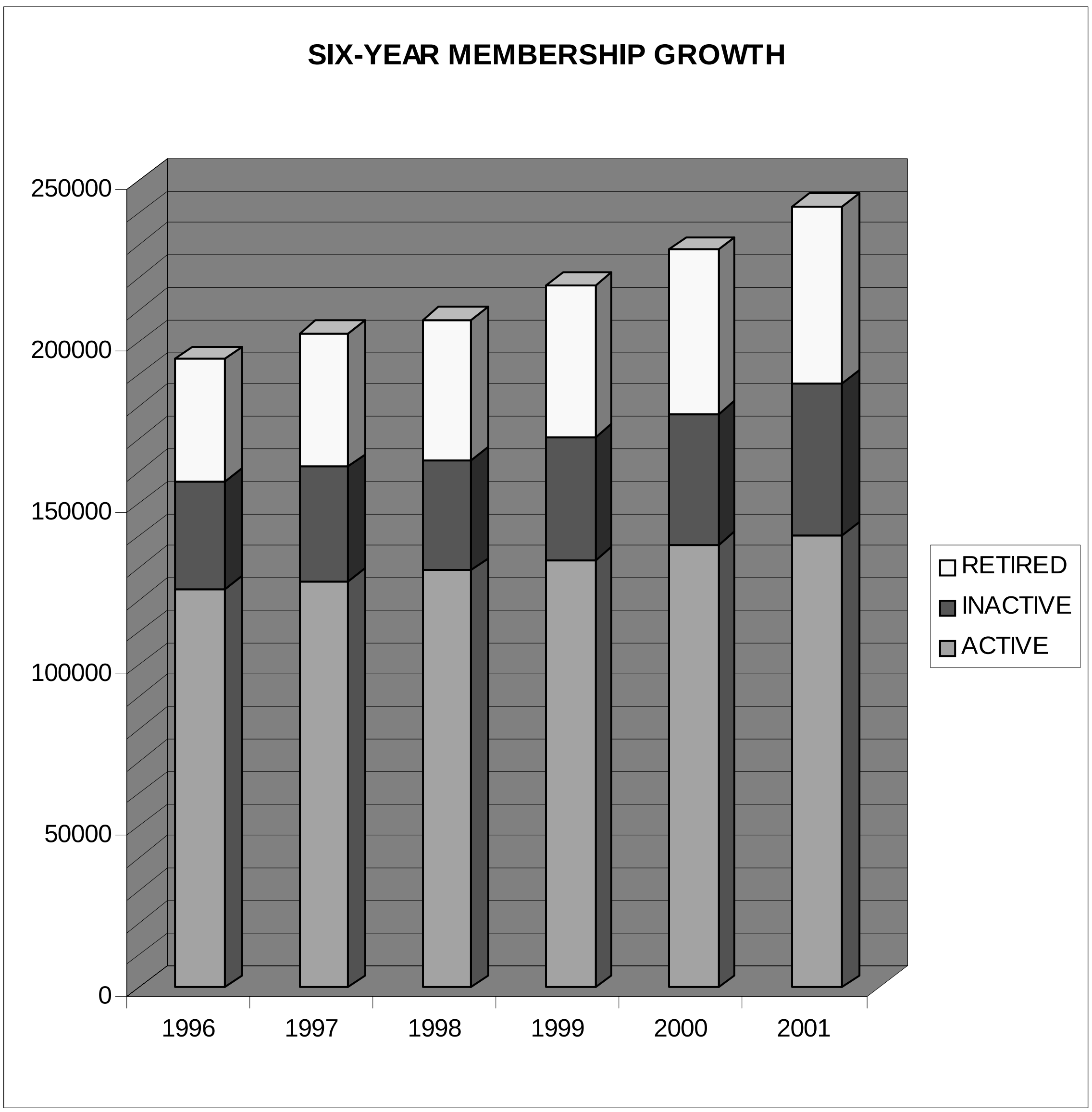
KENTUCKY RETIREMENT SYSTEMS

Statistical Section

Comprehensive Annual Financial Report
June 30, 2001

MEMBERSHIP
AS OF JUNE 30, 2001

SYSTEM	ACTIVE	INACTIVE	RETIRED	TOTAL
KERS	47,780	16,741	25,118	89,639
KERS Hazardous	4,228	922	1,053	6,203
TOTAL KERS	**52,008**	**17,663**	**26,171**	**95,842**
CERS	78,773	28,356	24,415	131,544
CERS Hazardous	8,586	610	3,221	12,417
TOTAL CERS	**87,359**	**28,966**	**27,636**	**143,961**
SPRS	**1,016**	**90**	**842**	**1,948**
GRAND TOTAL	**140,383**	**46,719**	**54,649**	**241,751**



Schedule of Participating Employers

Kentucky Employees Retirement System

Agency Classification	Number of Agencies
Agencies Reporting through State Payroll	215
Other Agencies (universities, mental health boards, health departments)	120
Special Districts and Boards	4
Child Support Offices (county attorneys)	66
Other State-Administered Retirement Systems	3
TOTAL	408

County Employees Retirement System

Agency Classification	Number of Agencies
Area Development Districts	15
Boards of Education	176
Cities	247
County Attorneys	58
County Clerks	10
County Government Agencies	249
Fire Departments	57
Hospitals	2
Jailers	7
Libraries	80
Planning Commissions	8
Police Departments	50
Police & Fire Departments (combined)	40
Sanitation Districts	4
Sheriff Departments	34
Special Districts and Boards	159
Utility Boards	97
Urban County Government Agencies	4
TOTAL	1,297

State Police Retirement System

Agency Classification	Number of Agencies
Kentucky State Police-Uniformed Officers	1

SCHEDULE OF REVENUE BY SOURCE
(expressed in thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1996	$ 68,933	$113,717	$1,198,411	$1,381,091
June 30, 1997	$ 69,075	$118,119	$ 862,023	$1,049,217
June 30, 1998	$ 74,115	$128,221	$ 997,451	$1,199,787
June 30, 1999	$149,722	$126,959	$ 889,768	$1,166,449
June 30, 2000	$117,209	$136,688	$ 333,006	$ 586,903
June 30, 2001	$117,225	$114,210	($ 387,886)	($ 156,451)

COUNTY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1996	$ 72,557	$131,612	$1,024,443	$1,228,612
June 30, 1997	$ 79,342	$145,326	$ 793,030	$ 938,356
June 30, 1998	$ 90,963	$149,824	$ 903,101	$1,143,888
June 30, 1999	$121,484	$158,882	$ 818,969	$1,099,335
June 30, 2000	$125,152	$158,326	$ 295,579	$ 579,057
June 30, 2001	$128,876	$164,338	($ 317,544)	($ 24,330)

STATE POLICE RETIREMENT SYSTEM

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1996	$2,457	$ 7,089	$94,182	$103,728
June 30, 1997	$2,958	$ 9,628	$64,815	$ 77,401
June 30, 1998	$2,711	$ 9,574	$75,292	$ 87,577
June 30, 1999	$3,658	$ 9,463	$76,389	$ 89,510
June 30, 2000	$4,202	$10,216	$22,601	$ 37,019
June 30, 2001	$4,138	$ 9,629	($33,885)	($ 20,118)

SCHEDULE OF EXPENSES BY TYPE
(expressed in thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	Total
June 30, 1996	$158,407	$2,284	$7,485	$18,092	$186,268
June 30, 1997	$173,352	$2,701	$8,262	$22,010	$206,325
June 30, 1998	$193,569	$2,628	$9,196	$24,521	$229,914
June 30, 1999	$209,339	$3,448	$9,168	$25,829	$247,784
June 30, 2000	$258,999	$3,792	$9,041	$32,085	$303,917
June 30, 2001	$299,700	$4,461	$8,221	$39,618	$352,000

COUNTY EMPLOYEES RETIREMENT SYSTEM

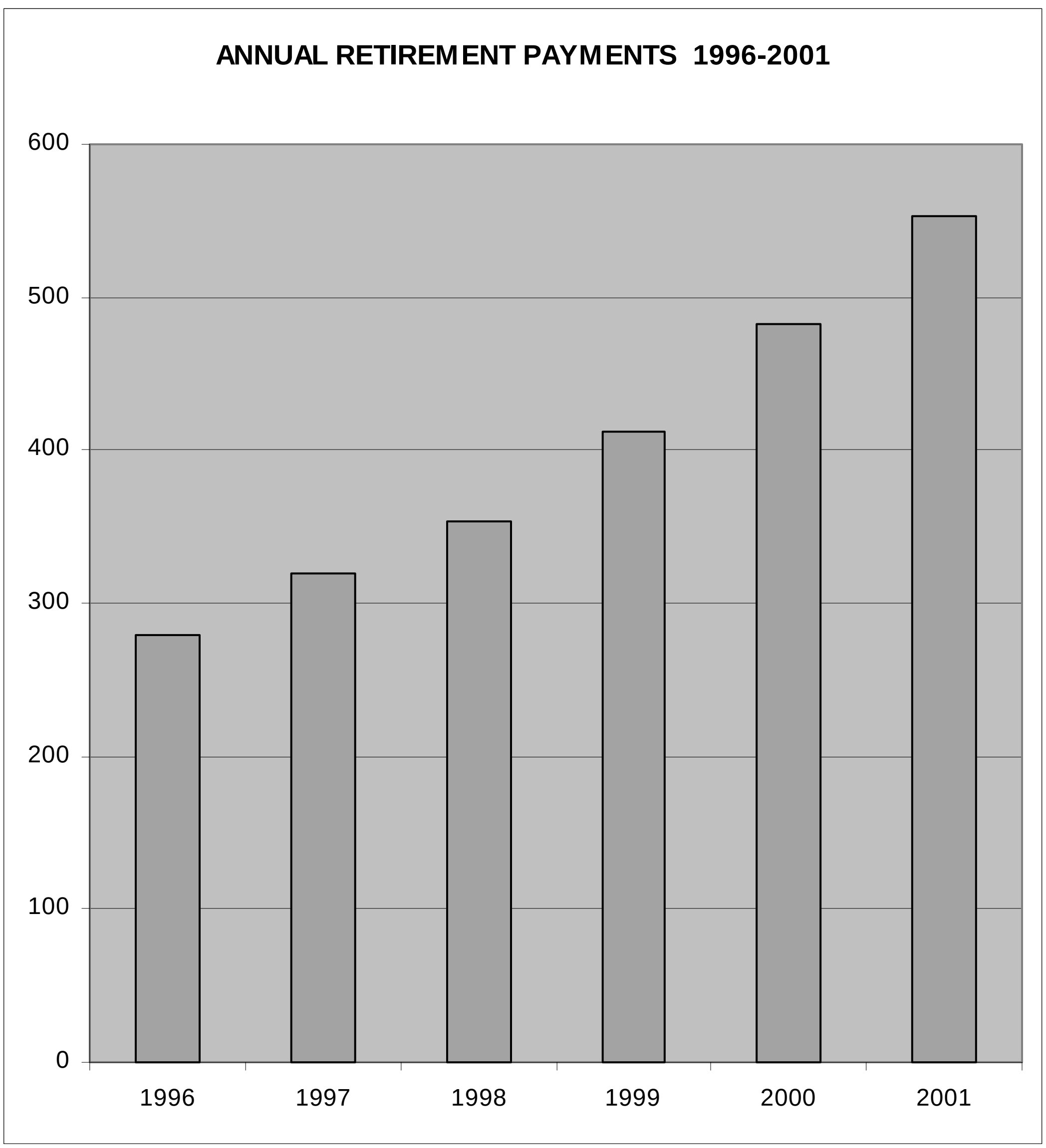
Year Ending	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	Total
June 30, 1996	$109,081	$3,217	$ 8,944	$15,638	$136,880
June 30, 1997	$124,187	$3,909	$ 9,167	$19,757	$157,020
June 30, 1998	$142,405	$4,030	$10,173	$23,138	$179,746
June 30, 1999	$165,107	$5,385	$10,924	$25,841	$207,257
June 30, 2000	$197,637	$6,228	$12,248	$31,705	$247,818
June 30, 2001	$226,776	$7,039	$10,313	$39,423	$283,551

STATE POLICE RETIREMENT SYSTEM

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	Total
June 30, 1996	$13,711	$44	$31	$1,791	$15,577
June 30, 1997	$14,682	$52	$57	$2,160	$16,951
June 30, 1998	$17,735	$47	$70	$2,611	$20,463
June 30, 1999	$19,136	$68	$44	$2,754	$22,002
June 30, 2000	$19,974	$82	$80	$3,028	$23,164
June 30, 2001	$22,644	$92	$80	$3,575	$26,391

ANALYSIS OF INITIAL RETIREMENT
1996-2001

	1996	**1997**	**1998**	**1999**	**2000**	**2001**
KERS Retirees	1,127	1,523	1,093	1,648	2,323	2,083
Average Monthly Benefit	$967	$1,117	$1,000	$1,296	$1,639	$1,616
CERS Retirees	1,344	1,962	1,626	2,349	2,485	2,265
Average Monthly Benefit	$690	$737	$709	$907	$1,012	$1,006
SPRS Retirees	39	47	46	23	42	53
Average Monthly Benefit	$2,116	$2,185	$2,299	$2,223	$2,664	$3,582



SCHEDULE OF BENEFIT EXPENSES BY TYPE

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
FY 1995-96					
Average Benefit	$530	$758	$567	$566	$670
Retirees	4,312	10,717	1,560		16,589
Beneficiaries	815	826	595	733	2,969
Total Recipients	5,127	11,543	2,155	733	19,558
Monthly Benefits	$2,714,747	$8,752,259	$1,221,084	$414,832	$13,102,922
% of Total Monthly Benefits	**21%**	**67%**	**9%**	**3%**	**100%**
FY 1996-97					
Average Benefit	$562	$817	$596	$600	$721
Retirees	4,322	11,513	1,694		17,529
Beneficiaries	819	853	622	754	3,048
Total Recipients	5,141	12,366	2,316	754	20,577
Monthly Benefits	$2,890,662	$10,108,484	$1,380,195	$452,335	$14,831,676
% of Total Monthly Benefits	**19%**	**68%**	**9%**	**4%**	**100%**
FY 1997-98					
Average Benefit	$589	$859	$629	$647	$760
Retirees	4,248	11,920	1,772		17,940
Beneficiaries	827	890	636	782	3,135
Total Recipients	5,075	12,810	2,408	782	21,075
Monthly Benefits	$2,989,698	$11,006,325	$1,512,760	$505,747	$16,014,530
% of Total Monthly Benefits	**19%**	**69%**	**9%**	**3%**	**100%**
FY 1998-99					
Average Benefit	$630	$944	$662	$686	$830
Retirees	4,267	12,755	1,848		18,870
Beneficiaries	807	936	670	866	3,279
Total Recipients	5,074	13,691	2,518	866	22,149
Monthly Benefits	$3,194,856	$12,927,270	$1,665,838	$594,363	$18,382,327
% of Total Monthly Benefits	**17%**	**70%**	**9%**	**4%**	**100%**
FY 1999-2000					
Average Benefit	$663	$1,042	$675	$698	$907
Retirees	4,360	14,323	1,977		20,660
Beneficiaries	804	978	689	885	3,356
Total Recipients	5,164	15,301	2,666	885	24,016
Monthly Benefits	$3,425,223	$15,949,488	$1,799,238	$618,038	$21,791,987
% of Total Monthly Benefits	**16%**	**73%**	**8%**	**3%**	**100%**
FY 2000-2001					
Average Benefit	$706	$1,135	$702	$726	$987
Retirees	4,348	15,624	2,068		22,040
Beneficiaries	795	1,015	702	887	3,399
Total Recipients	5,143	16,639	2,770	887	25,439
Monthly Benefits	$3,631,318	$18,878,492	$1,944,415	$643,874	$25,098,099
% of Total Monthly Benefits	**14%**	**75%**	**8%**	**3%**	**100%**

The information in the above tables includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included. As a result, the information for the current year will differ from that shown in the Retired Lives Summary in the Actuarial Section. See the Retired Lives Summary and Beneficiary Summary in the Actuarial Secriton for a further delineation of retirement options by system.

SCHEDULE OF BENEFIT EXPENSES BY TYPE

COUNTY EMPLOYEES RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
FY 1995-96					
Average Benefit	$380	$581	$528	$425	$510
Retirees	4,684	9,384	1,660		15,728
Beneficiaries	549	457	380	562	1,948
Total Recipients	5,233	9,841	2,040	562	17,676
Monthly Benefits	$1,988,732	$5,714,564	$1,076,787	$238,803	$9,018,886
% of Total Monthly Benefits	**22%**	**63%**	**12%**	**3%**	**100%**
FY 1996-97					
Average Benefit	$405	$620	$560	$446	$547
Retirees	4,937	10,453	1,942		17,332
Beneficiaries	574	490	406	576	2,046
Total Recipients	5,511	10,943	2,348	576	19,378
Monthly Benefits	$2,229,937	$6,790,089	$1,314,240	$256,650	$10,590,916
% of Total Monthly Benefits	**21%**	**64%**	**12%**	**3%**	**100%**
FY 1997-98					
Average Benefit	$429	$650	$585	$473	$576
Retirees	5,095	11,238	2,165		18,498
Beneficiaries	594	544	416	614	2,168
Total Recipients	5,689	11,782	2,581	614	20,666
Monthly Benefits	$2,438,180	$7,660,693	$1,511,141	$290,517	$11,900,531
% of Total Monthly Benefits	**20%**	**64%**	**13%**	**3%**	**100%**
FY 1998-99					
Average Benefit	$466	$718	$604	$482	$630
Retirees	5,365	12,609	2,350		20,324
Beneficiaries	603	578	636	727	2,544
Total Recipients	5,968	13,187	2,986	727	22,868
Monthly Benefits	$2,783,194	$9,472,665	$1,802,978	$350,404	$14,409,241
% of Total Monthly Benefits	**19%**	**66%**	**13%**	**2%**	**100%**
FY 1999-00					
Average Benefit	$478	$766	$612	$483	$666
Retirees	5,628	14,179	2,633		22,440
Beneficiaries	620	609	639	771	2,639
Total Recipients	6,248	14,788	3,272	771	25,079
Monthly Benefits	$2,985,474	$11,328,818	$2,003,432	$372,601	$16,690,325
% of Total Monthly Benefits	**18%**	**68%**	**12%**	**2%**	**100%**
FY 2000-2001					
Average Benefit	$499	$816	$638	$503	$708
Retirees	5,840	15,516	2,846		24,202
Beneficiaries	632	649	673	773	2,727
Total Recipients	6,472	16,165	3,519	773	26,929
Monthly Benefits	$3,231,715	$13,192,315	$2,243,451	$388,758	$19,056,239
% of Total Monthly Benefits	**17%**	**69%**	**12%**	**2%**	**100%**

The information in the above tables includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included. As a result, the information for the current year will differ from that shown in the Retired Lives Summary in the Actuarial Section. See the Retired Lives Summary and Beneficiary Summary in the Actuarial Secriton for a further delineation of retirement options by system.

SCHEDULE OF BENEFIT EXPENSES BY TYPE

STATE POLICE RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
FY 1995-96					
Average Benefit	$1,749	$2,020	$1,241	$1,034	$1,901
Retirees	84	446	30		560
Beneficiaries	12	4	6	17	39
Total Recipients	96	450	36	17	599
Monthly Benefits	$167,947	$908,793	$44,664	$17,582	$1,138,986
% of Total Monthly Benefits	**15%**	**78%**	**4%**	**3%**	**100%**
FY 1996-97					
Average Benefit	$1,789	$2,079	$1,224	$1,065	$1,958
Retirees	86	484	31		601
Beneficiaries	12	4	8	16	40
Total Recipients	98	488	39	16	641
Monthly Benefits	$175,303	$1,014,787	$47,733	$17,050	$1,254,873
% of Total Monthly Benefits	**14%**	**81%**	**4%**	**1%**	**100%**
FY 1997-98					
Average Benefit	$2,472	$2,131	$1,319	$1,309	$2,120
Retirees	101	520	33		654
Beneficiaries	20	4	7	20	51
Total Recipients	121	524	40	20	705
Monthly Benefits	$299,059	$1,116,767	$52,744	$26,178	$1,494,748
% of Total Monthly Benefits	**20%**	**75%**	**4%**	**1%**	**100%**
FY 1998-99					
Average Benefit	$2,495	$2,175	$1,024	$1,237	$2,102
Retirees	98	550	38		686
Beneficiaries	23	5	23	25	76
Total Recipients	121	555	61	25	762
Monthly Benefits	$301,845	$1,206,862	$62,478	$30,922	$1,602,087
% of Total Monthly Benefits	**19%**	**75%**	**4%**	**2%**	**100%**
FY 1999-2000					
Average Benefit	$2,522	$2,185	$1,062	$1,318	$2,126
Retirees	98	585	40		723
Beneficiaries	25	5	21	23	74
Total Recipients	123	590	61	23	797
Monthly Benefits	$310,242	$1,289,260	$64,788	$30,323	$1,694,613
% of Total Monthly Benefits	**18%**	**76%**	**4%**	**2%**	**100%**
FY 2000-2001					
Average Benefit	$2,677	$2,305	$1,107	$1,354	$2,258
Retirees	99	632	36		767
Beneficiaries	27	6	18	23	74
Total Recipients	126	638	54	23	841
Monthly Benefits	$337,279	$1,470,596	$59,799	$31,132	$1,898,806
% of Total Monthly Benefits	**18%**	**77%**	**3%**	**2%**	**100%**

The information in the above tables includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included. As a result, the information for the current year will differ from that shown in the Retired Lives Summary in the Actuarial Section. See the Retired Lives Summary and Beneficiary Summary in the Actuarial Secriton for a further delineation of retirement options by system.

COMPARISON OF AVERAGE MONTHLY BENEFITS BY LENGTH OF SERVICE

KERS

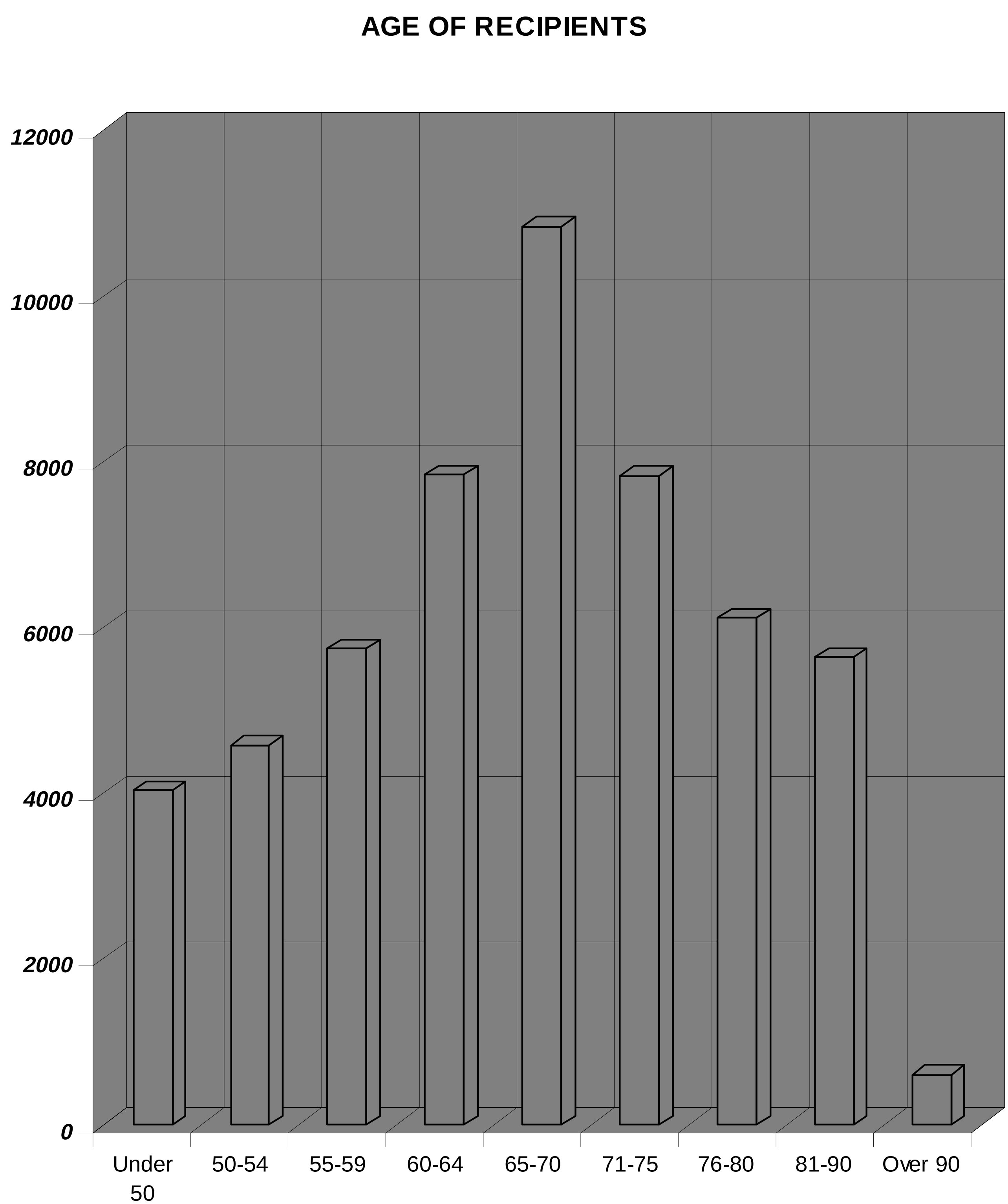
Service in Years	Under 2	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
Number of Recipients	805	942	3,638	3,827	3,499	3,656	4,866	2,939	1,261
Average Monthly Pay	$91	$162	$255	$419	$625	$900	$1,536	$2,045	$2,679

CERS

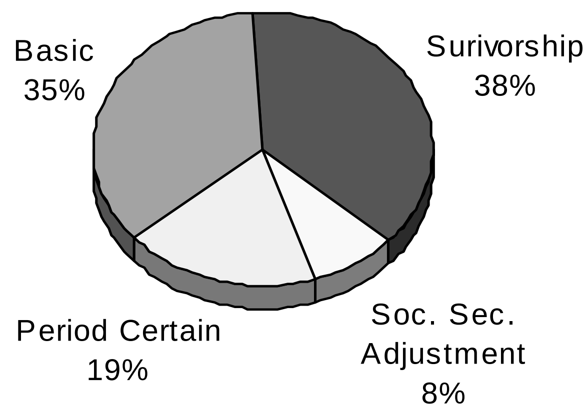
Service in Years	Under 2	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
Number of Recipients	996	1,268	5,781	5,512	4,119	4,269	3,486	1,105	404
Average Monthly Pay	$156	$140	$213	$376	$598	$996	$1,587	$2,019	$2,352

SPRS

Service in Years	Under 2	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
Number of Recipients	37	22	26	26	59	228	271	127	46
Average Monthly Pay	$501	$290	$616	$909	$1,422	$1,929	$2,608	$3,342	$3,909

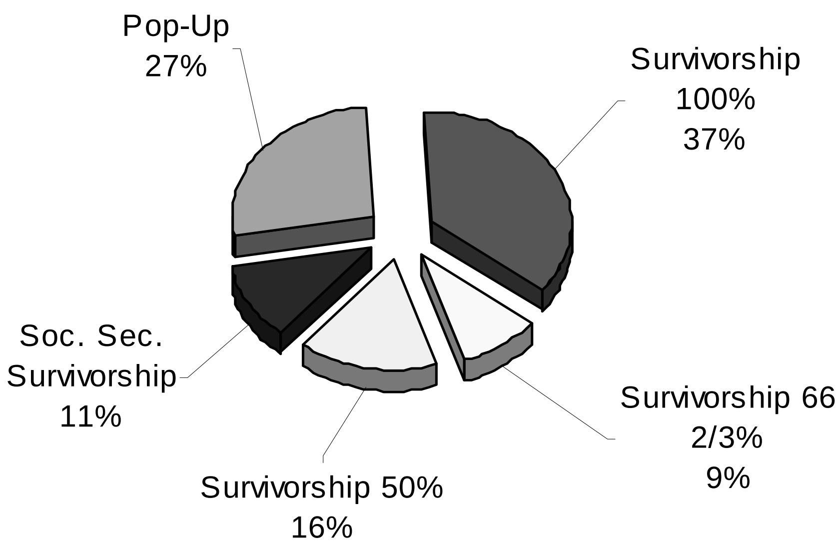

AGE OF RECIPIENTS
12000
10000
8000
6000
4000
2000
0
Under 50
50-54
55-59
60-64
65-70
71-75
76-80
81-90
Over 90

PAYMENT OPTIONS BY TYPE



The Basic option is a single life annuity. Survivorship options include 100%, 66 2/3%, 50% and Pop-Up, which is a 100% survivorship option that increases to the Basic amount if the beneficiary dies or divorces the member prior to the member's death. Social Security Adjustment options provide enhanced benefits prior to age 62 and a reduced benefit after age 62. There are two Social Security Adjustment options: one with 100% survivorship and one with no survivor benefit.

SURVIVORSHIP OPTIONS BY TYPE



TOTAL FISCAL YEAR RETIREMENT PAYMENTS BY COUNTY

Jefferson	$99,417,046	Harlan	$ 2,817,581	Pendleton	$ 1,402,971
Franklin	$66,356,996	Clark	$ 2,787,812	Carroll	$ 1,368,222
Fayette	$28,785,648	Bourbon	$ 2,614,110	Powell	$ 1,354,773
Warren	$13,813,791	Grayson	$ 2,549,797	Union	$ 1,351,205
Daviess	$12,079,463	Johnson	$ 2,449,847	Livingston	$ 1,315,203
Shelby	$11,501,706	Clay	$ 2,390,931	Wolfe	$ 1,307,248
Kenton	$10,495,482	Knott	$ 2,350,874	Washington	$ 1,266,225
Christian	$10,216,617	Perry	$ 2,253,447	Webster	$ 1,200,685
Pulaski	$10,039,458	Logan	$ 2,252,271	Todd	$ 1,150,588
McCracken	$ 8,737,993	Caldwell	$ 2,175,263	Metcalfe	$ 1,136,189
Madison	$ 8,470,877	Trigg	$ 2,122,397	Lee	$ 1,112,300
Hardin	$ 7,992,906	Harrison	$ 2,078,668	McCreary	$ 1,094,689
Anderson	$ 7,114,961	Breathitt	$ 2,068,243	Trimble	$ 1,066,399
Boone	$ 6,675,685	Greenup	$ 2,061,967	Lewis	$ 1,059,441
Campbell	$ 6,599,490	Lincoln	$ 2,032,595	Jackson	$ 1,058,764
Oldham	$ 6,480,389	Marion	$ 2,021,746	Simpson	$ 1,021,309
Bullitt	$ 5,511,088	Muhlenberg	$ 1,967,758	Green	$ 1,009,930
Boyd	$ 4,996,872	Letcher	$ 1,962,608	Ballard	$ 997,018
Pike	$ 4,980,402	Montgomery	$ 1,953,778	Menifee	$ 930,321
Laurel	$ 4,913,587	Taylor	$ 1,945,439	Butler	$ 929,337
Boyle	$ 4,868,508	Knox	$ 1,918,646	Leslie	$ 926,472
Hopkins	$ 4,861,702	Russell	$ 1,900,031	Magoffin	$ 918,821
Calloway	$ 4,734,437	Fleming	$ 1,893,924	Lawrence	$ 877,266
Henderson	$ 4,717,262	Adair	$ 1,854,153	McLean	$ 877,002
Woodford	$ 4,675,624	Morgan	$ 1,846,436	Owsley	$ 854,151
Scott	$ 4,373,410	Spencer	$ 1,793,552	Fulton	$ 811,686
Barren	$ 4,317,402	Lyon	$ 1,772,959	Nicholas	$ 761,748
Rowan	$ 3,930,568	Ohio	$ 1,697,086	Edmonson	$ 747,275
Graves	$ 3,810,116	Breckinridge	$ 1,602,162	Clinton	$ 744,177
Floyd	$ 3,790,066	Meade	$ 1,598,848	Bracken	$ 734,930
Henry	$ 3,647,776	Larue	$ 1,580,223	Hancock	$ 709,326
Jessamine	$ 3,622,937	Wayne	$ 1,553,578	Cumberland	$ 693,616
Whitley	$ 3,619,025	Allen	$ 1,524,847	Monroe	$ 683,114
Nelson	$ 3,577,840	Mason	$ 1,518,316	Carlisle	$ 655,542
Marshall	$ 3,542,748	Casey	$ 1,515,156	Crittenden	$ 623,338
Mercer	$ 3,517,793	Estill	$ 1,512,770	Elliott	$ 594,075
Owen	$ 3,460,761	Garrard	$ 1,510,411	Martin	$ 592,504
Bell	$ 3,041,252	Bath	$ 1,481,980	Gallatin	$ 481,284
Grant	$ 2,912,490	Hart	$ 1,481,050	Hickman	$ 405,255
Carter	$ 2,847,983	Rockcastle	$ 1,430,165	Robertson	$ 189,927

Payments to Recipients Living in Other States
$24,938,030

TOTAL PAYMENTS TO MEMBERS AND BENEFICIARIES FOR FY 2000-01
$552,845,938

KENTUCKY RETIREMENT SYSTEMS

Compliance Section

Comprehensive Annual Financial Report
June 30, 2001

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

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the general purpose financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 31, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Retirement Systems= general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

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

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

Charles T. Mitchell Co.

October 31, 2001