

Comprehensive Annual Financial Report

For the Year Ended
June 30, 2002



KENTUCKY RETIREMENT SYSTEMS

Kentucky Employees Retirement System
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, 2002

Prepared by the executive staff of
Kentucky Retirement Systems
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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, 2002



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

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



William P. Hanes, Esq.
Executive Director
Phone 502-564-4646
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November 21, 2002

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, 2002.

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. Please refer to Management's Discussion and Analysis on page 12 for more information.

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, 2002, there were more than 250,000 active and retired members in the three systems and approximately \$10.9 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 continued a comprehensive fiduciary compliance review utilizing the expertise of Ice Miller, Indianapolis, Indiana. The Administrative Processes review was completed.

During the 2002 General Assembly, legislation was passed allowing the Partial Lump Sum Option, with or without survivor rights, to become a new retirement allowance option for the systems. The General Assembly also made several changes to comply with the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), as well as allow KRS to create and operate its own personnel system. We believe the new personnel system will allow Kentucky Retirement Systems to provide even better service to our members.

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, 2001. 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.

<i>(dollar amounts expressed in thousands)</i>	2002	2001	<i>Increase (Decrease) Amount</i>	<i>Increase (Decrease) Percentage</i>
Member Contributions	\$286,822	\$ 250,239	\$36,583	14.6%
Employer Contributions	\$293,520	\$ 288,178	\$5,342	1.9%
Net Investment Income	(\$550,490)	(\$739,315)	\$188,825	25.5%
Total	\$29,852	(\$200,898)	\$230,750	114.9%

The increase in member contributions is a result of an increase in the covered payroll from the previous year. The corresponding employer contributions increased to a total employer contribution amount of \$293.6 million. The increase in Net Investment Income is a result of the slightly more favorable financial markets than for fiscal year 2001.

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.

<i>(dollar amounts expressed in thousands)</i>	2002	2001	<i>Increase (Decrease) Amount</i>	<i>Increase (Decrease) Percentage</i>
Retirement Allowances	\$640,860	\$549,120	\$91,740	16.7%
Refunds	\$ 17,918	\$ 18,614	(\$696)	(3.7%)
Administrative Expense	\$ 13,430	\$ 11,593	\$ 1,837	15.9%
Medical Insurance Expenses	\$ 96,882	\$ 82,615	\$14,267	17.3%
Total	\$769,090	\$661,942	\$107,148	16.2%

Retirement allowances increased due to a 2.85% 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, 2002, the systems' pension funds had a total return of -4.3% and the insurance fund had a total return of -9.3%.

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, 2002 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 \$3.6 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 9. A listing of the external investment managers can be found on page 81 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, 2002. 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 Shawn Sparks 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 furnished 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.

A handwritten signature in black ink, appearing to read "William P. Hanes". The signature is fluid and cursive, with a large initial "W" and "H".

William P. Hanes, Esq.
Executive Director

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, 2001

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.



Thomas A. Brewer
President

Jeffrey L. Essler
Executive Director

Board of Trustees



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John Balbach
Louisville
appointed by Governor
term expires
March 31, 2004

Ed Davis
Louisville
elected by CERS
term expires
March 31, 2005

Bobby Henson
Frankfort
elected by KERS
term expires
March 31, 2006

Carol Palmore
Frankfort
Secretary of
Personnel Cabinet
ex officio

John Freeman
Louisville
elected by CERS
term expires
March 31, 2005

Susan Horne
Lexington
elected by KERS
term expires
March 31, 2006

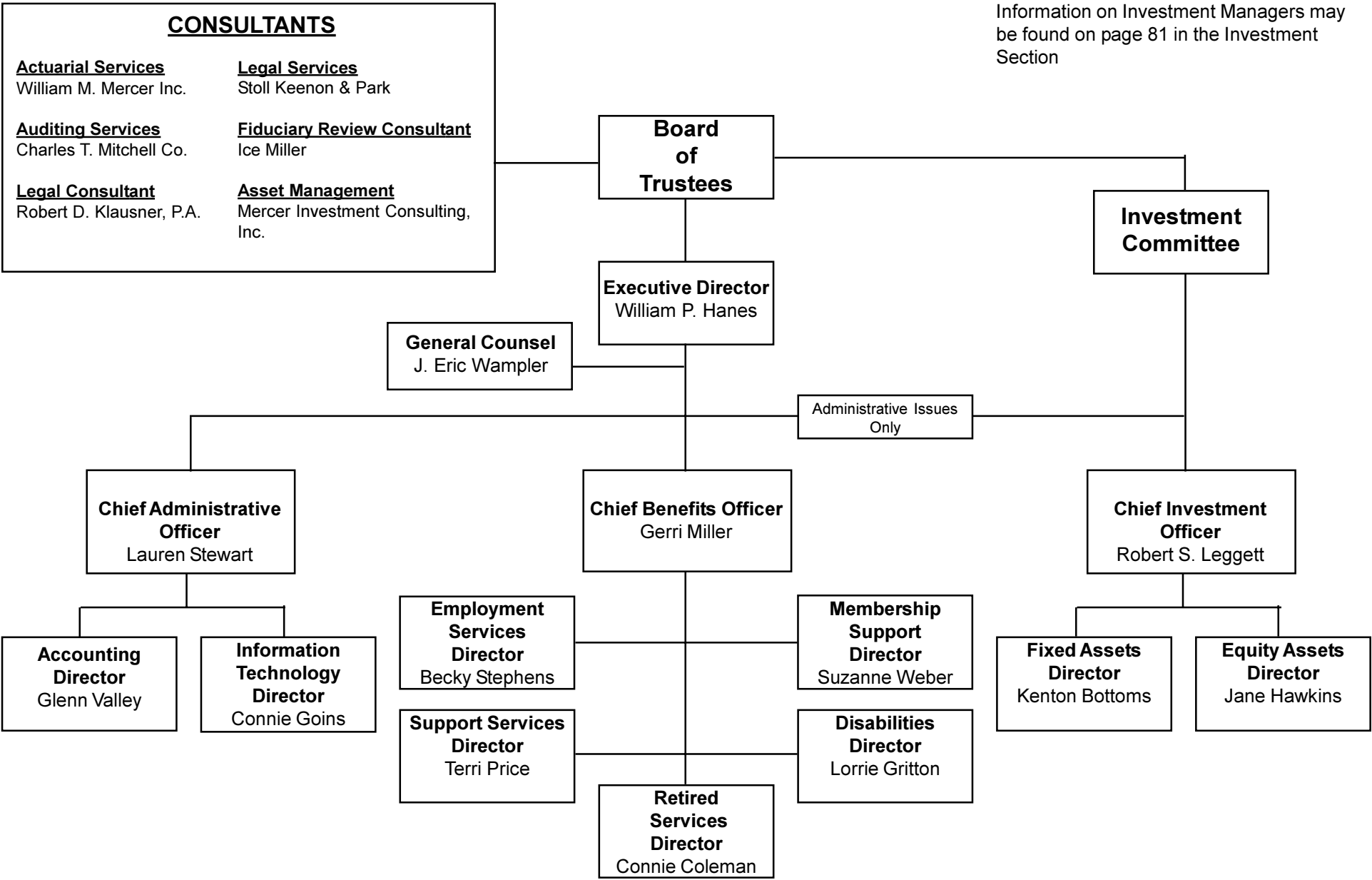
Walter Pagan
Vice-Chair
Wilder
appointed by Governor
term expires
March 31, 2004

Larry Conner
Lexington
appointed by Governor
term expires
March 31, 2003

Randy Overstreet
Chair
 Elizabethtown
elected by SPRS
term expires
March 31, 2003

KENTUCKY RETIREMENT SYSTEMS ORGANIZATIONAL CHART

Information on Investment Managers may be found on page 81 in the Investment Section



KENTUCKY RETIREMENT SYSTEMS

Financial Section

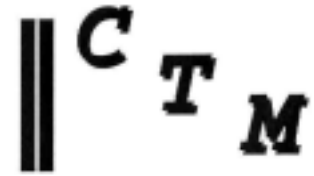
Comprehensive Annual Financial Report
June 30, 2002

Charles T. Mitchell Company, LLP

Certified Public Accountants

DON C. GILES, C.P.A.
WILLIAM G. JOHNSON, JR., C.P.A.
LARRY T. WILLIAMS, C.P.A.
JAMES CLOUSE, C.P.A.
BERNADETTE SMITH, C.P.A.
KIM FIELD, C.P.A.
GREG MIKLAVCIC, C.P.A.

CHARLES T. MITCHELL, C.P.A.
CONSULTANT



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Retirement System
Frankfort, Kentucky

We have audited the accompanying general purpose statements of plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2002 and 2001 and the related statements of changes in plan net assets for the years then ended. These component unit general-purpose financial statements are the responsibility of the Kentucky Retirement System's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, at June 30, 2002 and 2001 and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2002 on our consideration of the Kentucky Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The financial section supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the System's management. Such schedules as of and for the year ended June 30, 2002 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Charles T. Mitchell Co.

October 31, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS—PENSION FUND

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

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

FINANCIAL HIGHLIGHTS—INSURANCE FUND

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

- The combined plan net assets of the insurance fund administered by Kentucky Retirement Systems increased by \$117.9 million during the 2001-2002 fiscal year.
- Employer contributions of \$267.3 were received. This is an increase of \$84.6 million over the prior fiscal year. This increase is due to the increase in covered payroll reported and also an increase in the insurance transfer rate.

- After applying a \$61 million Anthem demutualization (See Note K to the Financial Statements), the fair value of investments depreciated \$73 million compared to net depreciation of \$72 million for the prior fiscal year. After netting the \$61 million Anthem demutualization (See Note K to the Financial Statements) against current year losses, the insurance fund realized net gains on sales of investments of \$12 million compared to \$42.7 million realized gains in the prior fiscal year. This decline in net appreciation and decline in realized gains is due to less favorable market conditions.
- Investment income net of investment expense from all sources including securities lending was \$20.6 million representing a decrease of approximately \$10.5 million compared to last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage increased \$14.2 million to total \$96.1 million for the year.
- Administrative fees paid to the State Personnel Cabinet for administration of the insurance program for retirees not eligible for Medicare totaled \$778 thousand compared to \$714 thousand for the prior year. This increase is due to an increase in retirees.

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The Combined Statement of Plan Net Assets and Combined Statements of Changes in Plan Net Assets (on pages 18-21) provide information about the activities of the pension funds and insurance fund as a whole. Kentucky Retirement Systems is the fiduciary of funds held in trust for five distinct groups of members. The Combining Statements of Plan Net Assets and Combining Statements of Changes in Plan Net Assets (on pages 22-29) provide more detailed information about each plan assets, liabilities, plan net assets, and changes in plan net assets.

The Schedule of Funding Progress (on pages 46-56) includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions (on pages 57-62) presents historical trend information about the annual required contributions of employers and the contributions made by employers in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

KENTUCKY RETIREMENT SYSTEMS AS A WHOLE

Kentucky Retirement Systems' combined plan net assets decreased during the year ended June 30, 2002 by \$738.5 million from \$12,841.7 million to \$12,103.2 million. Plan net assets for the prior fiscal year decreased by \$861.5 million. The decrease for the plan year ended June 30, 2002 is attributable to unfavorable market conditions. The analysis below focuses on plan net assets (Table 1) and changes in plan net assets (Table 2) of Kentucky Retirement Systems' pension funds and insurance fund.

Table 1
Plan Net Assets
(In Millions)

	Pension Funds		Insurance Fund		Total	
	2002	2001	2002	2001	2002	2001
Cash & Investments	\$13,492.8	\$13,420.1	\$1,372.5	\$1,156.7	\$14,865.3	\$14,576.8
Receivables	\$132.0	\$125.0	\$29.6	\$21.2	\$161.6	\$146.2
Total Assets	\$13,624.8	\$13,545.1	\$1,402.1	\$1,177.9	\$15,026.9	\$14,723.0
Total Liabilities	(2,718.0)	(1,781.9)	(205.7)	(99.4)	(2,923.7)	(1,881.3)
Plan Net Assets	\$10,906.8	\$11,763.2	\$1,196.4	\$1,078.5	\$12,103.2	\$12,841.7

Table 2
Changes in Plan Net Assets
(In Millions)

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

Plan net assets of the pension funds decreased by 7.3% (\$10,906.8 million compared to \$11,763.2 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries. This plan net asset decrease is attributable primarily to the decline in the net appreciation in the fair value of investments due to less favorable market conditions in general.

Plan net assets of the insurance fund increased by 10.9% (\$1,196.4 million compared to \$1,078.5 million). All of these assets are restricted in use to provide hospital and medical insurance benefits to members of the pension funds who receive a monthly retirement allowance. This increase in net plan assets is primarily attributable to the increase in the amount of employer contributions transferred into the insurance fund due to the increase in the actuarial set insurance transfer rate.

PENSION FUND ACTIVITIES

Member contributions increased (\$36.6 million). Retirement contributions are calculated by applying a percentage factor to salary and are paid in monthly by each member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit. During the year there was an increase in monthly contributions over the previous year due to the increase in salaries reported to Kentucky Retirement Systems. The amount of elective service purchases also increased this fiscal year.

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

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

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

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

INSURANCE FUND ACTIVITIES

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

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

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

Program deductions increased by \$14.3 million explained almost totally by an increase in payment of healthcare premiums of \$14.2 million.

HISTORICAL TRENDS

Accounting standards require that the statement of plan net assets state asset value at fair value and include only benefits and refund due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the pension funds and insurance fund is provided in the Schedule of Funding Progress (on pages 46-56). The asset value stated in the Schedule of Funding Progress is the actuarial value of assets determined by calculating the difference between the expected valuation assets and the actual market value of assets adjusted for any unrecognized gains or losses and amortized over a five year period. The actuarial accrued liability is calculated using the entry age normal fund method.

The funding position of the pension funds continues to provide more than adequate assets to meet pension obligations. The insurance fund continues to have a large unfunded liability of all participating employees groups.

Annual required contributions of the employers and contributions made by the employers in relation to the required contributions are provided in the Schedule of Employer Contributions (on pages 57-62). This schedule indicates that employers are generally meeting their responsibilities to provide resources to the plans.

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

(A schedule of funding progress for each plan is presented on pages 46 through 56.)

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

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

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

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

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

KENTUCKY RETIREMENT SYSTEMS
 COMBINED STATEMENTS OF CHANGES IN PLAN NET ASSETS
 For The Years Ended June 30, 2002 and 2001

Expressed In Thousands

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

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

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

KENTUCKY RETIREMENT SYSTEMS
 COMBINING STATEMENTS OF PLAN NET ASSETS
 PENSION FUNDS
 June 30, 2002 and 2001

Expressed In Thousands

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

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

The accompanying notes are an integral part of these financial statements

KENTUCKY RETIREMENT SYSTEMS
 COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS
 PENSION FUNDS
 June 30, 2002 and 2001

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2002 TOTAL</u>	<u>2001 TOTAL</u>
\$ 37,096	\$ 122,428	\$ 4,499	\$ 286,822	\$ 250,239
<u>11,055</u>	<u>5,528</u>	<u>(18)</u>	<u>26,260</u>	<u>105,522</u>
48,151	127,956	4,482	313,081	355,761
(89,092)	(327,253)	(26,707)	(872,569)	(1,107,218)
25,270	90,339	7,233	240,540	405,394
<u>13,741</u>	<u>49,124</u>	<u>3,933</u>	<u>130,801</u>	<u>-</u>
(50,080)	(187,790)	(15,541)	(501,228)	(701,823)
<u>745</u>	<u>2,835</u>	<u>197</u>	<u>7,275</u>	<u>4,508</u>
(50,825)	(190,625)	(15,738)	(508,503)	(706,332)
10,173	24,524	2,012	60,496	106,484
3	8	1	20	19
7,903	19,065	1,562	47,021	96,171
<u>498</u>	<u>1,202</u>	<u>98</u>	<u>2,964</u>	<u>2,520</u>
<u>1,768</u>	<u>4,249</u>	<u>350</u>	<u>10,491</u>	<u>7,774</u>
<u>(49,057)</u>	<u>(186,375)</u>	<u>(15,388)</u>	<u>(498,012)</u>	<u>(698,558)</u>
(906)	(58,419)	(10,906)	(184,931)	(342,796)
63,494	196,659	24,839	640,860	549,120
1,770	8,325	25	17,918	18,614
635	7,187	76	12,651	10,879
<u>-</u>	<u>-</u>	<u>1</u>	<u>(1)</u>	<u>(612)</u>
<u>65,900</u>	<u>212,171</u>	<u>24,941</u>	<u>671,429</u>	<u>578,001</u>
(66,806)	(270,590)	(35,848)	(856,360)	(920,797)
1,211,155	4,397,347	364,592	11,763,200	12,683,998
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$1,144,349</u>	<u>\$ 4,126,756</u>	<u>\$328,744</u>	<u>\$10,906,841</u>	<u>\$11,763,200</u>

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

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
 COMBINING STATEMENTS OF PLAN NET ASSETS
 POSTEMPLOYMENT HEALTHCARE
 June 30, 2002 and 2001

Expressed In Thousands

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

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

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
 COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS
 POSTEMPLOYMENT HEALTHCARE
 June 30, 2002 and 2001

Expressed In Thousands

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

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

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) Kentucky Employees Retirement System (KERS); (2) County Employees Retirement System (CERS); and (3) State Police Retirement System (SPRS). KRS maintains separate accounting records for five insurance funds which also includes hazardous duty members of the Kentucky Employees and County Employees Retirement Systems. The assets of the various insurance funds are commingled for investment purposes. The following notes apply to the various funds administered by Kentucky Retirement Systems.

NOTE A. Summary of Significant Accounting Policies

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

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

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

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

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

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

NOTE B. Plan Descriptions and Contribution Information

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

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

STATE POLICE RETIREMENT SYSTEM

	<u>2001</u>		<u>2002</u>	
	Hazardous Position <u>Employees</u>		Hazardous Position <u>Employees</u>	
<u>Number of Members</u>				
Retirees and beneficiaries receiving benefits		842		897
Terminated plan members - vested		12		20
Terminated plan members - non-vested		78		83
Active plan members		<u>1,016</u>		<u>1,002</u>
Total		<u>1,948</u>		<u>2,002</u>
Number of participating employers		1		1

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts in force consisted of the following at June 30, 2002 and 2001, the date of the latest actuarial valuation:

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

NOTE B. Plan Descriptions and Contribution Information (Continued)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Non-Hazardous Employees Pension Plan

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

Contributions - For the years ended June 30, 2002 and 2001, plan members were required to contribute 5% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2002 and 2001, the State contributed 5.89% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 5.89% of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

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

Contributions - For the years ended June 30, 2002 and 2001, plan members were required to contribute 8% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2002 and 2001, the State contributed 18.84% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 18.84% of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

NOTE B. Plan Descriptions and Contribution Information (Continued)

COUNTY EMPLOYEES RETIREMENT SYSTEM

Non-Hazardous Employees Pension Plan

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

Contributions - For the years ended June 30, 2002 and 2001, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 2002 and 2001, participating employers contributed 6.34% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 6.34% of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

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

Contributions - For the years ended June 30, 2002 and 2001, plan members were required to contribute 8% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 2002 and 2001, participating employers contributed 16.28% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 16.28% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

NOTE B. Plan Descriptions and Contribution Information (Continued)

STATE POLICE RETIREMENT SYSTEM

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

Contributions - For the years ended June 30, 2002 and 2001, plan members were required to contribute 8% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2002 and 2001, the State contributed 21.58% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2002 and 2001 was 21.58% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the year insurance premiums withheld from benefit payments to members of the Systems approximated \$16,462,261 and \$355,816 for KERS and KERS hazardous, respectively, \$15,190,421 and \$1,299,220 for CERS and CERS hazardous, respectively, and \$285,755 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 2002 the Fund had 58,020 retirees and beneficiaries for whom benefits were available.

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

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

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

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

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

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

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

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

STATE POLICE RETIREMENT SYSTEM

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

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

NOTE D. Investments

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

Equity Investments - Investments may be made in 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 also be made in any debt instrument issued or guaranteed in whole or in part by the U.S. Government or any agency or instrumentality of the U.S. Government.

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

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

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

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

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

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

The Retirement Systems' and Insurance Fund's investments are categorized below to give an indication of the level of risk assumed by them at June 30, 2002 and 2001. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the Systems and Fund with the simultaneous receipt of cash collateral. The custodial agent purchases securities with the cash collateral in accordance with the Systems' and Fund's *Statement of Investment Policy*. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of Kentucky Retirement Systems. At June 30, 2002, the systems had a second agent who also loans securities owned by the systems with the simultaneous receipt of cash collateral. The second custodial agent invests cash collateral in a short-term investment pool that holds only U.S. dollar cash and U.S. securities.

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

Note D: Investments (continued)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

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

	<u>2001</u>			<u>Market</u>
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Value</u>
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
Repurchase agreements	<u>849,261,657</u>	<u>-</u>	<u>-</u>	<u>849,261,657</u>
Subtotal	<u>\$4,305,382,268</u>	<u>\$ -</u>	<u>\$21,449,016</u>	\$4,326,831,283
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				\$ 870,430,971
U.S. Government Securities				414,965,006
Corporate bonds				58,795,295
Corporate stocks				374,337,005
Mortgages				268,732,891
Real Estate Investment				<u>277,684,389</u>
Total Investments				<u>\$6,591,776,840</u>

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

Note D: Investments (continued)

COUNTY EMPLOYEES RETIREMENT SYSTEM

2002

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

2001

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

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

Note D: Investments (continued)

STATE POLICE RETIREMENT SYSTEM

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

	<u>2001</u>			Market
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Value</u>
Investments - Categorized				
U.S. Government Securities	\$ 16,196,830	\$ -	\$ 642,732	\$ 16,839,562
Loaned for securities collateral	7,882,631			7,882,631
Corporate bonds	37,622,945		721,233	38,344,178
Loaned for securities collateral	588,068			588,068
Corporate stocks	162,945,265			162,945,265
Loaned for securities collateral	14			14
Repurchase agreements	<u>45,064,222</u>	<u>-</u>	<u>-</u>	<u>45,064,222</u>
Subtotal	<u>\$ 270,299,976</u>	<u>\$ -</u>	<u>\$ 1,363,966</u>	<u>\$ 271,663,942</u>
Investments - Not Categorized				
Short Term Investment Pool				54,976,448
Investments held by broker-dealers under securities loans				
U.S. Government Securities				26,209,203
Corporate bonds				3,713,513
Corporate stocks				23,643,137
Mortgages				17,061,141
Real Estate Investment				<u>18,893,323</u>
Total Investments				<u>\$ 416,160,708</u>

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

Note D: Investments (continued)

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

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

	<u>2001</u>			<u>Market</u>
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Value</u>
U.S. Government Securities	\$ 64,843,456	\$ -	\$ -	\$ 64,843,456
Corporate bonds	1,843,891			1,843,891
Corporate stocks	681,320,455			681,320,435
Repurchase agreements	<u>188,046,064</u>	<u>-</u>	<u>-</u>	<u>188,046,064</u>
Subtotal	<u>\$ 936,053,866</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 936,053,866
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				99,339,376
U.S. Government Securities				37,824,200
Corporate stocks				57,784,278
Mortgages				<u>6,595,407</u>
Total Investments				<u>\$1,137,597,128</u>

NOTE E. SECURITIES LENDING TRANSACTIONS

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

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

NOTE F. RISKS OF LOSS

The Systems are exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of negligence of the agency or any of its employees. Awards are limited to \$200,000 for a single claim and \$350,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

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

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (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	Book Value	Market Value	Market Value	Restated
		Portfolio	Portfolio	Portfolio	Book Value
	6/30/2000	Percentage	Percentage	Percentage	7/1/2000
	<u>6/30/2000</u>	<u>6/30/2000</u>	<u>6/30/2000</u>	<u>6/30/2000</u>	<u>7/1/2000</u>
KERS	\$ 4,740,654,296	47.0544%	47.4828%	47.4828%	\$ 4,783,815,498
CERS	3,732,292,416	37.0457%	36.8195%	36.8195%	3,709,509,383
KSP	315,799,384	3.1345%	3.2564%	3.2564%	328,080,622
CERH	1,030,710,828	10.2305%	10.0565%	10.0565%	1,013,178,221
KERH	<u>255,386,326</u>	<u>2.5249%</u>	<u>2.3847%</u>	<u>2.3847%</u>	<u>240,259,526</u>
TOTAL	<u>\$10,074,843,250</u>	<u>100.0000%</u>	<u>100.0000%</u>	<u>100.0000%</u>	<u>\$10,074,843,250</u>

INSURANCE FUNDS

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

NOTE K. ANTHEM DEMUTUALIZATION

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

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

NOTE L. CONTINGENT LIABILITY - ANTHEM DEMUTUALIZATION

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

NOTE M. EXCHANGE GAIN OR LOSS

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

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KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age Normal <u>(b)</u>	Unfunded (Overfunded) AAL (UAAL) <u>(b-a)</u>
<u>Non-Hazardous</u>			
June 30, 1997	\$3,683,995,005	\$3,463,047,650	(\$ 220,947,355)
June 30, 1998	\$4,356,072,625	\$3,800,014,746	(\$ 556,057,879)
June 30, 1999	\$5,264,340,397	\$4,327,622,821	(\$ 936,717,576)
June 30, 2000	\$6,806,675,460	\$4,876,825,772	(\$1,929,849,688)
June 30, 2001	\$6,844,742,687	\$5,444,035,294	(\$1,400,707,393)
June 30, 2002*	\$6,654,084,196	\$6,026,094,764	(\$627,989,432)
<u>Hazardous</u>			
June 30, 1997	\$166,717,238	\$140,918,460	(\$25,798,778)
June 30, 1998	\$212,214,618	\$171,735,076	(\$40,479,542)
June 30, 1999	\$259,839,319	\$204,282,788	(\$55,556,531)
June 30, 2000	\$336,213,464	\$243,365,557	(\$92,847,907)
June 30, 2001	\$361,677,475	\$285,193,761	(\$76,483,714)
June 30, 2002*	\$376,384,302	\$322,069,164	(\$54,315,138)

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

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

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
1.064	\$1,234,798,738	(0.179)
1.146	\$1,321,004,266	(0.421)
1.216	\$1,330,766,100	(0.704)
1.396	\$1,409,504,668	(1.369)
1.257	\$1,505,299,220	(0.931)
1.104	\$1,595,809,458	(0.393)
1.183	\$ 87,757,075	(0.294)
1.236	\$ 93,130,996	(0.435)
1.272	\$103,464,123	(0.537)
1.382	\$115,639,439	(0.803)
1.268	\$122,857,992	(0.623)
1.169	\$125,275,925	(0.434)

COUNTY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age Normal <u>(b)</u>	Unfunded (Overfunded) AAL (UAAL) <u>(b-a)</u>
<u>Non-Hazardous</u>			
June 30, 1997	\$2,750,196,558	\$2,390,620,093	(\$ 359,576,465)
June 30, 1998	\$3,346,205,003	\$2,663,946,276	(\$ 682,258,727)
June 30, 1999	\$4,072,227,435	\$2,991,420,884	(\$1,080,806,551)
June 30, 2000	\$5,284,033,534	\$3,368,601,134	(\$1,915,432,400)
June 30, 2001	\$5,423,834,549	\$3,706,282,212	(\$1,717,552,337)
June 30, 2002*	\$5,397,787,158	\$4,165,355,149	(\$1,232,432,009)
 <u>Hazardous</u>			
June 30, 1997	\$ 763,829,310	\$ 754,308,810	(\$ 9,520,500)
June 30, 1998	\$ 927,057,492	\$ 865,966,626	(\$ 61,090,866)
June 30, 1999	\$1,124,651,486	\$ 963,711,775	(\$160,939,711)
June 30, 2000	\$1,445,542,794	\$1,084,553,697	(\$360,989,097)
June 30, 2001	\$1,486,666,016	\$1,193,860,442	(\$292,806,574)
June 30, 2002*	\$1,485,511,793	\$1,327,291,273	(\$158,220,520)

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

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

Funded Ratio <u> (a/b)</u>	Covered Payroll <u> (c)</u>	UAAL as a % of Covered Payroll <u> (b-a)/c)</u>
1.150	\$1,297,116,204	(0.277)
1.256	\$1,437,594,574	(0.475)
1.361	\$1,346,601,939	(0.803)
1.569	\$1,452,058,248	(1.319)
1.463	\$1,544,973,296	(1.112)
1.296	\$1,663,183,629	(0.741)
1.013	\$225,094,837	(0.042)
1.071	\$236,180,023	(0.257)
1.167	\$256,201,726	(0.628)
1.333	\$288,575,870	(1.251)
1.245	\$316,700,304	(0.925)
1.119	\$345,849,277	(0.457)

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

STATE POLICE RETIREMENT SYSTEM

<u>Year Ended</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age Normal <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
June 30, 1997	\$279,643,275	\$255,784,758	(\$ 23,858,517)	1.093	\$41,586,211	(0.574)
June 30, 1998	\$306,318,918	\$294,427,019	(\$ 11,891,899)	1.040	\$38,727,361	(0.307)
June 30, 1999	\$357,623,196	\$314,021,673	(\$ 43,601,523)	1.139	\$40,433,405	(1.078)
June 30, 2000	\$459,168,574	\$336,579,763	(\$122,588,811)	1.364	\$43,619,383	(2.810)
June 30, 2001	\$456,160,709	\$356,211,860	(\$ 99,948,849)	1.281	\$44,646,678	(2.237)
June 30, 2002*	\$438,955,465	\$380,790,346	(\$ 58,165,119)	1.153	\$44,314,696	(1.312)

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

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KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

KERS <u>Non-Hazardous</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Targeted Rate <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>
June 30, 1997	\$168,479,973	\$1,153,952,891	\$ 985,472,918
June 30, 1998	\$210,105,184	\$1,242,183,993	\$1,032,078,809
June 30, 1999	\$283,704,887	\$1,273,364,800	\$ 989,659,913
June 30, 2000	\$399,560,252	\$1,457,475,358	\$1,057,915,106
June 30, 2001	\$449,630,605	\$1,769,583,098	\$1,319,952,493
June 30, 2002*	\$521,250,455	\$1,907,683,881	\$1,386,433,426
KERS <u>Hazardous</u>			
June 30, 1997	\$ 42,684,374	\$120,511,351	\$77,826,977
June 30, 1998	\$ 54,606,786	\$137,394,162	\$82,787,376
June 30, 1999	\$ 74,579,649	\$149,158,586	\$74,578,937
June 30, 2000	\$102,212,237	\$175,167,613	\$72,955,376
June 30, 2001	\$119,372,742	\$214,450,822	\$95,078,080
June 30, 2002*	\$135,874,582	\$236,819,050	\$100,944,468

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

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

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.146	\$1,234,798,738	0.798
0.169	\$1,321,004,266	0.781
0.223	\$1,330,766,100	0.743
0.274	\$1,409,504,668	0.751
0.254	\$1,505,299,220	0.877
0.273	\$1,595,809,458	0.869
0.354	\$ 87,757,075	0.887
0.397	\$ 93,130,996	0.889
0.500	\$103,464,123	0.721
0.584	\$115,639,439	0.631
0.557	\$122,857,992	0.774
0.574	\$125,275,925	0.806

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

<u>CERS Non-Hazardous</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Targeted Rate <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>
June 30, 1997	\$134,688,096	\$1,091,055,849	\$ 956,367,753
June 30, 1998	\$168,531,296	\$1,213,339,747	\$1,044,808,451
June 30, 1999	\$231,937,169	\$1,282,874,286	\$1,050,937,117
June 30, 2000	\$319,642,694	\$1,466,716,928	\$1,147,074,234
June 30, 2001	\$371,758,628	\$1,793,710,768	\$1,421,952,140
June 30, 2002*	\$450,497,307	\$1,977,577,038	\$1,527,079,731
<u>CERS Hazardous</u>			
June 30, 1997	\$ 69,832,681	\$450,304,608	\$380,471,927
June 30, 1998	\$ 87,055,079	\$493,286,363	\$406,231,284
June 30, 1999	\$114,590,223	\$518,280,115	\$403,689,892
June 30, 2000	\$168,657,912	\$599,936,029	\$431,278,117
June 30, 2001	\$197,875,249	\$721,605,292	\$523,730,043
June 30, 2002*	\$234,683,878	\$781,184,974	\$546,501,096

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

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

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.123	\$1,297,116,204	0.737
0.139	\$1,437,594,574	0.727
0.180	\$1,346,601,939	0.780
0.218	\$1,452,058,248	0.780
0.207	\$1,544,973,296	0.920
0.228	\$1,663,183,629	0.918
0.155	\$225,094,837	1.690
0.176	\$236,180,023	1.720
0.221	\$256,201,726	1.576
0.281	\$288,575,870	1.500
0.274	\$316,700,304	1.654
0.301	\$345,849,279	1.580

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

<u>SPRS</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Targeted Rate <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
June 30, 1997	\$33,876,483	\$117,361,754	\$83,485,271	0.289	\$41,586,211	2.008
June 30, 1998	\$41,410,500	\$124,501,076	\$83,090,576	0.333	\$38,727,361	2.146
June 30, 1999	\$53,929,859	\$125,797,150	\$71,867,291	0.429	\$40,433,405	1.777
June 30, 2000	\$71,711,712	\$138,867,085	\$67,155,373	0.516	\$43,619,383	1.540
June 30, 2001*	\$79,863,577	\$158,261,479	\$78,397,902	0.505	\$44,646,678	1.756
June 30, 2002*	\$86,867,391	\$165,445,412	\$78,578,021	0.525	\$44,314,696	1.773

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

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$109,773,608	\$102,967,907	0.935
June 30, 1998	\$117,437,279	\$112,082,480	0.954
June 30, 1999	\$106,860,518	\$107,514,778	1.006
June 30, 2000	\$113,183,225	\$115,055,476	1.017
June 30, 2001	\$ 88,662,124	\$ 90,356,951	1.019
June 30, 2002	\$ 93,993,177	\$ 95,672,345	1.018

HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$15,682,189	\$15,151,328	0.966
June 30, 1998	\$16,642,509	\$15,997,189	0.961
June 30, 1999	\$19,306,405	\$19,443,818	1.007
June 30, 2000	\$21,578,319	\$21,633,272	1.003
June 30, 2001	\$23,146,446	\$23,852,961	1.031
June 30, 2002	\$23,601,984	\$23,821,216	1.009

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

COUNTY EMPLOYEES RETIREMENT SYSTEM
 EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$112,200,552	\$105,773,743	0.942
June 30, 1998	\$124,351,931	\$107,490,256	0.864
June 30, 1999	\$109,074,757	\$110,591,016	1.014
June 30, 2000	\$105,709,840	\$106,587,217	1.008
June 30, 2001	\$ 97,951,307	\$111,206,820	1.135
June 30, 2002	\$105,445,842	\$107,678,891	1.021

HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$42,070,225	\$39,552,085	0.938
June 30, 1998	\$44,142,046	\$42,297,090	0.958
June 30, 1999	\$46,526,233	\$48,290,617	1.037
June 30, 2000	\$50,645,065	\$51,739,272	1.022
June 30, 2001	\$51,558,809	\$53,132,792	1.031
June 30, 2002	\$56,304,262	\$56,785,282	1.009

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

STATE POLICE RETIREMENT SYSTEM

EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$11,053,615	\$ 9,627,692	0.871
June 30, 1998	\$10,293,733	\$ 9,573,742	0.930
June 30, 1999	\$ 9,465,460	\$ 9,463,188	0.999
June 30, 2000	\$10,211,298	\$10,215,824	1.000
June 30, 2001	\$ 9,634,753	\$ 9,628,912	0.999
June 30, 2002	\$ 9,563,111	\$ 9,562,256	0.999

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

EMPLOYER CONTRIBUTIONS

KERS
NON-HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$38,896,160	\$37,709,736	0.970
June 30, 1998	\$54,029,074	\$39,503,545	0.731
June 30, 1999	\$56,690,636	\$56,769,539	1.001
June 30, 2000	\$76,818,004	\$76,926,320	1.001
June 30, 2001	\$66,874,871	\$66,874,871	1.000
June 30, 2002	\$93,993,177	\$93,912,017	0.999

KERS
HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$ 6,546,678	\$ 6,278,931	0.960
June 30, 1998	\$ 9,341,039	\$ 6,632,037	0.710
June 30, 1999	\$10,760,269	\$10,773,916	1.001
June 30, 2000	\$12,026,502	\$12,047,095	1.002
June 30, 2001	\$13,226,298	\$13,226,298	1.000
June 30, 2002	\$15,859,932	\$15,887,399	1.002

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

EMPLOYER CONTRIBUTIONS

**CERS
NON-HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$30,611,942	\$27,504,331	0.898
June 30, 1998	\$48,303,178	\$29,271,074	0.606
June 30, 1999	\$47,939,029	\$47,901,837	0.999
June 30, 2000	\$55,033,008	\$55,213,973	1.003
June 30, 2001	\$62,292,385	\$62,292,385	1.000
June 30, 2002	\$102,119,475	\$102,150,543	1.000

**CERS
HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$14,248,503	\$13,305,317	0.934
June 30, 1998	\$20,783,842	\$14,275,040	0.687
June 30, 1999	\$23,647,419	\$23,382,957	0.989
June 30, 2000	\$27,991,859	\$28,345,377	1.013
June 30, 2001	\$32,149,432	\$32,149,432	1.000
June 30, 2002	\$45,721,274	\$45,730,333	1.000

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

EMPLOYER CONTRIBUTIONS

SPRS
HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1997	\$5,909,401	\$5,125,678	0.867
June 30, 1998	\$6,808,270	\$5,120,037	0.752
June 30, 1999	\$7,237,579	\$7,251,787	1.002
June 30, 2000	\$7,807,870	\$7,817,613	1.001
June 30, 2001	\$8,098,907	\$8,113,391	1.002
June 30, 2002	\$9,563,111	\$9,579,899	1.001

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

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

PENSION FUNDS

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 2002	June 30, 2002
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation	30 years - Commencing with 1990 Valuation
Asset Valuation Method -	Five-year Smoothing of Investment Gains and Losses	Five-year Smoothing of Investment Gains and Losses
Postretirement Benefit Increase	1.6%	1.6%
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

POST-EMPLOYMENT HEALTHCARE

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 2002	June 30, 2002
Actuarial Cost Method	Targeted Rate	Targeted Rate
Asset Valuation Method - Started with 1996 Valuation	Five-year Smoothing of Investment Gains and Losses	Five-year Smoothing of Investment Gains and Losses
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

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

SUPPORTING SCHEDULE #1

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

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

SUPPORTING SCHEDULE #2

Retirement Funds

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

Insurance Funds

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

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

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PAYMENT TO CONSULTANTS
For the Year Ended June 30, 2002

SUPPORTING SCHEDULE #3

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

KENTUCKY RETIREMENT SYSTEMS

Investment Section

Comprehensive Annual Financial Report
June 30, 2002

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 Mercer Investment Consulting, Inc. 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.

12 August 2002

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 Investment Consulting 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 ending June 30, 2002. 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

The past twelve months have been turbulent for investors globally. Equity markets were in decline before September 11th and were exacerbated by the terrorist attacks and further by accounting scandals. Mid Cap and Small Value stocks were the only equities in positive territory for the trailing year. The S&P 500 Index returned -18.0% over this period. Fixed Income has been a brighter spot, with all segments of the asset class posting positive returns for the past year (with the exception of high yield) as the Lehman Brothers Aggregate Index returned 3.8%.

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 \$11.7 billion to \$10.9 billion due to a return of -4.3% and negative cash flow. The Insurance Fund increased from \$1.1 billion to \$1.2 billion mainly through contributions made during the year, as the Fund returned -9.3% 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 at a risk or volatility level lower than those of the Reference Indices. The Reference Indices are constructed according to the individual target asset allocations of the Funds.

As of June 30th, Domestic and International Equities were below target allocations for both the Retirement and Insurance Funds, cash was above target for both plans and Fixed Income was above target for the Retirement Fund.

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

<u>Asset Classes</u>	<u>Retirement Fund</u>		<u>Insurance Fund</u>	
	Actual	Target	Actual	Target
	Allocation	Asset	Allocation	Asset
	6/30/02	Allocation	6/30/02	Allocation
Domestic Equity	36.3	40.0	53.6	60.0
International Equity	13.1	15.0	18.6	20.0
Fixed Income	30.9	27.0	0.0	0.0
Alternatives *	5.5	5.0	9.1	5.0
TIPS	9.8	10.0	10.3	10.0
Cash	4.4	3.0	8.4	5.0

* Includes Real Estate and Private Equity.

Despite deviations from target, all the major asset classes were within the ranges set forth by the policies.

Investment Manager Highlights

The Retirement Fund

Two new international portfolios were initiated over the trailing year:

- Fidelity and Bank of Ireland began managing International portfolios during the third quarter of 2001.

The System's Domestic Core Equity manager, NAMCO returned -16.0% over the trailing year, outperforming the S&P 500 Index return of -18.0% over the same period. AllianceBernstein fell victim to the struggle faced by domestic growth equities and returned -33.5% over the trailing year as compared to the S&P Growth Index return of -18.5%.

Bank of Ireland and Fidelity do not have a year's worth of performance, but the international segment of the Fund returned -3.3% as compared to the International Equity Blended Index return of -3.8% during the second quarter of 2002.

The Weaver Barksdale portfolios mediated strong performance from Lincoln (8.9%) and NAMCO (8.3%) over the trailing year. The Weaver Barksdale Core return of 7.3% and the TIPS return of 8.3% were behind their respective indices. As a group, Fixed Income managers trailed the Fixed Income Blended Index by 30 basis points for the trailing year and returned 8.2%.

The System's Real Estate managers posted mixed results over the past year. Negative returns from Richard Ellis were more than made up for by Heitman's strong performance over the past three months. This has caused the System's Real Estate composite to yield 9.3% over the trailing year as compared to the NCREIF Classic Property Index return of 5.9%.

The Insurance Fund

One new portfolio was initiated over the trailing year:

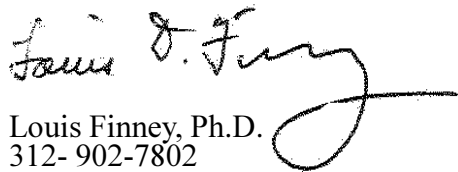
- Fidelity began managing an International Equity portfolio during the third quarter of 2001.


The NAMCO TIPS portfolio helped curb negative equity performance over the past year and returned 9.1% compared to the LB US Tips Index return of 8.8%. Fidelity has surpassed the MSCI EAFE Index since its inception and has returned 0.5% over the past quarter, 1.4% ahead of the Index. Internally managed portfolios posted strong relative returns over the past year, while the ADR component placed downward pressure on overall performance.

Summary

The Insurance and Retirement Funds have yielded superior performance as compared to their respective benchmarks over the trailing year despite the ordeals faced by markets globally. The Systems' assets have contracted over the past twelve months due mainly to investment depreciation, however, the Insurance assets have increased as contributions offset the negative investment experience.

Sincerely,

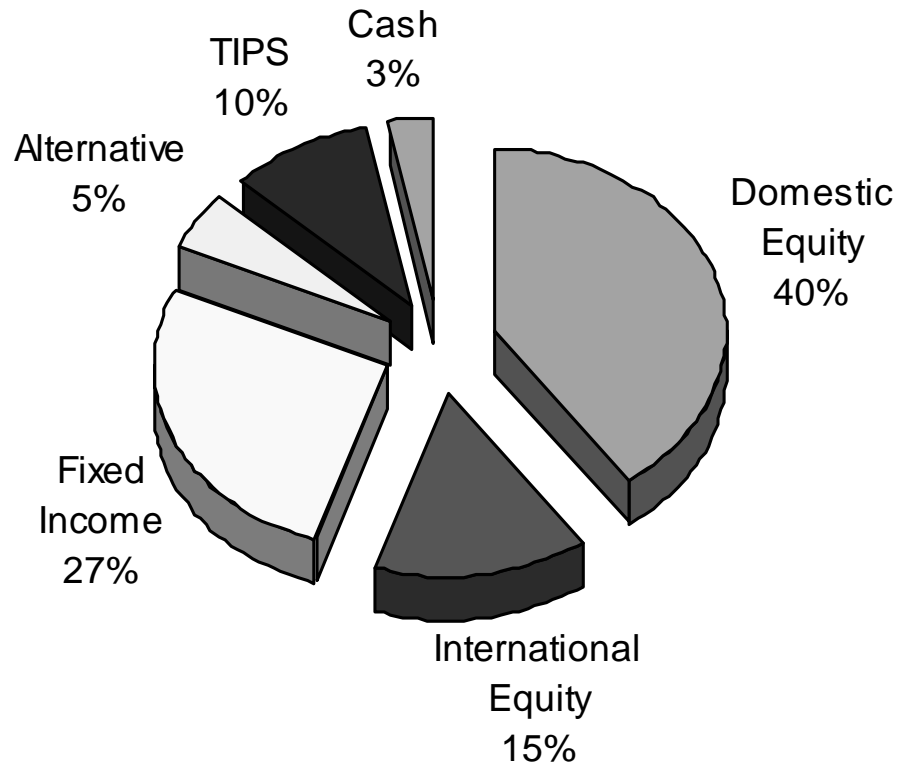

Louis Finney, Ph.D.
312- 902-7802


Douglas J. Kryscio
312- 902-7147

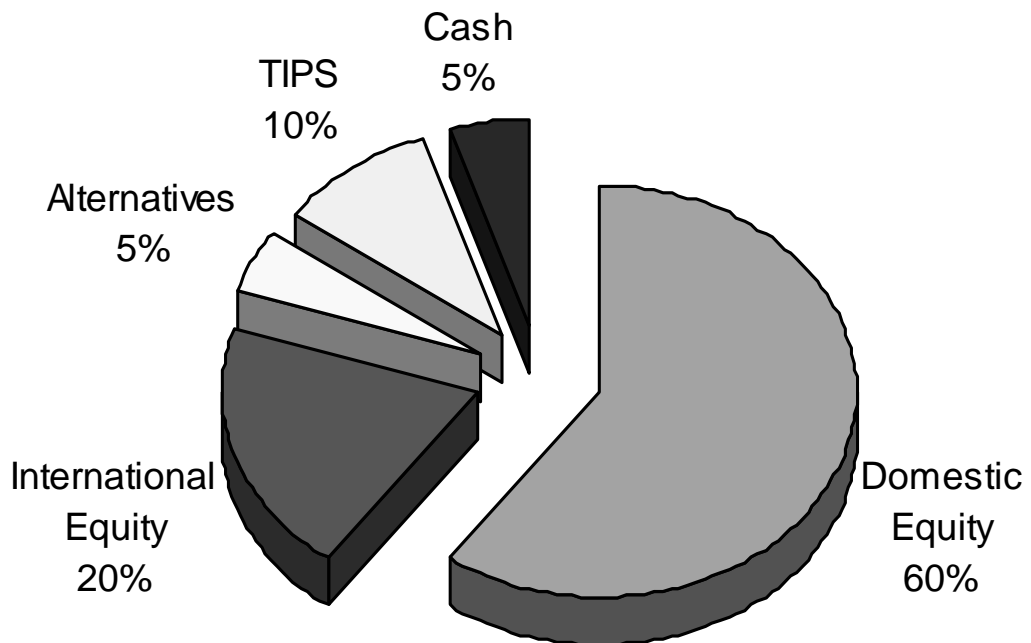
LF/DJK/dls

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

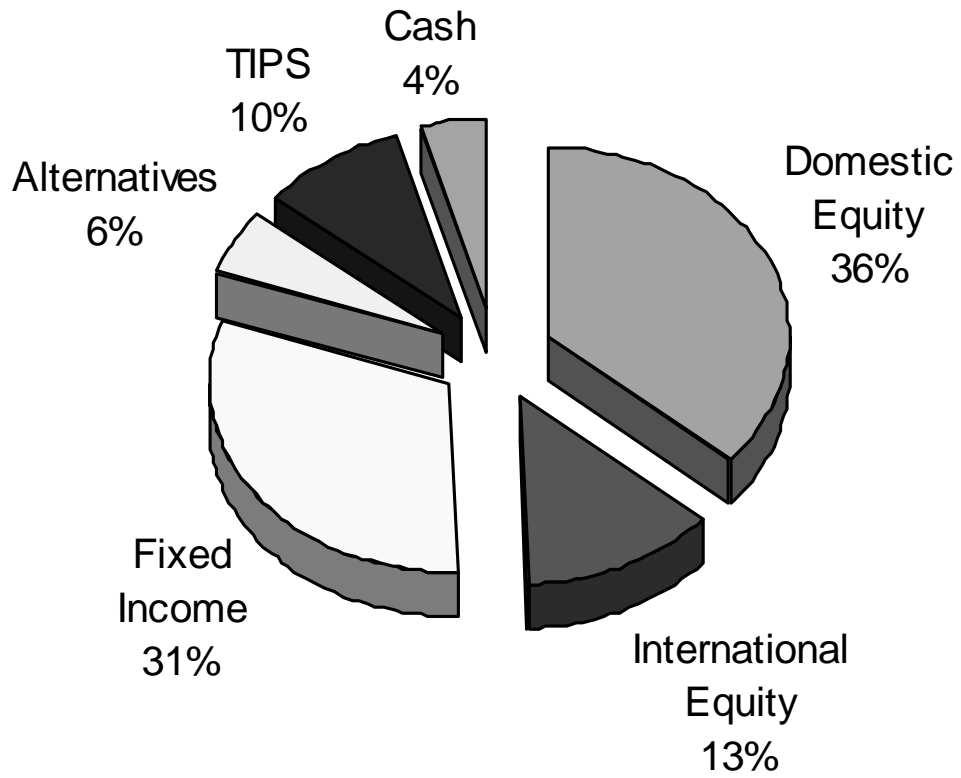
Pension Fund Target Allocation



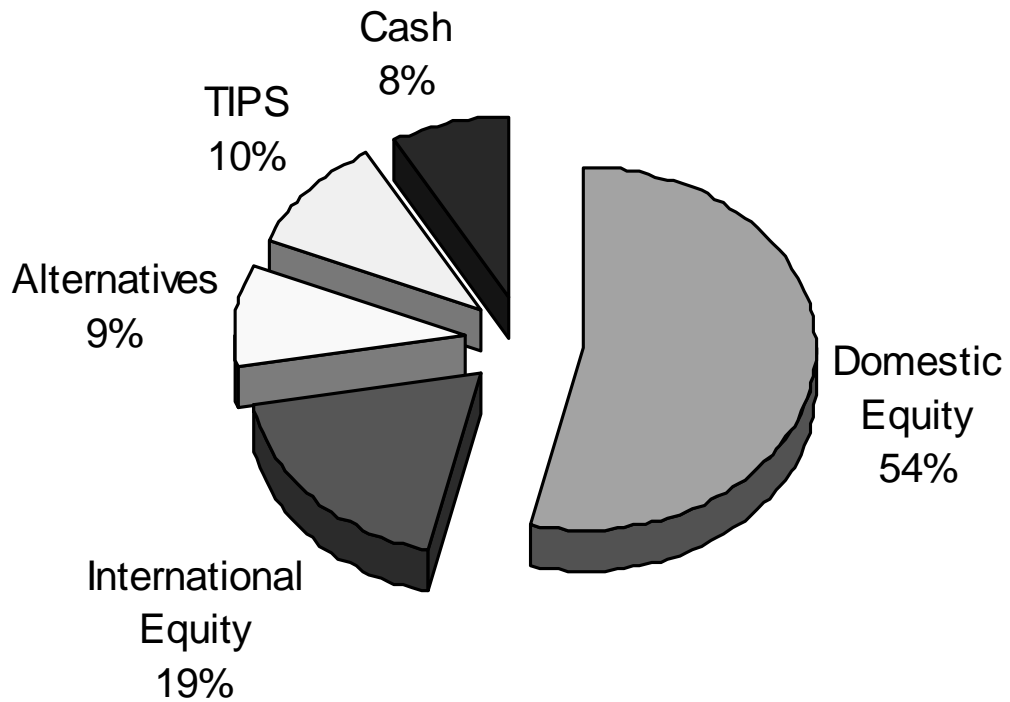
Insurance Fund Target Allocation



Pension Fund Actual Allocation 6/30/2002



Insurance Fund Actual Allocation 6/30/2002



KENTUCKY RETIREMENT SYSTEMS PERFORMANCE EVALUATION

PENSION FUNDS

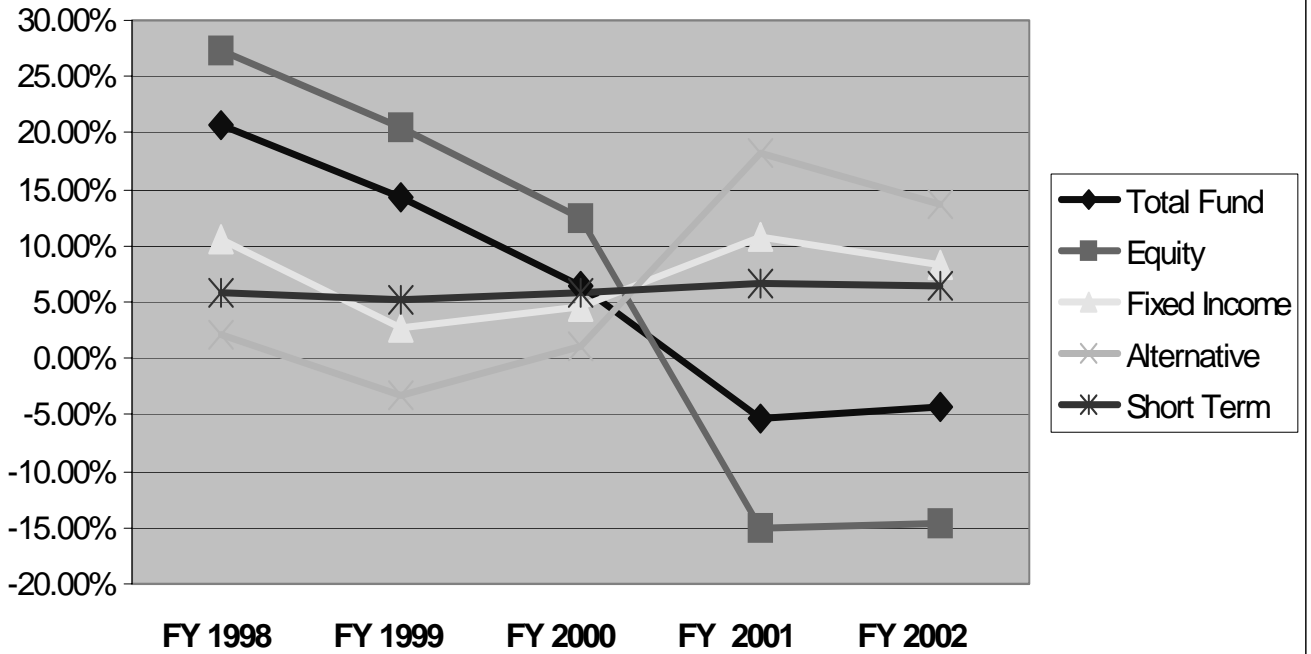
	Fiscal Year	3-Year	5-Year
Total KRS Retirement Fund	(4.28%)	(1.24%)	5.86%
KRS Blended Index	(5.54%)	(1.70%)	5.88%
CPI	1.48%	2.63%	2.34%
KRS Equities	(14.70%)	(6.60%)	4.50%
KRS Blended Index	(13.50%)	(7.80%)	3.70%
S&P 1500	(17.60%)	(8.80%)	3.00%
KRS Fixed Income	8.22%	7.84%	7.38%
KRS Blended Index	8.20%	7.90%	7.50%
Lehman Bros. Govt./Credit Bond Index	8.24%	7.85%	7.47%
KRS Alternate Investments	13.70%	13.00%	14.10%
KRS Blended Index	(12.10%)	10.10%	12.50%
KRS Cash Reserves	6.35%	6.29%	5.99%
Salomon Bros. 3 Month T-Bill	2.45%	4.46%	4.66%

INSURANCE FUNDS

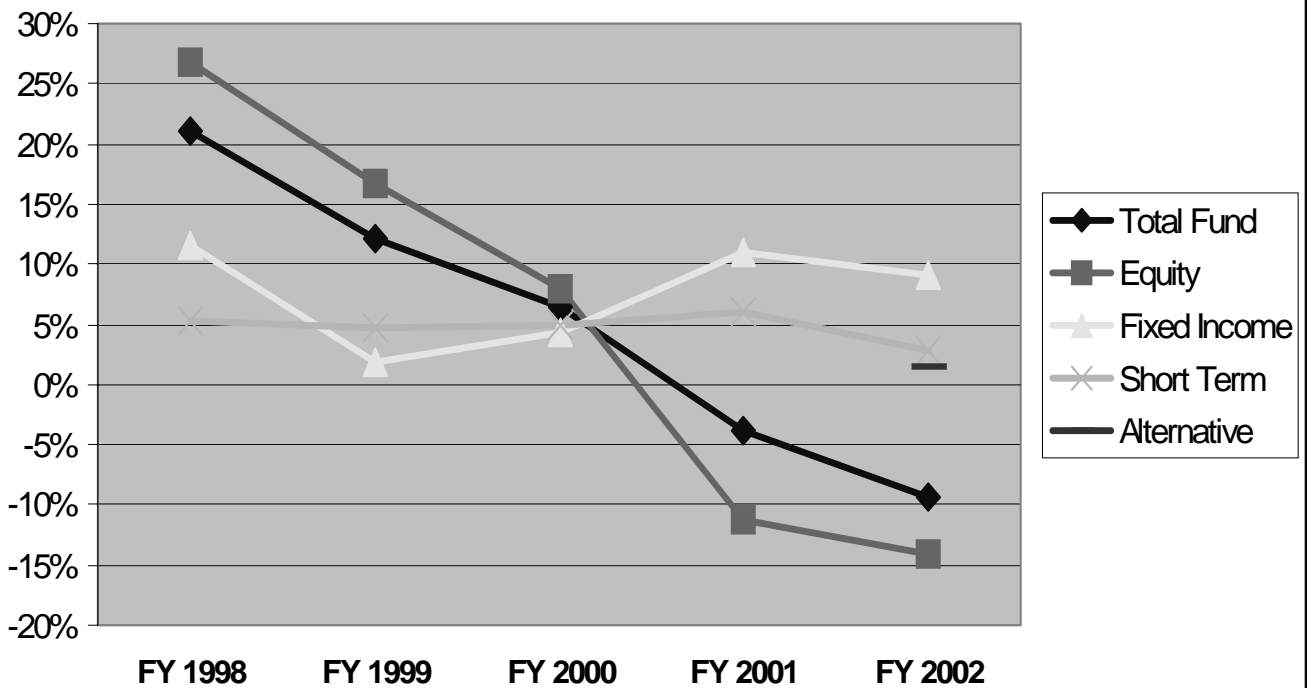
Total KRS Insurance Fund	(9.31%)	(2.45%)	4.72%
KRS Blended Index	(12.37%)	(3.53%)	4.21%
CPI	1.48%	2.63%	2.34%
KRS Insurance Fund Equities	(14.14%)	(6.28%)	3.91%
KRS Blended Index	(15.60%)	(6.32%)	3.71%
S&P 1500	(17.60%)	(8.80%)	3.00%
KRS Insurance Fund Fixed Income	9.12%	8.15%	7.54%
KRS Blended Index	8.80%	8.16%	7.60%
Lehman Bros. Govt./Credit Bond Index	8.24%	7.85%	7.47%
KRS Alternate Investments	1.53%	N/A	N/A
KRS Blended Index	(12.13%)		
KRS Insurance Fund Cash Reserves	2.81%	4.57%	4.73%
Salomon Bros. 3 Month T-Bill	2.45%	4.46%	4.66%

The calculations made by the custody bank in the Performance Evaluation were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's performance presentation standards.

TIME WEIGHTED ANNUAL RETURNS BY ASSET CLASS RETIREMENT FUNDS



TIME WEIGHTED ANNUAL RETURNS BY ASSET CLASS INSURANCE FUNDS



**KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARIES
JUNE 30, 2002**

CLASS	KERS NONHAZARDOUS 6/30/2001		KERS NONHAZARDOUS 6/30/2002		% OF MKT VALUE 6/30/2002
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$1,394,064,525	\$1,399,391,916	\$1,655,696,978	\$1,695,471,995	34%
Mortgages	253,571,947	256,644,045	288,952,763	295,890,402	6%
Short-Term	808,232,979	808,362,901	248,598,556	248,312,086	5%
Alternative	231,488,924	256,983,968	233,684,658	264,290,493	5%
Domestic Equities	2,017,405,665	2,170,476,396	1,727,868,664	1,836,522,403	37%
Int'l Equities	522,751,559	543,539,914	699,326,570	610,952,182	12%
Total Portfolio	\$5,227,515,599	\$5,435,399,140	\$4,854,128,190	\$4,951,439,561	100%

CLASS	KERS HAZARDOUS 6/30/2001		KERS HAZARDOUS 6/30/2002		% OF MKT VALUE 6/30/2002
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$ 71,114,723	\$ 72,139,033	\$ 97,076,458	\$ 99,477,370	33%
Mortgages	11,938,221	12,088,847	17,039,177	17,448,664	6%
Short-Term	57,586,144	57,593,177	25,025,444	25,013,660	8%
Alternative	18,493,484	20,700,421	17,540,921	20,103,716	7%
Domestic Equities	103,635,407	106,829,146	88,802,009	95,650,025	32%
Int'l Equities	32,600,537	33,290,526	44,878,983	39,544,121	13%
Total Portfolio	\$296,368,516	\$302,641,150	\$290,362,991	\$297,237,557	100%

For these portfolio 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, 2002**

CLASS	CERS NONHAZARDOUS 6/30/2001		CERS NONHAZARDOUS 6/30/2002		% OF MKT VALUE 6/30/2002
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
	Bonds	\$1,079,737,947	\$ 1,081,551,116	\$1,357,524,235	
Mortgages	187,018,218	189,332,391	236,988,210	242,676,529	6%
Short-Term	750,835,711	750,938,933	221,102,196	220,811,905	5%
Alternative	193,319,765	216,189,972	190,774,472	217,511,238	5%
Domestic Equities	1,573,153,720	1,681,192,579	1,366,334,749	1,454,440,727	36%
Int'l Equities	420,451,707	435,467,221	630,731,420	556,996,550	14%
Total Portfolio	\$4,204,517,068	\$4,354,672,212	\$4,003,455,283	\$4,082,240,175	100%

CLASS	CERS HAZARDOUS 6/30/2001		CERS HAZARDOUS 6/30/2002		% OF MKT VALUE 6/30/2002
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
	Bonds	\$ 292,898,364	\$ 293,187,001	\$ 372,939,799	
Mortgages	49,916,145	50,538,244	65,447,544	67,018,948	6%
Short-Term	203,849,653	203,877,881	63,380,898	63,305,223	6%
Alternative	57,607,552	64,546,903	55,688,648	63,547,845	6%
Domestic Equities	439,009,787	465,498,466	377,645,550	401,695,881	36%
Int'l Equities	115,920,167	119,738,722	169,672,542	149,322,781	13%
Total Portfolio	\$1,159,201,668	\$1,197,387,217	\$1,104,774,981	\$1,126,710,777	100%

For these portfolio 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, 2002**

CLASS	SPRS 6/30/2001		SPRS 6/30/2002		% OF MKT VALUE 6/30/2002
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$ 93,279,304	\$ 93,577,155	\$ 111,429,852	\$ 114,102,622	35%
Mortgages	16,856,293	17,061,141	19,028,354	19,484,961	6%
Short-Term	46,150,440	46,159,174	19,119,472	19,109,110	6%
Alternative	17,089,990	18,893,323	16,430,587	18,498,935	6%
Domestic Equities	136,245,011	150,360,496	110,503,695	118,712,335	36%
Int'l Equities	34,402,338	36,227,921	41,563,007	35,740,738	11%
Total Portfolio	\$344,023,376	362,279,210	\$318,074,967	\$325,648,702	100%

CLASS	INSURANCE FUND 6/30/2001		INSURANCE FUND 6/30/2002		% OF MKT VALUE 6/30/2002
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$105,507,370	\$104,511,548	\$114,752,500	\$ 119,766,192	10%
Mortgages	6,629,726	6,595,407	0	0	0%
Short-Term	207,200,485	207,200,484	166,641,837	166,948,096	14%
Alternative	0	0	45,048,991	44,419,406	4%
Domestic Equities	543,986,199	601,641,151	624,558,167	620,216,949	53%
Int'l Equities	129,002,404	137,463,582	236,828,692	216,626,367	19%
Total Portfolio	\$992,326,184	\$1,057,412,172	\$1,187,830,188	\$1,167,977,011	100%

For these portfolio 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, 2002

Rank	Shares	Stock	Market Value
1	3,689,618	GENERAL ELECTRIC CO	\$107,183,402.90
2	1,885,290	MICROSOFT CORP	\$103,125,363.00
3	2,603,070	PFIZER INC	\$ 91,107,450.00
4	1,491,860	WAL MART	\$ 82,067,218.60
5	1,976,694	EXXON MOBIL CORP	\$ 80,886,318.48
6	2,018,576	CITIGROUP INC	\$ 78,219,820.00
7	1,061,047	AMERICAN INTERNATIONAL	\$ 72,395,236.81
8	1,286,234	JOHNSON & JOHNSON	\$ 67,218,588.84
9	3,859,120	CISCO SYSTEMS INC	\$ 53,834,724.00
10	1,406,740	HOME DEPOT INC	\$ 51,669,560.20

Largest Bond Holdings (By Market Value) June 30, 2002

Rank	Par	Bond	Market Value
1	\$143,000,000	U S TSY BDS INFL INDEX 3.875 DUE 04/15/29	\$176,244,858.79
2	\$130,000,000	U S TSY BDS INFL INDEX 3.625 DUE 04/15/28	\$156,035,152.00
3	\$130,000,000	U S TSY NTS INFL INDEX 3.625 DUE 01/15/08	\$151,424,988.00
4	\$120,000,000	U S TSY NTS INFL INDEX 3.375 DUE 01/15/07	\$141,508,123.20
5	\$120,000,000	U S TSY BDS INFL INDEX 3.875 DUE 01/15/09	\$139,623,394.80
6	\$113,650,000	U S TSY BDS WI TSY SEC 3.875 DUE 01/15/09	\$111,288,353.00
7	\$ 90,000,000	U S TSY NTS INFL INDEX 4.54189 DUE 01/15/10	\$104,328,052.20
8	\$ 98,607,000	U S TSY NTS 4.625 DUE 05/15/06 Rating AAA	\$101,556,335.37
9	\$ 90,000,000	U S TSY NTS INFL INDEX 3.61574 DUE 01/15/11	\$ 96,176,443.50
10	\$ 71,800,000	U S TSY NTS 6.625 DUE 05/15/07 Rating AAA	\$ 79,827,240.00

A complete list of portfolio holdings is available upon request.

List of Largest Assets Held

INSURANCE FUND

Largest Stock Holdings (By Market Value) June 30, 2002

Rank	Shares	Stock	Market Value
1	280,400	MICROSOFT CORP	\$15,337,880.00
2	514,500	GENERAL ELECTRIC CO	\$14,946,225.00
3	357,000	EXXON MOBIL CORP	\$14,608,440.00
4	222,000	WAL MART STORES INC	\$12,212,220.00
5	313,600	PFIZER INC	\$10,976,000.00
6	266,400	CITIGROUP INC	\$10,323,000.00
7	135,284	AMER INTL GROUP	\$ 9,230,427.32
8	158,888	JOHNSON & JOHNSON	\$ 8,303,486.88
9	134,100	ROYAL DUTCH PETRO	\$ 7,411,707.00
10	123,600	COCA COLA CO	\$ 6,921,600.00

Largest Bond Holdings (By Market Value) June 30, 2002

Rank	Par	Bond	Market Value
1	\$18,400,000	US TSY INFLATION INDEX 3.625 DUE 04/15/28	\$22,084,975.36
2	\$16,650,000	US TSY INFLATION INDEX 4.55189 DUE 01/15/10	\$19,300,689.65
3	\$15,600,000	US TSY INFLATION INDEX 3.875 DUE 04/15/29	\$19,226,711.86
4	\$16,100,000	US TSY INFLATION INDEX 3.375 DUE 01/15/07	\$18,985,673.19
5	\$13,700,000	US TSY INFLATION INDEX 3.625 DUE 01/15/08	\$15,957,864.12
6	\$12,300,000	US TSY INFLATION INDEX 3.875 DUE 01/15/09	\$14,311,397.96
7	\$ 5,000,000	US TSY INFLATION INDEX 3.375 DUE 01/15/12	\$ 5,189,816.35
8	\$ 3,100,000	US TSY INFLATION INDEX 3.375 DUE 04/15/32	\$ 3,319,848.28
9	\$ 1,300,000	US TSY INFLATION INDEX 3.61574 DUE 01/15/11	\$ 1,389,215.29

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions Year Ended June 30, 2002

External Investment Manager Fees –	
– Equities and Fixed Income	
Pension Funds	\$6,703,917
Insurance Funds	451,025
Investment Consulting Fees	221,764
Security Lending Agent Fees	3,149,484
Brokerage Commissions — Equities	4,420,632
Total	\$14,946,822

Total fees and commissions represent .125% of the fair value of the combined Pension and Insurance Fund portfolios.

INVESTMENT MANAGERS

Alliance Capital Management	Lincoln Capital Management Co.
C. B. Richard Ellis	Invesco-National Asset Management Corp.
Heitman Capital Management Corp.	Northern Trust Quantitative Advisors, Inc.
Weaver C. Barksdale & Associates, Inc.	Bank of Ireland Asset Management
Lend Lease	Fidelity Management Trust Company
J.W. Childs Associates L.P.	

KENTUCKY RETIREMENT SYSTEMS

Actuarial Section

Comprehensive Annual Financial Report
June 30, 2002

November 8, 2002

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

Members of the Board:

The forty-sixth annual actuarial valuation of the Kentucky Employees Retirement System, the forty-third annual actuarial valuation of the County Employees Retirement System, and the forty-fourth 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 and material experience gains or losses. 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 2002 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.

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, 2002.

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, based on a brief review of these schedules, the information included on them appears 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,
MERCER HUMAN RESOURCE CONSULTING

By 
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:

<u>NonHazardous Classification</u>		<u>Hazardous Classification</u>	
<u>Age</u>	<u>Service</u>	<u>Age</u>	<u>Service</u>
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:

<u>Formula</u>	<u>Group</u>
1.97% x FC x CS	Kentucky Employees Retirement NonHazardous Participants
2.00% x FC x CS	Kentucky Employees Retirement NonHazardous Participants who were employed January 1998 through January 1999.
2.20% x FC x CS	Kentucky Employees Retirement NonHazardous 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 NonHazardous 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 NonHazardous 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 NonHazardous 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, but there must be a minimum of 24 months. 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 24 months of earnings.

Early Retirement

A NonHazardous 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.

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

A NonHazardous 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 participants 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				
% of Benefit	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
	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 NonHazardous employee who is not eligible for an unreduced benefit may retire based on 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 service with participating employers, or may be considered with less than 16 years credit if the disability is substantially aggravated by the job. 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 based on 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 service with participating employers, or may be considered with less than 16 years credit if the disability is substantially aggravated by the job. 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 or 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. The requirement of 60 months service credit will be waived. 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. 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 rate for both NonHazardous and hazardous duty members. For hazardous duty members with a spouse the system will pay a portion of the monthly contribution rate for two-person coverage. For hazardous duty members with a spouse and dependent, the system will pay a portion of the monthly contribution rate 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

<u>Years of Service</u>	<u>Percent Paid</u>
<i>Less than 4 years</i>	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 rate 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 rate 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 NonHazardous 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	<u>55-57</u>	<u>58-59</u>	<u>60-61</u>	<u>62</u>	<u>63-64</u>	<u>65</u>	<u>66-67</u>	<u>68</u>	<u>69</u>	<u>70 & Over</u>
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

<u>Age</u>	<u>Active Mortality*</u>		<u>Disabled Mortality</u>	
	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>
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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM					
<u>Sample Ages</u>	<u>Years of Service</u>	<u>Termination</u>		<u>Disablement</u>	
		<u>General Employees</u>	<u>Hazardous Employees</u>	<u>General Employees</u>	<u>Hazardous Employees</u>
	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.

COUNTY EMPLOYEES RETIREMENT SYSTEM

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Termination</u>		<u>Disablement</u>	
		<u>General Employees</u>	<u>Hazardous Employees</u>	<u>General Employees</u>	<u>Hazardous Employees</u>
	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.

STATE POLICE RETIREMENT SYSTEM

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Termination</u>	<u>Disablement</u>
		<u>Employees</u>	<u>Employees</u>
	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**

<u>Years Increase Per Year</u>	<u>2001 – 2002</u>	<u>2003 – 2005</u>	<u>2006 – 2010</u>	<u>2011 -- 2015</u>	<u>2016 -- 2020</u>	<u>Thereafter</u>
	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
6/30/1997	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%
6/30/2002	48,555	\$1,597,447,963	\$32,900	3.1%

Kentucky (Hazardous) Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1997	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%
6/30/2002	4,211	\$125,371,604	\$29,772	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
6/30/1997	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%
6/30/2002	79,850	\$1,688,460,789	\$21,145	4.3%

County (Hazardous) Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1997	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%
6/30/2002	8,949	\$346,319,146	\$38,699	2.9%

State Police Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1997	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%
6/30/2002	1,002	\$43,961,844	\$43,874	0.8%

All Participants

Schedule of Active Member Valuation Data

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1997	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%
6/30/2002	1,727	142,567	\$3,801,561,346	\$26,665	3.4%

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
6/30/1997	\$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
6/30/2002	\$6,348,164	(\$ 682,305)	(10.7%)	\$7,030,468	(\$ 175,952)

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

KENTUCKY EMPLOYEES INSURANCE FUND

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
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
6/30/2002	\$2,144,503	\$1,487,378	69.4%	\$657,125	\$ 88,122

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

COUNTY EMPLOYEES RETIREMENT FUND

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
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
6/30/2002	\$5,492,646	(\$1,390,653)	(25.3%)	\$6,883,299	(\$ 27,202)

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

COUNTY EMPLOYEES INSURANCE FUND

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
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
6/30/2002	\$2,758,762	\$2,073,581	75.2%	\$685,181	\$115,547

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

STATE POLICE RETIREMENT SYSTEM

(Expressed in Thousands)

Valuation <u>Date</u>	Actuarial <u>Liability</u>	Unfunded <u>Liability</u>	Percent <u>Unfunded</u>	Actuarial <u>Value of Assets</u>	Increase <u>In Assets</u>
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)
6/30/2002	\$380,790	(\$ 58,165)	(15.3)%	\$438,955	(\$ 17,205)

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

STATE POLICE INSURANCE FUND

(Expressed in Thousands)

Valuation <u>Date</u>	Actuarial <u>Liability</u>	Unfunded <u>Liability</u>	Percent <u>Unfunded</u>	Actuarial <u>Value of Assets</u>	Increase <u>In Assets</u>
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
6/30/2002	\$165,445	\$78,578	47.5%	\$86,867	\$ 7,004

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

SOLVENCY TEST

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (Expressed in Thousands)

Valuation Date	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
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%
6/30/2002	\$988,657	\$3,352,392	\$2,007,115	\$7,030,468	100%	100%	134.0%

COUNTY EMPLOYEES RETIREMENT SYSTEM (Expressed in Thousands)

Valuation Date	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
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%
6/30/2002	\$1,007,019	\$2,525,608	\$1,960,019	\$6,883,299	100%	100%	171.0%

STATE POLICE RETIREMENT SYSTEM (Expressed in Thousands)

Valuation Date	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
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%
6/30/2002	\$36,886	\$252,499	\$91,405	\$438,955	100%	100%	163.6%

RETIRED LIVES SUMMARY

Kentucky Employees Retirement System

	<u>Nonhazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>
Basic Form	8,873	\$8,592,150	282	\$194,937	9,155	\$8,787,087
Joint and Survivor						
100% to Beneficiary	2,267	\$2,219,945	119	\$95,806	2,386	\$2,315,751
66-2/3% to Beneficiary	906	\$1,515,316	46	\$37,787	952	\$1,553,103
50% to Beneficiary	1,529	\$2,267,522	62	\$57,738	1,591	\$2,325,260
Pop-Up Option	2,895	\$4,342,580	228	\$201,136	3,123	\$4,543,716
10 Years Certain	—	—	22	\$16,567	22	\$16,567
10 Years Certain and Life	2,646	\$2,421,301	99	\$59,877	2,745	\$2,481,178
15 Years Certain and Life	692	\$760,660	32	\$24,636	724	\$785,296
20 Years Certain and Life	563	\$759,839	28	\$24,233	591	\$784,072
Social Security Option						
Basic Form	1,290	\$1,907,971	48	\$39,118	1,338	\$1,947,089
Survivorship Option	1,284	\$1,929,295	85	\$83,529	1,369	\$2,012,824
Dependent Child	3	\$1,161	18	\$4,091	21	\$5,252
Total	22,948	\$26,717,740	1,069	\$839,454	24,017	\$27,557,195

RETIRED LIVES SUMMARY

County Employees Retirement System

	<u>Nonhazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>
Basic Form	10,492	\$5,519,934	490	\$751,388	10,982	\$6,271,322
Joint and Survivor						
100% to Beneficiary	2,331	\$1,450,670	379	\$566,652	2,710	\$2,017,322
66-2/3% to Beneficiary	665	\$746,537	177	\$354,356	842	\$1,100,893
50% to Beneficiary	1,216	\$1,114,638	264	\$480,306	1,480	\$1,594,944
Pop-Up Option	2,609	\$2,371,210	1,030	\$1,892,288	3,639	\$4,263,498
10 Years Certain	—	—	43	\$78,666	43	\$78,666
10 Years Certain and Life	3,355	\$1,700,681	153	\$232,604	3,508	\$1,933,285
15 Years Certain and Life	827	\$506,114	46	\$65,642	873	\$571,756
20 Years Certain and Life	562	\$426,221	100	\$146,071	662	\$572,292
Social Security Option						
Basic Form	557	\$587,790	98	\$148,448	655	\$736,238
Survivorship Option	679	\$855,489	297	\$427,272	976	\$1,282,761
Dependent Child	2	\$670	169	\$49,824	171	\$50,494
Five Years Only	1	\$129	—	—	1	\$129
Total	23,296	\$15,280,083	3,246	\$5,193,517	26,542	\$20,473,600

RETIRED LIVES SUMMARY

State Police Retirement System

	<u>Number</u>	<u>Monthly Benefits</u>
Basic Form	77	\$180,634
Joint and Survivor		
100% to Beneficiary	112	\$256,152
66-2/3% to Beneficiary	62	\$176,360
50% to Beneficiary	64	\$166,944
Pop-Up Option	217	\$598,802
10 Years Certain	6	\$20,963
10 Years Certain and Life	23	\$60,251
15 Years Certain and Life	10	\$22,098
20 Years Certain and Life	31	\$65,502
Social Security Option		
Basic Form	35	\$74,185
Survivorship Option	169	\$353,772
Dependent Child	13	\$3,633
Total	819	\$1,979,296

BENEFICIARY SUMMARY

Kentucky Employees Retirement System

	<u>Nonhazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>
Joint and Survivor						
100% to Beneficiary	1,930	\$1,153,688	66	\$38,202	1,996	\$1,191,890
66-2/3% to Beneficiary	283	\$156,889	3	\$1,630	286	\$158,519
50% to Beneficiary	541	\$204,709	10	\$2,838	551	\$207,547
Pop-Up Option	218	\$177,400	12	\$5,971	230	\$183,371
5 Years Certain	109	\$116,822	11	\$6,437	120	\$123,259
10 Years Certain	134	\$114,412	11	\$5,784	145	\$120,196
10 Years Certain and Life	145	\$119,251	10	\$4,052	155	\$123,303
15 Years Certain and Life	130	\$110,680	2	\$670	132	\$111,350
20 Years Certain and Life	85	\$79,148	4	\$940	89	\$80,088
Social Security Option						
Survivorship Option	164	\$191,327	8	\$6,712	172	\$198,039
Beneficiary Under 60	16	\$5,582	—	—	16	\$5,582
Dependent Child	—	—	2	\$582	2	\$582
Total	3,755	\$2,429,908	139	\$73,817	3,894	\$2,503,726

BENEFICIARY SUMMARY

County Employees Retirement System

	<u>Nonhazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>
Joint and Survivor						
100% to Beneficiary	1,385	\$517,350	84	\$84,199	1,469	\$601,549
66-2/3% to Beneficiary	155	\$57,355	17	\$20,418	172	\$77,773
50% to Beneficiary	281	\$82,022	18	\$10,572	299	\$92,594
Pop-Up Option	230	\$124,492	40	\$54,272	270	\$178,764
5 Years Certain	190	\$117,103	7	\$3,167	197	\$120,270
10 Years Certain	154	\$90,755	22	\$31,194	176	\$121,949
10 Years Certain and Life	203	\$94,702	2	\$1,672	205	\$96,374
15 Years Certain and Life	116	\$66,388	—	—	116	\$66,388
20 Years Certain and Life	78	\$50,809	8	\$13,018	86	\$63,827
Social Security Option						
Survivorship Option	54	\$46,984	35	\$50,842	89	\$97,826
Beneficiary Under 60	5	\$1,043	3	\$3,084	8	\$4,127
Dependent Child	—	—	1	\$300	1	\$300
Total	2,851	\$1,249,003	237	\$272,739	3,088	\$1,521,741

BENEFICIARY SUMMARY

State Police Retirement System

	<u>Number</u>	<u>Monthly Benefits</u>
Joint and Survivor		
100% to Beneficiary	49	\$100,784
66-2/3% to Beneficiary	1	\$1,208
50% to Beneficiary	9	\$11,881
Pop-Up Option	6	\$15,609
5 Years Certain	—	—
10 Years Certain	—	—
10 Years Certain and Life	—	—
15 Years Certain and Life	—	—
20 Years Certain and Life	2	\$7,518
Social Security Option		
Basic Form	—	—
Survivorship Option	10	\$21,003
Beneficiary Under 60	—	—
Dependent Child	1	\$257
Total	78	\$158,260

KENTUCKY RETIREMENT SYSTEMS

Statistical Section

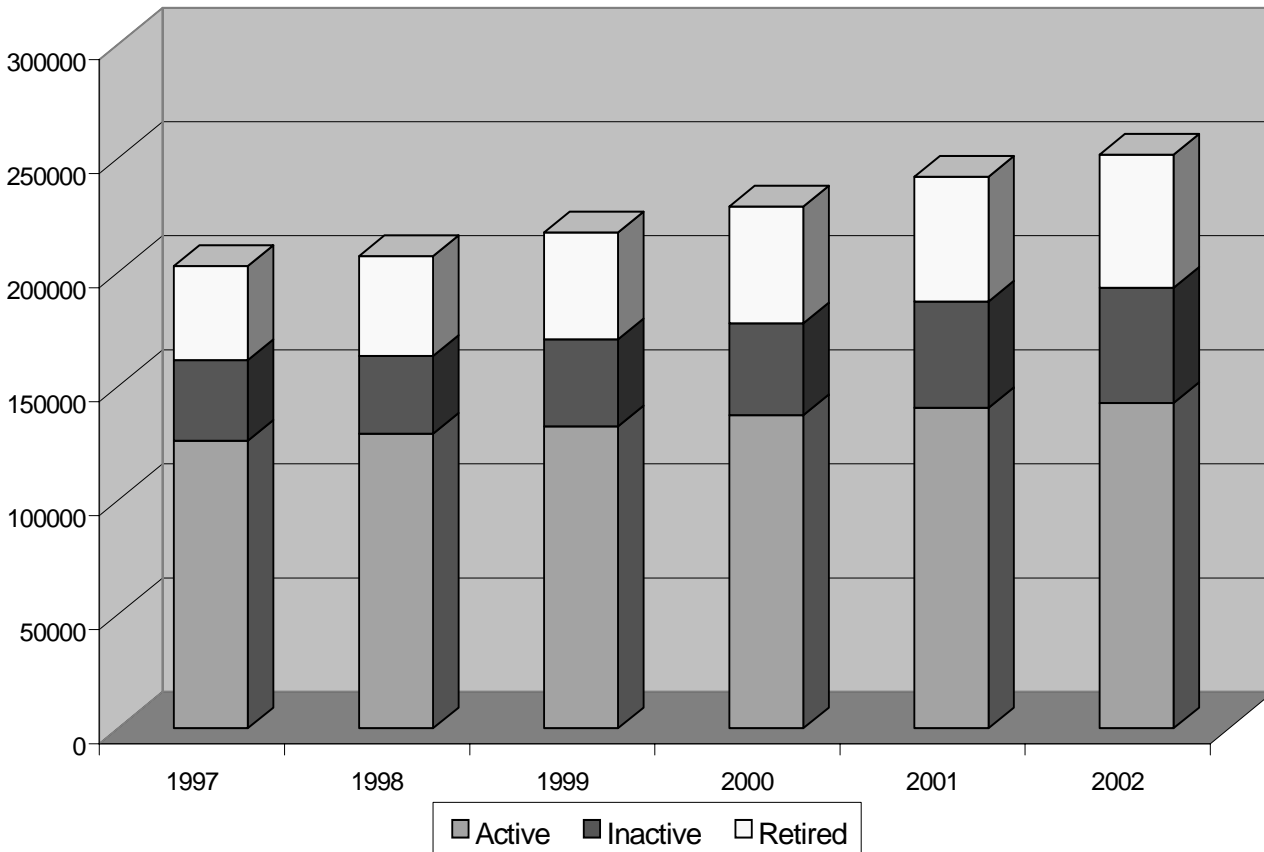
Comprehensive Annual Financial Report
June 30, 2002

MEMBERSHIP

AS OF JUNE 30, 2002

SYSTEM	ACTIVE	INACTIVE	RETIRED	TOTAL
KERS	48,555	17,714	26,703	92,972
KERS Hazardous	4,211	1,073	1,208	6,492
TOTAL KERS	52,766	18,787	27,911	99,464
CERS	79,850	30,978	26,147	136,975
CERS Hazardous	8,949	700	3,483	13,132
TOTAL CERS	88,799	31,678	29,630	150,107
SPRS	1,002	103	897	2,002
GRAND TOTAL	142,567	50,568	58,438	251,573

SIX-YEAR MEMBERSHIP GROWTH



Schedule of Participating Employers

Kentucky Employees Retirement System

<u>Agency Classification</u>	<u>Number of Agencies</u>
Agencies Reporting through State Payroll	211
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	404

County Employees Retirement System

<u>Agency Classification</u>	<u>Number of Agencies</u>
Area Development Districts	14
Boards of Education	176
Cities	247
County Attorneys	58
County Clerks	10
County Government Agencies	249
Fire Departments	61
Hospitals	2
Jailers	8
Libraries	79
Planning Commissions	8
Police Departments	53
Police & Fire Departments (combined)	41
Sanitation Districts	4
Sheriff Departments	35
Special Districts and Boards	164
Utility Boards	101
Urban County Government Agencies	4
TOTAL	1,314

State Police Retirement System

<u>Agency Classification</u>	<u>Number of Agencies</u>
Kentucky State Police-Uniformed Officers	1

SCHEDULE OF REVENUE BY SOURCE

(expressed in thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

<u>Year Ending</u>	<u>Member Contributions</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Total</u>
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)
June 30, 2002	\$122,799	\$119,494	(\$ 238,838)	\$ 3,455

COUNTY EMPLOYEES RETIREMENT SYSTEM

<u>Year Ending</u>	<u>Member Contributions</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Total</u>
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)
June 30, 2002	\$159,524	\$164,464	(\$ 288,882)	\$ 35,106

STATE POLICE RETIREMENT SYSTEM

<u>Year Ending</u>	<u>Member Contributions</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Total</u>
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)
June 30, 2002	\$4,499	\$ 9,562	(\$22,770)	(\$ 8,709)

SCHEDULE OF EXPENSES BY TYPE

(expressed in thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

<u>Year Ending</u>	<u>Benefit Payments</u>	<u>Administrative Expenses</u>	<u>Refunds</u>	<u>Medical Insurance Expenses</u>	<u>Total</u>
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
June 30, 2002	\$355,869	\$5,127	\$7,798	\$46,565	\$415,359

COUNTY EMPLOYEES RETIREMENT SYSTEM

<u>Year Ending</u>	<u>Benefit Payments</u>	<u>Administrative Expenses</u>	<u>Refunds</u>	<u>Medical Insurance Expenses</u>	<u>Total</u>
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
June 30, 2002	\$260,153	\$8,197	\$10,095	\$46,267	\$324,712

STATE POLICE RETIREMENT SYSTEM

<u>Year Ending</u>	<u>Benefit Payments</u>	<u>Administrative Expenses</u>	<u>Refunds</u>	<u>Medical Insurance Expenses</u>	<u>Total</u>
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
June 30, 2002	\$24,839	\$105	\$25	\$4,049	\$29,018

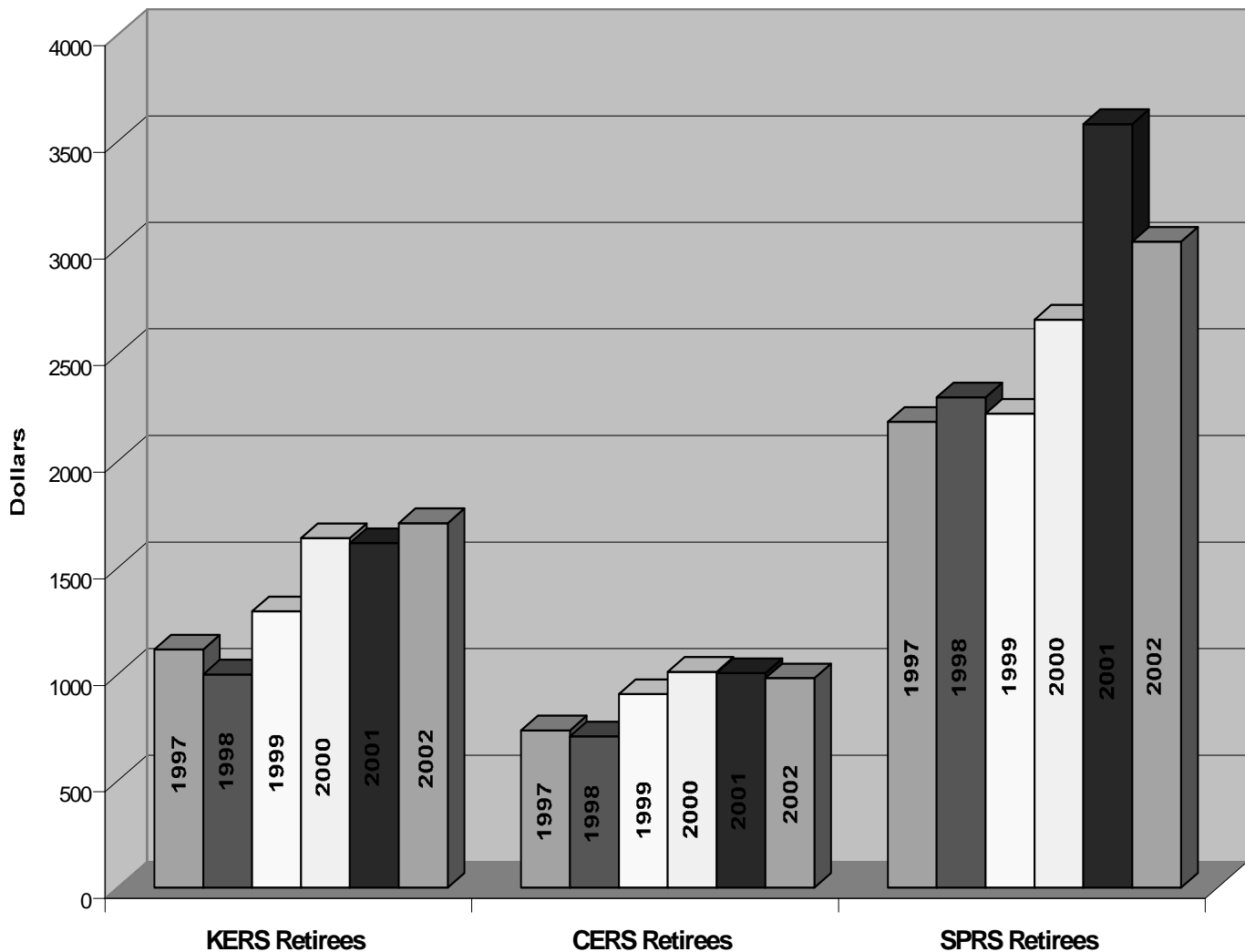
ANALYSIS OF INITIAL RETIREMENT

1997-2002

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
KERS Retirees	1,523	1,093	1,648	2,323	2,083	2,457
Average Monthly Benefit	\$1,117	\$1,000	\$1,296	\$1,639	\$1,616	\$1,709
CERS Retirees	1,962	1,626	2,349	2,485	2,265	2,733
Average Monthly Benefit	\$737	\$709	\$907	\$1,012	\$1,006	\$982
SPRS Retirees	47	46	23	42	53	58
Average Monthly Benefit	\$2,185	\$2,299	\$2,223	\$2,664	\$3,582	\$3,030

INITIAL RETIREMENT Average Monthly Benefit Payments 1997-2002

(By System)



SCHEDULE OF BENEFIT EXPENSES BY TYPE

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
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%
FY 2001-2002					
Average Benefit	\$763	\$1,283	\$737	\$778	\$1,111
Retirees	4,341	17,193	2,104		23,657
Beneficiaries	796	1,039	696	863	3,394
Total Recipients	5,137	18,232	2,800	863	27,051
Monthly Benefits	\$3,921,539	\$23,392,161	\$2,063,497	\$685,848	\$30,063,045
% of Total Monthly Benefits	13%	78%	7%	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 Section 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 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%
FY 2001-2002					
Average Benefit	\$532	\$880	\$667	\$532	\$762
Retirees	6,025	16,999	3,132		26,156
Beneficiaries	664	695	531	801	2,691
Total Recipients	6,689	17,694	3,663	801	28,847
Monthly Benefits	\$3,555,481	\$15,563,130	\$2,441,911	\$426,386	\$21,986,908
% of Total Monthly Benefits	16%	71%	11%	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 Section 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 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%
FY 2001-2002					
Average Benefit	\$2,851	\$2,424	\$1,133	\$1,450	\$2,385
Retirees	105	682	26		813
Beneficiaries	26	7	28	22	83
Total Recipients	131	689	54	22	896
Monthly Benefits	\$373,474	\$1,670,425	\$61,170	\$31,894	\$2,136,963
% of Total Monthly Benefits	17.5%	78%	3%	1.5%	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 Section 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	911	982	3,674	3,871	3,523	3,747	5,468	3,417	1,466
Average Monthly Pay	\$91	\$173	\$270	\$445	\$666	\$951	\$1,647	\$2,260	\$3,045

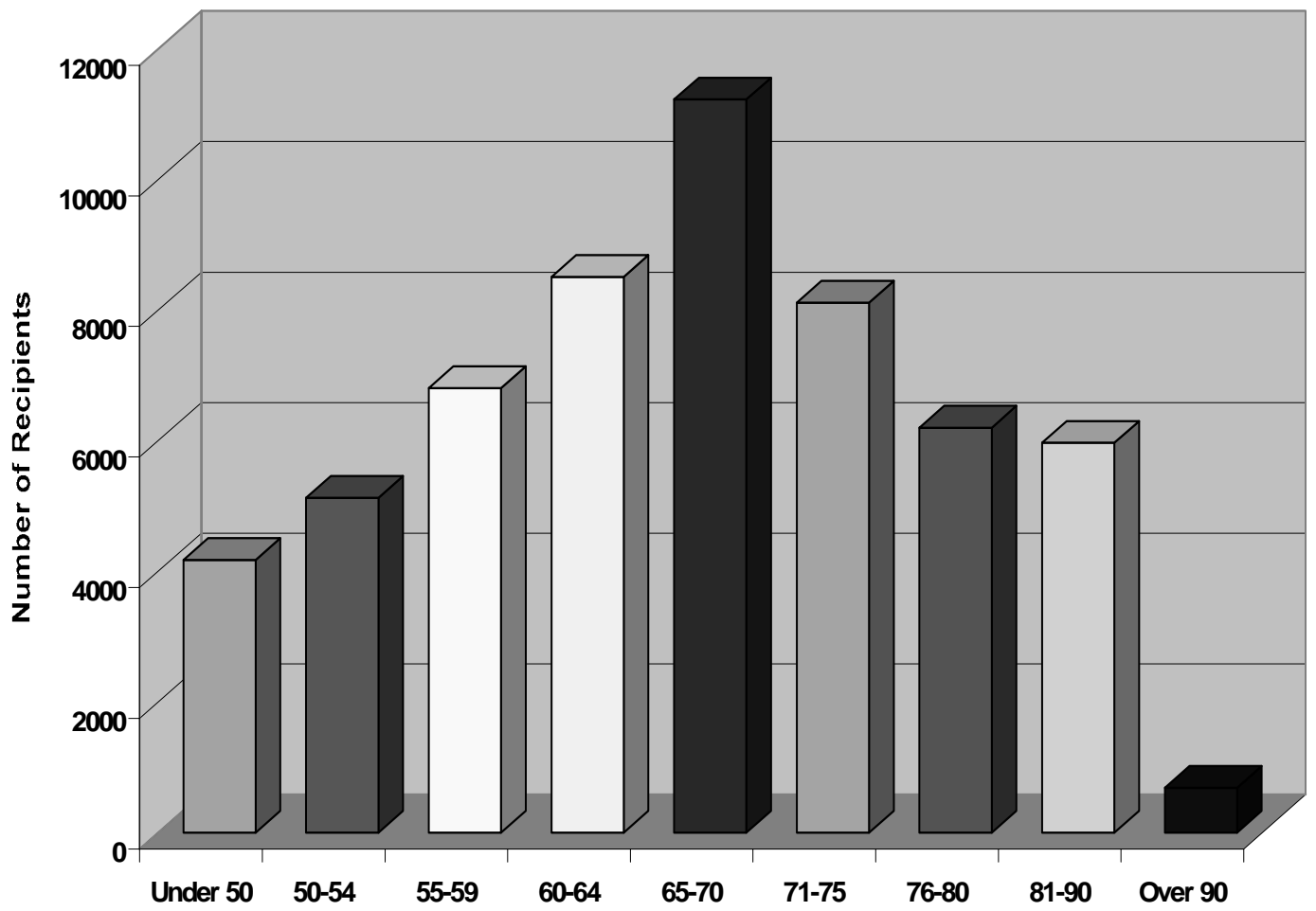
CERS

Service in Years	Under 2	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
Number of Recipients	1099	1,370	5,950	5,759	4,329	4,607	4,053	1,256	441
Average Monthly Pay	\$156	\$149	\$224	\$395	\$622	\$1,033	\$1,665	\$2,162	\$2,497

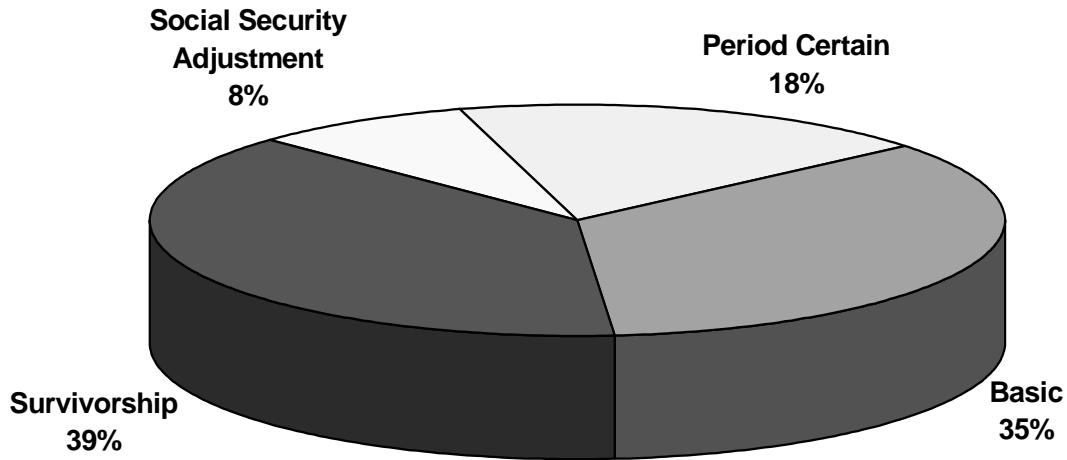
SPRS

Service in Years	Under 2	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
Number of Recipients	41	25	24	26	63	236	293	139	50
Average Monthly Pay	\$549	\$326	\$662	\$941	\$1,502	\$2,008	\$2,732	\$3,540	\$4,108

AGE OF RECIPIENTS

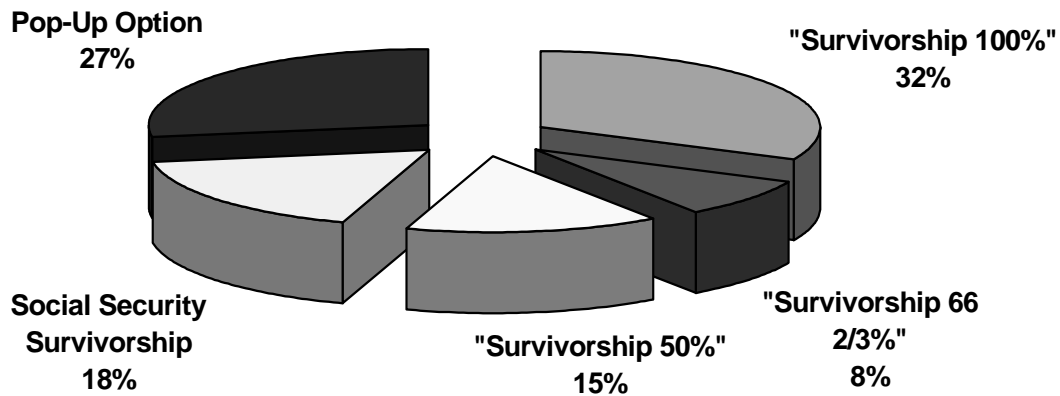


PAYMENT OPTIONS BY TYPE (All Systems)



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 (All Systems)



TOTAL FISCAL YEAR RETIREMENT PAYMENTS BY COUNTY

Jefferson	\$113,840,989	Clark	\$ 3,357,187	Powell	\$ 1,605,166
Franklin	\$80,861,639	Harlan	\$ 3,329,640	Hart	\$ 1,577,138
Fayette	\$35,232,743	Bourbon	\$ 3,154,954	Carroll	\$ 1,542,870
Warren	\$16,042,003	Grayson	\$ 3,055,633	Washington	\$ 1,501,377
Shelby	\$14,038,246	Johnson	\$ 3,034,770	Livingston	\$ 1,443,115
Daviess	\$13,802,108	Clay	\$ 2,875,921	Union	\$ 1,429,702
Kenton	\$12,457,963	Knott	\$ 2,791,790	Metcalfe	\$ 1,380,836
Pulaski	\$12,056,203	Perry	\$ 2,596,929	Webster	\$ 1,367,268
Christian	\$11,450,991	Knox	\$ 2,577,182	McCreary	\$ 1,354,578
McCracken	\$10,312,376	Trigg	\$ 2,477,181	Wolfe	\$ 1,351,363
Hardin	\$ 9,811,774	Caldwell	\$ 2,455,375	Todd	\$ 1,338,813
Madison	\$ 9,627,860	Breathitt	\$ 2,447,119	Butler	\$ 1,318,150
Anderson	\$ 8,367,674	Greenup	\$ 2,430,246	Lewis	\$ 1,316,064
Boone	\$ 8,235,088	Lincoln	\$ 2,412,042	Lee	\$ 1,260,396
Oldham	\$ 7,662,976	Taylor	\$ 2,400,739	Green	\$ 1,182,155
Campbell	\$ 7,422,622	Logan	\$ 2,397,150	McLean	\$ 1,174,564
Bullitt	\$ 6,313,351	Montgomery	\$ 2,335,792	Trimble	\$ 1,148,666
Woodford	\$ 5,984,030	Harrison	\$ 2,324,248	Jackson	\$ 1,145,565
Boyd	\$ 5,837,717	Fleming	\$ 2,322,810	Menifee	\$ 1,129,264
Pike	\$ 5,657,942	Adair	\$ 2,309,272	Ballard	\$ 1,099,479
Laurel	\$ 5,593,493	Letcher	\$ 2,228,615	Leslie	\$ 1,094,825
Henderson	\$ 5,465,308	Marion	\$ 2,212,478	Magoffin	\$ 1,030,510
Hopkins	\$ 5,441,778	Morgan	\$ 2,210,550	Simpson	\$ 1,020,006
Calloway	\$ 5,415,423	Spencer	\$ 2,155,748	Lawrence	\$ 991,384
Scott	\$ 5,403,401	Muhlenberg	\$ 2,154,165	Owsley	\$ 921,858
Boyle	\$ 5,387,305	Russell	\$ 2,112,291	Clinton	\$ 919,778
Barren	\$ 5,144,305	Wayne	\$ 2,079,571	Fulton	\$ 889,777
Rowan	\$ 4,665,730	Breckinridge	\$ 1,956,778	Cumberland	\$ 879,048
Henry	\$ 4,546,785	Lyon	\$ 1,955,200	Nicholas	\$ 868,227
Nelson	\$ 4,428,900	Ohio	\$ 1,933,729	Bracken	\$ 861,359
Jessamine	\$ 4,402,591	Bath	\$ 1,843,701	Monroe	\$ 836,848
Graves	\$ 4,336,788	Garrard	\$ 1,830,970	Edmonson	\$ 822,928
Floyd	\$ 4,298,547	Meade	\$ 1,748,627	Carlisle	\$ 769,608
Whitley	\$ 4,251,584	Casey	\$ 1,746,832	Hancock	\$ 740,096
Marshall	\$ 4,092,722	Larue	\$ 1,738,815	Martin	\$ 715,996
Mercer	\$ 3,928,431	Mason	\$ 1,730,738	Crittenden	\$ 665,620
Owen	\$ 3,904,337	Estill	\$ 1,729,268	Elliott	\$ 652,588
Bell	\$ 3,533,573	Rockcastle	\$ 1,728,933	Gallatin	\$ 514,427
Grant	\$ 3,439,851	Pendleton	\$ 1,666,656	Hickman	\$ 416,778
Carter	\$ 3,420,753	Allen	\$ 1,633,223	Robertson	\$ 261,536

Payments to Recipients Living in Other States
\$30,307,669

TOTAL PAYMENTS TO MEMBERS AND BENEFICIARIES FOR FY 2001-02
\$650,448,162

KENTUCKY RETIREMENT SYSTEMS

Compliance Section

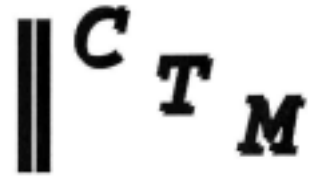
Comprehensive Annual Financial Report
June 30, 2002

Charles T. Mitchell Company, LLP

Certified Public Accountants

DON C. GILES, C.P.A.
WILLIAM G. JOHNSON, JR., C.P.A.
LARRY T. WILLIAMS, C.P.A.
JAMES CLOUSE, C.P.A.
BERNADETTE SMITH, C.P.A.
KIM FIELD, C.P.A.
GREG MIKLAVIC, C.P.A.

CHARLES T. MITCHELL, C.P.A.
CONSULTANT



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

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the general purpose financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Charles T. Mitchell Co.

October 31, 2002