

KENTUCKY RETIREMENT SYSTEMS  
AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS  
June 30, 2000

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Kentucky Retirement Systems  
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, 2000 and 1999 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 generally accepted auditing standards 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, 2000 and 1999 and the changes in its plan net assets for the years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2000 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.

Our audits were made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The required supplemental information and the notes thereto listed in the table of contents are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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, 2000 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.

November 2, 2000

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This discussion and analysis of Kentucky Retirement System's financial performance provides an overview of the retirement systems' and insurance fund's financial activities for the fiscal year ended June 30, 2000. Please read it in conjunction with the Retirement Systems' financial statements and Insurance Fund's financial statements, which begin on page 8.

### FINANCIAL HIGHLIGHTS – RETIREMENT SYSTEMS

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

- The combined plan net assets of all pension funds administered by Kentucky Retirement Systems increased by \$457 million during the 1999 – 2000 fiscal year.
- Salaries totaling \$3.3 billion requiring both employee and employer pension contributions were reported during the year. The covered payroll increased \$232 million over the prior reporting period. Because of the increase in covered payroll there was a corresponding increase in employer contributions of \$9.9 million with total employer contributions of \$305 million. Contributions paid by employees were \$247 and \$275 million respectively for the years ended June 30, 2000 and June 30, 1999. There was an increase in employee contributions paid on covered payroll. There was also a reduction in contributions paid by employees to purchase elective service credits accounting for the overall decrease in member contributions received compared to prior year receipts.
- Net appreciation in fair value of investments was \$210 million compared to \$1.4 billion for the prior fiscal year. The pension funds realized gains on sales of investments of \$2.068 billion but also experienced less appreciation in the fair value of investments (\$1.858 billion) compared to the prior year caused by less favorable market conditions.
- Investment income net of investment expense from all sources including securities lending was \$383 million representing an increase of approximately \$58 million compared to last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased \$83 million bringing total benefit payments to \$477 million. Refunds of contributions paid to former members upon termination of employment increased slightly from \$20 million to \$21 million.
- Administrative expense and other deductions totaling \$190 million increased \$34 million or (21.8 percent). An increase in employer contributions transferred to the insurance fund of \$34 million accounted for the increase.

### **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 \$171 million during the 1999 – 2000 fiscal year.
- Employer contributions of \$180 million were received. This is an increase of \$34 million over the

prior fiscal year.

- Net appreciation in fair value of investments was \$31 million compared to \$67 million for the prior fiscal year. The insurance fund realized gains on sales of investments of \$71 million but also experienced less appreciation in the fair value of investments of (\$40 million) compared to the prior year caused by less favorable market conditions.
- Investment income net of investment expense from all sources including securities lending was \$26.5 million representing an increase of approximately \$5.7 million compared to last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage increased \$12 million to total \$66 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 \$331 thousand compared to \$148 thousand for the prior year. This fee was not charged until January 1999, therefore, the fiscal year ended June 30, 1999 did not include a full year of charges.

## **USING THIS FINANCIAL REPORT**

Because of the long-term nature of a defined benefit pension plan and postemployment 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 Statements of Plan Net Assets and Combined Statements of Changes in Plan Net Assets (on pages 8 – 11) 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 12 - 19) provide more detailed information about each plan's assets, liabilities, plan net assets, and changes in plan net assets.

The Schedule of Funding Progress (on pages 34 - 43) 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 44 - 49) presents historical trend information about the annual required contributions of employers and the contributions made by employers in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

## **KENTUCKY RETIREMENT SYSTEMS AS A WHOLE**

Kentucky Retirement Systems' combined plan net assets increased by \$628.4 over a year ago – increasing from \$13,074.8 million to \$13,703.2 million. Plan net assets for the prior fiscal year increased by \$1,864.7 million. Looking at additions to and deductions from plan net assets of the pension funds and insurance fund reveals similar trends. 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)**

	<u>Pension Funds</u>		<u>Insurance Fund</u>		<u>Total</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Cash and investments	\$12,884.2	\$13,181.5	\$998.9	\$891.3	\$13,883.1	\$14,072.8
Receivables	<u>138.8</u>	<u>118.9</u>	<u>22.6</u>	<u>21.8</u>	<u>161.4</u>	<u>140.7</u>
Total assets	\$13,023.0	\$13,300.4	\$1,021.5	\$913.1	\$14,044.5	\$14,213.5
Total liabilities	<u>(339.0)</u>	<u>(1,073.5)</u>	<u>(2.3)</u>	<u>(65.2)</u>	<u>(341.3)</u>	<u>(1,138.7)</u>
Plan net assets	<u>\$12,684.0</u>	<u>\$12,226.9</u>	<u>\$1,019.2</u>	<u>\$847.9</u>	<u>\$13,703.2</u>	<u>\$13,074.8</u>

**Table 2**  
**Changes In Plan Net Assets**  
**(In Millions)**

	<u>Pension Funds</u>		<u>Insurance Fund</u>		<u>Total</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Additions:						
Members' contributions	\$246.6	\$274.9	\$0.0	\$0.0	\$246.6	\$274.9
Employers' contributions	305.2	295.3	180.3	146.1	485.5	441.4
Investment income (net)	<u>593.7</u>	<u>1,684.0</u>	<u>57.8</u>	<u>87.9</u>	<u>651.5</u>	<u>1,771.9</u>
Total additions	1,145.5	2,254.2	238.1	234.0	1,383.6	2,488.2
Program deductions:						
Benefit payments	476.6	393.6	0.0	0.0	476.6	393.6
Refunds	21.4	20.1	0.0	0.0	21.4	20.1
Administrative expense	9.8	8.8	0.3	0.2	10.1	9.0
Healthcare premiums paid	<u>0.0</u>	<u>0.0</u>	<u>66.5</u>	<u>54.2</u>	<u>66.5</u>	<u>54.2</u>
Total program deductions	507.8	422.5	66.8	54.4	574.6	476.9
Other deductions (net)	<u>180.3</u>	<u>146.6</u>	<u>0.0</u>	<u>0.0</u>	180.3	146.6
Total deductions	<u>688.1</u>	<u>569.1</u>	<u>66.8</u>	<u>54.4</u>	<u>754.9</u>	<u>623.5</u>
Increase (decrease) in plan net assets	<u>\$457.4</u>	<u>\$1,685.1</u>	<u>\$171.3</u>	<u>\$179.6</u>	<u>\$628.7</u>	<u>\$1,864.7</u>

Plan net assets of the pension funds increased by 3.7% (\$12,684.0 million compared to \$12,226.9 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. Even though there was an increase in plan net assets for the year the increase was not of the magnitude of the increase for the prior year. This is attributable primarily to the reduced amount of investment income (\$593.7 million compared to \$1,684.4 million) caused by less favorable investment market conditions in general.

Plan net assets of the insurance fund increased by 20% (\$1,019.2 million compared to \$847.9 million). All of these assets are restricted in use to provide hospital and medical insurance benefits to members of the pension funds who receive a monthly retirement allowance. Even though there was an increase in plan net assets for the year just as there was for the pension funds, the increase was not of the magnitude of the increase for the prior year. This reduction in the amount of increase in plan net assets arose primarily because of two factors. First, the amount of investment income (\$57.8 million compared to \$87.9 million) decreased from the prior year as explained above for the pension funds. The second factor was a 22.7% increase in health insurance premiums paid for the year (\$66.5 million compared to \$54.2 million).

### **Pension Fund Activities**

Member contributions decreased (\$28.3 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. However, there was a reduction in the number of purchases of elective service purchases causing the overall reduction of member contribution compared to the previous year.

Employer contributions increased \$9.9 million as a result of increase in covered payroll of \$231.9 million.

Net investment income decreased (65%) (\$593.7 million compared to \$1,684.0 million). The primary cause of the reduction in net investment income between fiscal years is less appreciation in the fair value of investments for the year ended June 30, 2000 than for the year ended June 30, 1999. This can be illustrated as follows:

	<u>In Millions</u>
Appreciation in fair value of investments – June 30, 2000	\$2,520.7
Appreciation in fair value of investments – June 30, 1999	4,379.4
Net appreciation in fair value of investments	<u>(1,858.7)</u>
Investment income (net of investment expense)	383.5
Net gain on sale of investments	<u>2,068.9</u>
Investment Income (net) – June 30, 2000	<u><u>\$593.7</u></u>

Program deductions increased \$85.3 million caused principally by an increase of \$83 million in benefit payments. Members who were drawing benefits as of June 1999 received an increase of 1.6 % to their retirement allowance in July 1999. Also, there was an increase of 4,299 members and beneficiaries on the retired payroll as of June 30, 2000.

Other deductions (net) increased approximately \$34 million explained by an increase in employer contributions transferred to the insurance fund of \$34 million.

### **Insurance Fund Activities**

As explained above, employer contributions paid into the insurance fund increased by \$34 million over the prior year. An increase in the amount of covered payroll (\$231.9 million) and increases in the percentage of covered payroll paid into the insurance fund by the two major pension funds accounts for the increased employer contributions.

Net investment income decreased (34%) (\$57.8 million compared to \$87.9 million). The primary cause of the reduction in net investment income between fiscal years is less appreciation in the fair value of investments for the year ended June 30, 2000 than for the year ended June 30, 1999. This can be illustrated as follows:

	<u>In Millions</u>
Appreciation in fair value of investments – June 30, 2000	\$179.6
Appreciation in fair value of investments – June 30, 1999	219.3
Net appreciation in fair value of investments	<u>(39.7)</u>
Investment income (net of investment expense)	26.5
Net gain on sale of investments	<u>71.0</u>
Investment Income (net) – June 30, 2000	<u><u>\$57.8</u></u>

Program deductions increased \$12.4 million explained almost totally by an increase in payment of healthcare premiums of \$12.3 million. The monthly premium increased for all hospital and medical insurance plans offered to retirees coupled with an increase of 3,100 in the number of retirees receiving premium subsidies.

### **HISTORICAL TRENDS**

Accounting standards require that the statement of plan net assets state asset value at **fair value** and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expenses 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 34 - 43). The asset value stated in the Schedule of Funding Progress is the **actuarial value** of assets

determined by calculating the ratio of market value to book value of assets over a five-year period. The actuarial accrued liability is calculated using the entry age normal funding method.

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

Annual required contributions of the employers and contributions made by the employers in relation to the required contributions are provided in the Schedule of Employer Contributions (on pages 44 - 49). This schedule indicates that employers are generally meeting their responsibilities to provide resources to the plans.

	<u>2000</u>		<u>Total</u>
	<u>Pensions</u>	<u>Post-Employment Healthcare</u>	
<b>ASSETS</b>			
Cash	\$	\$	\$
Short Term Investments	<u>867,131</u>	<u>85,503</u>	<u>952,633</u>
Total Cash and Short Term Investments	867,131	85,503	952,633
Receivables			
Investments - accounts receivable	282	10	292
Due from Retirement Fund		900	900
Interest receivable - year end	46,277	3,706	49,982
Accounts receivable - year end	87,222	17,980	105,202
Accounts receivable - alternate plan	4,644		4,644
A/R - alternate plan - year end	<u>327</u>		<u>327</u>
Total receivables	138,752	22,596	161,347
Investments at fair value			
Corporate and government bonds	2,661,171	224,782	2,885,953
Corporate stocks	7,935,081	669,515	8,604,596
Mortgages	527,838	17,117	544,955
Real estate	<u>590,310</u>		
Total investments at fair value	11,714,401	911,414	12,625,814
Securities lending collateral invested	<u>302,677</u>	<u>1,979</u>	<u>304,656</u>
Total assets	13,022,960	1,021,491	14,044,451
<b>LIABILITIES</b>			
Investments - accounts payable		191	191
Accounts payable	35,385	130	35,515
Due to Insurance Fund	900		900
Securities lending collateral	<u>302,677</u>	<u>1,979</u>	<u>304,656</u>
Total Liabilities	<u>338,962</u>	<u>2,300</u>	<u>341,262</u>
Plan net assets held in trust for pension			
Benefits	<u>\$12,683,998</u>	<u>\$ 1,019,191</u>	<u>\$13,702,289</u>

(A schedule of funding progress for each plan is presented on pages 34 through 43.)

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

KENTUCKY RETIREMENT SYSTEMS  
 COMBINED STATEMENTS OF PLAN NET ASSETS  
 As of June 30, 2000 and 1999  
 Expressed In Thousands

1999		
Pensions	Post-Employment Healthcare	Total
\$ 612,665	\$ 53,981	\$ 666,646
9	10	19
40,199	3,208	43,407
73,405	18,541	91,946
4,897		4,897
334		334
118,845	21,759	140,603
2,416,700	173,826	2,590,526
8,112,989	579,635	8,692,624
515,558	18,851	534,409
479,790		479,790
11,525,037	772,312	12,297,350
1,043,883	65,058	1,108,941
13,300,430	913,109	14,213,539
29,649	106 71	106 29,721
1,043,883	65,058	1,108,941
1,073,532	65,235	1,138,767
<u>\$12,226,898</u>	<u>\$ 847,874</u>	<u>\$13,074,772</u>

	2000		
	Pensions	Post-Employment Healthcare	Total
ADDITIONS			
Members= contributions	\$ 246,563	\$	\$ 246,563
Employers= contributions	305,231	180,350	485,581
Total contributions	551,794	180,350	732,144
Investment Income:			
From investing activities			
Net appreciation in fair value of investments	210,243	31,230	241,473
Interest	244,948	17,624	262,572
Dividends	99,348	8,819	108,167
Real estate operating income (Net)	40,600		40,600
Total investing activities income	595,139	57,673	652,812
Investment expense	5,082	83	5,164
Net income from investing activities	590,057	57,590	647,648
From securities lending activities			
Securities lending income	105,560	5,522	111,082
Securities lending expense:			
Custodial Fee	324		324
Security borrower rebate	99,421	5,223	104,643
Security lending agent fee	2,455	119	2,575
Net income from securities lending activities	3,360	179	3,539
Total net investment income	593,417	57,770	651,187
TOTAL ADDITIONS	1,145,211	238,120	1,383,331
DEDUCTIONS			
Benefit payments	476,610		476,610
Refunds	21,369		21,369
Administrative expenses	9,772	331	10,103
Healthcare premiums paid		66,487	66,487
Other deductions (Net)	180,345		180,345
TOTAL DEDUCTIONS	688,095	66,818	754,914
Net increase	457,116	171,302	628,417
Plan net assets held in trust for pension benefits and post-employment benefits			
Beginning of year	12,226,898	847,874	13,074,772
Prior period adjustment (Note J)	(15)	15	
End of year	\$12,683,998	\$ 1,019,191	\$13,703,189

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, 2000 and 1999

Expressed In Thousands

1999		
Pensions	Post-Employment Healthcare	Total
\$ 274,864	\$ 146,080	\$ 274,864
295,303		441,383
570,167	146,080	716,247
1,358,855	67,147	1,426,002
191,982	13,907	205,889
102,590	6,796	109,386
33,728		33,728
1,687,156	87,850	1,775,005
4,598	88	4,686
1,682,557	87,762	1,770,319
67,407	8,059	75,466
64,900	7,759	72,659
1,003	120	1,123
1,505	180	1,685
1,684,062	87,942	1,772,004
2,254,230	234,022	2,488,252
393,582		393,582
20,135		20,135
8,752	148	8,901
146,616	54,276	54,276
146,616		146,616
569,085	54,424	623,510
1,685,144	179,598	1,864,742
10,544,500	668,276	11,212,776
(2,746)		(2,746)
<u>\$12,226,898</u>	<u>\$ 847,874</u>	<u>\$13,074,772</u>

ASSETS	KERS <u>HAZARDOUS</u>	KERS <u>NON-HAZARDOUS</u>
Cash and short-term investments		
Cash	\$	\$
Short-term investments	<u>31,704</u>	<u>369,291</u>
Total cash and short-term investments	31,704	369,291
Receivables		
Investments - accounts receivable	6	136
Interest receivable - year end	1,220	21,776
Accounts receivable - year end	2,972	37,555
Accounts receivable - alternate plan		
A/R - alternate plan - year end		
Total receivables	<u>4,198</u>	<u>59,468</u>
Investments at fair value		
Corporate and government bonds	70,728	1,251,706
Corporate stocks	165,930	3,827,370
Mortgages	11,383	259,092
Real estate	<u>20,379</u>	<u>266,555</u>
Total investments at fair value	268,420	5,604,723
Securities lending collateral invested	<u>6,137</u>	<u>147,195</u>
Total assets	310,460	6,180,677
LIABILITIES		
Investment - accounts payable		
Accounts payable	1,503	16,027
Due to Insurance Fund	900	
Securities lending collateral	<u>6,137</u>	<u>147,195</u>
Total liabilities	<u>8,540</u>	<u>163,221</u>
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 301,920</u>	<u>\$ 6,017,456</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, 2000 and 1999

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2000 TOTAL</u>	<u>1999 TOTAL</u>
\$ 95,076	\$ 347,821	\$ 23,238	\$ 867,131	\$ 612,665
<u>95,076</u>	<u>347,821</u>	<u>23,238</u>	<u>867,131</u>	<u>612,665</u>
28	102	9	282	9
4,705	17,218	1,358	46,277	40,199
11,647	33,569	1,478	87,222	73,405
2,540	2,104		4,644	4,897
186	140		327	334
<u>19,107</u>	<u>53,133</u>	<u>2,845</u>	<u>138,752</u>	<u>118,845</u>
267,953	996,473	74,311	2,661,171	2,416,700
786,273	2,880,049	275,459	7,935,081	8,112,989
51,353	188,866	17,144	527,838	515,558
64,592	219,223	19,561	590,310	479,790
<u>1,170,171</u>	<u>4,284,611</u>	<u>386,474</u>	<u>11,714,401</u>	<u>11,525,037</u>
<u>30,838</u>	<u>109,765</u>	<u>8,741</u>	<u>302,677</u>	<u>1,043,883</u>
1,315,193	4,795,331	421,299	13,022,960	13,300,430
4,418	12,411	1,026	35,385	29,649
30,838	109,765	8,741	302,677	1,043,883
<u>35,257</u>	<u>122,177</u>	<u>9,767</u>	<u>338,962</u>	<u>1,073,532</u>
<u>\$1,279,936</u>	<u>\$ 4,673,154</u>	<u>\$ 411,531</u>	<u>\$12,683,998</u>	<u>\$12,226,898</u>

	KERS <u>HAZARDOUS</u>	KERS <u>NON-HAZARDOUS</u>
ADDITIONS		
Members= contributions	\$ 9,375	\$ 107,834
Employers= contributions	<u>21,633</u>	<u>115,055</u>
Total contributions	31,008	222,890
INVESTMENT INCOME		
From Investing Activities		
Net appreciation in fair value of investments	1,650	113,401
Interest	6,782	114,715
Dividends	1,915	47,721
Real estate operating income (Net)	<u>1,436</u>	<u>18,617</u>
Total investing activity income	11,784	294,454
Investment expense	<u>120</u>	<u>2,418</u>
Net income from investing activities	11,664	292,036
From securities lending activities		
Securities lending income	1,862	51,575
Securities lending expense:		
Custodial fee	7	156
Security borrower rebates	1,754	48,575
Security lending agent fees	<u>43</u>	<u>1,200</u>
Net income from securities lending activities	<u>58</u>	<u>1,644</u>
Total net investment income	<u>11,722</u>	<u>293,679</u>
TOTAL ADDITIONS	42,730	516,569
DEDUCTIONS		
Benefit payments	6,224	252,775
Refunds	1,140	7,901
Administrative expenses	295	3,346
Other deductions (Net)	<u>12,048</u>	<u>76,918</u>
Total deductions	<u>19,707</u>	<u>340,939</u>
Net increase	23,023	175,630
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	278,899	5,841,832
Prior Period Adjustment (Note J)	<u>(2)</u>	<u>(6)</u>
End of year	<u>\$ 301,920</u>	<u>\$ 6,017,456</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, 2000 and 1999

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2000 TOTAL</u>	<u>1999 TOTAL</u>
\$ 28,476	\$ 96,676	\$ 4,202	\$ 246,563	\$ 274,864
<u>51,739</u>	<u>106,587</u>	<u>10,216</u>	<u>305,231</u>	<u>295,303</u>
80,215	203,263	14,418	551,794	570,167
14,196	74,300	6,696	210,243	1,358,855
25,308	91,255	6,889	244,948	191,982
9,899	36,305	3,507	99,348	102,590
<u>4,366</u>	<u>14,742</u>	<u>1,439</u>	<u>40,600</u>	<u>33,728</u>
53,769	216,601	18,532	595,139	1,687,156
<u>524</u>	<u>1,849</u>	<u>171</u>	<u>5,082</u>	<u>4,598</u>
53,245	214,752	18,361	590,057	1,682,557
10,336	38,561	3,226	105,560	67,407
32	117	10	324	
9,735	36,318	3,038	99,421	64,900
<u>240</u>	<u>897</u>	<u>75</u>	<u>2,455</u>	<u>1,003</u>
328	1,228	102	3,360	1,505
<u>53,573</u>	<u>215,980</u>	<u>18,463</u>	<u>593,417</u>	<u>1,684,062</u>
133,789	419,244	32,880	1,145,211	2,254,230
49,622	148,015	19,974	476,610	393,582
1,479	10,769	80	21,369	20,135
561	5,501	68	9,772	8,752
<u>28,346</u>	<u>55,214</u>	<u>7,819</u>	<u>180,345</u>	<u>146,616</u>
80,008	219,500	27,941	688,095	569,087
53,780	199,744	4,939	457,116	1,685,144
1,226,158	4,473,415	406,594	12,226,898	10,544,500
(2)	(5)	(1)	(15)	(2,746)
<u>\$1,279,936</u>	<u>\$ 4,673,154</u>	<u>\$411,531</u>	<u>\$12,683,998</u>	<u>\$12,226,898</u>

	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
<b>ASSETS</b>		
Cash And short-term investments		
Cash	\$	\$
Short-term investments	<u>8,873</u>	<u>33,143</u>
Total cash and short-term investments	8,873	33,143
Receivables		
Investments - accounts receivable	1	4
Due from Retirement Fund	900	
Interest receivable - year end	344	1,394
Accounts receivable - year end	1,044	7,155
Accounts receivable - alternate plan		
A/R - alternate plan - year end		
Total receivables	<u>2,288</u>	<u>8,552</u>
Investments, at fair value		
Corporate and government bonds	20,708	84,253
Corporate stocks	65,784	251,094
Mortgages	1,624	6,368
Real estate		
Total investments, at fair value	88,116	341,716
Security lending collateral invested	<u>193</u>	<u>744</u>
Total assets	99,470	384,156
<b>LIABILITIES</b>		
Accounts payable	11	69
Deferred premium	6	61
Securities lending collateral	<u>193</u>	<u>744</u>
Total liabilities	<u>210</u>	<u>875</u>
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 99,260</u>	<u>\$ 383,281</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, 2000 and 1999

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>2000 Total</u>	<u>1999 Total</u>
\$ 14,741	\$ 23,158	\$ 5,588	\$ 85,503	\$ 53,981
14,741	23,158	5,588	85,503	53,981
1	3	1	10	10
600	1,113	255	900	3,208
2,832	6,288	662	3,706	18,541
17,173	29,542	6,506	94,609	75,740
<u>3,433</u>	<u>7,404</u>	<u>918</u>	<u>22,596</u>	<u>21,759</u>
36,122	68,248	15,451	224,782	173,826
102,660	203,684	46,292	669,515	579,635
2,782	5,162	1,180	17,117	18,851
<u>141,565</u>	<u>277,095</u>	<u>62,923</u>	<u>911,414</u>	<u>772,312</u>
311	596	136	1,979	65,058
<u>160,049</u>	<u>308,252</u>	<u>69,565</u>	<u>1,021,492</u>	<u>913,109</u>
17	84	9	191	106
33	26	3	130	71
<u>310</u>	<u>596</u>	<u>136</u>	<u>1,979</u>	<u>65,058</u>
<u>361</u>	<u>707</u>	<u>148</u>	<u>2,300</u>	<u>65,235</u>
<u>\$ 159,688</u>	<u>\$ 307,545</u>	<u>\$ 69,416</u>	<u>\$ 1,019,191</u>	<u>\$ 847,874</u>

	KERS <u>Hazardous</u>	KERS <u>Non-Hazardous</u>
ADDITIONS		
Employers= contributions	\$ 12,047	\$ 76,926
Total contributions	12,047	76,926
INVESTMENT INCOME		
From Investing Activities		
Net appreciation in fair value of investments	3,593	11,542
Interest	1,691	6,529
Dividends	863	3,341
Total income from investing activities	<u>6,148</u>	<u>21,412</u>
Investment activities expense	8	31
Net investment activities income	6,140	21,381
From securities lending activities		
Securities lending income	541	2,067
Securities lending expense:		
Security borrower rebates	512	1,955
Security lending agent fees	12	45
Net income from securities lending activities	<u>18</u>	<u>67</u>
Total net investment income	<u>6,157</u>	<u>21,448</u>
Total additions	18,204	98,374
DEDUCTIONS		
Healthcare premiums subsidies	1,570	30,364
Administrative fees	11	140
Total deductions	<u>1,581</u>	<u>30,504</u>
Net increase	16,623	67,870
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	82,635	315,406
Prior Period Adjustment	<u>2</u>	<u>6</u>
End of year	<u>\$ 99,260</u>	<u>\$ 383,281</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, 2000 and 1999

Expressed In Thousands

CERS Hazardous	CERS Non-Hazardous	STATE Police	2000 Total	1999 Total
\$ 28,345	\$ 55,214	\$ 7,818	\$ 180,350	\$ 146,080
28,345	55,214	7,818	180,350	146,080
4,690	9,139	2,266	31,230	67,147
2,948	5,200	1,256	17,624	13,907
1,294	2,711	609	8,819	6,796
8,932	17,050	4,131	57,673	87,850
13	25	6	83	88
8,920	17,025	4,125	57,590	87,762
857	1,667	390	5,522	8,059
811	1,576	369	5,223	7,759
19	36	8	119	120
28	54	13	179	180
8,947	17,079	4,138	57,770	87,942
37,293	72,293	11,955	238,120	234,022
9,597	21,942	3,014	66,487	54,276
52	114	14	331	148
9,649	22,056	3,028	66,818	54,424
27,644	50,237	8,927	171,302	179,598
132,042	257,303	60,488	847,874	668,276
2	5	1	15	
\$ 159,688	\$ 307,545	\$ 69,416	\$ 1,019,191	\$ 847,874

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

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

**NOTE A. Summary of Significant Accounting Policies**

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

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

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

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

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

KENTUCKY RETIREMENT SYSTEMS  
NOTES TO THE FINANCIAL STATEMENTS  
For The Years Ended June 30, 2000 and 1999

**NOTE B. Plan Descriptions and Contribution Information**

Membership of each Retirement plan consisted of the following at June 30, 2000 and 1999, the date of the latest actuarial valuation:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	1999			2000		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Number of Members						
Retirees and beneficiaries receiving benefits	21,941	780	22,721	23,760	924	24,684
Terminated plan members - vested	2,978	96	3,074	3,073	113	3,186
Terminated plan members - non-vested	11,512	516	12,028	11,886	646	12,532
Active plan members	<u>45,824</u>	<u>3,889</u>	<u>49,713</u>	<u>46,897</u>	<u>4,007</u>	<u>50,904</u>
Total	<u>82,255</u>	<u>5,281</u>	<u>87,536</u>	<u>85,616</u>	<u>5,690</u>	<u>91,306</u>
Number of participating employers			386			391

COUNTY EMPLOYEES RETIREMENT SYSTEM

	1999			2000		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Number of Members						
Retirees and beneficiaries receiving benefits	20,687	2,704	23,391	22,708	2,984	25,692
Terminated plan members - vested	3,238	128	3,366	3,500	112	3,612
Terminated plan members - non-vested	19,347	331	19,678	20,512	339	20,851
Active plan members	<u>74,451</u>	<u>7,488</u>	<u>81,639</u>	<u>77,419</u>	<u>7,951</u>	<u>85,370</u>
Total	<u>117,423</u>	<u>10,651</u>	<u>128,074</u>	<u>124,139</u>	<u>11,386</u>	<u>135,525</u>
Number of participating employers			1,144			1,218

STATE POLICE RETIREMENT SYSTEM

	1999	2000
	Hazardous Position Employees	Hazardous Position Employees
Number of Members		
Retirees and beneficiaries receiving benefits	762	797
Terminated plan members - vested	14	9
Terminated plan members - non-vested	72	69
Active plan members	<u>985</u>	<u>1,023</u>
Total	<u>1,833</u>	<u>1,898</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, 2000 and 1999, the date of the latest actuarial valuation:

	1999					2000				
	Single	Couple and Family	Parent +	Medicare Regular	Medicare High	Single	Couple and Family	Parent +	Medicare Regular	Medicare High
KERS Non-Hazardous	3,845	786	194	1,785	10,519	4,619	955	295	1,802	10,869
KERS Hazardous	213	154	28	34	335	268	175	37	43	375
CERS Non-Hazardous	3,298	704	141	1,988	7,618	3,813	745	186	2,035	8,341
CERS Hazardous	671	1,173	148	22	528	775	1,243	173	23	609
SPRS	<u>161</u>	<u>349</u>	<u>29</u>	<u>5</u>	<u>252</u>	<u>178</u>	<u>347</u>	<u>38</u>	<u>8</u>	<u>264</u>
Totals	8,188	3,164	539	3,834	19,252	9,653	3,465	729	3,911	20,458

**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, 2000 and 1999, 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, 2000 and 1999, the State contributed 8.03% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2000 and 1999 was 8.03% 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, 2000 and 1999, plan members were required to contribute 7% 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, 2000 and 1999, the State contributed 18.66% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2000 and 1999 was 18.91% and 18.66% respectively, of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

**NOTE B. Plan Descriptions and Contribution Information (Continued)**

COUNTY EMPLOYEES RETIREMENT SYSTEM

**Non-Hazardous Employees Pension Plan**

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

Contributions - For the years ended June 30, 2000 and 1999, 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, 2000 and 1999, participating employers contributed 7.28% and 8.22%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2000 and 1999 was 7.28% and 8.22%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**Hazardous Employees Pension Plan**

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

Contributions - For the years ended June 30, 2000 and 1999, 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, 2000 and 1999, participating employers contributed 17.55% and 18.85%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2000 and 1999 was 17.55% and 18.85%, respectively, of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

**NOTE B. Plan Descriptions and Contribution Information (Continued)**

STATE POLICE RETIREMENT SYSTEM

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

Contributions - For the years ended June 30, 2000 and 1999, 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, 2000 and 1999, the State contributed 23.41% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2000 and 1999 was 25.26% and 23.41%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the year insurance premiums withheld from benefit payments to members of the Systems approximated \$14,952,987 and \$287,371 for KERS and KERS hazardous, respectively, \$14,488,160 and \$1,189,453 for CERS and CERS hazardous, respectively, and \$243,278 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, 2000 the Fund had 46,874 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.

**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

	2000	1999
Cash, uninsured, unregistered & uncollateralized	\$	\$
Miscellaneous cash	47	19
Short-Term Investment Pool	139,651,805	
Repurchase agreements purchased with cash collateral	13,680,024	514,848,170
Other repurchase agreements	400,995,739	290,129,980
Total	\$554,327,568	\$804,978,169

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2000	1999
Cash, uninsured, unregistered & uncollateralized	\$	\$
Short-Term Investment Pool	128,053,183	
Repurchase agreements purchased with cash collateral	12,550,439	493,703,282
Other repurchase agreements	442,896,850	309,139,606
Total	\$583,500,472	\$802,842,888

STATE POLICE RETIREMENT SYSTEM

	2000	1999
Cash, uninsured, unregistered & uncollateralized	\$	\$
Short-Term Investment Pool	7,796,698	
Repurchase agreements purchased with cash collateral	944,577	35,331,254
Other repurchase agreements	23,238,262	13,395,174
Total	\$ 31,979,537	\$ 48,726,428

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	2000	1999
Cash, uninsured, unregistered & uncollateralized	\$	\$
Repurchase agreements purchased with cash collateral	1,979,372	65,057,846
Other repurchase agreements	85,502,549	53,980,841
Total	\$ 87,481,921	\$119,038,686

**NOTE D. Investments**

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

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

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

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

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

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

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

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government and agency issues.
- U.S. Government Issues - Investments may be made in notes, other interest-bearing obligations, and purchases of participation in such instruments that are issued or guaranteed in whole or in part by the United States of America or by any agency or instrumentality thereof.

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, 2000 and 1999 was approximately \$29 million and \$48 million respectively; the fair value of asset-backed securities at June 30, 2000 and 1999 was approximately \$428 million and \$312 million respectively; and the fair value of exchange-traded funds at June 30, 2000 and 1999 was approximately \$182 million and \$53 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, 2000 and 1999. 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, 2000, 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, 2000 and 1999

**Note D: Investments (continued)**

KENTUCKY EMPLOYEES RETIREMENT SYSTEM  
 2000

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

1999

Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	\$ 242,152,177	\$	\$	\$ 242,152,177
Loaned for securities collateral	24,594,020			24,594,020
Corporate bonds	426,849,282			426,849,282
Loaned for securities collateral	9,303,041			9,303,041
Corporate stocks	4,085,771,726			4,085,771,726
Loaned for securities collateral				
Repurchase agreements	290,129,980		514,848,170	804,978,150
Subtotal	\$5,078,800,226	\$	\$514,848,170	5,593,648,395
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				375,081,635
Corporate bonds				113,997,330
Corporate stocks				6,612,613
Mortgages				265,295,392
Real Estate Investment				238,193,165
Total Investments				\$6,592,828,530

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Years Ended June 30, 2000 and 1999

**Note D: Investments (continued)**

COUNTY EMPLOYEES RETIREMENT SYSTEM  
 2000

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

1999				
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	\$ 236,385,152	\$	\$	\$ 236,385,152
Loaned for securities collateral	24,811,038			24,811,038
Corporate bonds	398,550,824			398,550,824
Loaned for securities collateral	8,873,346			8,873,346
Corporate stocks	3,723,130,806			3,723,130,806
Loaned for securities collateral				
Repurchase agreements	309,139,606		493,703,282	802,842,888
Subtotal	\$4,700,890,772	\$	\$493,703,282	5,194,594,053
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				378,391,350
Corporate bonds				108,731,950
Corporate stocks				6,324,547
Mortgages				233,763,883
Real Estate Investment				223,990,064
Total Investments				\$6,145,795,847

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Years Ended June 30, 2000 and 1999

**Note D: Investments (continued)**

STATE POLICE RETIREMENT SYSTEM  
 2000

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

1999				
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	\$ 9,749,046	\$	\$	\$ 9,749,046
Loaned for securities collateral	1,323,612			1,323,612
Corporate bonds	28,997,615			28,997,615
Loaned for securities collateral	482,462			482,462
Corporate stocks	290,677,204			290,677,204
Loaned for securities collateral				
Repurchase agreements	13,395,174		35,331,254	48,726,428
Subtotal	<u>\$ 344,625,113</u>	<u>\$</u>	<u>0\$ 35,331,254</u>	<u>379,956,367</u>
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				20,186,319
Corporate bonds				5,911,977
Corporate stocks				472,503
Mortgages				16,261,447
Real Estate Investment				17,607,157
Total Investments				<u>\$ 440,395,769</u>

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Years Ended June 30, 2000 and 1999

**Note D: Investments (continued)**

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	2000			
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	\$ 116,859,452	\$	\$	\$ 116,859,452
Loaned for securities collateral				
Corporate bonds	107,649,776			107,649,776
Loaned for securities collateral				
Corporate stocks	667,540,279			667,540,279
Loaned for securities collateral				
Repurchase agreements	85,502,549		1,979,372	87,481,921
Subtotal	\$ 977,552,056	\$	\$ 1,979,372	979,531,428
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				
Corporate bonds				
Corporate stocks				1,974,710
Mortgages				17,116,661
Total Investments				\$ 998,622,799

	1999			
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities	\$ 4,166,187	\$	\$	\$ 4,166,187
Loaned for securities collateral	5,139,909			5,139,909
Corporate bonds	83,889,167			83,889,137
Loaned for securities collateral	150,474			150,474
Corporate stocks	578,531,895			578,531,895
Loaned for securities collateral				
Repurchase agreements	53,980,841		65,057,846	119,038,686
Subtotal	\$ 725,858,473	\$	\$ 65,057,846	790,916,318
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				78,388,388
Corporate bonds				1,843,881
Corporate stocks				1,102,959
Mortgages				18,851,152
Total Investments				\$ 891,102,698

**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 \$100,000 for a single claim and \$250,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

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

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66⅔%) 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. PRIOR PERIOD ADJUSTMENT**

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
<u>Non-Hazardous</u>			
June 30, 1995	<u>2,872,020,193</u>	<u>3,112,989,384</u>	<u>240,969,191</u>
June 30, 1996	3,237,983,129	3,295,362,361	57,379,232
June 30, 1997	3,683,995,005	3,463,047,650	(220,947,355)
June 30, 1998	4,356,072,625	3,800,014,746	(556,057,879)
June 30, 1999	5,264,340,397	4,327,622,821	(936,717,576)
June 30, 2000	6,806,675,460	4,876,825,772	(1,929,849,688)
<u>Hazardous</u>			
June 30, 1995	111,793,345	127,862,904	16,069,559
June 30, 1996	137,312,448	120,042,122	(17,270,326)
June 30, 1997	166,717,238	140,918,460	(25,798,778)
June 30, 1998	212,214,618	171,735,076	(40,479,542)
June 30, 1999	259,839,319	204,282,788	(55,556,531)
June 30, 2000	336,213,464	243,365,557	(92,847,907)

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2000

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll $((b-a)/c)$
0.923	1,231,383,460	0.196
0.983	1,232,974,460	0.047
1.064	1,234,798,738	(0.179)
1.146	1,321,004,266	(0.421)
1.216	1,330,766,100	(0.704)
1.396	1,409,504,668	(1.369)
0.874	88,657,986	0.181
1.144	85,933,543	(0.201)
1.183	87,757,075	(0.294)
1.236	93,130,996	(0.435)
1.272	103,464,123	(0.537)
1.382	115,639,439	(0.803)

COUNTY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
<u>Non-Hazardous</u>			
June 30, 1995	1,901,448,617	1,935,154,223	33,705,606
June 30, 1996	2,237,808,033	2,083,374,317	(154,433,716)
June 30, 1997	2,750,196,558	2,390,620,093	(359,576,465)
June 30, 1998	3,346,205,003	2,663,946,276	(682,258,727)
June 30, 1999	4,072,227,435	2,991,420,884	(1,080,806,551)
June 30, 2000	5,284,033,534	3,368,601,134	(1,915,432,400)
<u>Hazardous</u>			
June 30, 1995	552,679,443	668,421,698	115,742,255
June 30, 1996	642,220,505	694,942,156	52,721,651
June 30, 1997	763,829,310	754,308,810	(9,520,500)
June 30, 1998	927,057,492	865,966,626	(61,090,866)
June 30, 1999	1,124,651,486	963,711,775	(160,939,711)
June 30, 2000	1,445,542,794	1,084,553,697	(360,989,097)

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2000

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.983	1,167,668,400	0.029
1.074	1,137,192,560	(0.136)
1.150	1,297,116,204	(0.277)
1.256	1,437,594,574	(0.475)
1.361	1,346,601,939	(0.803)
1.569	1,452,058,248	(1.319)
0.827	205,738,571	0.563
0.924	211,638,457	0.249
1.013	225,094,837	(0.042)
1.071	236,180,023	(0.257)
1.167	256,201,726	(0.628)
1.333	288,575,870	(1.251)

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2000

STATE POLICE RETIREMENT SYSTEM

Payroll Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 1995	217,504,443	241,690,631	24,186,188	0.900	38,955,271	0.621
June 30, 1996	237,515,346	244,540,812	7,025,466	0.971	34,698,957	0.202
June 30, 1997	279,643,275	255,784,758	(23,858,517)	1.093	41,586,211	(0.574)
June 30, 1998	306,318,918	294,427,019	(11,891,899)	1.040	38,727,361	(0.307)
June 30, 1999	357,623,196	314,021,673	(43,601,523)	1.139	40,433,405	(1.078)
June 30, 2000	459,168,574	336,579,763	(122,588,811)	1.364	43,619,383	(2.810)

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
<u>KERS Non-Hazardous</u> June 30, 1995	102,238,501	1,348,616,865	1,246,378,364
June 30, 1996**	138,382,213	1,127,128,023	988,745,810
June 30, 1997	168,479,973	1,153,952,891	985,472,918
June 30, 1998	210,105,184	1,242,183,993	1,032,078,809
June 30, 1999	283,704,887	1,273,364,800	989,659,913
June 30, 2000	399,560,252	1,457,475,358	1,057,915,106
<u>KERS Hazardous</u> June 30, 1995	25,053,690	113,557,236	88,503,546
June 30, 1996**	34,263,992	95,266,115	61,002,123
June 30, 1997	42,684,374	120,511,351	77,826,977
June 30, 1998	54,606,786	137,394,162	82,787,376
June 30, 1999	74,579,649	149,158,586	74,578,937
June 30, 2000	102,212,237	175,167,613	72,955,376

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

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2000

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.076	1,231,383,460	1.012
0.123	1,232,974,460	0.802
0.146	1,234,798,738	0.798
0.169	1,321,004,266	0.781
0.223	1,330,766,100	0.743
0.274	1,409,504,668	0.751
0.221	88,657,986	0.998
0.360	85,933,543	0.710
0.354	87,757,075	0.887
0.397	93,130,996	0.889
0.500	103,464,123	0.721
0.584	115,639,439	0.631

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
<u>CERS Non-Hazardous</u>			
June 30, 1995	82,813,551	1,217,880,223	1,135,066,682
June 30, 1996**	110,203,861	1,011,215,398	901,011,537
June 30, 1997	134,688,096	1,091,055,849	956,367,753
June 30, 1998	168,531,296	1,213,339,747	1,044,808,451
June 30, 1999	231,937,169	1,282,874,286	1,050,937,117
June 30, 2000	319,642,694	1,466,716,928	1,147,074,234
<u>CERS Hazardous</u>			
June 30, 1995	42,640,389	462,012,992	419,372,603
June 30, 1996**	57,332,380	375,444,348	318,111,968
June 30, 1997	69,832,681	450,304,608	380,471,927
June 30, 1998	87,055,079	493,286,363	406,231,284
June 30, 1999	114,590,223	518,280,115	403,689,892
June 30, 2000	168,657,912	599,936,029	431,278,117

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

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2000

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.068	1,167,668,400	0.972
0.109	1,137,192,560	0.792
0.123	1,297,116,204	0.737
0.139	1,437,594,574	0.727
0.180	1,346,601,939	0.780
0.218	1,452,058,248	0.780
0.092	205,738,571	2.038
0.153	211,638,457	1.503
0.155	225,094,837	1.690
0.176	236,180,023	1.720
0.221	256,201,726	1.576
0.281	288,575,870	1.500

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 For The Year Ended June 30, 2000

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Covered Payroll SPRS	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of ((b-a)/c)
June 30, 1995	21,200,195	118,995,732	97,795,537	0.178	38,955,271	2.511
June 30, 1996**	27,809,267	101,132,886	73,323,619	0.275	34,698,957	2.113
June 30, 1997	33,876,483	117,361,754	83,485,271	0.289	41,586,211	2.008
June 30, 1998	41,410,500	124,501,076	83,090,576	0.333	38,727,361	2.146
June 30, 1999	53,929,859	125,797,150	71,867,291	0.429	40,433,405	1.777
June 30, 2000	71,711,712	138,867,085	67,155,373	0.516	43,619,383	1.540

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

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2000

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, 1995	105,406,424	93,882,993	0.891
June 30, 1996	107,885,265	99,296,569	0.920
June 30, 1997	109,773,608	102,967,907	0.935
June 30, 1998	117,437,279	112,082,480	0.954
June 30, 1999	106,860,518	107,514,778	1.006
June 30, 2000	113,183,225	115,055,476	1.017

HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1995	15,931,840	13,698,600	0.860
June 30, 1996	15,511,004	14,420,406	0.930
June 30, 1997	15,682,189	15,151,328	0.966
June 30, 1998	16,642,509	15,997,189	0.961
June 30, 1999	19,306,405	19,443,818	1.007
June 30, 2000	21,578,319	21,633,272	1.003

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2000

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, 1995	102,404,519	88,922,215	0.868
June 30, 1996	101,665,015	95,660,478	0.941
June 30, 1997	112,200,552	105,773,743	0.942
June 30, 1998	124,351,931	107,490,256	0.864
June 30, 1999	109,074,757	110,591,016	1.014
June 30, 2000	105,709,840	106,587,217	1.008

HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1995	37,691,306	32,959,064	0.874
June 30, 1996	38,539,363	35,951,348	0.933
June 30, 1997	42,070,225	39,552,085	0.938
June 30, 1998	44,142,046	42,297,090	0.958
June 30, 1999	46,526,233	48,290,617	1.037
June 30, 2000	50,645,065	51,739,272	1.022

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2000

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, 1995	8,484,458	6,874,327	0.810
June 30, 1996	7,998,110	7,089,072	0.886
June 30, 1997	11,053,615	9,627,692	0.871
June 30, 1998	10,293,733	9,573,742	0.930
June 30, 1999	9,465,460	9,463,188	0.999
June 30, 2000	10,211,298	10,215,824	1.000

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2000

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, 1995	38,788,579	34,378,689	0.886
June 30, 1996	38,838,695	36,690,182	0.940
June 30, 1997	38,896,160	37,709,736	0.970
June 30, 1998	54,029,074	39,503,545	0.731
June 30, 1999	56,690,636	56,769,539	1.001
June 30, 2000	76,818,004	76,926,320	1.001

**KERS**  
**HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1995	6,613,886	5,632,584	0.852
June 30, 1996	6,410,642	5,931,007	0.930
June 30, 1997	6,546,678	6,278,931	0.960
June 30, 1998	9,341,039	6,632,037	0.710
June 30, 1999	10,760,269	10,773,916	1.001
June 30, 2000	12,026,502	12,047,095	1.002

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2000

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, 1995	27,556,974	23,773,207	0.863
June 30, 1996	26,837,744	25,234,550	0.940
June 30, 1997	30,611,942	27,504,331	0.898
June 30, 1998	48,303,178	29,271,074	0.606
June 30, 1999	47,939,029	47,901,837	0.999
June 30, 2000	55,033,008	55,213,973	1.003

**CERS  
HAZARDOUS**

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1995	13,023,252	11,299,170	0.868
June 30, 1996	13,396,714	12,381,700	0.920
June 30, 1997	14,248,503	13,305,317	0.934
June 30, 1998	20,783,842	14,275,040	0.687
June 30, 1999	23,647,419	23,382,957	0.989
June 30, 2000	27,991,859	28,345,377	1.013

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 For The Year Ended June 30, 2000

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, 1995	5,535,544	4,463,969	0.806
June 30, 1996	4,930,722	4,603,921	0.930
June 30, 1997	5,909,401	5,125,678	0.867
June 30, 1998	6,808,270	5,120,037	0.752
June 30, 1999	7,237,579	7,251,787	1.002
June 30, 2000	7,807,870	7,817,613	1.001

KENTUCKY RETIREMENT SYSTEMS  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 For The Year Ended June 30, 2000

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

POST-EMPLOYMENT HEALTHCARE

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

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF ADMINISTRATIVE EXPENSES  
 For the Year Ended June 30, 2000

SUPPORTING SCHEDULE #1

Personal Services:		
Salaries and Per Diem	\$5,886,632	
Fringe Benefits	1,426,167	
Tuition Assistance	<u>8,611</u>	
Total Personal Services		\$7,321,410
Contractual Services:		
Actuarial	53,900	
Audit	25,000	
Legal	190,243	
Medical	105,745	
Banking	84,794	
Miscellaneous	<u>(22,596)</u>	
Total Contractual Services		437,086
Communication:		
Printing	120,651	
Telephone	86,447	
Postage	386,943	
Travel	<u>59,078</u>	
Total Communication		653,119
Rentals:		
Office Space	430,424	
Equipment	<u>28,269</u>	
Total Rentals		458,693
Miscellaneous:		
Utilities	111,595	
Supplies	117,923	
Insurance	47,487	
Maintenance	325,620	
Other	<u>29,243</u>	
Total Miscellaneous		631,868
Capital Outlay:		
Equipment Purchases	95,280	
Lease Purchases	<u>174,638</u>	
Total Capital Outlay		<u>269,918</u>
 TOTAL ADMINISTRATIVE EXPENSES		 <u>\$9,772,094</u>

KENTUCKY RETIREMENT SYSTEMS  
 REQUIRED SUPPLEMENTAL INFORMATION  
 SCHEDULE OF INVESTMENT EXPENSES  
 For the Year Ended June 30, 2000

SUPPORTING SCHEDULE #2

**Retirement Funds**

Security Lending Fees:		
Broker Rebates	\$99,420,586	
Lending Agent Fees	2,455,490	
Custodial Fee	<u>324,325</u>	
Total Security Lending		\$102,200,400

Contractual Services:		
Investment Management	4,546,751	
Security Custody	471,573	
Real Estate Consultant	5,000	
Investment Consultant	<u>58,500</u>	
Total Contractual Services		5,081,824

**Insurance Funds**

Security Lending Fees:		
Broker Rebates	5,222,833	
Lending Agent Fees	<u>119,380</u>	
Total Security Lending		5,342,213
Investment Management		<u>82,547</u>
TOTAL INVESTMENT EXPENSES		<u>\$112,706,984</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, 2000

SUPPORTING SCHEDULE #3

Actuarial Services	\$ 53,900
Medical Review Services	105,745
Audit Services	25,000
Legal Counsel	<u>190,243</u>
TOTAL	<u>\$374,888</u>

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

Board of Trustees  
Kentucky Retirement Systems  
Frankfort, Kentucky

We have audited the 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, 2000, and have issued our report thereon dated November 2, 2000. We conducted our audit in accordance with generally accepted auditing standards 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.

November 2, 2000