

KENTUCKY RETIREMENT SYSTEMS

Financial Statements and Supplementary Information

For the Fiscal Years Ended June 30, 2008 and 2007

With Independent Auditors' Report Thereon



CONTENTS

Pages

Independent Auditor's Report	1-2
Management's Discussion and Analysis.....	3-9
Financial Statements:	
Combined Statement of Plan Net Assets-Pension Funds.....	10
Combined Statement of Changes in Plan Net Assets- Pension Funds	11-12
Combined Statement of Plan Net Assets-Insurance Fund	13
Combined Statement of Changes in Plan Net Assets-Insurance Fund	14-15
Notes to the Financial Statements.....	16-48
Required Supplementary Information:	
Schedule of Funding Progress:	
Kentucky Employees Retirement System-Pension Funds	49
County Employees Retirement System-Pension Funds	50
State Police Retirement System-Pension Funds.....	51
Kentucky Employees Retirement System-Insurance Fund.....	52
County Employees Retirement System-Insurance Fund.....	53
State Police Retirement System-Insurance Fund	54
Schedule of Contributions from Employers and Other Contributing Entities:	
Kentucky Employees Retirement System.....	55-56
County Employees Retirement System	57-58
State Police Retirement System.....	59
Additional Supporting Schedules:	
Schedule of Administrative Expenses.....	60
Schedule of Investment Expenses.....	61
Schedule of Professional Consultant Fees	62
Report On Internal Control Over Financial Reporting and On Compliance And Other Matters Based On An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63-64
Schedule of Findings	65

Independent Auditors' Report

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the fiscal year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Kentucky Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Kentucky Retirement Systems as of and for the fiscal year ended June 30, 2007, were audited by other auditors whose report dated November 15, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of June 30, 2008, and the changes in plan net assets for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008, on our consideration of the Kentucky Retirement Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (pages 3 through 9) and the Schedule of Funding Progress and Schedule of Contributions from Employers and Other Contributing Entities (pages 55 through 59) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of

management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supporting schedules (pages 60 through 62) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 17, 2008
Lexington, Kentucky

A handwritten signature in black ink that reads "Dean Denton Ford, BC". The signature is written in a cursive style with a large, prominent "D" at the beginning.

KENTUCKY RETIREMENT SYSTEMS

Management Discussion and Analysis

June 30, 2008

This discussion and analysis of Kentucky Retirement Systems' financial performance provides an overview of the pension and insurance fund financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the financial statements, which begin on page 10.

Financial Highlights-Pension Funds

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

- The combined plan net assets of all pension funds administered by Kentucky Retirement Systems decreased by \$1,272.8 million during fiscal 2008.
- Actual covered payroll reported for fiscal 2008 was \$4,716.1 million compared to covered payroll for fiscal 2007 of \$4,484.4 million, increasing approximately \$231.7 million. The corresponding employer contributions increased by \$121.6 million for a total employer contribution amount of \$722.7 million. Of the total employer contribution amount, \$350.4 million was posted to the pension funds while \$372.3 million was posted to the insurance funds. Contributions paid by employees were \$304.3 million and \$300.3 million, respectively, for the fiscal years ended June 30, 2008 and June 30, 2007. This increase in employee contribution is a result of an increase in covered payroll and an increase in service purchased by employees.
- The net depreciation in the fair value of investments was (\$997.4) million for the fiscal year ended June 30, 2008 compared to net appreciation of \$1,507.8 million for the prior fiscal year. Included in this net depreciation were realized gains on sales of investments of \$360.1 million. In comparison, the pension funds realized gains of \$870.7 million for the fiscal year ended June 30, 2007. The decrease in realized gain experienced by the pension funds is due to an unfavorable change in market conditions.
- Net interest, dividend and securities lending income was \$417.4 million compared to \$407.9 million in last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased \$112 million bringing total benefit payments to \$1,299.2 million. Refund of contributions paid to former members upon termination of employment increased from \$25.2 million to \$25.5 million.
- Administrative expense increased \$1.8 million, totaling \$22.9 million, compared to \$21.1 million in the prior fiscal year.

KENTUCKY RETIREMENT SYSTEMS

Management's Discussion and Analysis, continued

June 30, 2008

Financial Highlights-Insurance Funds

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

- The combined plan net assets of the insurance fund administered by Kentucky Retirement Systems decreased by \$83.3 million during fiscal 2008.
- Premiums received from retirees who participated in the Medicare eligible self-funded plan totaled \$28.5 million.
- Employer contributions of \$372.3 million were received. This is an increase of \$64.6 million over the prior fiscal year. This increase is due to the increase of covered payroll reported by participating employers and the employers' increased percentage of covered payroll contributed.
- Retiree drug subsidies received were \$13.3 million.
- The net depreciation in the fair value of investments was (\$282.4) million compared to net appreciation of \$366.8 million for the prior fiscal year. Included in this net depreciation were realized gains on sales of investments of \$104.9 million. In comparison, the insurance funds realized gains on investments of \$129.5 million in the prior fiscal year. This decrease in realized gains is due to an unfavorable change in market conditions.
- Net interest, dividend and securities lending income was \$61.8 million compared to income of approximately \$56.6 million in last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage totaled \$167.8 million. Payments for the self-funded healthcare reimbursements totaled \$101.6 million. The total of insurance premiums paid plus self-funded reimbursements was \$269.4 million for fiscal 2008. Insurance premiums paid plus self-funded healthcare reimbursements for the prior plan year totaled \$241.1 million.

KENTUCKY RETIREMENT SYSTEMS

Management's Discussion and Analysis, continued

June 30, 2008

Using This Financial Report

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, the financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The Combined Statements of Plan Net Assets for the Pension Funds, on page 10, and the Combined Statement of Plan Net Assets for the Insurance Funds, on page 13, provides a snapshot of the financial position of each of the three systems at June 30, 2008. The Combined Statement of Changes in Plan Net Assets for the Pension Funds, on pages 11-12, and the Combined Statement of Changes in Plan Net Assets for the Insurance Funds, on pages 14-15, summarize the additions and deductions that occurred for each of the three systems during fiscal 2008.

The Schedule of Funding Progress, on pages 49-54, includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Contributions from Employers and Other Contributing Entities, on pages 55-59, presents historical trend information about the annual required contributions and the contributions made in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

KENTUCKY RETIREMENT SYSTEMS

Management's Discussion and Analysis, continued

June 30, 2008

Kentucky Retirement Systems As A Whole

Kentucky Retirement Systems' combined plan net assets decreased, during the fiscal year ended June 30, 2008, by \$1,356 million from \$16,959.4 million to \$15,603.3 million. Plan net assets for the prior fiscal year increased by \$1,806.7 million. The decrease in plan net assets for the plan year ended June 30, 2008 is primarily attributable to overall losses in the stock market. The analysis below focuses on plan net assets (Table 1) and changes in plan net assets (Table 2) of Kentucky Retirement Systems' Pension and Insurance Funds.

Table 1
Plan Net Assets
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Cash & Invest.	\$ 15,768.8	\$ 17,245.3	\$ 16,299.5	\$ 3,379.9	\$ 3,441.6	\$ 2,691.6	\$ 19,148.7	\$ 20,686.9	\$ 18,991.1
Receivables	122.4	125.2	123.4	45.5	41.4	35.7	167.9	166.6	159.1
Equip., net of dep.	8.5	1.9	1.3	-	-	-	8.5	1.9	1.3
Total Assets	15,899.7	17,372.4	16,424.2	3,425.4	3,483.0	2,727.3	19,325.1	20,855.4	19,151.5
Total Liabilities	(2,944.3)	(3,144.2)	(3,472.1)	(777.5)	(751.8)	(526.7)	(3,721.8)	(3,896.0)	(3,998.8)
Plan Net Assets	\$ 12,955.4	\$ 14,228.2	\$ 12,952.1	\$ 2,647.9	\$ 2,731.2	\$ 2,200.6	\$ 15,603.3	\$ 16,959.4	\$ 15,152.7

Table 2
Changes in Plan Net Assets
(In Millions)

	Pension Funds			Insurance Funds			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Additions:									
Member Cont.	\$ 304.3	\$ 300.3	\$ 275.9	\$ -	\$ -	\$ -	\$ 304.3	\$ 300.3	\$ 275.9
Employer Cont.	350.4	293.4	216.5	372.3	307.7	253.4	722.7	601.1	469.9
Premiums Rec'd	-	-	-	28.5	26.6	12.3	28.5	26.6	12.3
Insurance Approp	-	-	-	-	-	11.9	-	-	11.9
Medicare Subsidy	-	-	-	13.3	21.5	-	13.3	21.5	-
Invest. Inc. (net)	(579.9)	1,915.8	1,162.4	(220.6)	423.4	230.8	(800.5)	2,339.2	1,393.2
Total additions	74.8	2,509.5	1,654.8	193.5	779.2	508.4	268.3	3,288.7	2,163.2
Deductions:									
Benefit payments	1,299.2	1,187.1	1,062.6	-	-	-	1,299.2	1,187.1	1,062.6
Refunds	25.5	25.2	24.9	-	-	-	25.5	25.2	24.9
Administrative Ex.	22.9	21.1	20.4	7.5	6.7	3.6	30.4	27.8	24.0
Healthcare Costs	-	-	-	269.3	241.1	212.8	269.3	241.1	212.8
Demut. Refund	-	-	-	-	0.8	20.0	-	0.8	20.0
Total deductions	1,347.6	1,233.4	1,107.9	276.8	248.6	236.4	1,624.4	1,482.0	1,344.3
Inc. (decrease) in plan net assets	\$ (1,272.8)	\$ 1,276.1	\$ 546.9	\$ (83.3)	\$ 530.6	\$ 272.0	\$ (1,356.1)	\$ 1,806.7	\$ 818.9

KENTUCKY RETIREMENT SYSTEMS

Management's Discussion and Analysis, continued

June 30, 2008

Kentucky Retirement Systems As A Whole, continued

Plan net assets of the pension funds decreased by \$1,272.8 million (\$12,955.4 million compared to \$14,228.2 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 overall losses in the fair value of investments due to the change in market conditions in general.

Plan net assets of the insurance fund decreased by approximately \$83.3 million (\$2,647.9 million compared to \$2,731.2 million). All of these assets are restricted in use to provide hospital and medical insurance benefits to members of the pension funds who receive a monthly retirement allowance. This decrease in net plan assets is primarily attributable to the overall losses in the fair value of investments, which is due to the change in market conditions in general.

Pension Fund Activities

Member contributions increased by \$4 million. Retirement contributions are calculated by applying a percentage factor to salary and are remitted by each employer on behalf of the member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit. The increase in member contributions is a result of an increase in elective service purchases by Kentucky Retirement Systems' members over the prior period.

Employer contributions increased by \$57 million due to the increase in covered payroll reported to Kentucky Retirement Systems and the increase in the employer contribution rate applied to covered payroll.

Net investment income decreased by \$2,495.7 million (net investment loss of \$579.9 million compared to net investment income of \$1,915.8 million in the prior year). The pension funds experienced a decrease in income primarily due to the decrease in gains on sale of investments. This can be illustrated in Table 3 as follows:

Table 3	In Millions		
Investment (Loss) Income -Pension	2008	2007	2006
(Decrease) increase in fair value of investments	\$ (1,357)	\$ 638	\$ 201
Investment income net of investment expense	417	408	359
Gain on sale of investments	360	870	602
Net investment (loss) income	\$ (580)	\$ 1,916	\$ 1,162

KENTUCKY RETIREMENT SYSTEMS

Management's Discussion and Analysis, continued

June 30, 2008

Pension Fund Activities, continued

Pension fund deductions increased by \$114 million caused principally by an increase of \$112 million in benefit payments. Retirees received a Cost of Living Adjustment (COLA) increase of 3.2% in benefit payments as of July 1, 2007. Refunds of member contributions increased by \$.3 million and administrative expenses increased by \$1.8 million.

Insurance Fund Activities

Employer contributions paid into the insurance fund increased by \$64.5 million over the prior fiscal year. This increase is a result of the increase in covered payroll reported to Kentucky Retirement Systems and the increase in the employer contribution rate applied to covered payroll.

Net investment income decreased by \$643 million. This decrease in net income is due primarily to the decrease in the gains on sale of investments. This can be illustrated in Table 4 as follows:

Investment (Loss) Income-Insurance	In Millions		
	2008	2007	2006
(Decrease) increase in fair value of investments	\$ (387)	\$ 237	\$ 111
Investment income net of investment expense	62	56	42
Gain on sale of investments	105	130	78
Net investment (loss) income	<u>\$ (220)</u>	<u>\$ 423</u>	<u>\$ 231</u>

Insurance fund deductions increased by \$28 million due to the increase in overall healthcare costs.

KENTUCKY RETIREMENT SYSTEMS

Management's Discussion and Analysis, continued

June 30, 2008

Historical Trends

Accounting standards require that the Statement of Plan Net Assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the Pension and Insurance Funds is provided in the Schedule of Funding Progress on pages 49-54. The asset value stated in the Schedule of Funding Progress is the actuarial value of assets determined by calculating the difference between the expected valuation assets and the actual market value of assets adjusted for any unrecognized gains or losses and amortized over a five-year period. The actuarial accrued liability is calculated using the entry age normal cost funding method. This actuarial accrued liability is the measure of the cost of benefits that have been earned to date by Kentucky Retirement Systems' members, but not yet paid. The difference in value between the actuarial accrued liability and the actuarial value of assets is known as the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability in the pension plans increased by \$1,246.9 million for a total unfunded amount of \$7,387.9 million for the fiscal year ended June 30, 2008, compared to an unfunded amount of \$6,141.1 for the fiscal year ended June 30, 2007. In recent years, funding levels for the pension funds have fallen dramatically in response to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, the 2008 assumption changes, and increasing expenditures for retiree Cost of Living Adjustments. Within the KERS and SPRS plans, employer contribution rate reductions enacted by the Kentucky General Assembly have limited the plans ability to correct the declining funding levels.

The insurance plan's unfunded actuarial accrued liability for the plan year ended June 30, 2008, increased to \$8,973.5 million from \$8,658.3 million for the plan year ended June 30, 2007. This is an increase in the unfunded actuarial accrued liability of \$315.2 million. Medical inflation rates in excess of the assumed rates as well as recent employer contribution rate reductions under KERS and SPRS have significantly caused this increase. The recent adoption of new actuarial assumptions and the application of Governmental Accounting Standards Board Statement No. 43 "Financial Reporting for Postemployment Benefit Plans other than Pension Plans" have further reduced the measured funding level.

Annual required contributions of the employers as actuarially determined and actual contributions made by employers and other contributing entities in relation to the required contributions are provided in the Schedule of Contributions from Employers and Other Contributing Entities on pages 55-59. The difference in the annual required contributions and actual contributions made by employers and other contributing entities in the KERS and SPRS funds is attributable to the statutory employer contribution rate set by the Kentucky General Assembly being less than the rate computed by the actuary.

KENTUCKY RETIREMENT SYSTEMS

Combined Statement of Plan Net Assets-Pension Funds

As of June 30, 2008 (with Comparative Totals As of June 30, 2007)

(Dollars in Thousands)

	2008					2007	
	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
ASSETS							
Cash and Short-Term Investments							
Cash	\$ 118	\$ 203	\$ 238	\$ 323	\$ 87	\$ 969	\$ 1,181
Short-Term Investments	<u>15,682</u>	<u>68,261</u>	<u>46,799</u>	<u>67,450</u>	<u>1,601</u>	<u>199,793</u>	<u>342,328</u>
Total Cash and Short-Term Investments	15,800	68,464	47,037	67,773	1,688	200,762	343,509
Receivables							
Contributions	1,642	21,955	11,386	32,028	1,149	68,160	67,754
Investment Income	<u>2,054</u>	<u>21,058</u>	<u>6,857</u>	<u>22,799</u>	<u>1,481</u>	<u>54,249</u>	<u>57,442</u>
Total Receivables	3,696	43,013	18,243	54,827	2,630	122,409	125,196
Investments, at fair value							
Corporate and Government Bonds	135,247	1,236,656	425,700	1,393,037	93,619	3,284,259	3,420,592
Corporate Stocks	281,760	3,208,116	984,533	3,319,682	201,825	7,995,916	8,868,909
Mortgages	46,158	499,605	167,578	593,436	37,183	1,343,960	1,470,223
Real Estate	<u>1,943</u>	<u>2,346</u>	<u>2,415</u>	<u>2,360</u>	<u>481</u>	<u>9,545</u>	<u>9,546</u>
Total Investments, at fair value	465,108	4,946,723	1,580,226	5,308,515	333,108	12,633,680	13,769,270
Securities Lending Collateral Invested	109,935	1,146,607	372,005	1,229,252	76,544	2,934,343	3,132,538
Equipment (net of accumulated depreciation)	215	2,518	375	4,305	45	7,458	1,894
Intangible Assets (net of accumulated amortization)	<u>31</u>	<u>364</u>	<u>54</u>	<u>624</u>	<u>6</u>	<u>1,079</u>	<u>-</u>
Total Assets	<u>594,785</u>	<u>6,207,689</u>	<u>2,017,940</u>	<u>6,665,296</u>	<u>414,021</u>	<u>15,899,731</u>	<u>17,372,407</u>
LIABILITIES							
Accounts Payable	412	4,213	953	4,309	118	10,005	11,685
Securities Lending Collateral	<u>109,935</u>	<u>1,146,607</u>	<u>372,005</u>	<u>1,229,252</u>	<u>76,544</u>	<u>2,934,343</u>	<u>3,132,538</u>
Total Liabilities	<u>110,347</u>	<u>1,150,820</u>	<u>372,958</u>	<u>1,233,561</u>	<u>76,662</u>	<u>2,944,348</u>	<u>3,144,223</u>
Plan Net Assets Held in Trust for							
Pension Benefits	<u>\$ 484,438</u>	<u>\$ 5,056,869</u>	<u>\$ 1,644,982</u>	<u>\$ 5,431,735</u>	<u>\$ 337,359</u>	<u>\$ 12,955,383</u>	<u>\$ 14,228,184</u>

(A Schedule of Funding Progress for each plan is presented on pages 49-51)

See accompanying notes to the financial statements.

KENTUCKY RETIREMENT SYSTEMS

Combined Statement of Changes in Plan Net Assets-Pension Funds

For the Fiscal Year Ended June 30, 2008 (with Comparative Totals For the Fiscal Year Ended June 30, 2007)

(Dollars in Thousands)

	2008						2007
	KERS	KERS	CERS	CERS	SPRS	Total	Total
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous			
ADDITIONS							
Members' Contributions	\$ 13,091	\$ 116,487	\$ 44,260	\$ 125,014	\$ 5,407	\$ 304,259	\$ 300,280
Employers' Contributions	<u>15,257</u>	<u>104,655</u>	<u>72,155</u>	<u>150,925</u>	<u>7,443</u>	<u>350,435</u>	<u>293,442</u>
Total Contributions	28,348	221,142	116,415	275,939	12,850	654,694	593,722
INVESTMENT INCOME							
From Investing Activities:							
Net (Depreciation) Appreciation in Fair Value of Investments	(36,278)	(386,227)	(150,666)	(401,080)	(23,118)	(997,369)	1,507,855
Interest/Dividends	<u>15,631</u>	<u>165,355</u>	<u>53,352</u>	<u>173,562</u>	<u>10,902</u>	<u>418,802</u>	<u>420,727</u>
Total Investing Activities (Loss) Income	(20,647)	(220,872)	(97,314)	(227,518)	(12,216)	(578,567)	1,928,582
Investment Expense	460	5,200	1,604	5,136	350	12,750	11,991
Commissions	<u>300</u>	<u>3,130</u>	<u>951</u>	<u>3,308</u>	<u>226</u>	<u>7,915</u>	<u>7,386</u>
Total Investing Activities Expense	<u>760</u>	<u>8,330</u>	<u>2,555</u>	<u>8,444</u>	<u>576</u>	<u>20,665</u>	<u>19,377</u>
Net (Loss) Income from Investing Activities	<u>(21,407)</u>	<u>(229,202)</u>	<u>(99,869)</u>	<u>(235,962)</u>	<u>(12,792)</u>	<u>(599,232)</u>	<u>1,909,205</u>
From Securities Lending Activities:							
Securities Lending Income	5,263	54,870	17,805	58,594	3,663	140,195	186,075
Securities Lending Expense:							
Security Borrower Rebates	4,344	45,312	14,701	48,578	3,025	115,960	177,377
Security Lending Agent Fees	<u>185</u>	<u>1,934</u>	<u>628</u>	<u>2,074</u>	<u>129</u>	<u>4,950</u>	<u>2,129</u>
Net Income from Securities Lending Activities	<u>734</u>	<u>7,624</u>	<u>2,476</u>	<u>7,942</u>	<u>509</u>	<u>19,285</u>	<u>6,569</u>
Total Net Investment (Loss) Income	<u>(20,673)</u>	<u>(221,578)</u>	<u>(97,393)</u>	<u>(228,020)</u>	<u>(12,283)</u>	<u>(579,947)</u>	<u>1,915,774</u>
Total Additions (Loss)	7,675	(436)	19,022	47,919	567	74,747	2,509,496

KENTUCKY RETIREMENT SYSTEMS

Combined Statement of Changes in Plan Net Assets-Pension Funds, continued

For the Fiscal Year Ended June 30, 2008 (with Comparative Totals For the Fiscal Year Ended June 30, 2007)

(Dollars in Thousands)

	2008					2007	
	<u>KERS Hazardous</u>	<u>KERS Non- Hazardous</u>	<u>CERS Hazardous</u>	<u>CERS Non- Hazardous</u>	<u>SPRS</u>	<u>Total</u>	<u>Total</u>
DEDUCTIONS							
Benefit Payments	31,606	699,052	125,191	403,958	39,367	1,299,174	1,187,154
Refunds	1,742	9,076	2,641	11,924	85	25,468	25,157
Administrative Expenses	664	7,724	1,143	13,238	137	22,906	21,077
Capital Project Expenses	-	-	-	-	-	-	38
Total Deductions	<u>34,012</u>	<u>715,852</u>	<u>128,975</u>	<u>429,120</u>	<u>39,589</u>	<u>1,347,548</u>	<u>1,233,426</u>
Net (Decrease) Increase in Plan Assets	(26,337)	(716,288)	(109,953)	(381,201)	(39,022)	(1,272,801)	1,276,070
Plan Net Assets Held in Trust for Pension Benefits							
Beginning of Year	<u>510,775</u>	<u>5,773,157</u>	<u>1,754,935</u>	<u>5,812,936</u>	<u>376,381</u>	<u>14,228,184</u>	<u>12,952,114</u>
End of Year	<u>\$ 484,438</u>	<u>\$ 5,056,869</u>	<u>\$ 1,644,982</u>	<u>\$ 5,431,735</u>	<u>\$ 337,359</u>	<u>\$ 12,955,383</u>	<u>\$ 14,228,184</u>

See accompanying notes to the financial statements.

KENTUCKY RETIREMENT SYSTEMS

Combined Statement of Plan Net Assets-Insurance Funds

As of June 30, 2008 (with Comparative Totals As of June 30, 2007)
(Dollars in Thousands)

	2008					2007	
	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
ASSETS							
Cash and Short-Term Investments							
Cash	\$ 24	\$ 88	\$ 7	\$ 70	\$ 32	\$ 221	\$ 54
Short-Term Investments	<u>30,925</u>	<u>41,445</u>	<u>77,803</u>	<u>147,657</u>	<u>9,015</u>	<u>306,845</u>	<u>224,585</u>
Total Cash and Short-Term Investments	30,949	41,533	77,810	147,727	9,047	307,066	224,639
Receivables							
Contributions	1,000	7,021	6,716	22,124	402	37,263	33,816
Investment Income	<u>818</u>	<u>1,948</u>	<u>1,779</u>	<u>3,307</u>	<u>400</u>	<u>8,252</u>	<u>7,580</u>
Total Receivables	1,818	8,969	8,495	25,431	802	45,515	41,396
Investments, at fair value							
Corporate and Government Bonds	26,480	76,539	72,754	140,228	14,534	330,535	289,343
Corporate Stocks	210,122	449,054	417,555	794,147	97,452	1,968,330	2,178,676
Alternative Investment	<u>15</u>	<u>15</u>	<u>37</u>	<u>61</u>	<u>7</u>	<u>135</u>	<u>135</u>
Total Investments	236,617	525,608	490,346	934,436	111,993	2,299,000	2,468,154
Security Lending Collateral Invested	<u>79,439</u>	<u>168,431</u>	<u>168,708</u>	<u>321,321</u>	<u>35,938</u>	<u>773,837</u>	<u>748,802</u>
Total Assets	<u>348,823</u>	<u>744,541</u>	<u>745,359</u>	<u>1,428,915</u>	<u>157,780</u>	<u>3,425,418</u>	<u>3,482,991</u>
LIABILITIES							
Accounts Payable	84	1,631	237	1,649	60	3,661	2,972
Securities Lending Collateral Obligations	<u>79,439</u>	<u>168,431</u>	<u>168,708</u>	<u>321,321</u>	<u>35,938</u>	<u>773,837</u>	<u>748,802</u>
Total Liabilities	<u>79,523</u>	<u>170,062</u>	<u>168,945</u>	<u>322,970</u>	<u>35,998</u>	<u>777,498</u>	<u>751,774</u>
Plan Net Assets Held in Trust for Insurance Benefits	<u>\$ 269,300</u>	<u>\$ 574,479</u>	<u>\$ 576,414</u>	<u>\$ 1,105,945</u>	<u>\$ 121,782</u>	<u>\$ 2,647,920</u>	<u>\$ 2,731,217</u>

(A Schedule of Funding Progress is presented on pages 52-54)

See accompanying notes to the financial statements.

KENTUCKY RETIREMENT SYSTEMS

Combined Statement of Changes in Plan Net Assets-Insurance Funds

For the Fiscal Year Ended June 30, 2008 (with Comparative Totals For the Fiscal Year Ended June 30, 2007)
(Dollars in Thousands)

	2008					2007	
	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
ADDITIONS							
Employers' Contributions	\$ 21,997	\$ 56,745	\$ 90,113	\$ 196,110	\$ 7,329	\$ 372,294	\$ 307,720
Premiums Received from Retirees	247	12,940	222	15,104	9	28,522	26,596
Retiree Drug Subsidy	74	6,634	420	6,003	184	13,315	21,490
Total Contributions	22,318	76,319	90,755	217,217	7,522	414,131	355,806
INVESTMENT INCOME							
From Investing Activities:							
Net (Depreciation) Appreciation in Fair Value of Investments	(32,147)	(52,716)	(61,936)	(121,282)	(14,304)	(282,385)	366,809
Interest/Dividends	6,322	13,596	13,188	25,028	2,828	60,962	57,444
Total (Loss) Income from Investing Activities	(25,825)	(39,120)	(48,748)	(96,254)	(11,476)	(221,423)	424,253
Investment Activities Expense	187	391	389	744	85	1,796	1,763
Commissions	133	309	257	488	62	1,249	743
Total Investing Activities Expense	320	700	646	1,232	147	3,045	2,506
Net (Loss) Income from Investing Activities	(26,145)	(39,820)	(49,394)	(97,486)	(11,623)	(224,468)	421,747
From Securities Lending Activities:							
Securities Lending Income	3,329	7,054	7,075	13,390	1,506	32,354	36,776
Securities Lending Expense:							
Security Borrower Rebates	2,821	5,980	5,990	11,409	1,276	27,476	34,796
Security Lending Agent Fees	103	219	220	419	47	1,008	337
Net Income from Securities Lending Activities	405	855	865	1,562	183	3,870	1,643
Total Net Investment (Loss) Income	(25,740)	(38,965)	(48,529)	(95,924)	(11,440)	(220,598)	423,390
Total Additions (Loss)	(3,422)	37,354	42,226	121,293	(3,918)	193,533	779,196

KENTUCKY RETIREMENT SYSTEMS

Combined Statement of Changes in Plan Net Assets-Insurance Funds, continued

For the Fiscal Year Ended June 30, 2008 (with Comparative Totals For the Fiscal Year Ended June 30, 2007)

(Dollars in Thousands)

	2008					2007	
	<u>KERS Hazardous</u>	<u>KERS Non- Hazardous</u>	<u>CERS Hazardous</u>	<u>CERS Non- Hazardous</u>	<u>SPRS</u>	<u>Total</u>	<u>Total</u>
DEDUCTIONS							
Healthcare Premiums Subsidies	7,598	73,160	32,644	48,789	5,557	167,748	151,482
Administrative Fees	95	3,487	364	3,425	106	7,477	6,747
Self Funding Insurance Costs	471	49,786	2,960	47,177	1,211	101,605	89,567
Demutualization Proceeds Refunded	-	-	-	-	-	-	805
Total Deductions	<u>8,164</u>	<u>126,433</u>	<u>35,968</u>	<u>99,391</u>	<u>6,874</u>	<u>276,830</u>	<u>248,601</u>
Net (Decrease) Increase in Plan Assets	(11,586)	(89,079)	6,258	21,902	(10,792)	(83,297)	530,595
Plan Net Assets Held in Trust for Insurance Benefits							
Beginning of Year	<u>280,886</u>	<u>663,558</u>	<u>570,156</u>	<u>1,084,043</u>	<u>132,574</u>	<u>2,731,217</u>	<u>2,200,622</u>
End of Year	<u>\$ 269,300</u>	<u>\$ 574,479</u>	<u>\$ 576,414</u>	<u>\$ 1,105,945</u>	<u>\$ 121,782</u>	<u>\$ 2,647,920</u>	<u>\$ 2,731,217</u>

See accompanying notes to the financial statements.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements

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

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

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Method Used to Value Investments

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

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equipment

Equipment is valued at historical cost and depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets ranging from three to ten years. Improvements, which increase the useful life of the equipment, are capitalized. Maintenance and repairs are charged to expense as incurred. KRS increased its capitalization threshold to \$3,000 in fiscal 2008. The capitalization threshold used in fiscal 2007 was \$750.

Intangible Assets

Intangible assets, currently computer software, are valued at historical cost and amortization is computed utilizing the straight-line method over the estimated useful lives of the assets which is ten years. The capitalization threshold used in fiscal 2008 was \$3,000 (see Note K for further information).

Expense Allocation

Administrative and investment expenses of KRS are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

Component Unit

KRS is a component unit of the Commonwealth of Kentucky for financial reporting purposes.

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

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE B-PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

Membership of each Retirement plan consisted of the following at June 30, 2008 and 2007:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2008			2007		
	Non- Hazardous Position Employees	Hazardous Position Employees	Total	Non- Hazardous Position Employees	Hazardous Position Employees	Total
<u>Number of Members</u>						
Retirees and beneficiaries receiving benefits	35,307	2,404	37,711	33,900	2,206	36,106
Inactive vested memberships	33,202	2,927	36,129	30,993	2,740	33,733
Active plan members	<u>48,085</u>	<u>4,393</u>	<u>52,478</u>	<u>48,033</u>	<u>4,352</u>	<u>52,385</u>
Total	<u>116,594</u>	<u>9,724</u>	<u>126,318</u>	<u>112,926</u>	<u>9,298</u>	<u>122,224</u>
Number of participating employers			<u>317</u>			<u>359</u>

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2008			2007		
	Non- Hazardous Position Employees	Hazardous Position Employees	Total	Non- Hazardous Position Employees	Hazardous Position Employees	Total
<u>Number of Members</u>						
Retirees and beneficiaries receiving benefits	37,579	5,422	43,001	35,564	5,159	40,723
Inactive vested memberships	57,755	2,376	60,131	51,528	4,662	56,190
Active plan members	<u>85,221</u>	<u>10,173</u>	<u>95,394</u>	<u>85,367</u>	<u>10,097</u>	<u>95,464</u>
Total	<u>180,555</u>	<u>17,971</u>	<u>198,526</u>	<u>172,459</u>	<u>19,918</u>	<u>192,377</u>
Number of participating employers			<u>1,468</u>			<u>1,400</u>

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE B-PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION, CONTINUED

STATE POLICE RETIREMENT SYSTEM

	2008	2007
<u>Number of Members</u>	<u>Hazardous Position Employees</u>	<u>Hazardous Position Employees</u>
Retirees and beneficiaries receiving benefits	1,135	1,105
Inactive vested memberships	301	275
Active plan members	993	970
Total	2,429	2,350
Number of participating employers	1	1

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts in force consisted of the following at June 30, 2008 and 2007:

	2008					2007				
	<u>Single</u>	<u>Couple/ Family</u>	<u>Parent</u>	<u>Medicare Without Perscription</u>	<u>Medicare With Perscription</u>	<u>Single</u>	<u>Couple/ Family</u>	<u>Parent</u>	<u>Medicare Without Perscription</u>	<u>Medicare With Perscription</u>
KERS Non-Hazardous	9,631	2,099	584	1,960	12,653	9,144	2,023	538	941	13,144
KERS Hazardous	795	618	93	96	749	738	571	82	85	658
CERS Non-Hazardous	7,306	1,278	291	3,112	12,829	6,919	915	280	1,412	13,734
CERS Hazardous	1,411	2,017	232	77	1,396	1,379	2,199	219	69	1,230
SPRS	241	302	17	7	407	252	296	19	15	380
Totals	19,384	6,314	1,217	5,252	28,034	18,432	6,004	1,138	2,522	29,146

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

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 KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

Contributions - For the fiscal years ended June 30, 2008 and 2007, plan members were required to contribute 5% of their annual creditable compensation. The Commonwealth 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 July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2008 and 2007, participating employers contributed 8.5% and 7.75%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 48.37% and 17.13%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

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

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE B-PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION, CONTINUED

Hazardous Employees Pension Plan, continued

Contributions - For the fiscal years ended June 30, 2008 and 2007, plan members were required to contribute 8% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2008 and 2007, participating employers contributed 24.25% and 22%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 47.11% and 23.32%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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 participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

Contributions - For the fiscal years ended June 30, 2008 and 2007, 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.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE B-PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION, CONTINUED

Non-Hazardous Employees Pension Plan, continued

For the fiscal years ended June 30, 2008 and 2007, participating employers contributed 16.17% and 13.19%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 16.17% and 13.19%, respectively. Administrative costs of KRS 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 CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

Contributions - For the fiscal years ended June 30, 2008 and 2007, plan members were required to contribute 8% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2008 and 2007, participating employers contributed 33.87% and 28.21%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 33.87% and 28.21%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE B-PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION, CONTINUED

STATE POLICE RETIREMENT SYSTEM

Plan Description - SPRS is a single-employer defined benefit pension plan that covers all full-time state troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided 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 Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

Contributions - For the fiscal years ended June 30, 2008 and 2007 plan members were required to contribute 8% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2008 and 2007, the Commonwealth contributed 28% and 25.50%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 120% and 42.30%, respectively, of each employee's creditable compensation. Administrative costs of KRS 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 KERS, CERS, and SPRS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2008, insurance premiums withheld from benefit payments for members of the systems were \$25,897,389 and \$861,730 for KERS non-hazardous and hazardous, respectively, \$25,809,726 and \$1,571,639 for CERS non-hazardous and hazardous, respectively, and \$167,965 for SPRS. For fiscal 2007, insurance premiums withheld from benefit payments for members of KRS were \$24,604,832 and \$761,803 for KERS non-hazardous and

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE B-PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION, CONTINUED

KERS hazardous, respectively, \$23,940,964 and \$1,437,509 for CERS non-hazardous and CERS hazardous, respectively, and \$163,211 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, 2008, the Fund had 76,131 retirees and beneficiaries for whom benefits were available.

The amount of contribution paid by the Funds is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

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

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives ten dollars (\$10) per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE B-PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION, CONTINUED

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.

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

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

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

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

The provisions of Governmental Accounting Standards Board (GASB) 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 GASB No. 28, KRS has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	<u>2008</u>	<u>2007</u>
Cash	\$ 321,001	\$ 410,633
Short-Term Investments	83,942,355	205,934,152
Securities Lending Collateral Invested	<u>1,256,541,062</u>	<u>1,256,147,832</u>
Total	<u>\$ 1,340,804,418</u>	<u>\$ 1,462,492,617</u>

COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>2008</u>	<u>2007</u>
Cash	\$ 561,437	\$ 713,861
Short-Term Investments	114,249,050	130,256,739
Securities Lending Collateral Invested	<u>1,601,257,307</u>	<u>1,736,052,690</u>
Total	<u>\$ 1,716,067,794</u>	<u>\$ 1,867,023,290</u>

STATE POLICE RETIREMENT SYSTEM

	<u>2008</u>	<u>2007</u>
Cash	\$ 86,526	\$ 56,384
Short-Term Investments	1,601,088	6,136,950
Securities Lending Collateral Invested	<u>76,543,782</u>	<u>140,337,713</u>
Total	<u>\$ 78,231,396</u>	<u>\$ 146,531,047</u>

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUNDS

	<u>2008</u>	<u>2007</u>
Cash	\$ 220,702	\$ 53,838
Short-Term Investments	306,845,068	224,584,472
Securities Lending Collateral Invested	<u>773,837,984</u>	<u>748,802,051</u>
Total	<u>\$1,080,903,754</u>	<u>\$ 973,440,361</u>

NOTE D-INVESTMENTS

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

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

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

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

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

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

Publicly traded investment grade corporate bonds, government and agency bonds, mortgages, and collective Short Term Investment Funds (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 an investment grade 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 - Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. Investments may be made in derivative securities, or strategies which make use of derivative instruments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position. Investments in derivative securities which are subject to large or unanticipated changes in duration or cash flow, such as interest only (IO), principal only (PO), inverse floater, or structured note securities are expressly prohibited.

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

Collateralized mortgage obligations, asset-backed securities, and exchange-traded funds pose no greater risk than other similar investment grade holdings in KRS' and the Fund's portfolios. The fair value of CMOs at June 30, 2008 and 2007, was approximately \$282 million and \$356 million, respectively; the fair value of asset-backed securities at June 30, 2008 and 2007, was approximately \$219 million and \$225 million, respectively; and, the fair value of exchange-traded funds at June 30, 2008 and 2007, was approximately \$451 million and \$427 million, respectively.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that in the event of a financial institution failure, KRS' deposits may not be returned. All non-investment related bank balances are held locally by Farmer's Bank & Capital Trust Company. All non-investment related bank balances are held in KRS' name and each individual account is insured by the Federal Deposit Insurance Corporation (FDIC). Effective October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 for each individual account through December 31, 2009. These cash balances are invested daily by the local institution in overnight repurchase agreements which are required by Kentucky Administrative Regulations (200 KAR 14:081) to be collateralized at 102% of the principal amount.

At June 30, 2008 and 2007, deposits for KRS pension funds were \$7,685,550 and \$3,217,697, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

At June 30, 2008 and 2007, deposits for KRS insurance fund were \$204,343 and \$146,289, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, KRS will not be able to recover the value of investments or collateral securities that are in the possession of an outside third party. KRS does not have an explicit policy with regards to Custodial Credit Risk for investments. At June 30, 2008 and 2007, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in KRS' name.

Pension Funds	<u>2008</u>	<u>2007</u>
Foreign Currency Investments	\$3,486,140	\$ 3,838,653
Insurance Fund		
Foreign Currency Investments	\$1,103,211	\$ 37,588

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

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

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

Investment Summary

The following tables present a summary of the investments by type as of June 30, 2008 and 2007:

Pension Funds As of June 30, 2008 and 2007

Investment Summary

	2008	2007
US Gov't & Agency Fixed Income Securities	\$ 3,167,327,985	\$ 1,621,746,405
US Corporate Fixed Income Securities	1,457,701,305	3,267,332,169
Municipal Debt Securities	3,189,898	1,736,261
Short-term Investments	199,792,495	342,327,842
Equity Securities	7,093,291,910	8,339,372,635
Private Equity Limited Partnerships	902,624,336	529,536,766
Real Estate	9,545,575	9,545,575
	\$ 12,833,473,504	\$ 14,111,597,653

Insurance Funds As of June 30, 2008 and 2007

Investment Summary

	2008	2007
US Gov't & Agency Fixed Income Securities	\$ 330,535,852	\$ 289,343,163
Short-term Investments	306,845,080	224,584,472
Equity Securities	1,868,037,394	2,119,830,709
Private Equity Limited Partnerships	100,291,617	58,845,081
Alternative Investment	135,000	135,000
	\$ 2,605,844,943	\$ 2,692,738,425

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

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

- Bonds, notes or other obligations issued or guaranteed by the US Government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- The duration of the total fixed income portfolio shall not deviate from the blended Lehman Brothers Aggregate Index/KRS High Yield Index by more than 10%.
- The duration of the TIPS portfolio shall not deviate from the Lehman Brothers TIPS Index by more than 10%.
- The amount invested in the debt of a single corporation shall not exceed 5% of the total market value of KRS' assets.
- No public fixed income manager shall invest more than 5% of the market value of assets held in any single issue short term instrument, with the exception of US Government issued, guaranteed or agency obligations.
- The amount invested in SEC Rule 144a securities shall not exceed 7.5% of the market value of the aggregate market value of KRS' fixed income investments.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

The following tables present the KRS pension fund debt ratings at June 30, 2008 and 2007:

Pension Funds		
Debt Securities Investments at Fair Value		
As of June 30, 2008 and 2007		
Quality Rating	2008	2007
AAA	\$ 1,852,092,028	\$ 3,697,018,926
AA+	3,146,943	4,019,782
AA	55,711,654	53,385,523
AA-	69,155,369	98,556,277
A+	64,663,074	40,611,902
A	94,408,564	117,081,402
A-	74,151,200	77,178,845
BBB+	107,130,804	100,891,605
BBB	106,177,690	119,298,748
BBB-	74,797,060	73,693,095
BB+	2,156,766	5,470,138
BB	8,702,285	2,227,931
BB-	-	705,765
B-	3,403,560	-
NR	166,287,656	-
Total Credit Risk Debt Securities	2,681,984,653	4,390,139,939
Government Bonds	267,456,013	480,795,784
Government Mortgage-Backed Securities (GNMA)	48,454,865	19,879,112
Indexed Linked Bonds	1,630,323,657	-
Total Debt Securities	\$ 4,628,219,188	\$ 4,890,814,835

At both June 30, 2008 and 2007, the weighted average quality rating of the pension fund debt securities portfolio was AA+. As of June 30, 2008 and 2007, the KRS pension portfolio had \$14,262,611 and \$8,403,834, respectively, in debt securities rated below BBB-. The fair value of securities in the BBB- rating category was \$74,797,060 and \$73,693,095, respectively, as of June 30, 2008 and 2007.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

The insurance fund debt securities portfolio, by guidelines, is to be invested in US Government securities. As shown below, as of June 30, 2008 and 2007, the entire insurance fund was invested in Treasury Inflation Protected Securities (TIPS) which carry a US Government treasury rating.

	Insurance Fund Credit Risk of Debt Securities As of June 30, 2008 and 2007	
	2008	2007
Treasury Inflation Protected Securities	\$ 330,535,852	\$ 289,343,163

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

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

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

As of June 30, 2008, the Insurance Fund held 8% of its investments in Exchange Traded Funds (ETF's). The amount totaled \$209,263,681 as of June 30, 2008. ETF's are securities that represent ownership in a long term unit investment trust that holds a portfolio of common stocks designed to track the performance of a designated index. Similar to a stock, ETF's can be traded continuously throughout the trading day, or can be held for the long term.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

As of June 30, 2008, the Pension Fund held 5.49% of its investment in the Federal National Mortgage Association (Fannie Mae). The amount totaled \$708,164,873 as of June 30, 2008. Historically, Fannie Mae has been a publicly owned government corporation, recently entering conservatorship by the US Government, to purchase mortgages from lenders and resell them to investors; shares of Fannie Mae are traded on the New York Stock Exchange. Fannie Mae's debt has been perceived to be nearly as safe as US Treasury debt, given the US Government's implicit guarantee which has allowed it to pay lower interest rates to its debt holders.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The risk is managed by using the effective duration or option adjusted methodology. It is widely used in the management of fixed income portfolios by quantifying the risk of inherent rate changes. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to changes in the yield curve. Effective duration is the most accurate duration measure when a significant portion of the securities are callable (redeemable) prior to maturity. The pension fund portfolio contains a number of securities that are callable and therefore interest rate risk is most appropriately measured by effective duration. KRS does not have a formal policy that constrains the duration of its fixed income portfolio.

The KRS pension fund debt securities portfolio benchmarks its debt securities portfolio to a weighted average benchmark consisting of the Lehman Brothers Aggregate Index and the Lehman Brothers US TIPS Index. At June 30, 2008 and 2007, the effective duration of the benchmark was 5.34 and 4.77, respectively. At the same points in time, the effective duration of the KRS pension fund debt securities portfolio was 5.25 and 4.92, respectively.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

KRS Pension Funds Interest Rate Risk

	2008	Weighted Average Effective Duration	2007	Weighted Average Effective Duration
Asset Backed Securities	\$ 219,570,012	0.65	\$ 255,198,379	0.85
Commercial Mortgage Backed Securities	284,582,636	4.69	359,777,307	3.97
Corporate Bonds	676,082,460	6.36	654,647,912	5.94
Government Agencies	156,429,791	3.75	165,620,722	4.36
Government Bonds	1,938,543,143	6.84	1,983,611,183	6.61
Government Mortgage Backed Securities	1,063,447,866	3.92	1,114,227,990	3.72
Municipal Bonds	3,189,898	8.20	1,736,261	14.93
Non-Government Backed Collateralized Mortgage Obligations	280,513,429	1.66	355,995,081	1.43
Other Fixed Income	5,859,953	-	-	-
Total	\$ 4,628,219,188	5.25	\$ 4,890,814,835	4.92

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

The KRS insurance fund long-term debt securities portfolio consists entirely of US Government issued bonds which are not callable (redeemable) prior to maturity. The modified duration, similar to effective duration, measures the sensitivity of the market prices to changes in the yield curve but does not assume that securities will be called prior to maturity. Since the modified duration measure most accurately reflects the interest rate sensitivity of the insurance fund portfolio, this measure is used for comparative purposes. The KRS insurance fund debt securities portfolio benchmarks its debt securities portfolio to the Lehman Brothers US TIPS Index. At June 30, 2008 and 2007, the modified duration of the benchmark was 7.00 and 6.37, respectively. At the same points in time, the modified duration of the KRS insurance fund debt securities portfolio, excluding the pooled fund, was 7.8 and 7.85, respectively.

Insurance Fund				
Debt Securities Investments at Fair Value				
As of June 30, 2008 and 2007				
	2008		2007	
<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Duration</u>	<u>Fair Value</u>	<u>Weighted Duration</u>
Index Linked Government Bonds	\$330,535,852	7.80	\$289,343,163	7.85

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. KRS' currency risk exposure, or exchange rate risk, primarily resides within KRS' international equity holdings. KRS does not have a formal policy to limit foreign currency risk. The following tables present KRS' exposure to foreign currency risk at June 30, 2008 and 2007:

Pension Funds		
Investments at Fair Value		
June 30, 2008 and 2007		
	2008	2007
Foreign Equities		
Australian Dollar	\$ 108,703,282	\$ 99,886,855
British Pound Sterling	347,502,090	440,922,544
Danish Krone	10,215,805	1,678
Euro	602,712,262	666,152,958
Hong Kong Dollar	42,788,359	36,321,861
Japanese Yen	360,039,117	423,200,251
Malaysian Ringgit	4,822,484	4,940,420
Norwegian Krone	8,462,661	18,449,939
Singapore Dollar	33,380,301	27,463,397
South African Rand	2,724,924	4,212,526
South Korean Won	8,878,461	10,265,258
Swedish Krona	22,736,416	21,968,065
Swiss Franc	132,737,018	158,519,487
International Equity Mutual Fund (various currencies)	3,375,984	629,475,754
Total Securities subject to		
Foreign Currency Risk	\$ 1,689,079,164	\$ 2,541,780,993
USD (securities held by International Investment Managers)	899,009,887	61,178,192
Total International Investment Securities	\$ 2,588,089,051	\$ 2,602,959,185

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE D-INVESTMENTS, CONTINUED

Insurance Funds
Investments at Fair Value
June 30, 2008 and 2007

	2008	2007
Foreign Equities		
Australian Dollar	\$ 35,134,773	\$ 34,120,308
British Pound Sterling	109,029,509	120,674,789
Danish Krone	3,306,933	-
Euro	189,066,281	195,444,217
Hong Kong Dollar	13,504,229	9,666,934
Japanese Yen	112,165,271	108,817,816
Malaysian Ringgit	1,373,536	-
New Taiwan Dollar	1,278,371	-
Norwegian Krone	2,758,439	9,480,847
Singapore Dollar	10,752,813	8,952,357
South African Rand	825,396	-
South Korean Won	2,678,342	-
Swedish Krona	7,113,693	7,170,720
Swiss Franc	41,108,670	49,914,778
Total Securities subject to		
Foreign Currency Risk	530,096,256	544,242,766
USD (securities held by		
International Investment Managers)	161,203,986	3,783,791
Total International Investment Securities	\$ 691,300,242	\$ 548,026,557

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE E-SECURITIES LENDING TRANSACTIONS

Kentucky Revised Statutes Sections 61.650 and 386.020(2) permit the Pension and Insurance Funds to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the Funds' custodial banks either cash collateral or other securities with a fair value of 102 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. Securities lent for cash collateral are presented as unclassified above in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the securities loaned. At June 30, 2008, KRS had no credit risk exposure to borrowers because the collateral amounts received exceeded the amounts out on loan. The contracts with the custodial banks require them to indemnify KRS 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 KRS. The other custodial bank invests cash collateral in the agent's short-term investment pool as permitted by state statute and Board policy, which at year-end has a weighted-average maturity of 24 days for the Pension Fund only. Neither of the Funds can pledge or sell collateral securities received unless the borrower defaults.

NOTE F-RISKS OF LOSS

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

Claims against the Board of Trustees of KRS, or any of its staff as a result of an actual or alleged breach of fiduciary duty, are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$100,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE F-RISKS OF LOSS, CONTINUED

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

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

NOTE G-CONTINGENCIES

In the normal course of business, KRS is involved in litigation concerning the right of participants, or their beneficiaries, to receive benefits. KRS does not anticipate any material losses as a result of the contingent liabilities.

NOTE H-INCOME TAX STATUS

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

NOTE I-DEFINED BENEFIT PENSION PLAN

All eligible employees of KRS participate in KERS (non-hazardous), a cost-sharing, multiple-employer defined pension plan that covers substantially all regular full-time employees in non-hazardous positions of any Kentucky State Department, Board or Agency directed by Executive Order to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Plan benefits are extended to beneficiaries of plan members under certain circumstances. Plan members contributed 5% of creditable compensation for the periods ended June 30, 2008, 2007, and 2006. The Commonwealth contributed 8.5%, 7.75%, and 5.89% of covered payroll for the periods ended June 30, 2008, 2007, and 2006, respectively. The chart below includes the covered payroll and contribution amounts for KRS for the three periods included in this discussion.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Covered Payroll	\$ 11,846,700	\$ 11,269,800	\$ 10,960,000
Employer Contributions	1,007,000	873,400	641,200

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE J-EQUIPMENT

Equipment consists of the following:

	June 30	
	2008	2007
Equipment, at cost	\$ 10,211,395	\$ 4,886,710
Less Accumulated Depreciation	<u>(2,753,294)</u>	<u>(2,992,574)</u>
	<u>\$ 7,458,101</u>	<u>\$ 1,894,136</u>

Depreciation expense for the fiscal years ended June 30, 2008 and 2007 amounted to \$378,887 and \$438,278, respectively.

NOTE K—INTANGIBLE ASSETS

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" require that intangible assets be recognized in the Statement of Plan Net Assets only if they are considered identifiable. In conjunction with the adoption of GASB No. 51, KRS has capitalized software costs in the amount of \$1,199,829 in fiscal 2008. This capitalization was due to the software costs incurred to date for the Strategic Technology Advancements for the Retirement of Tomorrow (START) project.

Software consists of the following:

	June 30	
	2008	2007
Software, at cost	\$ 1,199,829	\$ 0
Less Accumulated Amortization	<u>(119,983)</u>	<u>(0)</u>
	<u>\$ 1,079,846</u>	<u>\$ 0</u>

Amortization expense for the fiscal year ended June 30, 2008 amounted to \$119,983. The financial statements for fiscal 2007 require no adjustment since the software purchases were made in fiscal 2008.

In fiscal 2007, KRS initiated the START project. It is anticipated that START will be completed in its entirety in fiscal 2011. The objectives of the project are to provide employees with a technology solution that will enable them to serve more customers more quickly while providing continued superior service; to enhance business services and improve operational efficiency; to improve the accuracy of the information collected, maintained, and provided; to improve the timeliness and accuracy of responses to members' inquiries; to provide internet based, self-service capabilities to members, retirees, and employers; and, to ensure that retirees receive monthly benefits without error or disruption.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE L-ALTERNATIVE INVESTMENT

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

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE M—ACTUARIAL VALUATION

The provisions of Governmental Accounting Standards Board (GASB) No. 50, "Pension Disclosures, an Amendment of GASB No. 25 and No. 27", require that actuarial information included in the Notes to the Required Supplementary Information be moved to the Notes to the Financial Statements. In conjunction with the adoption of GASB No. 50, KRS has moved the following information from the Notes to the Required Supplementary Information to the Notes to the Financial Statements:

	PENSION FUNDS	
	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 2008	June 30, 2008
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	30 Years	30 Years
Asset Valuation Method	Five-year smoothed Market	Five-year smoothed Market
Actuarial Assumptions:		
Investment Return	7.75%	7.75%
Projected Salary Increases	4.0-13.5%	4.0-14.5%
Cost-of-Living Adjustment	None	None
Includes Inflation Rate at	3.50%	3.50%

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE M—ACTUARIAL VALUATION, CONTINUED

INSURANCE FUNDS

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 2008	June 30, 2008
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	30 Years	30 Years
Asset Valuation Method	Five-year smoothed Market	Five-year smoothed Market
Medical Trend Assumption	12.00-5.00%	12.00-5.00%
Year of Ultimate Trend	2015	2015
Actuarial Assumptions:		
Investment Return	4.50%	7.75%
Includes Inflation Rate at	3.50%	3.50%

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE M—ACTUARIAL VALUATION, CONTINUED

As of June 30, 2008, the most recent actuarial valuation date, KRS had the following Unfunded Actuarial Accrued Liabilities:

Pension Funds:

Kentucky Employees Retirement System (Hazardous and Non-Hazardous)	\$ 4,926,775,705
County Employees Retirement System (Hazardous and Non-Hazardous)	2,224,969,975
State Police Retirement System	<u>236,237,806</u>
Total Pension Funds	<u>7,387,983,486</u>

Insurance Funds:

Kentucky Employees Retirement System (Hazardous and Non-Hazardous)	5,081,796,979
County Employees Retirement System (Hazardous and Non-Hazardous)	3,570,566,934
State Police Retirement System	<u>321,146,271</u>
Total Insurance Funds	<u>8,973,510,184</u>

Total Unfunded Actuarial Liability as of June 30, 2008 \$16,361,493,670

The Schedule of Funding Progress for the Pension Funds is on pages 49 through 51. The Schedule of Funding Progress for the Insurance Funds is on pages 51 through 53.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE N—HOUSE BILL 1 PENSION REFORM

House Bill 1 was signed by the Governor of the Commonwealth on June 27, 2008. It contains a list of changes that KRS must implement by September 1, 2008. House Bill 1 also contains statutory changes to Kentucky Revised Statute 61.637, the law governing members who become reemployed following retirement.

Employee contributions for non-hazardous employees who begin participating with KRS on, or after, September 1, 2008, will contribute a total of 6% of all their creditable compensation to KRS. Five percent of this contribution will be deposited to the individual employee's account, while the other 1% will be deposited to an account created under 26 USC Section 401(h) in the KRS Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Hazardous employees who begin participating with KRS on, or after, September 1, 2008, will contribute a total of 9% of all their creditable compensation, with 8% credited to the member's account, and 1% deposited to the KRS Pension Fund. Interest paid each June on these members' accounts will now be set at a rate of 2.5%. If a member terminates his/her employment and applies to take a refund, the member will be entitled to a full refund of contributions and interest in his/her account; however, the 1% contributed to the 401(h) account in the KRS Pension Fund is non-refundable and will be forfeited.

Employer contribution rates for KERS and SPRS for fiscal 2009 were established in the 2008-2010 Executive Branch Budget (House Bill 460) during the 2008 session of the Kentucky General Assembly. Employer contribution rates for CERS for fiscal 2009 were enacted by House Bill 1 in the 2008 Special Legislative Session. The Employer contribution rates are established as follows (effective July 1, 2008):

KERS-Non Hazardous	10.01%
KERS-Hazardous	24.35%
CERS-Non Hazardous	13.50%
CERS-Hazardous	29.50%
SPRS	30.07%

These rates are less than the rates established by the Board of Trustees of KRS.

KENTUCKY RETIREMENT SYSTEMS

Notes to the Financial Statements, continued

NOTE N—HOUSE BILL 1 PENSION REFORM, CONTINUED

Although the majority of changes in this legislation will only impact new hires on, or after, September 1, 2008, there are some changes that will affect all members and retirees of KRS:

Cost of Living Adjustment (COLA): Beginning July 1, 2009, COLA for retirees will now be set at 1.5% each July 1. The Kentucky General Assembly may increase this percentage at any time, but only if appropriate funding is allocated.

Service Purchase Costs: The actuarial factors used to determine the cost to purchase a service will now assume the earliest date a member can retire with an unreduced benefit, and will also include a COLA. This change will result in an increased service purchase cost for any purchase calculated on, or after, September 1, 2008. This change will also affect the cost billed to employers for sick leave when an employee retires.

Payment Options: The Partial Lump Sum Payment Options will only be available for those employees who retire on, or before, January 1, 2009.

Kentucky Revised Statute 61.637 was modified significantly by House Bill 1. Specifically, a retiree reemployed on, or after, September 1, 2008, may not accrue additional service credit in KRS, even if employed in a position that would otherwise be required to participate in KRS. However, if a retiree is reemployed in a regular full time position, his/her employer is required to pay contributions on all creditable compensation earned during the period of reemployment. These contributions will be used to reduce the unfunded actuarial liability.

Additionally, if the retiree is reemployed in a regular full time position and has chosen health insurance coverage through KRS, his/her employer is required to reimburse KRS for the health insurance premium paid on the retiree's behalf, not to exceed the cost of the single premium rate.

NOTE O—MARKET RISK

Subsequent to June 30, 2008, the United States financial markets have experienced significant volatility. The investments of KRS are subject to potential loss arising from adverse changes in quoted market prices on equity securities and interest rates on fixed income securities. For the period from June 30, 2008 to October 31, 2008, it is estimated that KRS' investments have declined in market value approximately \$2,645 million. KRS will continue to monitor its investments as it has done in the past, but mitigates this risk through a diverse investment portfolio.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Funding Progress

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)-PENSION FUND

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 2001	\$ 6,844,742,687	\$ 5,444,035,294	\$ (1,400,707,393)	125.7	\$ 1,505,299,220	(93.1)
June 30, 2002*	6,654,084,196	6,026,094,764	(627,989,432)	110.4	1,595,809,458	(39.3)
June 30, 2003**	6,351,318,832	6,520,463,188	169,144,356	97.4	1,658,604,696	10.2
June 30, 2004**	6,000,513,743	7,049,613,171	1,049,099,428	85.1	1,645,412,496	63.8
June 30, 2005**	5,578,685,746	7,579,074,839	2,000,389,093	73.6	1,655,907,288	120.8
June 30, 2006**	5,394,086,323	8,994,826,247	3,600,739,924	60.0	1,702,230,777	211.5
June 30, 2007**	5,396,782,459	9,485,939,278	4,089,156,819	56.9	1,780,223,493	229.7
June 30, 2008**	5,318,792,893	10,129,689,985	4,810,897,092	52.5	1,837,873,488	261.8
<u>Hazardous</u>						
June 30, 2001	\$ 361,677,475	\$ 285,193,761	\$ (76,483,714)	126.8	\$ 122,857,992	(62.3)
June 30, 2002*	376,384,302	322,069,164	(54,315,138)	116.9	125,275,925	(43.4)
June 30, 2003**	385,925,722	356,879,133	(29,046,589)	108.1	129,088,956	(22.5)
June 30, 2004**	397,212,763	403,578,036	6,365,273	98.4	126,664,812	5.0
June 30, 2005**	405,288,662	438,994,257	33,705,595	92.3	131,687,088	25.6
June 30, 2006**	427,984,192	508,655,903	80,671,711	84.1	138,747,320	58.1
June 30, 2007**	467,287,809	558,992,327	91,704,518	83.6	144,838,020	63.3
June 30, 2008**	502,132,214	618,010,827	115,878,613	81.2	148,710,060	77.9
<u>Total</u>						
June 30, 2001	\$ 7,206,420,162	\$ 5,729,229,055	\$ (1,477,191,107)	125.8	\$ 1,628,157,212	(90.7)
June 30, 2002*	7,030,468,498	6,348,163,928	(682,304,570)	110.7	1,721,085,383	(39.6)
June 30, 2003**	6,737,244,554	6,877,342,321	140,097,767	98.0	1,787,693,652	7.8
June 30, 2004**	6,397,726,506	7,453,191,207	1,055,464,701	85.8	1,772,077,308	59.6
June 30, 2005**	5,983,974,408	8,018,069,096	2,034,094,688	74.6	1,787,594,376	113.8
June 30, 2006**	5,822,070,515	9,503,482,151	3,681,411,634	61.3	1,840,978,097	200.0
June 30, 2007**	5,864,070,268	10,044,931,605	4,180,861,337	58.4	1,925,061,513	217.2
June 30, 2008**	5,820,925,107	10,747,700,812	4,926,775,705	54.2	1,986,583,548	248.0

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

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Funding Progress

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)-PENSION FUND

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 2001	\$ 5,423,834,549	\$ 3,706,282,212	\$ (1,717,552,337)	146.3	\$ 1,544,973,296	(111.2)
June 30, 2002*	5,397,787,158	4,165,355,149	(1,232,432,009)	129.6	1,663,183,629	(74.1)
June 30, 2003**	5,286,580,047	4,417,597,802	(868,982,245)	119.7	1,796,451,180	(48.4)
June 30, 2004**	5,187,851,530	4,936,459,488	(251,392,042)	105.1	1,826,870,880	(13.8)
June 30, 2005**	5,059,208,687	5,385,156,690	325,948,003	93.9	1,885,275,000	17.3
June 30, 2006**	5,162,894,136	6,179,569,267	1,016,675,131	83.5	1,982,437,473	51.3
June 30, 2007**	5,467,824,480	6,659,446,126	1,191,621,646	82.1	2,076,848,328	57.4
June 30, 2008**	5,731,502,438	7,304,217,691	1,572,715,253	78.5	2,166,612,648	72.6
<u>Hazardous</u>						
June 30, 2001	\$ 1,486,666,016	\$ 1,193,860,442	\$ (292,805,574)	124.5	\$ 316,700,304	(92.5)
June 30, 2002*	1,485,511,793	1,327,291,273	(158,220,520)	111.9	345,849,277	(45.7)
June 30, 2003**	1,467,004,856	1,499,628,782	32,623,926	97.8	374,700,732	8.7
June 30, 2004**	1,457,612,042	1,640,830,120	183,218,078	88.8	392,562,624	46.7
June 30, 2005**	1,452,353,023	1,795,617,335	343,264,312	80.9	411,121,728	83.5
June 30, 2006**	1,515,075,017	2,020,142,770	505,067,753	75.0	426,927,550	118.3
June 30, 2007**	1,639,288,924	2,208,736,179	569,447,255	74.2	458,998,956	124.1
June 30, 2008**	1,750,867,373	2,403,122,095	652,254,722	72.9	474,241,332	137.5
<u>Total</u>						
June 30, 2001	\$ 6,910,500,565	\$ 4,900,142,654	\$ (2,010,357,911)	141.0	\$ 1,861,673,600	(108.0)
June 30, 2002*	6,883,298,951	5,492,646,422	(1,390,652,529)	125.3	2,009,032,906	(69.2)
June 30, 2003**	6,753,584,903	5,917,226,584	(836,358,319)	114.1	2,171,151,912	(38.5)
June 30, 2004**	6,645,463,572	6,577,289,608	(68,173,964)	101.0	2,219,433,504	(3.1)
June 30, 2005**	6,511,561,710	7,180,774,025	669,212,315	90.7	2,296,396,728	29.2
June 30, 2006**	6,677,969,153	8,199,712,037	1,521,742,884	81.4	2,409,365,023	63.2
June 30, 2007**	7,107,113,404	8,868,182,305	1,761,068,901	80.1	2,535,847,284	69.4
June 30, 2008**	7,482,369,811	9,707,339,786	2,224,969,975	77.1	2,640,853,980	84.3

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

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Funding Progress

STATE POLICE RETIREMENT SYSTEM (SPRS)-PENSION FUND

Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
June 30, 2001	\$ 456,160,709	\$ 356,211,860	\$ (99,948,849)	128.1	\$ 44,646,678	(223.7)
June 30, 2002*	438,955,465	380,790,346	(58,165,119)	115.3	44,314,696	(131.2)
June 30, 2003**	413,063,576	414,881,459	1,817,883	99.6	43,760,832	4.2
June 30, 2004**	385,077,195	437,482,425	52,405,230	88.0	43,835,208	119.6
June 30, 2005**	353,511,622	458,593,576	105,081,954	77.1	43,720,092	240.4
June 30, 2006**	344,016,197	516,482,298	172,466,101	66.6	47,743,865	361.2
June 30, 2007**	348,806,508	547,955,286	199,148,778	63.7	49,247,580	404.4
June 30, 2008**	350,891,451	587,129,257	236,237,806	59.8	53,269,080	443.5

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

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Funding Progress

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)-INSURANCE FUND

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 2001	\$ 449,630,605	\$ 1,769,583,098	\$ 1,319,952,493	25.4	\$ 1,505,299,220	87.7
June 30, 2002*	521,250,455	1,907,683,881	1,386,433,426	27.3	1,595,809,458	86.9
June 30, 2003**	553,885,082	2,093,210,321	1,539,325,239	26.5	1,658,604,696	92.8
June 30, 2004**	600,586,961	2,335,905,365	1,735,318,404	25.7	1,645,412,496	105.5
June 30, 2005**	607,068,351	2,680,559,188	2,073,490,837	22.7	1,655,907,288	125.2
June 30, 2006**	611,350,765	7,815,480,774	7,204,130,009	7.8	1,702,230,777	423.2
June 30, 2007**	621,171,658	5,201,355,055	4,580,183,397	11.9	1,780,223,493	257.3
June 30, 2008**	603,197,761	5,431,499,285	4,828,301,524	11.1	1,837,873,488	262.7
<u>Hazardous</u>						
June 30, 2001	\$ 119,372,742	\$ 214,450,822	\$ 95,078,080	55.7	\$ 122,857,992	77.4
June 30, 2002*	135,874,582	236,819,050	100,944,468	57.4	125,275,925	80.6
June 30, 2003**	151,459,500	283,178,335	131,718,835	53.5	129,088,956	102.0
June 30, 2004**	169,158,879	323,503,563	154,344,684	52.3	126,664,812	121.9
June 30, 2005**	187,947,644	386,844,695	198,897,051	48.6	131,687,088	151.0
June 30, 2006**	212,833,318	621,237,856	408,404,538	34.3	138,747,320	294.4
June 30, 2007**	251,536,756	504,842,981	253,306,225	49.8	144,838,020	174.9
June 30, 2008**	288,161,759	541,657,214	253,495,455	53.2	148,710,060	170.5
<u>Total</u>						
June 30, 2001	\$ 569,003,347	\$ 1,984,033,920	\$ 1,415,030,573	28.7	\$ 1,628,157,212	86.9
June 30, 2002*	657,125,037	2,144,502,931	1,487,377,894	30.6	1,721,085,383	86.4
June 30, 2003**	705,344,582	2,376,388,656	1,671,044,074	29.7	1,787,693,652	93.5
June 30, 2004**	769,745,840	2,659,408,928	1,889,663,088	28.9	1,772,077,308	106.6
June 30, 2005**	795,015,995	3,067,403,883	2,272,387,888	25.9	1,787,594,376	127.1
June 30, 2006**	824,184,083	8,436,718,630	7,612,534,547	9.8	1,840,178,097	413.5
June 30, 2007**	872,708,414	5,706,198,036	4,833,489,622	15.3	1,925,061,513	251.1
June 30, 2008**	891,359,520	5,973,156,499	5,081,796,979	14.9	1,986,583,548	255.8

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

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Funding Progress

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)-INSURANCE FUND

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 2001	\$ 371,758,628	\$ 1,793,710,768	\$ 1,421,952,140	20.7	\$ 1,544,973,296	92.0
June 30, 2002*	450,497,307	1,977,577,038	1,527,079,731	22.8	1,663,183,629	91.8
June 30, 2003**	520,060,105	2,176,963,259	1,656,903,154	23.9	1,796,451,180	92.2
June 30, 2004**	585,399,072	2,438,734,696	1,853,335,624	24.0	1,826,870,880	101.5
June 30, 2005**	663,941,949	2,788,754,654	2,124,812,705	23.8	1,885,275,000	112.7
June 30, 2006**	777,726,590	4,607,223,639	3,829,497,049	16.9	1,982,437,473	193.2
June 30, 2007**	960,285,900	3,333,966,070	2,373,680,170	28.8	2,076,848,328	114.3
June 30, 2008**	1,168,883,170	3,583,193,466	2,414,310,296	32.6	2,166,612,648	111.4
<u>Hazardous</u>						
June 30, 2001	\$ 197,875,249	\$ 721,605,292	\$ 523,730,043	27.4	\$ 316,700,304	165.4
June 30, 2002*	234,683,878	781,184,974	546,501,096	30.1	345,849,279	158.0
June 30, 2003**	269,190,080	935,650,662	666,460,582	28.8	374,700,732	177.9
June 30, 2004**	310,578,162	1,025,684,477	715,106,315	30.3	392,562,624	182.2
June 30, 2005**	359,180,461	1,283,299,092	924,118,631	28.0	411,121,728	224.8
June 30, 2006**	422,785,042	1,928,481,371	1,505,696,329	21.9	426,927,550	352.7
June 30, 2007**	512,926,549	1,646,460,011	1,133,533,462	31.2	458,998,956	247.0
June 30, 2008**	613,526,319	1,769,782,957	1,156,256,638	34.7	474,241,332	243.8
<u>Total</u>						
June 30, 2001	\$ 569,633,877	\$ 2,515,316,060	\$ 1,945,682,183	22.6	\$ 1,861,673,600	104.5
June 30, 2002*	685,181,185	2,758,762,012	2,073,580,827	24.8	2,009,032,908	103.2
June 30, 2003**	789,250,185	3,112,613,921	2,323,363,736	25.4	2,171,151,912	107.0
June 30, 2004**	895,977,234	3,464,419,173	2,568,441,939	25.9	2,219,433,504	115.7
June 30, 2005**	1,023,122,410	4,072,053,746	3,048,931,336	25.1	2,296,396,728	132.8
June 30, 2006**	1,200,511,632	6,535,705,010	5,335,193,378	18.4	2,409,365,023	221.4
June 30, 2007**	1,473,212,449	4,980,426,081	3,507,213,632	29.6	2,535,847,284	138.3
June 30, 2008**	1,782,409,489	5,352,976,423	3,570,566,934	33.3	2,640,853,980	135.2

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

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Funding Progress

STATE POLICE RETIREMENT SYSTEM (SPRS)-INSURANCE FUND

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
June 30, 2001	\$ 79,863,577	\$ 158,261,479	\$ 78,397,902	50.5	\$ 44,646,678	175.6
June 30, 2002*	86,867,391	165,445,412	78,578,021	52.5	44,314,696	177.3
June 30, 2003**	90,747,967	184,501,205	93,753,238	49.2	43,760,832	214.2
June 30, 2004**	96,622,908	197,604,301	100,981,393	48.9	43,835,208	230.4
June 30, 2005**	100,207,082	234,159,510	133,952,428	42.8	43,720,092	306.4
June 30, 2006**	105,580,269	582,580,867	477,000,598	18.1	47,743,865	999.1
June 30, 2007**	115,215,912	432,763,229	317,547,317	26.6	49,247,580	644.8
June 30, 2008**	123,961,197	445,107,468	321,146,271	27.8	53,269,080	602.9

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

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Contributions From Employers and Other Contributing Entities

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)

NON-HAZARDOUS EMPLOYEES

Pension

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 21,787,253	23,482,080	\$ -	107.8
June 30, 2002	-	1,760,328	-	-
June 30, 2003	4,905,399	7,597,450	-	154.9
June 30, 2004	47,739,067	21,696,543	-	45.4
June 30, 2005	85,798,943	50,332,750	-	58.7
June 30, 2006	129,125,800	60,680,607	-	47.0
June 30, 2007	176,774,106	88,248,677	-	49.9
June 30, 2008	264,742,985	104,655,217	-	39.5

Insurance

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 66,874,871	66,874,871	\$ -	100
June 30, 2002	93,993,177	93,912,017	-	99.9
June 30, 2003	92,052,561	65,335,219	-	71.0
June 30, 2004	77,951,553	78,016,737	-	100.1
June 30, 2005	86,974,271	49,909,228	-	57.4
June 30, 2006	202,498,302	47,634,639	-	23.5
June 30, 2007	219,268,964	64,014,332	10,744,049	34.0
June 30, 2008	558,745,820	56,744,942	6,633,538	11.3

Total

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 88,662,124	\$ 90,356,951	\$ -	101.9
June 30, 2002	93,993,177	95,672,345	-	101.8
June 30, 2003	96,957,960	72,932,669	-	75.2
June 30, 2004	125,690,620	99,713,280	-	79.3
June 30, 2005	172,773,214	100,241,978	-	58.0
June 30, 2006	331,624,102	108,315,246	-	43.8
June 30, 2007	396,543,070	152,263,009	10,744,049	39.8
June 30, 2008	823,488,805	161,400,159	6,633,538	20.4

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Contributions From Employers and Other Contributing Entities

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)

HAZARDOUS EMPLOYEES

Pension

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 9,920,148	\$ 10,626,663	\$ -	107.1
June 30, 2002	7,742,052	7,933,817	-	102.5
June 30, 2003	8,511,402	7,322,607	-	86.0
June 30, 2004	9,600,978	9,769,580	-	101.8
June 30, 2005	9,449,878	9,758,547	-	103.3
June 30, 2006	10,787,472	10,803,206	-	100.1
June 30, 2007	12,219,689	13,237,321	-	108.3
June 30, 2008	14,147,341	15,257,079	-	107.8

Insurance

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 13,226,298	\$ 13,226,298	\$ -	100
June 30, 2002	15,859,932	15,887,399	-	100.2
June 30, 2003	15,839,215	15,883,263	-	100.3
June 30, 2004	14,942,092	14,959,617	-	100.1
June 30, 2005	15,892,977	15,395,977	-	96.9
June 30, 2006	28,517,563	17,011,745	-	59.7
June 30, 2007	31,304,778	19,534,819	104,669	62.7
June 30, 2008	51,214,929	21,997,341	73,891	43.1

Total

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 23,146,446	\$ 23,852,961	\$ -	103.1
June 30, 2002	23,601,984	23,821,216	-	100.9
June 30, 2003	24,350,617	23,205,870	-	95.3
June 30, 2004	24,543,070	24,729,197	-	100.8
June 30, 2005	25,342,855	25,154,524	-	99.3
June 30, 2006	39,305,035	27,814,951	-	70.8
June 30, 2007	43,524,467	32,772,140	104,669	75.3
June 30, 2008	65,362,270	37,254,420	73,891	57.1

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Contributions From Employers and Other Contributing Entities

**COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
NON-HAZARDOUS EMPLOYEES**

Pension				
Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 35,658,922	\$ 48,914,435	\$ -	137.2
June 30, 2002	3,326,367	5,528,348	-	166.2
June 30, 2003	8,682,257	11,855,694	-	136.6
June 30, 2004	43,111,505	44,028,465	-	102.1
June 30, 2005	53,117,955	54,616,800	-	102.8
June 30, 2006	83,123,669	90,834,052	-	109.3
June 30, 2007	112,508,305	124,260,850	-	110.4
June 30, 2008	138,311,398	150,925,334	-	109.1
Insurance				
Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 62,292,385	\$ 62,292,385	\$ -	100.0
June 30, 2002	102,119,475	102,150,543	-	100.0
June 30, 2003	102,038,427	99,234,843	-	97.3
June 30, 2004	89,289,520	89,344,241	-	100.1
June 30, 2005	106,612,633	106,638,253	-	100.0
June 30, 2006	272,942,757	128,867,817	-	47.2
June 30, 2007	285,600,490	147,608,801	9,623,431	55.1
June 30, 2008	406,541,729	196,110,111	6,003,181	49.7
Total				
Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 97,951,307	\$ 111,206,820	\$ -	113.5
June 30, 2002	105,445,842	107,678,891	-	102.1
June 30, 2003	110,720,684	111,090,537	-	100.3
June 30, 2004	132,401,025	133,372,706	-	100.7
June 30, 2005	159,730,588	161,255,053	-	101.0
June 30, 2006	356,066,426	219,701,869	-	61.7
June 30, 2007	398,108,795	271,869,651	9,623,431	70.7
June 30, 2008	544,853,127	347,035,445	6,003,181	64.8

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Contributions From Employers and Other Contributing Entities

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

HAZARDOUS

Pension

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 19,409,377	\$ 20,983,360	\$ -	108.1
June 30, 2002	10,582,988	11,054,949	-	104.5
June 30, 2003	19,920,223	16,905,556	-	84.9
June 30, 2004	27,050,382	27,640,775	-	102.2
June 30, 2005	39,437,725	39,947,747	-	101.3
June 30, 2006	44,059,404	49,976,485	-	113.4
June 30, 2007	53,889,838	61,553,118	-	114.2
June 30, 2008	64,082,063	72,154,734	-	112.6

Insurance

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 32,149,432	\$ 32,149,432	\$ -	100.0
June 30, 2002	45,721,274	45,730,333	-	100.0
June 30, 2003	43,502,755	45,243,950	-	104.0
June 30, 2004	47,018,046	47,036,777	-	100.0
June 30, 2005	54,094,495	54,106,577	-	100.0
June 30, 2006	98,297,535	64,853,778	-	66.0
June 30, 2007	115,938,899	70,072,785	656,523	61.0
June 30, 2008	168,723,639	90,113,200	419,774	53.7

Total

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 51,558,809	\$ 53,132,792	\$ -	103.1
June 30, 2002	56,304,262	56,785,282	-	100.9
June 30, 2003	63,422,978	62,149,506	-	98.0
June 30, 2004	74,068,428	74,677,552	-	100.8
June 30, 2005	93,532,220	94,054,324	-	100.6
June 30, 2006	142,356,939	114,830,263	-	80.7
June 30, 2007	169,828,737	131,625,903	656,523	101.6
June 30, 2008	232,805,702	162,267,934	419,774	70.0

KENTUCKY RETIREMENT SYSTEMS

Required Supplementary Information

Schedule of Contributions From Employers and Other Contributing Entities

STATE POLICE RETIREMENT SYSTEM (SPRS)

Pension				
Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 1,535,846	\$ 1,515,521	\$ -	98.7
June 30, 2002	-	(17,643)	-	-
June 30, 2003	-	(20,061)	-	-
June 30, 2004	1,175,711	1,152,752	-	98.0
June 30, 2005	3,730,805	2,851,461	-	76.4
June 30, 2006	6,352,777	4,244,445	-	66.8
June 30, 2007	9,023,665	6,142,326	-	68.1
June 30, 2008	13,823,490	7,443,277	-	53.8

Insurance				
Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 8,098,907	\$ 8,113,391	\$ -	100.2
June 30, 2002	9,563,111	9,579,899	-	100.1
June 30, 2003	9,443,588	9,654,313	-	102.2
June 30, 2004	8,434,834	8,455,498	-	100.2
June 30, 2005	8,608,536	6,631,031	-	77.0
June 30, 2006	12,554,648	6,880,517	-	54.8
June 30, 2007	15,233,320	6,488,600	361,942	45.0
June 30, 2008	43,469,735	7,329,229	183,564	17.3

Total				
Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2001	\$ 9,634,753	9,628,912	\$ -	99.9
June 30, 2002	9,563,111	9,562,256	-	100.0
June 30, 2003	9,443,588	9,634,252	-	102.0
June 30, 2004	9,610,545	9,608,250	-	100.0
June 30, 2005	12,339,341	9,482,492	-	76.8
June 30, 2006	18,907,425	11,124,962	-	58.8
June 30, 2007	24,256,985	12,630,926	361,942	54.0
June 30, 2008	57,293,225	14,772,506	183,564	26.0

KENTUCKY RETIREMENT SYSTEMS

Schedule of Administrative Expenses

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	2007
(Dollars in thousands)		
Personal Services		
Salaries and Per Diem	\$ 12,339	\$ 11,429
Fringe Benefits	3,445	3,230
Tuition Assistance	56	53
Total Personal Services	15,840	14,712
Contractual Services		
Actuarial	474	470
Audit	49	42
Legal	843	395
Medical	222	255
Contractual	774	637
Total Contractual Services	2,362	1,799
Communication		
Printing	325	331
Telephone	138	147
Postage	634	633
Travel	205	236
Total Communication	1,302	1,347
Rentals		
Office Space	1,056	979
Equipment	86	67
Total Rentals	1,142	1,046
Miscellaneous		
Utilities	258	274
Supplies	230	268
Insurance	64	64
Maintenance	642	441
Other	569	687
Total Miscellaneous	1,763	1,734
Depreciation/Amortization	498	439
Total Pension Fund Administrative Expense	22,907	21,077
Healthcare Administrative Fees	7,477	6,748
Total Administrative Expenses	\$ 30,384	\$ 27,825

KENTUCKY RETIREMENT SYSTEMS

Schedule of Investment Expenses

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	2007
	(Dollars in thousands)	
PENSION FUNDS		
Security Lending Fees		
Broker Rebates	\$ 115,960	\$ 177,377
Lending Agent Fees	4,950	2,129
Total Security Lending	120,910	179,506
Common Stock Commissions	7,915	7,386
Contractual Services		
Investment Management	12,273	10,573
Security Custody	209	381
Investment Consultant	231	377
Investment Related Travel	37	25
Total Contractual Services	12,750	11,356
INSURANCE FUNDS		
Security Lending Fees		
Broker Rebates	27,476	34,796
Lending Agent Fees	1,008	338
Total Security Lending	28,484	35,134
Common Stock Commissions	1,249	744
Contractual Services		
Investment Management	1,702	1,297
Security Custody	41	69
Investment Consultant	46	68
Investment Related Travel	7	4
Total Contractual Services	1,796	1,438
Total Investment Expenses	\$ 173,104	\$ 235,564

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

KENTUCKY RETIREMENT SYSTEMS

Schedule of Professional Consultant Fees

For the Fiscal Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
	(Dollars in thousands)	
Actuarial Services	\$ 474	\$ 470
Medical Review Services	221	255
Audit Services	49	42
Legal Counsel	843	395
Compliance	120	180
Workflow	424	245
Healthcare	17	133
Banking	48	53
Human Resource	104	-
Miscellaneous	<u>62</u>	<u>26</u>
Total	<u>\$ 2,362</u>	<u>\$ 1,799</u>

DEAN || DORTON || FORD
PSC**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated November 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

106 West Vine Street
Suite 600
Lexington, KY 40507
859.255.2341 *phone*
859.255.0125 *fax*

2501 Nelson Miller Parkway
Suite 102
Louisville, KY 40223
502.244.7714 *phone*
502.244.7765 *fax*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kentucky Retirement Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, management, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Dean Jordan Ford, BSC". The signature is written in a cursive style with a large initial "D" and a long horizontal stroke at the end.

November 17, 2008
Lexington, Kentucky

KENTUCKY RETIREMENT SYSTEMS

Schedule of Finding and Response

CURRENT YEAR

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