KENTUCKY RETIREMENT SYSTEM

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1997

Kentucky Employees Retirement System
County Employees Retirement System
State Police Retirement System
Insurance Fund

Kentucky Retirement Systems is a component unit of the Commonwealth of Kentucky

Table of Contents

KENTUCKY RETIREMENT SYSTEMS

Introductory Section

Comprehensive Annual Financial Report
June 30, 1997

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

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

Pamela S. Johnson
General Manager
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November 20, 1997

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

I am pleased to present the comprehensive annual financial report (CAFR) of the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), State Police Retirement System (SPRS) and Insurance Fund for the fiscal year ended June 30, 1997.

The CAFR is divided into five sections:

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

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

History

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

Today there are more than 200,000 active and retired members in the three systems and nearly $9.2 billion in assets. A breakdown of membership by system is provided in the statistical section.

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

GFOA Award of Excellence

Kentucky Retirement Systems received the Government Finance Officers Association 1997 Award for Excellence in the technology category for pensions and benefits. The award recognized the systems' insurance rider program that allowed staff to determine insurance premiums with insurance rider rates for retirees from the more than 40,000 separate combinations in a matter of minutes. The computer program saved the cost of mailing the voluminous rider rate listings to retirees and provided retirees a means of quickly comparing various insurance plans and premiums by simply calling the retirement office.

Major Initiatives

Following an asset allocation study, the Kentucky Retirement Systems repositioned its assets July 1, 1996 with greater exposure in domestic equity and reduced exposure in cash and real estate.

The Investment Division added a second internally managed stock index and a real estate securities index. Nearly 50% of the total portfolio is now internally managed. As a result of the systems investment policies, the Kentucky Retirement Systems outperformed systems of similar size and asset allocation. A private survey of the 260 pension plans conducted by Cost Effectiveness Measurement, Inc. (CEM) of Ontario, Canada, indicated that the Kentucky Retirement Systems actual rate of return for the preceding year exceeded benchmark returns by 0.1%. This translates into an added value of $10 million. The CEM report further indicated that the Kentucky Retirement Systems' investment expense was over $12 million less than the average expense for similar funds.

Kentucky Retirement Systems implemented a document imaging system to convert paper files to optical disk storage and improve the workflow within the agency. The system also allows duplication of records for offsite storage to ensure continued operation in the event of a natural disaster.

Additions To Plan Net Assets

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Contributions and investment income for the fiscal year ending June 30, 1997 totaled nearly $2.1 billion.

dollar amounts expressed in thousand	*1997*	*1996*	*Increase (Decrease) Amount*	*Increase (Decrease) Percentage*
Member Contributions	$ 151,375	$ 143,948	$ 7,427	5.2%
Employer Contributions	273,073	252,418	20,655	8.2%
Net Investment Income	1,634,941	2,264,677	(629,736)	(27.8%)
Total	$2,059,389	$2,661,043	($601,654)	(22.6%)

The decrease in net investment income is a result of the implementation of GASB 25 in fiscal year 1995-96, as follows *(rounded figures are used)*:

In the June 30, 1995 report, assets were shown at book value. With the implementation of GASB 25, the June 30, 1996 report reflected Net Investment Income of the entire $1.4 billion figure representing the excess of fair value ($1.7 billion) over book value ($308 million).

This year's report shows the $2.2 billion excess of fair value ($2.6 billion) over book value ($425 million). Since $1.4 billion of that $2.2 billion excess was credited June 30, 1996, the net increase shown in this year's report was only $800 million or *approximately $600 million less* than the amount included in the first year of implementation.

Deductions To Plan Net Assets

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

dollar amounts expressed in thousand	*1997*	*1996*	*Increase (Decrease) Amount*	*Increase (Decrease) Percentage*
Retirement Allowances	$312,221	$281,199	$31,022	11%
Refunds	17,486	16,433	1,053	6.4%
Administrative Expense	11,315	9,885	1,430	14.5%
Total	$341,022	$307,517	$33,505	10.9%

Administrative expenses, by law, include fees paid to investment managers. Since Kentucky Retirement Systems bases external investment managers' fees on the market value of the managed assets, fees increase in proportion to the increase in the value of the managed assets. The 14.5% increase in administrative expense reflects the increased investment management fees due to the excellent returns on managed assets. A portion of the administrative expense is also attributed to the purchase of computer equipment for document imaging and retrieval.

Investments

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

The Board has managed the funds in recognition of the basic long term nature of the systems. The Board has interpreted this to mean that the assets of the three systems should be actively managed -- that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. The Board has further recognized that proper diversification of assets must be maintained. The asset allocation can be found in the Investment Section of this CAFR.

The Board's policies have provided significant returns while holding down investment related expenses. For the fiscal year ending June 30, 1997, the systems pension funds had a total return of 24.2% and the insurance fund had a total return of 21.7%.

Funding

The Kentucky Retirement Systems' funding objective is to meet long-term benefit promises through contributions that remain fairly level as a percent of member payroll. Funding of the pension benefits for all systems as of June 30, 1997 is greater than 100% using the ratio of assets at actuarial value to the total actuarial accrued liability. The medical insurance benefit, created in 1978, is not at the same level of funding. Total insurance liabilities exceed assets in the Insurance Fund by $2.5 billion.

While significant progress has been made in recent years in spite of double digit medical inflation, the medical insurance liability continues to be the primary funding concern of the Kentucky Retirement Systems.

A detailed discussion of the funding status of the systems can be found in the financial section of this report.

Professional Services

A listing of the Board's external investment managers, as well as other contracted consultants can be found on page 9.

Acknowledgments

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

The report is being mailed to all employers participating in the Kentucky Retirement Systems. They form the link between the systems and its membership. Their cooperation contributes significantly to the success of the Kentucky Retirement Systems. We hope the employers and their employees find this report informative.

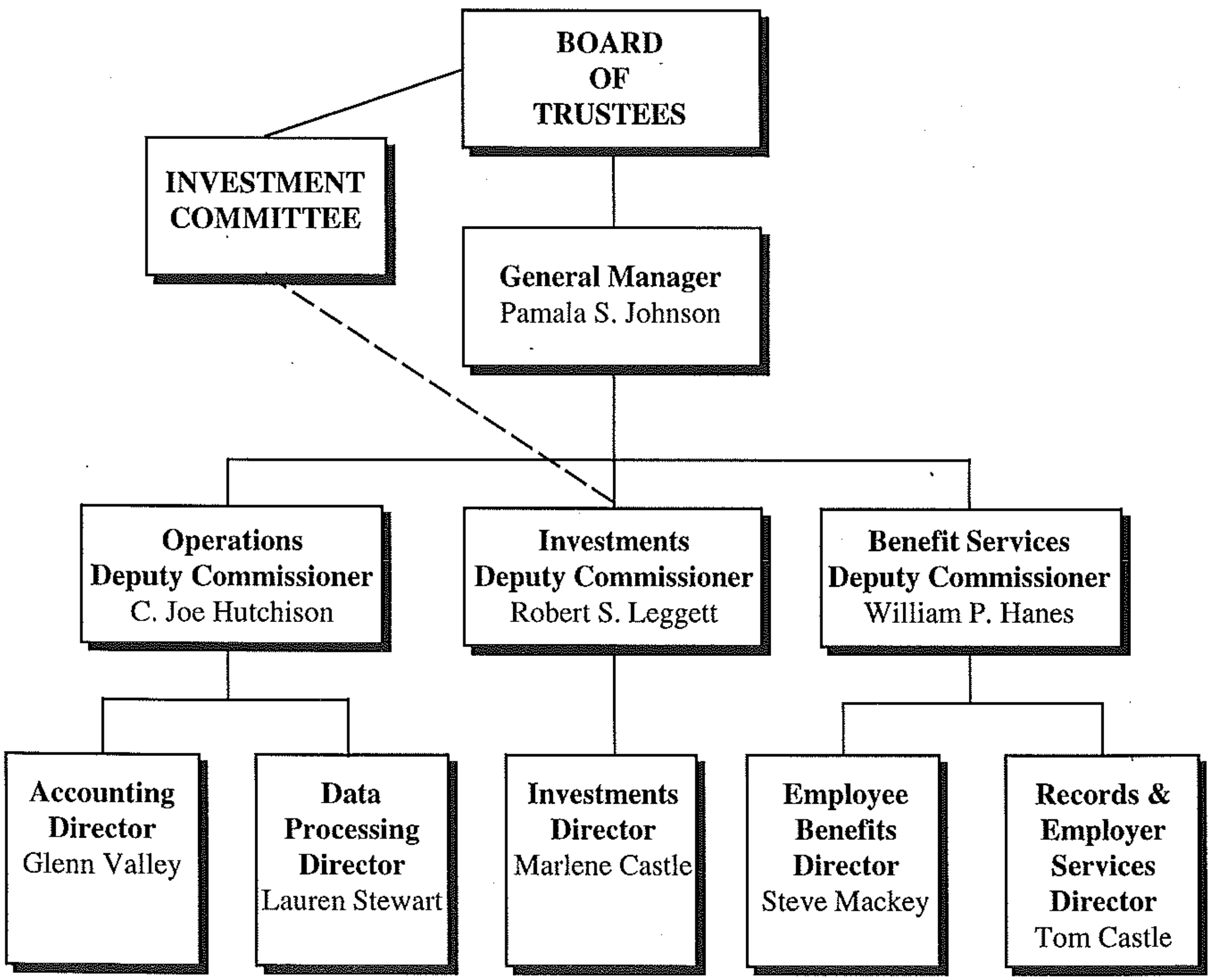
On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff, the advisors and the many people who have worked so diligently to assure the successful operation of the Kentucky Retirement Systems.

Pamala S. Johnson

Pamala S. Johnson
General Manager

BOARD OF TRUSTEES

Kentucky Retirement Systems Organizational Chart



CONTRACTUAL ARRANGEMENTS

ACTUARIAL SERVICES:

William M. Mercer, Inc.
1500 Meidinger Tower
Louisville, KY 40202

ASSET MANAGEMENT:

William M. Mercer Investment
Consulting, Inc.
10 South Wacker Drive
Chicago, IL 60606

AUDITING SERVICES:

Charles T. Mitchell Company
201 West Main Street
Frankfort, KY 40601

CUSTODIAN OF SECURITIES:

Farmers Bank & Capital Trust
Farmers Bank Plaza
Frankfort, KY 40601

LEGAL SERVICES:

Stoll Keenon & Park
201 East Main Street, Suite 1000
Lexington, KY 40507

REAL ESTATE CONSULTANT:

Chadwick, Saylor & Company, Inc.
Five Peidmont Center, Suite 710
Atlanta, GA 30305

INVESTMENT COUNSELORS:

Alliance Capital Management
1345 Avenue of the Americas
New York, NY 10105

ANB Investment Management
One North LaSalle Street, Suite 600
Chicago, IL 60690

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

Investment Counselors of Maryland
803 Cathedral Street
Baltimore, MD 21201

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

National Asset Management Corp.
101 South Fifth Street
Louisville, KY 40202

ERE Yarmouth Group, Inc.
787 Seventh Avenue, 46th Floor
New York, NY 10022

Weaver C. Barksdale & Associates, Inc.
30 Burton Hills Boulevard Suite 550
Nashville, TN 37215

KENTUCKY RETIREMENT SYSTEMS

Financial Section

Comprehensive Annual Financial Report
June 30, 1997

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JAMES CLOUSE, C.P.A.
CHARLES F. WHELAN, C.P.A.

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Employees Retirement System
Frankfort, Kentucky

We have audited the accompanying statement of net plan assets of the Kentucky Employees Retirement System, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 1997 and 1996 and the statement of changes in net plan assets for the years then ended. These component unit financial statements are the responsibility of the Kentucky Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Employees Retirement System, at June 30, 1997 and 1996, and the changes in its net plan assets for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note C to the financial statements, the System implemented Governmental Accounting Standards Board Statement No.25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of funding progress and employer contributions, included on pages 10 through 12 and the footnotes thereto on page 13, are supplemental disclosures under Governmental Accounting Standards Board statement No. 25. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Charles T. Mitchell Co.
September 19, 1997

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF NET PLAN ASSETS
June 30, 1997 and 1996

Expressed In Thousands

	Hazardous Employees	Non-Hazardous Employees	1997 Total	1996 Total
ASSETS				
Cash and short-term investments				
Cash	$ 5	$ 122	$ 127	$ 432
Short-term investments	41,906	600,574	642,480	401,592
Total cash and short-term investments	41,911	600,696	642,607	402,025
Receivables				
Investments - accounts receivable	79	1,550	1,629	25,213
Interest receivable	602	16,061	16,663	15,242
Accounts receivable	1,447	13,418	14,865	14,298
Total receivables	2,128	31,029	33,157	54,753
Investments at fair value				
Corporate and government bonds	35,351	883,070	918,421	824,833
Corporate stocks	116,755	2,804,562	2,921,317	2,182,299
Mortgages	5,888	205,828	211,716	212,749
Real estate	7,370	169,346	176,716	185,243
Total investments at fair value	165,364	4,062,806	4,228,170	3,405,124
Total assets	209,403	4,694,531	4,903,934	3,861,902
LIABILITIES				
Investment - accounts payable	21,633	483,987	505,620	196,272
Accounts payable	727	5,744	6,471	8,183
Total liabilities	22,360	489,731	512,091	204,455
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 187,043	$ 4,204,800	$ 4,391,843	$3,657,447

(A schedule of funding progress for each plan is presented on pages 11 and 12.)

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

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET PLAN ASSETS
For the Years Ended June 30, 1997 and 1996

Expressed In Thousands

	Hazardous Employees	Non-Hazardous Employees	1997 Total	1996 Total
ADDITIONS				
Contributions				
Employer	$ 15,151	$ 102,968	$ 118,119	$ 113,717
Member	6,189	62,886	69,075	68,933
Total contributions	21,340	165,854	187,194	182,650
Investment income				
Net appreciation in fair value of investments	26,850	644,858	671,708	1,043,006
Interest	4,093	95,719	99,812	86,293
Dividends	2,272	56,474	58,746	46,942
Real estate operating income (net)	599	10,354	10,953	10,484
Investment income	33,814	807,405	841,219	1,186,725
Less investment expense	829	18,344	19,173	12,830
Net investment income	32,985	789,061	822,046	1,173,895
Total additions	54,325	954,915	1,009,240	1,356,545
DEDUCTIONS				
Benefit payments	3,389	169,963	173,352	158,406
Refunds	829	7,433	8,262	7,485
Administrative expenses	187	2,514	2,701	2,284
Other deductions (net)	6,280	37,708	43,988	42,624
Total deductions	10,685	217,618	228,303	210,799
Net increase	43,640	737,297	780,937	1,145,746
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	143,403	3,514,046	3,657,449	2,542,688
Adjustments to net assets		(46,543)	(46,543)	(30,987)
End of year	$ 187,043	$ 4,204,800	$4,391,843	$3,657,447

The accompanying notes are an integral part of these 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. The following notes and required supplementary information apply only to KERS.

NOTE A. Summary of Significant Accounting Policies

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

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

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

The System was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.515. The System's administrative budget and employer contribution rates are subject to approval by the Kentucky General Assembly. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Expense Allocation - The System, the County Employees Retirement System, and the State Police Retirement System are collectively administered by the Kentucky Retirement Systems. Administrative and investment expenses of the Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

NOTE B. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 1997 and 1996, the date of the latest actuarial valuation:

	1997		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	20,540	585	21,125
Terminated plan members - vested	2,550	77	2,627
Terminated plan members - non-vested	9,522	375	9,897
Active plan members	46,073	3,532	49,605
Total	78,685	4,569	83,254
Number of participating employers			361

NOTE B. Plan Descriptions and Contribution Information (Continued)

	1996		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	19,468	502	19,970
Terminated plan members - vested	2,416	68	2,484
Terminated plan members - non-vested	8,901	321	9,222
Active plan members	47,145	3,452	50,597
Total	77,930	4,343	82,273
Number of participating employers			354

Non-Hazardous Employees Pension Plan

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

Contributions - For the years ended June 30, 1997 and 1996, plan members were required to contribute 5% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 1997 and 1996, the State contributed 8.89% and 8.56% respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1997 and 1996 was 8.89% and 8.75% respectively, of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

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

NOTE B. Plan Descriptions and Contribution Information (Continued)

Contributions - For the years ended June 30, 1997 and 1996, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 1997 and 1996, the State contributed 17.87% and 17.97% respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1997 and 1996 was 17.87% and 18.05% respectively, of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

NOTE C. Change in Accounting Principles

During 1996, the System elected an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement require restatement of prior year balance for the effect of changing from reporting certain investments at amortized cost to reporting investments at fair value. The effect of the change in accounting principles on the beginning net assets held in trust for pension benefits for System as previously reported was a decrease of $30,987,134.

NOTE D. Cash and Short-Term Investments

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

	1997	1996
Cash collateral	$ 127,358	$ 432,075
Miscellaneous cash	57	19
Repurchase agreements purchased with cash collateral	470,571,139	84,136,277
Other repurchase agreements	171,908,213	317,456,600
Total	$642,606,766	$402,024,971

NOTE E. Investments

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

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

NOTE E. Investments (Continued)

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

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

Equity Real Estate - Investments may be made for the purpose of creating a diversified portfolio of income-producing properties with moderate to low levels of risk.

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

Cash Equivalent Securities - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.
- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 1997 and 1996. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 2 included uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the Systems with the simultaneous receipt of cash collateral for the loaned securities. Cash collateral is reinvested in accordance with the Systems *Statement of Investment Policy*. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of Kentucky Retirement Systems.

	1997			
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities:				
Not on securities loan	$ 69,355,101	$	$ 13,909,706	$ 83,264,807
Loaned for securities collateral	39,418,564			39,418,564
Corporate bonds	400,181,010		21,012,584	421,193,594
Corporate stocks	2,796,782,806			2,796,782,806
Mortgages	211,715,757			211,715,757
Repurchase agreements		171,908,213	470,571,139	642,479,352
Subtotal	$3,517,453,238	$171,908,213	$505,493,429	4,194,854,880
Investments - Not Categorized Investments held by broker-dealers under securities loans				
U.S. Government Securities				360,472,930
Corporate bonds				14,071,955
Corporate stocks				124,534,388
Real Estate Investment				176,715,941
Total Investments				$4,870,650,094

NOTE E. Investments (Continued)

	1996			
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities:				
Not on securities loan	$ 325,307,408	$	$ 70,030,704	$ 395,338,111
Loaned for securities collateral	8,424,666			8,424,666
Corporate bonds	272,106,592		5,819,297	277,925,889
Corporate stocks	2,166,829,800			2,166,829,800
Mortgages	212,749,117			212,749,117
Repurchase agreements		317,456,600	84,136,277	401,592,877
Subtotal	$2,985,417,583	$317,456,600	$159,986,278	3,462,860,460
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				130,574,439
Corporate bonds				12,569,479
Corporate stocks				15,469,390
Real Estate Investment				185,242,702
Total Investments				$3,806,716,470

NOTE F. Securities Lending Transactions

Kentucky Revised Statute Section 61.650 and 386.020(2) permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodial bank lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 102 percent. 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 collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions

NOTE F. Securities Lending Transactions (Continued)

paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of eight days for its regular account and three days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE G. Risks of Loss

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

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

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66⅔%) of wages for temporary disability. Each agency pays premiums based on fund reserves and payroll.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. There were no claims which were appealed to the Kentucky Workers Compensation Board.

NOTE H. Contingencies

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

NOTE I. Income Tax Status

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

NOTE J. Participation of Qualified Circuit Clerks and Deputy Clerks

KRS 78.534 as enacted by the 1996 General Assembly requires that on and after August 1, 1996, each circuit clerk and deputy clerk who was a member of the Kentucky Employees Retirement System on July 31, 1996, each former circuit clerk or former deputy clerk who is vested in the Kentucky Employees Retirement System for service as a circuit clerk or deputy clerk who has not yet begun to draw benefits, and each circuit clerk or deputy clerk thereafter taking office shall participate in the County Employees Retirement System by appropriate order authorizing participation pursuant to KRS 78.530. Upon participation, each member shall be bound by the terms and requirements of the County Employees Retirement System and shall receive the benefits.

During the year ended June 30, 1997, service credit for all circuit clerks and deputy clerks specified by KRS 78.534 was transferred from the Kentucky Employees Retirement System to the County Employees Retirement System. Member contributions and interest credited thereon in the amount of $12,173,594 and employer contributions in the amount of $34,368,575 were also transferred from the Kentucky Employees Retirement System to the County Employees Retirement System during the fiscal year ended June 30, 1997.

Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
June 30, 1992**	2,293,534,024	2,458,102,471	164,568,447
June 30, 1993	2,508,761,584	2,619,150,115	110,388,531
June 30, 1994	2,637,660,362	2,809,545,625	171,885,263
June 30, 1995	2,872,020,193	3,112,989,384	240,969,191
June 30, 1996	3,237,983,129	3,295,362,361	57,379,232
June 30, 1997	3,683,995,005	3,463,047,650	(220,947,355)
Hazardous			
June 30, 1992**	60,948,297	67,088,459	6,140,162
June 30, 1993	76,447,953	84,620,961	8,173,008
June 30, 1994	91,388,625	102,504,650	11,116,025
June 30, 1995	111,793,345	127,862,904	16,069,559
June 30, 1996	137,312,448	120,042,122	(17,270,326)
June 30, 1997	166,717,238	140,918,460	(25,798,778)

** Asset valuation method was changed from book value to a five-year average of market to book values - June 30, 1992 valuation.

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.933	1,069,968,940	0.154
0.958	1,079,322,020	0.102
0.939	1,121,481,440	0.153
0.923	1,231,383,460	0.196
0.983	1,232,974,460	0.047
1.064	1,234,798,738	(0.179)
0.909	71,781,200	0.086
0.903	80,655,200	0.101
0.892	75,686,614	0.147
0.874	88,657,986	0.181
1.144	85,933,543	(0.201)
1.183	87,757,075	(0.294)

EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	81,852,624	76,840,839	0.939
June 30, 1993	93,469,287	80,122,545	0.857
June 30, 1994	97,120,293	80,936,678	0.833
June 30, 1995	105,406,424	93,882,993	0.891
June 30, 1996	107,885,265	99,296,569	0.920
June 30, 1997	109,773,608	102,967,907	0.935

HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	10,803,071	10,421,095	0.965
June 30, 1993	14,154,988	10,445,950	0.738
June 30, 1994	13,517,451	10,600,435	0.784
June 30, 1995	15,931,840	13,698,600	0.860
June 30, 1996	15,511,004	14,420,406	0.930
June 30, 1997	15,682,189	15,151,328	0.966

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

	Non-Hazardous	Hazardous
Valuation Date	June 30, 1997	June 30, 1997
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation	30 years - Commencing with 1990 Valuation
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%

Charles T. Mitchell Company, LLP

Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
County Employees Retirement System
Frankfort, Kentucky

We have audited the accompanying statements of net plan assets of the County Employees Retirement System, a component unit of the Commonwealth of Kentucky, as of June 30, 1997 and 1996 and the statement of changes in net plan assets for the year then ended. These component unit financial statements are the responsibility of the County Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County Employees Retirement System, at June 30, 1997, and the changes in its net plan assets for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note C to the financial statements, the System implemented Governmental Accounting Standards Board Statement No.25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of funding progress and employer contributions, included on pages 23 through 25 and the footnotes thereto on page 26, are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Charles T. Mitchell Co.
September 19, 1997

COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF NET PLAN ASSETS
June 30, 1997 and 1996

Expressed In Thousands

	Hazardous Employees	Non-Hazardous Employees	1997 Total	1996 Total
ASSETS				
Cash and short-term investments				
Cash	$ 26	$ 97	$ 123	$ 257
Short-term investments	153,734	536,704	690,438	491,560
Total cash and short-term investments	153,760	536,801	690,561	491,817
Receivables				
Investments - accounts receivable	403	1,817	2,220	20,966
Interest receivable - year end	2,971	11,338	14,309	8,171
Accounts receivable - year end	5,853	18,088	23,941	24,472
Accounts receivable - alternate plan	3,822	4,630	8,452	8,976
A/R - alternate plan - year end	267	319	586	607
Total receivables	13,316	36,192	49,508	63,192
Investments at fair value				
Bonds	167,425	613,755	781,180	362,142
Corporate stocks	573,500	2,100,456	2,673,956	2,095,842
Mortgages	31,651	116,078	147,729	107,188
Real estate	35,325	115,491	150,816	154,901
Total investments at fair value	807,901	2,945,780	3,753,681	2,720,073
Total assets	974,977	3,518,773	4,493,750	3,275,082
LIABILITIES				
Investment - accounts payable	103,408	383,549	486,957	116,925
Accounts payable	1,449	6,018	7,467	6,483
Total liabilities	104,857	389,567	494,424	123,408
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 870,120	$ 3,129,206	$ 3,999,326	$ 3,151,674

(A schedule of funding progress for each plan is presented on pages 24 and 25.)

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

COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET PLAN ASSETS
For the Years Ended June 30, 1997 and 1996

Expressed In Thousands

	Hazardous Employees	Non-Hazardous Employees	1997 Total	1996 Total
ADDITIONS				
Contributions				
Employer	$ 39,552	$ 105,774	$ 145,326	$ 131,612
Member	15,752	63,590	79,342	72,558
Total contributions	55,304	169,364	224,668	204,170
Investment income				
Net appreciation in fair value of investments	135,217	492,669	627,886	899,766
Interest	17,732	62,163	79,895	58,260
Dividends	11,791	42,414	54,205	44,759
Real estate operating income (net)	2,277	7,370	9,647	8,949
Investment income	167,017	604,616	771,633	1,011,734
Less investment expense	3,777	13,336	17,113	10,827
Net investment income	163,240	591,280	754,520	1,000,907
Total additions	218,544	760,644	979,188	1,205,077
DEDUCTIONS				
Benefit payments	33,513	90,674	124,187	109,082
Refunds	993	8,174	9,167	8,944
Administrative expense	341	3,568	3,909	3,217
Other deductions (net)	13,306	27,510	40,816	37,623
Total deductions	48,153	129,926	178,079	158,866
Net increase	170,391	630,718	801,109	1,046,211
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	699,729	2,451,945	3,151,674	2,122,907
Adjustment to net assets		46,543	46,543	(17,444)
End of year	$ 870,120	$ 3,129,206	$ 3,999,326	$ 3,151,674

The accompanying notes are an integral part of these 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 the 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. The following notes are required supplementary information apply only to CERS.

NOTE A. Summary of Significant Accounting Policies

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

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

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

Expense Allocation - The System, the Kentucky Employees Retirement System, and the State Police Retirement System are collectively administered by the Kentucky Retirement Systems. Administrative and investment expenses of the Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

NOTE B. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 1997 and 1996, the date of the latest actuarial valuation:

		1997	
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	17,797	2,217	20,014
Terminated plan members - vested	2,503	100	2,603
Terminated plan members - non-vested	15,223	257	15,480
Active plan members	69,219	6,513	75,732
Total	104,742	9,087	113,829
Number of participating employers			1,050

NOTE B. Plan Descriptions and Contribution Information (Continued)

	1996		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	16,208	1,961	18,169
Terminated plan members - vested	2,254	85	2,339
Terminated plan members - non-vested	13,519	220	13,739
Active plan members	66,273	6,281	72,554
Total	98,254	8,547	106,801
Number of participating employers			1,012

Non-Hazardous Employees Pension Plan

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

Contributions - For the years ended June 30, 1997 and 1996, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 1997 and 1996, participating employers contributed 8.65% and 8.94% respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1997 and 1996 was 8.65% and 8.94% respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

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

Contributions - For the years ended June 30, 1997 and 1996, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 1997 and 1996, participating employers contributed 18.69% and 18.21% respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1997 and 1996 was 18.69% and 18.21% respectively, of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

NOTE C. Change in Accounting Principles

During 1996, the System elected an early adoption of the provisions of Government Auditing Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement require restatement of prior year balance for the effect of changing from reporting certain investments at fair value. The effect of the change in accounting principle on the beginning net assets held in trust for pension benefits for System as previously reported was a decrease of $17,444,017.

NOTE D. Cash and Short-Term Investments

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

	1997	1996
Cash collateral	$ 122,657	$ 257,407
Repurchase agreements purchased with cash collateral	453,200,703	50,123,815
Other repurchase agreements	237,237,533	441,436,138
Total	$690,560,893	$491,817,360

NOTE E. Investments

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

<u>Equity Investments</u> - Investments may be made in common stocks, securities convertible into common stocks and in preferred stocks of publicly traded corporations.

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

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

<u>Equity Real Estate</u> - Investments may be made for the purpose of creating a diversified portfolio of income-producing properties with moderate to low levels of risk.

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

<u>Cash Equivalent Securities</u> - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.
- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

Investments (Continued)

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 1997 and 1996. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 2 included uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the Systems with the simultaneous receipt of cash collateral for the loaned securities. Cash collateral is reinvested in accordance with the Systems *Statement of Investment Policy*. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of Kentucky Retirement Systems.

	1997			
Investments - Categorized U.S. Government Securities:	Category 1	Category 2	Category 3	Market Value
Not on securities loan	$ 55,736,984	$	$ 13,396,250	$ 69,133,234
Loaned for securities collateral	39,704,544			39,704,544
Corporate bonds	291,385,668		20,236,935	311,622,603
Corporate stocks	2,554,019,056			2,554,019,056
Mortgages	147,728,799			147,728,799
Repurchase agreements		237,237,533	453,200,702	690,438,235
Subtotal	$3,088,575,051	$237,237,533	$486,833,887	3,812,646,471
Investments - Not Categorized Investments held by broker-dealers under securities loans				
U.S. Government Securities				347,166,606
Corporate bonds				13,552,509
Corporate stocks				119,937,385
Real Estate Investment				150,816,754
Total Investments				$4,444,119,725

	1996			
Investments - Categorized U.S. Government Securities:	Category 1	Category 2	Category 3	Market Value
Not on securities loan	$ 107,272,298	$	$ 41,720,482	$ 148,992,780
Loaned for securities collateral	3,494,967			3,494,967
Corporate bonds	120,910,543		3,466,820	124,377,363
Corporate stocks	2,086,625,908			2,086,625,908
Mortgages	107,187,737			107,187,737
Repurchase agreements		441,436,138	50,123,815	491,559,953
Subtotal	$2,425,491,453	$441,436,138	$ 95,311,117	2,962,238,708
Investments - Not Categorized Investments held by broker-dealers under securities loans				
U.S. Government Securities				77,789,145
Corporate bonds				7,488,211
Corporate stocks				9,215,821
Real Estate Investment				154,900,877
Total Investments				$3,211,632,762

NOTE F. Securities Lending Transactions

Kentucky Revised Statute Sections 61.650 and 386.020(2) permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodial bank lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 100 percent. Securities lent for cash collateral are presented as unclassified on the preceding page in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions pain upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of eight days for its regular account and three days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE G. Risks of Loss

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

NOTE G. Risks of Loss (Continued)

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

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66⅔%) of wages for temporary disability. Each agency pays premiums based on fund reserves and payroll.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. There were no claims which were appealed to the Kentucky Workers Compensation Board.

NOTE H. Contingencies

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

NOTE I. Income Tax Status

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

NOTE J. Participation of Qualified Circuit Clerks and Deputy Clerks

KRS 78.534 as enacted by the 1996 General Assembly requires that on and after August 1, 1996, each circuit clerk and deputy clerk who was a member of the Kentucky Employees Retirement System on July 31, 1996, each former circuit clerk or former deputy clerk who is vested in the Kentucky Employees Retirement System for service as a circuit clerk or deputy clerk who has not yet begun to draw benefits, and each circuit clerk or deputy clerk thereafter taking office shall participate in the County Employees Retirement System by appropriate order authorizing participation pursuant to KRS 78.530. Upon participation, each member shall be bound by the terms and requirements of the County Employees Retirement System and shall receive the benefits.

During the year ended June 30, 1997, service credit for all circuit clerks and deputy clerks specified by KRS 78.534 was transferred from the Kentucky Employees Retirement System to the County Employees Retirement System. Member contributions and interest credited thereon in the amount of $12,173,594 and employer contributions in the amount of $34,368,575 were also transferred from the Kentucky Employees Retirement System to the County Employees Retirement System during the fiscal year ended June 30, 1997.

Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
June 30, 1992**	1,349,505,389	1,386,316,882	36,811,493
June 30, 1993	1,549,218,273	1,558,370,044	9,151,771
June 30, 1994	1,680,890,826	1,748,933,823	68,042,997
June 30, 1995	1,901,448,617	1,935,154,223	33,705,606
June 30, 1996	2,237,808,033	2,083,374,317	(154,433,716)
June 30, 1997	2,750,196,558	2,390,620,093	(359,576,465)
Hazardous			
June 30, 1992**	385,533,519	475,661,521	90,128,002
June 30, 1993	436,462,436	521,560,003	85,097,567
June 30, 1994	492,463,946	581,410,418	88,946,472
June 30, 1995	552,679,443	668,421,698	115,742,255
June 30, 1996	642,220,505	694,942,156	52,721,651
June 30, 1997	763,829,310	754,308,810	(9,520,500)

** Asset valuation method was changed from book value to a five-year average of market to book values - June 30, 1992 valuation.

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.973	967,040,640	0.038
0.994	1,107,476,940	0.008
0.961	1,050,987,720	0.065
0.983	1,167,668,400	0.029
1.074	1,137,192,560	(0.136)
1.150	1,297,116,204	(0.277)
0.811	149,474,543	0.603
0.837	170,391,529	0.499
0.847	183,410,686	0.485
0.827	205,738,571	0.563
0.924	211,638,457	0.249
1.013	225,094,837	(0.042)

EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	76,879,731	66,844,437	0.870
June 30, 1993	97,679,466	86,394,130	0.885
June 30, 1994	92,697,117	83,583,039	0.902
June 30, 1995	102,404,519	88,922,215	0.868
June 30, 1996	101,665,015	95,660,478	0.941
June 30, 1997	112,200,552	105,773,743	0.942

HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	24,065,401	22,305,069	0.927
June 30, 1993	31,471,315	28,836,513	0.916
June 30, 1994	33,912,636	30,576,794	0.902
June 30, 1995	37,691,306	32,959,064	0.874
June 30, 1996	38,539,363	35,951,348	0.933
June 30, 1997	42,070,225	39,552,085	0.938

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

	Non-Hazardous	Hazardous
Valuation Date	June 30, 1997	June 30, 1997
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation	30 years - Commencing with 1990 Valuation
Asset Valuation Method -	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%

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CHARLES F. WHELAN, C.P.A.

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
State Police Retirement System
Frankfort, Kentucky

We have audited the accompanying statements of net plan assets of the State Police Retirement System, a component unit of the Commonwealth of Kentucky, as of June 30, 1997 and 1996 and the statement of changes in net plan assets for the years then ended. These component unit financial statements are the responsibility of the State Police Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Police Retirement System, at June 30, 1997 and 1996, and the statements of net plan assets and changes in net plan assets for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note C to the financial statements, the Systems implemented Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of funding progress and employer contributions, included on pages 35 and 16 are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Charles T. Mitchell Co.
September 19, 1997

STATE POLICE RETIREMENT SYSTEM
STATEMENTS OF NET PLAN ASSETS
June 30, 1997 and 1996

Expressed In Thousands

	1997 ASSETS	1996 ASSETS
Cash and short-term investments		
Cash	$ 8	$ 29
Short-term investments	44,865	18,899
Total cash and short-term investments	44,873	18,928
Receivables		
Investments - accounts receivable	95	1,744
Interest receivable - year end	1,151	1,119
Accounts receivable - year end	17,917	649
Total receivables	19,163	3,512
Investments at fair value		
Bonds	61,770	60,037
Corporate stocks	206,838	161,057
Mortgages	14,157	15,361
Real estate	11,922	12,762
Total investments	294,687	249,217
Total assets	358,723	271,657
LIABILITIES		
Investment - accounts payable	32,499	13,426
Accounts payable	19,196	432
Total liabilities	51,695	13,858
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 307,028	$ 257,799

(A schedule of funding progress for each plan is presented on page 37.)

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

STATE POLICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET PLAN ASSETS
For the Years Ended June 30, 1997 and 1996

Expressed In Thousands

	1997 Total	1996 Total
ADDITIONS		
Contributions		
Employer	$ 9,628	$ 7,089
Member	2,958	2,457
Total contributions	12,586	9,546
Investment income		
Net appreciation in fair value of investments	47,643	80,696
Interest	6,996	5,803
Dividends	4,244	3,530
Real estate operating income (net)	829	714
Investment income	59,712	90,743
Less investment expense	1,337	868
Net investment income	58,375	89,875
Total additions	70,961	99,421
DEDUCTIONS		
Benefit payments	14,682	13,711
Refunds	57	31
Administrative expense	52	44
Other deductions (net)	5,126	4,606
Total deductions	19,917	18,392
Net increase	51,044	81,029
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	257,799	180,383
Adjustment to net assets	(1,815)	(3,613)
End of year	$ 307,028	$ 257,799

The accompanying notes are an integral part of these 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. The following notes are required supplementary information apply only to SPRS.

A. Summary of Significant Accounting Policies

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

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

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

The System was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.515. The System's administrative budget and employer contribution rates are subject to approval by the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

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

B. Plan Description and Contribution Information

Membership of the plan consisted of the following at June 30, 1997 and 1996, the date of the latest actuarial valuation:

Number of Members	1997 Hazardous Position Employees	1996 Hazardous Position Employees
Retirees and beneficiaries receiving benefits	669	625
Terminated plan members - vested	9	8
Terminated plan members - non-vested	77	72
Active plan members	943	1,002
Total	1,698	1,707
Number of participating employers		1

State Police Retirement System

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

B. Plan Description and Contribution Information (Continued)

State Police Retirement System (Continued)

Contributions - For the years ended June 30, 1997 and 1996, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 1997 and 1996, the State contributed 26.58% and 21.78% respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1997 and 1996 was 26.58% and 23.05% respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

NOTE C. Change in Accounting Principles

During 1996, the System elected to an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement require restatement of prior year balance for the effect of changing from reporting certain investments at amortized cost to reporting investments at fair value. The effect of the change in accounting principle on the beginning net assets held in trust for pension benefits for System or previously reported was a decrease of $3,612,946.

NOTE D. Cash and Short-Term Investments

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

	1997	1996
Cash collateral	$ 8,186	$ 29,419
Repurchase agreements purchased with cash collateral	30,245,859	5,728,667
Other repurchase agreements	14,618,760	13,169,710
Total	$44,872,805	$18,927,796

NOTE E. Investments

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

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

NOTE E. Investments (Continued)

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

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

Equity Real Estate - Investments may be made for the purpose of creating a diversified portfolio of income-producing properties with moderate to low levels of risk.

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

Cash Equivalent Securities - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.

- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 1997 and 1996. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 2 included uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the Systems with the simultaneous receipt of cash collateral for the loaned securities. Cash collateral is reinvested in accordance with the Systems *Statement of Investment Policy*. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of Kentucky Retirement Systems.

		1997		
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities:				
Not on securities loan	$ 4,575,492	$	$ 894,043	$ 5,469,535
Loaned for securities collateral	2,468,892			2,468,892
Corporate bonds	28,407,189		1,350,579	29,757,768
Corporate stocks	198,833,262			198,833,262
Mortgages	14,157,420			14,157,420
Repurchase agreements		14,618,760	30,245,859	44,864,619
Subtotal	$ 248,442,255	$ 14,618,760	$ 32,490,481	295,551,496
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				23,169,320
Corporate bonds				904,472
Corporate stocks				8,004,421
Real Estate Investment				11,921,962
Total Investments				$ 339,551,671

NOTE E. Investments (Continued)

	1996			
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities:				
Not on securities loan	$ 23,893,791	$	$ 4,768,247	$ 28,662,038
Loaned for securities collateral	575,200			575,200
Corporate bonds	20,657,132		396,224	21,053,356
Corporate stocks	160,003,711			160,003,711
Mortgages	15,361,416			15,361,416
Repurchase agreements		13,169,710	5,728,667	18,898,377
Subtotal	$ 220,491,250	$ 13,169,710	$ 10,893,138	244,554,098
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				8,890,546
Corporate bonds				855,830
Corporate stocks				1,053,279
Real Estate Investment				12,761,606
Total Investments				$ 268,115,359

NOTE F. Securities Lending Transactions

Kentucky Revised Statute Section 61.650 and 386.020(2) permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodial bank lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 100 percent. Securities lent for cash collateral are presented as unclassified on the preceding page in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.

NOTE F. Securities Lending Transactions (Continued)

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of eight days for its regular account and three days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE G. Risks of Loss

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

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

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66⅔%) of wages for temporary disability. Each agency pays premiums based on fund reserves and payroll.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. There were no claims which were appealed to the Kentucky Workers Compensation Board.

NOTE H. Contingencies

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

NOTE I. Income Tax Status

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

NOTE J. E.E.O.C. v. Kentucky State Police, et.al.

The U.S. Equal Employment Opportunity Commission filed suit against the Kentucky State Police charging mandatory retirement of state police officers at age 55 is not a bona fide occupational qualification and thus violates the U.S. Age Discrimination in Employment Act. The suit demanded that all former State Police officers involved be reinstated to their former positions and be made whole with full back-pay and benefits. Kentucky Retirement Systems entered the lawsuit as a third party demanding that if the officers were reinstated they would return retirement benefits paid them, return insurance premiums paid on their behalf, and pay retirement contributions that would have been due had they remained employed. Kentucky Retirement Systems also demanded that the Kentucky State Police pay employer contributions that would have been due had the officers remained employed. The officers were allowed to re-retire with increased retirement benefits calculated from the end of the reinstatement period to each individual officer's date of death or December 31, 1986. The U.S. Age Discrimination Act was amended to again make age a bona fide occupational qualification for hazardous duty jobs effective January 1, 1987.

As a result of final judgment being entered in the case on June 30, 1997, $9,321,380 and $307,706 was received respectively by the State Police Retirement System and the State Police Insurance Fund on June 30, 1997. Back pay resulting from increased retirement benefits in the amount of $11,135,748 has been included in accounts payable as of June 30, 1997. Actual payments to plaintiffs in the case will be made in the fiscal year ending June 30, 1998.

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 1992**	187,791,011	182,996,056	(4,794,955)	1.026	36,140,857	(0.133)
June 30, 1993	200,320,968	191,653,594	(8,667,374)	1.045	36,369,643	(0.238)
June 30, 1994	205,320,509	206,763,310	1,442,801	0.993	36,783,743	0.039
June 30, 1995	217,504,443	241,690,631	24,186,188	0.900	38,955,271	0.621
June 30, 1996	237,515,346	244,540,812	7,025,466	0.971	34,698,957	0.202
June 30, 1997	279,643,275	255,784,758	(23,858,517)	1.093	41,586,211	(0.574)

** Asset valuation method was changed from book value to a five-year average of market to book values - June 30, 1992 valuation.

EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	7,072,766	6,193,359	0.876
June 30, 1993	7,943,130	6,113,532	0.770
June 30, 1994	8,033,569	6,081,367	0.757
June 30, 1995	8,484,458	6,874,327	0.810
June 30, 1996	7,998,110	7,089,072	0.886
June 30, 1997	11,053,615	9,627,692	0.871

SUPPLEMENTARY INFORMATION

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

	HAZARDOUS
Valuation Date	June 30, 1997
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation
Asset Valuation Method - Started with 1992 Valuation	Five-year Average of Market to Book Value
Actuarial Assumptions:	
Investment Return	8.25%
Projected Salary Increases	6.50%

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Retirement Systems Insurance Fund
Frankfort, Kentucky

We have audited the accompanying statement of postemployment healthcare net plan assets of the Kentucky Retirement Systems Insurance Fund, a component unit of the Commonwealth of Kentucky, as of June 30, 1997 and 1996 and the statement of changes in postemployment healthcare net plan assets for the years then ended. These component unit financial statements are the responsibility of the Kentucky Retirement Systems Insurance Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Retirement Systems Insurance Fund, at June 30, 1997 and 1996, and the changes in postemployment healthcare net plan assets for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note C to the financial statements, the System implemented Governmental Accounting Standards Board Statement No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans."

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of employee contributions and funding progress, included on pages 47 through 54 and the footnotes thereto on page 55, are supplemental disclosures under Governmental Accounting Standards Board statements No. 25 and 26. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Charles T. Mitchell Co.
September 19, 1997

	KERS HAZARDOUS	KERS NON-HAZARDOUS
ASSETS		
Cash and short-term investments		
Cash	$ 2	$ 6
Short-term investments	9,831	33,630
Total cash and short-term investments	9,833	33,636
Receivables		
Investments - accounts receivable	19	71
Interest accounts receivable - year end	184	755
Accounts receivable - year end	549	3,466
Total receivables	752	4,292
Investments, at fair value		
Bonds	10,143	39,887
Corporate stocks	31,677	130,372
Mortgages	2,186	9,374
Total investments	44,006	179,633
Total assets	54,591	217,561
LIABILITIES		
Investment - accounts payable	6,020	24,694
Accounts payable - year end	11	201
Total liabilities	6,031	24,895
NET ASSETS - POSTEMPLOYMENT HEALTHCARE BENEFITS	$ 48,560	$ 192,666

(A schedule of funding progress for each plan is presented on pages 50 through 54.)

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
STATEMENT OF POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS
June 30, 1997 and 1996

Expressed In Thousands

CERS HAZARDOUS	CERS NON-HAZARDOUS	STATE POLICE	1997 Total	1996 Total
$ 3	$ 5	$ 1	$ 17	$ 40
15,449	27,781	7,260	93,951	69,542
15,452	27,786	7,261	93,968	69,582
31	57	15	193	148
305	595	150	1,989	3,126
1,175	2,941	765	8,896	7,888
1,511	3,593	930	11,078	11,162
16,472	31,555	7,871	105,928	168,926
52,725	102,933	25,465	343,172	101,630
3,898	7,555	1,986	24,999	46,128
73,095	142,043	35,322	474,099	316,684
90,058	173,422	43,513	579,145	397,428
10,351	19,455	4,910	65,430	15,037
15	27	8	262	171
10,366	19,482	4,918	65,692	15,208
$ 79,692	$ 153,940	$ 38,595	$ 513,453	$ 382,220

	KERS Hazardous	KERS Non-Hazardous
ADDITIONS		
Employer contributions	$ 6,279	$ 37,710
Investment income		
Net appreciation in fair value of investments	6,216	25,937
Interest	1,275	4,914
Dividends	475	1,956
Investment income	7,966	32,807
Less investment expense	160	636
Net investment income	7,806	32,171
Total additions	14,085	69,881
DEDUCTIONS		
Healthcare premiums subsidies	866	21,144
Net increase	13,219	48,737
NET ASSETS HELD IN TRUST FOR POSTEMPLOYMENT HEALTHCARE BENEFITS		
Beginning of year	35,341	143,929
Adjustment to net assets		
End of year	$ 48,560	$ 192,666

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
STATEMENTS OF CHANGES IN POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS
June 30, 1997 and 1996

Expressed In Thousands

CERS Hazardous	CERS Non-Hazardous	State Police	1997 Total	1996 Total
$ 13,305	$ 27,504	$ 5,126	$ 89,924	$ 84,841
10,564	20,336	5,153	68,206	35,613
2,065	3,934	1,018	13,206	16,600
819	1,563	397	5,210	2,284
13,448	25,833	6,568	86,622	54,497
264	507	128	1,695	2,107
13,184	25,326	6,440	84,927	52,390
26,489	52,830	11,566	174,851	137,231
6,260	13,497	2,160	43,927	35,522
20,229	39,333	9,406	130,924	101,709
59,463	114,607	28,881	382,221	273,946
		308	308	6,565
$ 79,692	$ 153,940	$ 38,595	$ 513,453	$ 382,220

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

NOTE A. Summary of Significant Accounting Policies

Basis of Accounting - The Fund's financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Premium payment 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. Investments that do not have an established market are reported at estimated fair value.

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

The Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701. The Fund's administrative budget and employer contribution rates are subject to approval by the Kentucky General Assembly.

NOTE B. Plan Descriptions and Contribution Information

Hospital and medical contracts in force consisted of the following at June 30, 1997 and 1996, the date of the latest actuarial valuation:

			1997		
	Single	Couple and Family	Parent +	Medicare Regular	Medicare High
KERS Non-Hazardous	3,374	714	168	1,870	10,056
KERS Hazardous	143	141	21	26	242
CERS Non-Hazardous	2,598	618	129	1,879	6,646
CERS Hazardous	493	1,096	141	18	386
SPRS	136	338	44	2	203
Totals	6,744	2,907	503	3,795	17,533

NOTE B. Plan Descriptions and Contribution Information (Continued)

	1996				
	Single	Couple and Family	Parent +	Medicare Regular	Medicare High
KERS Non-Hazardous	3,133	645	143	1,872	9,780
KERS Hazardous	143	123	19	24	211
CERS Non-Hazardous	2,289	566	97	1,802	6,241
CERS Hazardous	447	990	126	17	342
SPRS	139	321	38	2	181
Totals	6,151	2,145	423	3,717	16,755

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. For the year insurance premiums withheld from benefit payments to members of the Systems approximated $11,505,172 and $117,620 for KERS and KERS hazardous, respectively, $9,762,733 and $599,761 for CERS and CERS hazardous, respectively, and $137,360 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, 1997, the Fund had 35,308 retirees for whom benefits were available.

The allocation of insurance premiums paid by the Fund and amounts withheld from members' benefits is based on years of service with the Systems, as follows:

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

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 with in 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. Increases will commence with the 1997 valuation and adjustments will be made every other valuation year to coincide with the valuation used by the General Assembly to establish employer contribution rates for the biennium.

NOTE C. Change in Accounting Principles

During 1996, the System elected an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans." The provisions of this statement require restatement of prior year balance for the effect of changing from reporting certain investments at amortized cost to reporting investments at fair value. The effect of the change in accounting principles on the beginning net assets held in trust for pension benefits for System as previously reported was a decrease of $6,564,893.

NOTE D. Cash and Short-Term Investments

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

	1997	1996
Cash collateral	$ 16,481	$ 40,502
Repurchase agreements purchased with cash collateral	60,894,747	7,886,691
Other repurchase agreements	33,056,794	61,654,951
Total	$ 93,968,022	$ 69,582,144

NOTE E. Investments

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

Equity Investments - Investments may be made through the use of an S & P 500 Index Fund in common stocks of publicly traded corporations.

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

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

Cash Equivalent Securities - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.

- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

NOTE E. Investments (Continued)

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 1997 and 1996. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 2 included uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the Systems with the simultaneous receipt of cash collateral for the loaned securities. Cash collateral is reinvested in accordance with the Systems *Statement of Investment Policy*. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of Kentucky Retirement Systems.

		1997		
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities:				
Not on securities loan	$ 4,467,875	$	$ 1,800,000	$ 6,267,875
Loaned for securities collateral	5,208,000			5,208,000
Corporate bonds	43,263,903		2,719,155	45,983,058
Corporate stocks	327,055,682			327,055,682
Mortgages	24,999,265			24,999,265
Repurchase agreements		33,056,794	60,894,747	93,951,541
Subtotal	$ 404,994,725	$ 33,056,794	$ 65,413,902	503,465,421
Investments - Not Categorized Investments held by broker-dealers under securities loans				
U.S. Government Securities				46,647,374
Corporate bonds				1,820,996
Corporate stocks				16,115,502
Total Investments				$ 568,049,293

		1996		
Investments - Categorized	Category 1	Category 2	Category 3	Market Value
U.S. Government Securities:				
Not on securities loan	$ 64,575,154	$	$ 6,564,475	$ 71,139,629
Loaned for securities collateral	695,110			695,110
Corporate bonds	83,137,027		545,484	83,682,511
Corporate stocks	100,180,660			100,180,660
Mortgages	46,128,300			46,128,300
Repurchase agreements		61,654,952	7,886,691	69,541,643
Subtotal	$ 294,716,251	$ 61,654,952	$ 14,996,650	371,367,853
Investments - Not Categorized Investments held by broker-dealers under securities loans				
U.S. Government Securities				12,231,589
Corporate bonds				1,177,449
Corporate stocks				1,449,098
Total Investments				$ 386,225,989

NOTE F. Securities Lending Transactions

Kentucky Revised Statute Sections 61.650 and 386.00 (2) permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodial bank lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 100 percent. Securities lent for cash collateral are presented as unclassified on the preceding page in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of ten days for its regular account and forty days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE G. Contingencies

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

NOTE H. E.E.O.C. v. Kentucky State Police, et.al.

The U.S. Equal Employment Opportunity Commission filed suit against the Kentucky State Police charging mandatory retirement of state police officers at age 55 is not a bona fide occupational qualification and thus violates the U.S. Age Discrimination in Employment Act. The suit demanded that all former State Police officers involved be reinstated to their former positions and be made whole with full back-pay and benefits. Kentucky Retirement Systems entered the lawsuit as a third party demanding that if the officers were reinstated they would return retirement benefits paid them, return insurance premiums paid on their behalf, and pay retirement contributions that would have been due had they remained employed. Kentucky Retirement Systems also demanded that the Kentucky State Police pay employer contributions that would have been due had the officers remained employed. The officers were allowed to re-retire with increased retirement benefits calculated from the end of the reinstatement period to each individual officer's date of death or December 31, 1986. The U.S. Age Discrimination Act was amended to again make age a bona fide occupational qualification for hazardous duty jobs effective January 1, 1987.

As a result of final judgment being entered in the case on June 30, 1997, $9,321,380 and $307,706 was received respectively by the State Police Retirement System and the State Police Insurance Fund on June 30, 1997. Back pay from increased retirement benefits in the amount of $11,135,748 has been included in accounts payable as of June 30, 1997. Actual payments to plaintiffs in the case will be made in the fiscal year ending June 30, 1998.

KERS Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
June 30, 1992	53,045,314	943,076,826	890,031,512
June 30, 1993	63,686,402	1,100,308,587	1,036,622,185
June 30, 1994	80,315,367	1,341,024,064	1,260,708,697
June 30, 1995	102,238,501	1,348,616,865	1,246,378,364
June 30, 1996**	138,382,213	1,127,128,023	988,745,810
June 30, 1997	168,479,973	1,153,952,891	985,472,918
KERS Hazardous			
June 30, 1992	9,420,312	58,626,869	49,206,557
June 30, 1993	13,987,173	77,552,696	63,565,523
June 30, 1994	18,768,166	103,588,614	84,820,448
June 30, 1995	25,053,690	113,557,236	88,503,546
June 30, 1996**	34,263,992	95,266,115	61,002,123
June 30, 1997	42,684,374	120,511,351	77,826,977

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
For The Year Ended June 30, 1997

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.056	1,069,968,940	0.832
0.058	1,079,322,020	0.960
0.060	1,121,481,440	1.124
0.076	1,231,383,460	1.012
0.123	1,232,974,460	0.802
0.146	1,234,798,738	0.798
0.161	71,781,200	0.686
0.180	80,655,200	0.788
0.181	75,686,614	1.121
0.221	88,657,986	0.998
0.360	85,933,543	0.710
0.354	87,757,075	0.887

CERS Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
June 30, 1992	37,240,080	745,836,230	708,596,150
June 30, 1993	47,845,958	904,633,735	856,787,777
June 30, 1994	65,174,505	1,144,860,603	1,079,686,098
June 30, 1995	82,813,551	1,217,880,223	1,135,066,682
June 30, 1996**	110,203,861	1,011,215,398	901,011,537
June 30, 1997	134,688,096	1,091,055,849	956,367,753
CERS Hazardous			
June 30, 1992	19,715,821	296,069,227	276,353,406
June 30, 1993	26,407,914	339,624,307	313,216,393
June 30, 1994	34,340,390	406,278,197	371,937,807
June 30, 1995	42,640,389	462,012,992	419,372,603
June 30, 1996**	57,332,380	375,444,348	318,111,968
June 30, 1997	69,832,681	450,304,608	380,471,927

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

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.050	967,040,640	0.733
0.053	1,107,476,940	0.774
0.057	1,050,987,720	1.027
0.068	1,167,668,400	0.972
0.109	1,137,192,560	0.792
0.123	1,297,116,204	0.737

0.067	149,474,543	1.849
0.078	170,391,529	1.838
0.085	183,410,686	2.028
0.092	205,738,571	2.038
0.153	211,638,457	1.503
0.155	225,094,837	1.690

SCHEDULE OF FUNDING PROGRESS
For The Year Ended June 30, 1997

SPRS	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 1992	11,717,956	88,407,634	76,689,678	0.133	36,140,857	2.122
June 30, 1993	14,285,479	95,290,099	81,004,620	0.150	36,369,643	2.227
June 30, 1994	17,410,672	110,193,139	92,782,467	0.158	36,783,743	2.522
June 30, 1995	21,200,195	118,995,732	97,795,537	0.178	38,955,271	2.511
June 30, 1996**	27,809,267	101,132,886	73,323,619	0.275	34,698,957	2.113
June 30, 1997	33,876,483	117,361,754	83,485,271	0.289	41,586,211	2.008

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

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For The Year Ended June 30, 1997

EMPLOYER CONTRIBUTIONS

KERS NON-HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	21,078,388	17,735,103	0.841
June 30, 1993	33,674,847	18,101,290	0.538
June 30, 1994	35,102,369	27,082,676	0.772
June 30, 1995	38,788,579	34,378,689	0.886
June 30, 1996	38,838,695	36,690,182	0.940
June 30, 1997	38,896,160	37,709,736	0.970

KERS HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	4,838,053	4,265,949	0.882
June 30, 1993	5,952,354	4,269,097	0.717
June 30, 1994	5,608,304	4,370,216	0.779
June 30, 1995	6,613,886	5,632,584	0.852
June 30, 1996	6,410,642	5,931,007	0.930
June 30, 1997	6,546,678	6,278,931	0.960

EMPLOYER CONTRIBUTIONS

CERS NON-HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	15,279,242	11,309,658	0.740
June 30, 1993	26,136,456	13,802,160	0.528
June 30, 1994	24,803,310	22,277,276	0.898
June 30, 1995	27,556,974	23,773,207	0.863
June 30, 1996	26,837,744	25,234,550	0.940
June 30, 1997	30,611,942	27,504,331	0.898

CERS HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	8,475,207	7,081,351	0.836
June 30, 1993	10,785,784	8,473,695	0.786
June 30, 1994	11,609,896	10,452,184	0.900
June 30, 1995	13,023,252	11,299,170	0.868
June 30, 1996	13,396,714	12,381,700	0.920
June 30, 1997	14,248,503	13,305,317	0.934

EMPLOYER CONTRIBUTIONS

SPRS
HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1992	3,642,998	2,999,385	0.823
June 30, 1993	5,131,757	2,921,685	0.569
June 30, 1994	5,201,221	3,767,140	0.724
June 30, 1995	5,535,544	4,463,969	0.806
June 30, 1996	4,930,722	4,603,921	0.930
June 30, 1997	5,909,401	5,125,678	0.867

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

	Non-Hazardous	Hazardous
Valuation Date	June 30, 1997	June 30, 1997
Actuarial Cost Method	Targeted Rate	Targeted Rate
Asset Valuation Method - Started with 1996 Valuation	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%

Charles T. Mitchell Company, LLP
Certified Public Accountants
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CHARLES T. MITCHELL, C.P.A.
CONSULTANT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Employees Retirement System, the County Employees Retirement System, the State Police Retirement System, and the Kentucky Retirement Systems Insurance Fund (the "Kentucky Retirement Systems") as of and for the years ended June 30, 1997 and 1996, and have issued our report thereon dated September 19, 1997.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

In planning and performing our audit of the financial statements of the Kentucky Retirement Systems for the years ended June 30, 1997 and 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Kentucky Retirement Systems is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Contributions and other revenues
- Retirement benefits and other expenses
- Investments
- Member demographics

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal controls structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the Board of Trustees, management and the Commonwealth of Kentucky Auditor of Public Accounts. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Charles T. Mitchell Co.

September 19, 1997

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CONSULTANT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Employees Retirement System, the County Employees Retirement System, the State Police Retirement System, and the Kentucky Retirement Systems Insurance Fund (the "Kentucky Retirement Systems") as of June 30, 1997 and 1996 and for the years then ended, and have issued our report thereon dated September 19, 1997.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Kentucky Retirement Systems is the responsibility of the Kentucky Retirement Systems' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Kentucky Retirement Systems' compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Kentucky Retirement Systems complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Kentucky Retirement Systems had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board of Trustees, management, and the Commonwealth of Kentucky Auditor of Public Accounts. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Charles T. Mitchell Co.
September 19, 1997

Schedule of Administrative Expenses
Year Ended June 30, 1997

Personal Services:		
Salaries and Per Diem	$ 3,350,611	
Fringe Benefits	880,875	
Tuition Assistance	24,651	
Total Personal Services		$ 4,256,137
Contractual Services:		
Actuarial	$ 60,700	
Audit	25,295	
Legal	49,116	
Medical	99,953	
Banking	71,592	
Data Processing	69,412	
Total Contractual Services		376,068
Communication:		
Printing	$ 109,912	
Telephone	59,475	
Postage	301,306	
Travel	48,824	
Total Communication		519,517
Rentals:		
Office Space	$ 399,899	
Equipment	22,246	
Total Rentals		422,145
Miscellaneous:		
Utilities	$ 62,006	
Supplies	80,977	
Insurance	57,426	
Maintenance	39,594	
Other	14,507	
Total Miscellaneous		254,510
Capital Outlay:		
Equipment Purchases	$ 709,701	
Lease Purchases	134,422	
Total Capital Outlay		844,123
Investment-Related Fees		4,642,500
Total Administrative Expenses		$ 11,315,000

Schedule of Investment Expenses
Year Ended June 30, 1997

Security Lending Fees:		
Broker Rebates	$ 33,939,000	
Lending Agent Fees	666,000	
Total Security Lending		$ 34,605,000
Retirement Funds		
Investment Management		4,220,000
Security Custody		391,000
Investment Consultant		31,500
Total Retirement Funds		4,642,500
Insurance Funds		
Investment Management		60,000
Total Investment Expenses		$ 39,307,500

KENTUCKY RETIREMENT SYSTEMS

Investment Section

Comprehensive Annual Financial Report
June 30, 1997

INVESTMENT SECTION
PREFACE

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

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

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

Objectives

Long-Term: The total assets of the systems should achieve a return measured over two market cycles (estimated to be six to ten years) which exceeds the rate of inflation for the period, as measured by the National Consumer Price Index, by at least 4%.

Short-Term: The returns of the particular asset classes of the managed funds of the systems, measured on a year-to-year basis, should exceed the returns achieved by comparable unmanaged market indices.

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

Investments Performance Review Procedures

At least once each quarter, the Investment Committee, on behalf of the Board of Trustees, reviews the performance of the portfolio for determination of compliance with the Statement of Investment Policy.

Each month the Investment Division performs tests to assure compliance with the restrictions imposed by the Investment Policy. The following restrictions are tested monthly:

The amount of stock in any single corporation shall not exceed 5% of the aggregate market value of the systems' assets.

The amount of stock held shall not exceed 3% of the outstanding shares of any single corporation.

The amount of stock in any one industry shall not exceed 10% of the aggregate market value of the systems' assets.

The amount invested in the debt of a single corporation shall not exceed 5% of the total market value of the systems' assets.

Nonconvertible bonds must have a credit rating of Single-A or better according to at least one recognized bond rating service or the equivalent according to a manager's internal credit rating. Securities downgraded to a rating of BBB/Baa may be retained only upon specific approval of the Investment Committee.

No more than 1% of the systems' assets shall be invested in equity real estate investments with a greater than moderate risk level as determined by the Investment Committee.

The systems shall not hold more than 10% of the outstanding shares of any single mutual fund.

No manager shall invest more than 5% of the market value of assets held in any single issue short term instrument, with the exception of U.S. Government issued, guaranteed or agency obligations.

Investment Consulting

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

Significant Events

The most significant change over the past year was in the Insurance Fund. This fund consists of employer contributions invested for the purpose of paying health insurance benefits to recipients of monthly benefits from the systems. The fund was created in 1978, and since then, the Board has labored to improve the funds' financial picture in the face of skyrocketing inflation of health care costs. During the fiscal year, the asset allocation of the Insurance Fund was changed to place a higher portion of the assets in equities. As a result, the insurance fund attained a total rate of return for the fiscal year of 21.7% and assets grew from $371 million at June 30, 1996 to nearly $503 million at the close of fiscal year 1997.

WILLIAM M.
MERCER

Investment Consulting

August 18, 1997

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

Dear Trustees:

This is our annual review of the asset management of the Kentucky Retirement Systems. Our comments focus on the one year fiscal period ended June 30, 1997, however, we recognize that the Board of Trustees actively manages the Fund in formal compliance with the Prudent Person Rule consistent with the basic long term nature of the participating systems. Further, in maximizing long range return, the Board seeks to maintain proper and appropriate diversification. We are charged with the duty to advise the Board in its asset management activities.

Systems Highlights

There were some important changes to the management of the Systems assets during the fiscal year ended June 30, 1997:

- As a result of the asset and liability study completed at the end of fiscal 1995, the asset allocation targets for the Retirement Fund and the Insurance Fund were changed with the expectation of improvement in their financial positions.
- The expansion of the small capitalization allocations of both the Retirement Fund and the Insurance Fund was accomplished through internal management of a Standard & Poor's (S&P) 600 Index fund.
- For the Retirement Fund, it was determined that as the planned reduction of real estate investments in commingled funds and separately owned properties continued, real estate investment would be implemented through the internal management of a Wilshire REIT Index fund.

William M. Mercer
Investment Consulting, Inc.
10 South Wacker Street
Suite 1700
Chicago, IL 60606

Phone 312 902 7500
Fax 312 902 7626

The new targets for the Funds compared to the prior asset allocation targets are listed below:

Asset Classes	Retirement Fund Before 6/30/96	After 6/30/96	Insurance Fund Before 6/30/96	After 6/30/96
Large Cap Equity	55%	55%	27%	50%
Small Cap Equity*	0	10	0	20
Market Bonds	25	22	63	25
Short-Term Bonds*	0	5	0	0
Real Estate	10	5	0	0
Cash	10	3	10	5

*For periods before 6/30/96, these categories were established for diversification purposes as subgroups with targets of 5.5% for small cap equity and 6.25% for short term bonds.

Despite the significant movements necessary to accomplish these changes, for the year ended June 30, 1997, the Funds enjoyed substantial asset growth and investment returns. The Retirement Fund increased from $7.0 billion to $8.7 billion and had a 24.2% return compared to a composite market benchmark index (its "Reference Index") return of 22.6%. The Insurance Fund increased from $370 million to $503 million and had a 21.7% return compared to its Reference Index return of 20.4%. The Reference Indexes are designed to match the target asset allocation of each Fund and were modified to reflect the new targets.

The internally managed small capitalization index portfolios of the Retirement and Insurance Funds are based upon the S&P 600 Index, a complement to the S&P 500 Index managed internally for over 10 years. The Funds were able to take advantage of existing computer software relationships and experience in managing an indexed equity portfolio to efficiently and cost effectively implement the increased allocation in this asset class. The portfolios have been in existence only nine months, however, their tracking errors (the difference between the return of the portfolio and the return of the index) have been well within a reasonable range, 40 basis points for the Retirement Fund and 10 basis points for the Insurance Fund. Interestingly, the returns over the nine month period, 17.5% for the Retirement Fund and 17.8% for the Insurance Fund, were well above the Russell 2000 return of 15.9%. The Russell 2000 Index is another widely known, small capitalization index. The median of the peer group of active small capitalization managers for that same time period was 17.7%. By these measures, it is our opinion, that the implementation of the small capitalization internally managed portfolios has been successful.

By action of the Board, the real estate allocation target for the Retirement Fund was formally reduced to 5%. As a practical matter, the real estate allocation in the Retirement Fund at the time of the asset and liability study was approximately 5%, and the expectation was that the allocation would continue to decline through property sales and income distributions. After a presentation by Mercer on publicly traded REIT securities, it was agreed to maintain the real estate allocation through the use of these investments in order to increase liquidity.

As in the case of the small capitalization allocation, the publicly traded REIT investment was implemented through an internally managed Wilshire REIT index portfolio. This portfolio has only a six month record, but the tracking error has been within a reasonable range given the less efficient characteristics of this market. The return during the six months, 4.8%, has been the highest return of any of the real estate managers.

Investment Manager Highlights

The Retirement Fund

On balance, the investment managers for the Retirement Fund produced competitive results during the fiscal year. If volatility or risk is also taken into consideration, we find that the investment managers have produced their results with less volatility or risk than their comparable market index benchmarks in almost every case. The end result is a total return for the Fund that is not more volatile than the Reference Index.

On an individual basis, the growth managers had a more difficult time outperforming the market index benchmark, in the case of Alliance the active manager, or matching the market index benchmark, in the case of ANB the index manager. However, both managers ranked well above the peer group median for the year. The active value manager, ICOM, outperformed both its market index benchmark and peer group median. ICOM also managed a smaller or mid-capitalization portfolio achieving better performance than both their index and peer group benchmarks.

The fixed income managers' results were mixed. The index manager, Lincoln Capital, was ahead of its market index and peer group benchmarks, but the active manager, NAMCO, fell marginally behind. Note that NAMCO is also a manager of Insurance Fund assets, and during the prior year, both portfolios were affected by the changes in the asset allocation of both Funds. NAMCO's longer term results remain competitive. Weaver Barksdale invests in shorter maturity securities, and had results above their benchmarks.

In the real estate portfolio, Heitman returns continued to be below the benchmarks. Both the TCW and Yarmouth investments had improved results and outperformed the NCREIF index, but fell below the peer group median.

The Insurance Fund

The asset allocation of the Insurance Fund has undergone the most significant change. Clearly, the 21.7% return of the past year would not have been possible under the prior asset allocation.

NAMCO is the Fund's only external investment manager. Their portfolio outperformed the market index benchmark and peer group median over the past fiscal year.

Summary

Capital market research tells us that asset allocation is the single most important determinant of total return. Therefore, the changes to the asset allocations of the Funds, and the implementation of those changes, that occurred during this past fiscal year, have been significant events in the history of the Funds. Often, implementation results in shortfalls in performance during the first year. The Board and its Staff have successfully achieved this transition. The returns of both the Retirement and Insurance Funds have not suffered and, particularly in the case of the Insurance Fund, have produced a significant benefit.

Sincerely,

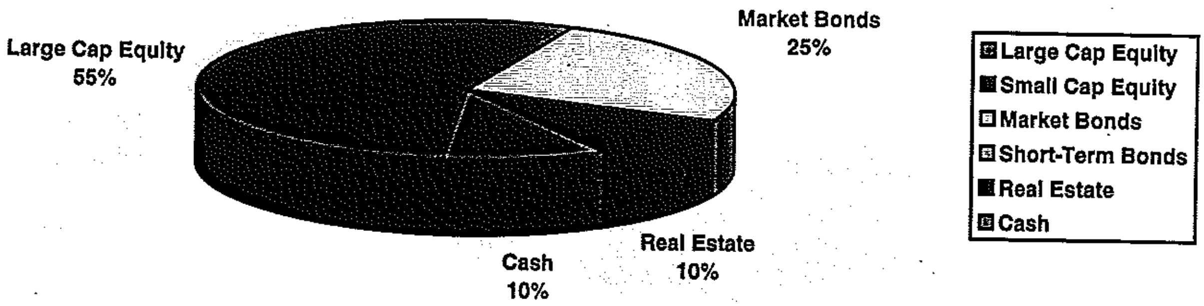
WILLIAM M. MERCER INVESTMENT CONSULTING, INC.

Kristine L. Ford, CFA

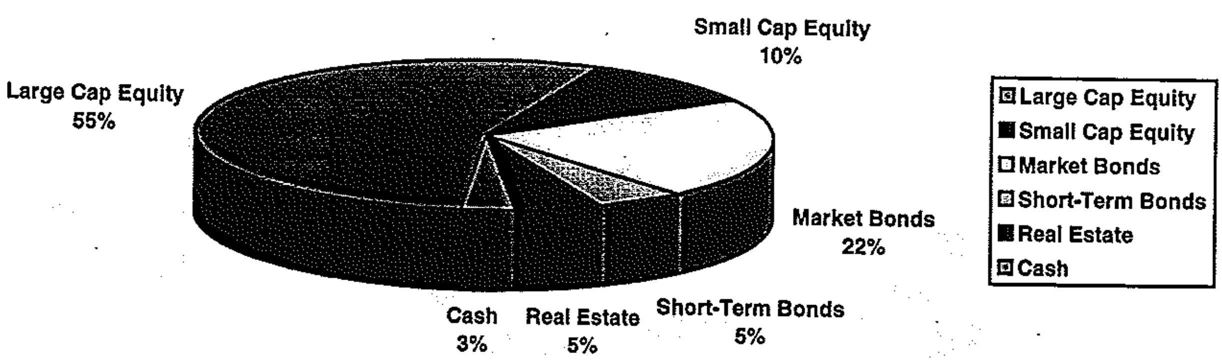
KLF/ssm

cc: P. Johnson, Kentucky Retirement System
R. Leggett, Kentucky Retirement System
S. Gagel, Mercer
M. Olsen, Mercer

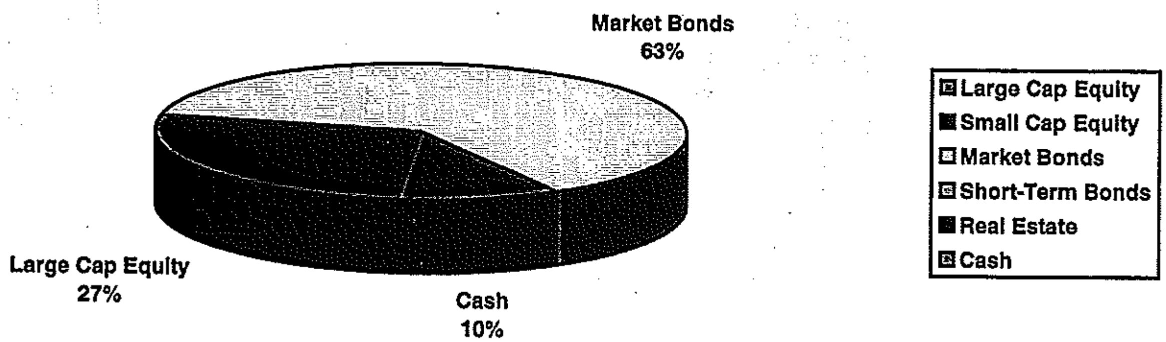
Pension Fund Target Allocation before 6/30/96



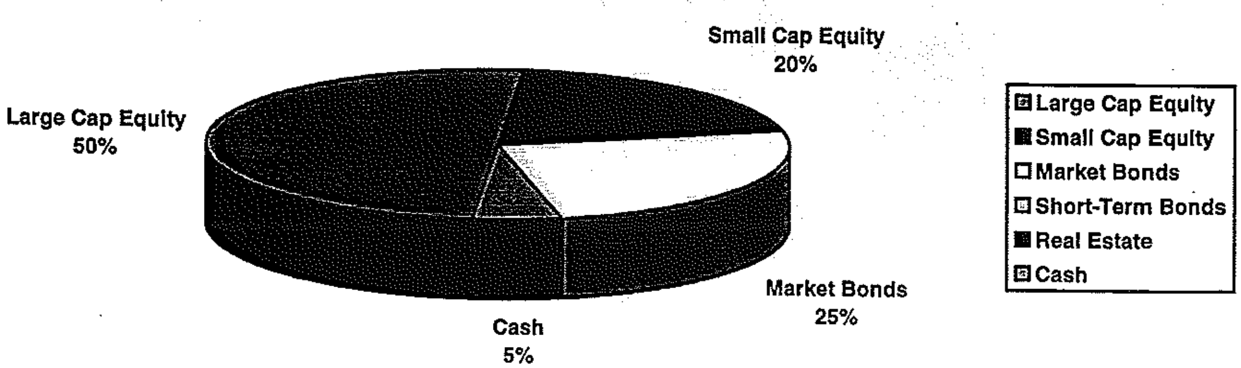
Pension Fund Target Allocation after 6/30/96



Insurance Fund Target Allocation before 6/30/96



Insurance Fund Target Allocation after 6/30/96



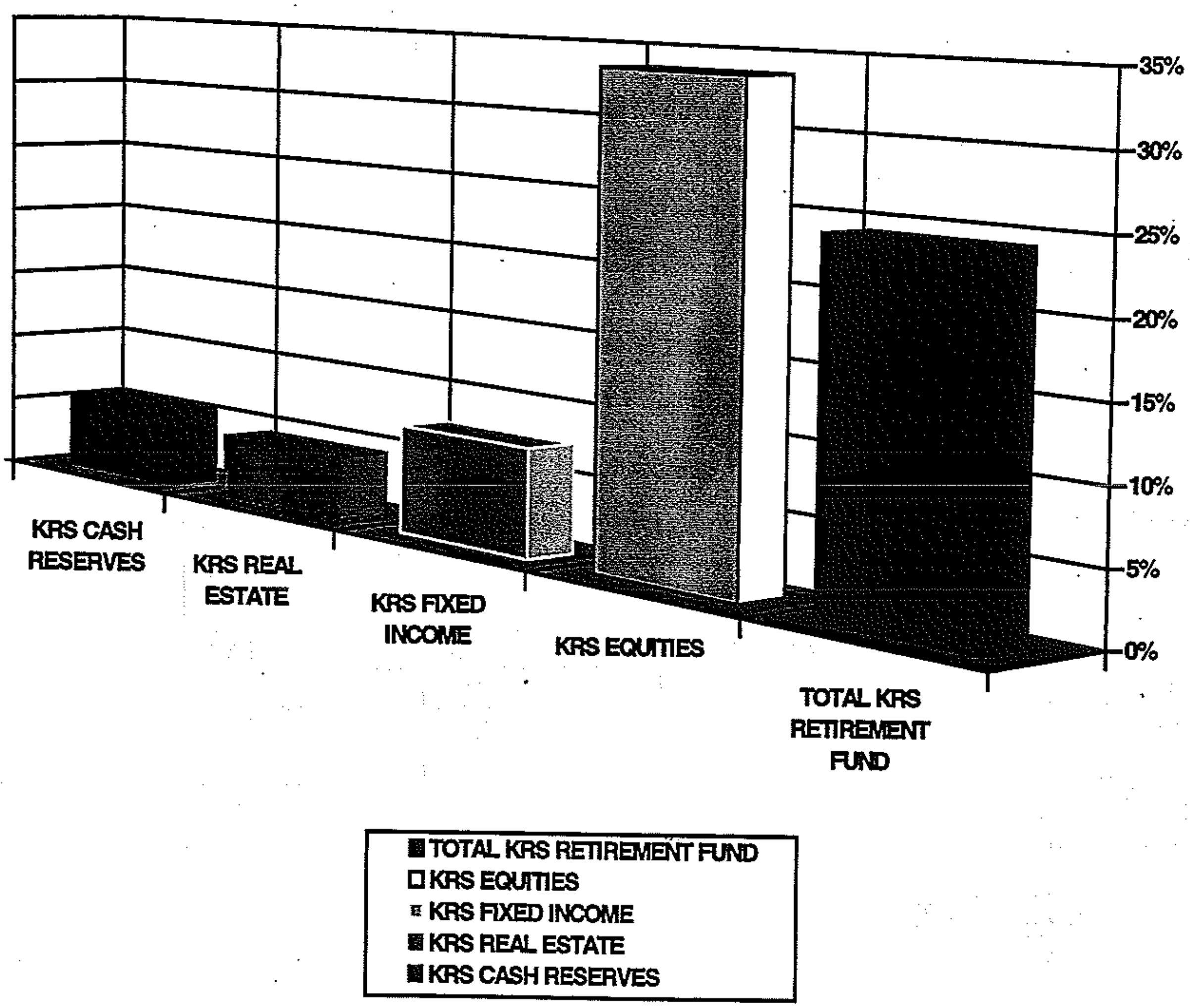
KENTUCKY RETIREMENT SYSTEMS
PERFORMANCE EVALUATION

PENSION FUNDS	Fiscal Year	3-Year	5-Year
Total KRS Retirement Fund	24.2	20.2	14.5
Mercer Composite Universe median	22.6	19.3	13.7
CPI	2.3	2.7	2.7
KRS Equities	33.6	28.4	19.9
S&P 500	34.7	28.8	19.8
KRS Fixed Income	7.6	7.9	6.9
Lehman Bros. Aggregate Bond Index	8.2	8.5	7.1
KRS Real Estate	4.5	3.3	2.5
NCREIF	10.9	9.5	5.7
KRS Cash Reserves	5.5	5.7	4.8
Salomon Bros. 3 Month T-Bill	5.3	5.3	4.5

INSURANCE FUNDS	Fiscal Year	3-Year	5-Year
Total KRS Insurance Fund	21.7	15.8	11.5
Mercer Composite Universe median	20.4	15.3	11.4
CPI	2.3	2.7	2.7
Equities	33.3	28.2	19.4
S&P 500	34.7	28.8	19.8
Fixed Income	9.2	8.8	7.3
Lehman Bros. Govt./Corp. Bond Index	7.8	8.3	7.2
Cash Reserves	5.4	5.4	4.5
Salomon Bros. 3 Month T-Bill	5.3	5.3	4.5

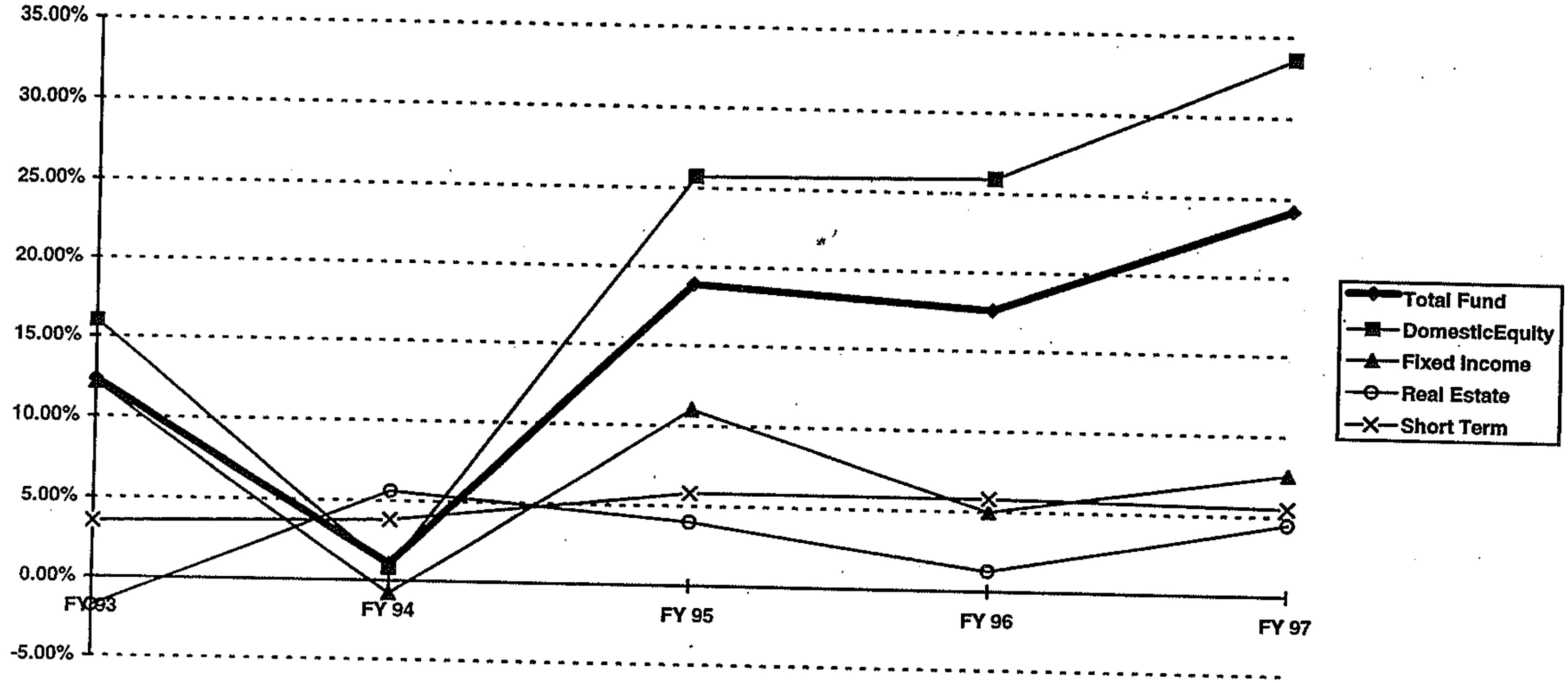
Performance figures were calculated using a time-weighted rate of return in accordance with AIMR's Performance Presentation Standards.

FISCAL YEAR PERFORMANCE



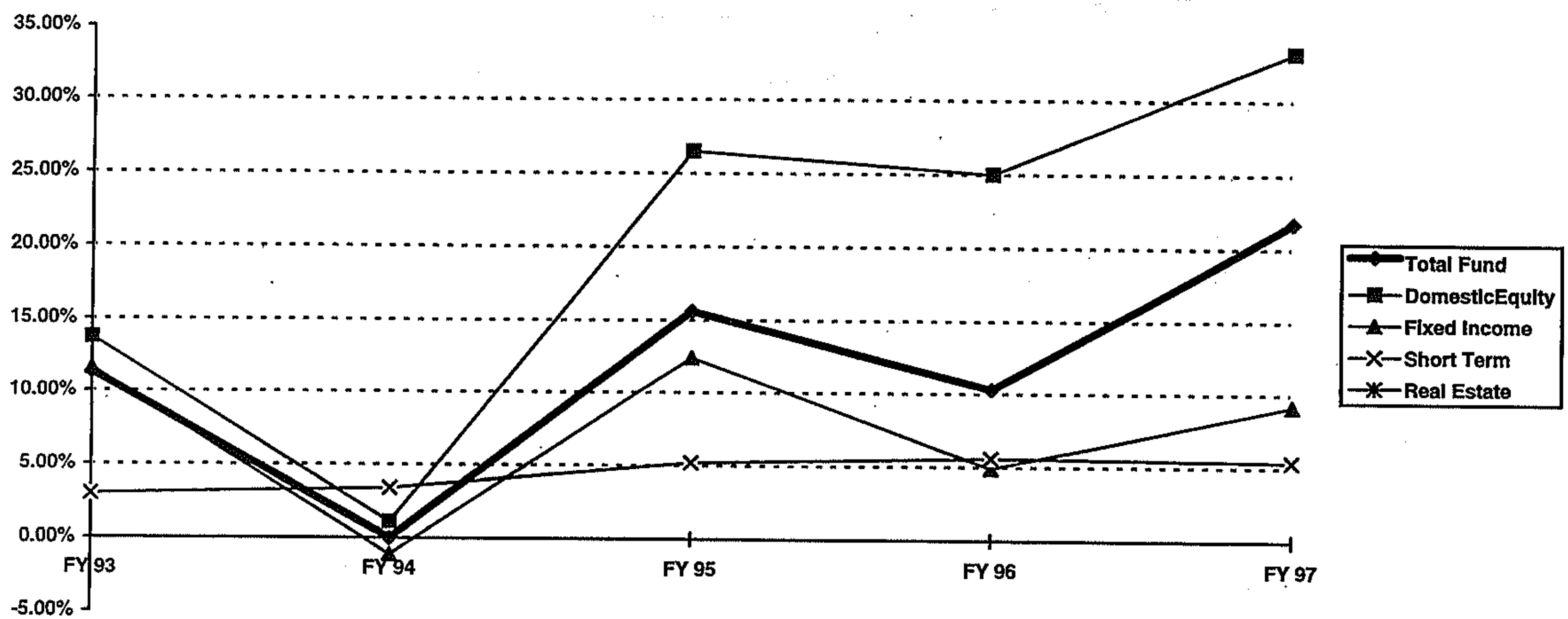
TIME WEIGHTED ANNUAL RETURNS
BY ASSET CLASS

RETIREMENT FUNDS



TIME WEIGHTED ANNUAL RETURNS
BY ASSET CLASS

INSURANCE FUNDS



KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARIES
JUNE 30, 1997

	KERS NONHAZARDOUS	% OF TOTAL
Corporates	$ 398,684,077	9%
Governments	448,424,856	11%
Mortgages	206,286,390	5%
Short-Term	150,136,064	4%
Real Estate	169,345,616	4%
Reit Real Estate	20,158,825	1%
Common Stock	2,819,522,410	66%
Total Portfolio	$4,212,558,238	100%

	KERS HAZARDOUS	% OF TOTAL
Corporates	$ 15,568,888	8%
Governments	18,244,703	10%
Mortgages	5,898,958	3%
Short-Term	21,772,148	12%
Real Estate	7,370,326	4%
Reit Real Estate	2,690,741	1%
Common Stock	115,465,150	62%
Total Portfolio	$187,010,914	100%

PORTFOLIO SUMMARIES
JUNE 30, 1997

	CERS NONHAZARDOUS	% OF TOTAL
Corporates	$ 235,339,469	8%
Governments	350,878,736	11%
Mortgages	115,954,012	4%
Short-Term	179,743,112	6%
Real Estate	115,491,585	4%
Reit Real Estate	24,715,193	1%
Common Stock	2,099,046,536	66%
Total Portfolio	$3,121,168,643	100%

	CERS HAZARDOUS	% OF TOTAL
Corporates	$ 69,598,708	8%
Governments	90,272,876	10%
Mortgages	31,638,009	4%
Short-Term	57,494,420	7%
Real Estate	35,325,169	4%
Reit Real Estate	3,944,856	1%
Common Stock	576,020,259	66%
Total Portfolio	$864,294,297	100%

PORTFOLIO SUMMARIES
JUNE 30, 1997

	SPRS	% OF TOTAL
Corporates	$ 29,311,660	9%
Governments	30,088,453	10%
Mortgages	14,185,680	5%
Short-Term	14,618,760	5%
Real Estate	11,921,962	4%
Reit Real Estate	2,721,160	1%
Common Stock	206,791,993	66%
Total Portfolio	$309,639,668	100%

	INSURANCE FUND	% OF TOTAL
Corporates	$ 45,084,899	9%
Governments	56,323,249	11%
Mortgages	24,999,265	5%
Short-Term	33,056,794	7%
Real Estate	0	0%
Reit Real Estate	0	0%
Common Stock	343,171,184	68%
Total Portfolio	$502,635,391	100%

List of Largest Asset Classes Held

Pension Funds

Largest Stock Holdings
(Market Value)
June 30, 1997

RANK	SHARES	STOCK	MARKET VALUE
1	2,246,400	General Electric Co.	$146,016,000
2	1,521,100	Coca-Cola Co.	103,434,800
3	987,600	Merck & Co. Inc.	101,043,331
4	781,500	Microsoft Corp.	98,762,062
5	1,784,200	Philip Morris	78,950,850
6	873,600	IBM	78,842,400
7	1,206,400	Exxon Corp.	73,892,000
8	485,100	Intel Corp.	68,793,001
9	446,118	Proctor & Gamble Co.	63,014,168
10	351,920	Amoco Corp.	56,982,094

Largest Bond Holdings
(Market Value)
June 30, 1997

RANK	PAR	BONDS				MARKET VALUE
1	70,000,000	US Treasury Note	6.375	Due 4/30/1999	Rating AAA	$70,382,900
2	62,000,000	US Treasury Note	6.375	Due 3/31/2001	Rating AAA	62,106,640
3	47,810,000	US Treasury Bond	7.875	Due 2/15/2021	Rating AAA	53,390,383
4	50,000,000	US Treasury Note	6.250	Due 5/31/1999	Rating AAA	50,156,000
5	44,355,000	US Treasury Bond	7.500	Due 11/15/2016	Rating AAA	47,459,850
6	41,500,000	US Treasury Note	6.500	Due 8/15/2005	Rating AAA	41,415,755
7	20,595,000	US Treasury Note	8.125	Due 8/15/2019	Rating AAA	33,807,552
8	34,000,000	US Treasury Note	5.875	Due 2/15/2000	Rating AAA	33,734,460
9	27,425,000	US Treasury Bond	8.125	Due 8/15/2021	Rating AAA	31,448,796
10	28,030,000	US Treasury Note	6.375	Due 9/30/2001	Rating AAA	28,043,174

A complete list of portfolio holdings is available upon request.

List of Largest Asset Classes Held

Insurance Funds

Largest Stock Holdings
(Market Value)
June 30, 1997

RANK	SHARES	STOCK	MARKET VALUE
1	124,800	General Electric Co.	$8,112,000
2	106,000	Exxon Corp.	6,492,500
3	92,700	Coca-Cola Co.	6,303,600
4	47,400	Microsoft Corp.	5,990,175
5	47,600	Merck & Co. Inc.	4,870,051
6	31,100	Intel Corp.	4,410,353
7	98,700	Philip Morris	4,367,475
8	39,800	IBM	3,591,950
9	25,400	Proctor & Gamble Co.	3,587,750
10	54,900	Johnson & Johnson	3,534,187

Largest Bond Holdings
(Market Value)
June 30, 1997

RANK	PAR	BONDS				MARKET VALUE
1	10,695,000	US Treasury Note	6.500	Due 5/15/2005	Rating AAA	$10,683,342
2	8,854,000	FNMA 303670	6.500	Due 12/1/2025	Rating AAA	8,475,121
3	5,000,000	US Treasury Bond	8.750	Due 8/15/2020	Rating AAA	6,084,350
4	5,570,000	US Treasury Note	7.750	Due 11/30/1999	Rating AAA	5,764,950
5	4,800,000	US Treasury Note	5.250	Due 1/31/2001	Rating AAA	4,644,768
6	3,800,000	US Treasury Note	6.875	Due 5/15/2006	Rating AAA	3,881,928
7	3,585,000	FNMA 250414	7.000	Due 12/1/2025	Rating AAA	3,518,306
8	3,445,000	FNMA 326130	6.000	Due 9/1/2025	Rating AAA	3,204,612
9	3,000,000	US Treasury Bond	6.500	Due 11/15/2026	Rating AAA	2,881,410
10	2,380,000	US Treasury Bond	8.125	Due 8/15/2021	Rating AAA	2,729,194

A complete list of portfolio holdings is available upon request.

KENTUCKY RETIREMENT SYSTEMS

Actuarial Section

Comprehensive Annual Financial Report
June 30, 1997

WILLIAM M.
MERCER

November 7, 1997

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

Members of the Board:

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

1. The funding objectives for the plan remain unchanged from the prior year's valuation. Relative to the retirement fund, a contribution rate has been established which consists of the normal cost and amortization payment on the unfunded actuarial accrued liability. The normal cost is expected to remain level as a percent of payroll in future years. The amortization of any unfunded actuarial accrued liability is made over 30 years from the establishment of the amortization base using a level percent of payroll amortization method. Each year any actuarial gains or losses, along with any other changes in the accrued liability (such as retiree COLA's, other benefit improvements, changes in actuarial assumptions, etc.) are established as a new amortization base to be amortized over the following 30 years. Overall, the total funding for the retirement fund is expected to remain stable as a percentage of payroll over future years in the absence of benefit improvements. In particular, the current valuation funding rate does not anticipate any future cost of living increases to benefit recipients. Should these cost of living increases occur in the future, the funding rate for the retirement fund will be expected to increase as a percentage of payroll in the absence of material aggregate experience gains.

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

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

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

2. The progress towards achieving the intended funding objectives, both relative to the retirement and insurance funds, can be measured by the relationship of valuation assets of each fund to the accrued liabilities. The funded level for the retirement fund exceeds 100% in the 1997 valuation for all three systems (KERS, CERS, SPRS). This funded level will fluctuate over time with experience deviations, but should remain at or near the 100% funding level in the absence of material retirement benefit improvements. Since 1992, all three systems have had a funded level relative to the retirement fund of at least 90% in all valuations, with this funded level moving above 100% in recent years.

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

3. Valuations of each system are prepared annually, with the most recent such valuation being as of June 30, 1997.

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

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

WILLIAM M.
MERCER

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

7. The actuarial assumptions and methods used for the funding calculations of the valuation meet the parameters set for disclosure under GASB Statement No. 25.

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

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

Respectfully Submitted,
WILLIAM M. MERCER, INCORPORATED

By
Stephen A. Gagel, F.S.A.

SUMMARY OF BENEFIT PROVISIONS

Normal Retirement Eligibility

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

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

Normal Retirement Annuity

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

Formula	Group
1.97% x FC x CS	Kentucky Employee Retirement General Participants
2.20% x FC x CS	County Employee Retirement General Participants
2.49% x FC x CS	Kentucky Employee Retirement Hazardous Duty Participants
2.50% x FC x CS	County Employee and State Police Hazardous Duty Participants

FC is the average of the highest five fiscal years (July 1 – June 30) of earnings . These years do not have to be consecutive.

Early Retirement

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

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

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

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

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

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

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

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

Voluntary Termination Before Immediate Benefit Eligibility

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

Disability Benefits

A general employee under age 65 may retire on account of disability. If the disability (1) did not exist before the employee was employed, (2) is expected to last at least 12 months or result in death, and (3) the objective medical evidence is sufficient to prove the disability prevents the employee from performing his job or a job of similar duties, the employee will be deemed disabled. The employee must have at least 60 months of service, 12 of which are current service and must apply within 12 months of the last day of paid employment in a regular full-time position. Preexisting conditions can be considered if the employee has credit for 16 years of employment with participating employers or if the condition has been substantially aggravated by an accident or injury arising out of his employment. Benefits are calculated the same as for normal retirement except that additional years of service may be added to the employees account, depending on the employee's age and years of service.

A hazardous duty employee under age 55 may retire on account of disability. If the disability: (1) did not exist before the employee was employed; (2) is expected to last at least 12 months or result in death; and (3) the objective medical evidence is sufficient to prove the employee is totally incapable of working in a hazardous position, but may still be capable of performing other types of work, the employee will be deemed disabled. The employee must have at least 60 months of service, 12 of which are current service and must apply within 12 months of the last day of paid employment in a regular full-time position. Preexisting conditions can be considered if the employee has credit for 16 years of employment with participating employers or if the condition has been substantially aggravated by an accident or injury arising out of his employment. Benefits are calculated the same as for normal retirement except that additional years of service may be added to the employees account, depending on the employee's age and years of service.

If the disability is TOTAL and PERMANENT and results from an act IN LINE OF DUTY, the employee is eligible for a monthly benefit of no less than 25% of the employee's monthly Final Monthly Earnings. In addition, each dependent child of such employee is eligible for a monthly benefit equal to 10% of the employee's monthly Final Monthly Earnings. Aggregate dependent payments cannot exceed 40 % of the employee's monthly Final Average Earnings.

Death Before Retirement

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

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

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

Post Retirement Adjustments

Annuities are increased July 1 each year by the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent. The Kentucky General Assembly reserves the right to suspend or reduce benefit increases if in their judgement the welfare of the State so demands.

Death After Retirement

If the member is receiving a monthly payment based on at least 48 months service credit, the retirement system will pay a $2,500 death benefit payment to the beneficiary named by the member specifically for this benefit.

Hospital and Medical Insurance Benefit

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

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

Percent of Monthly Contribution Paid by Retirement System

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

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

Interest Credits

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

Contribution Rates

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

Statutory required participant contributions are 5% of creditable compensation for general employees and 7% of creditable compensation for hazardous duty employees.

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

THIS INFORMATION CAN ALSO BE FOUND IN KENTUCKY RETIREMENT SYSTEMS' HOME PAGE ON THE INTERNET AT http://www.krs.state.ky.us

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8.25% per year, net of investment related expenses, compounded annually. Adopted 1995.

2. The actuarial value of assets is determined in the following manner for the Retirement Funds:

   (a) Determine the ratio of the market value of Retirement Fund assets to book value as of the current valuation date and the four preceding valuation dates. All asset values include accrued investment income and member and employer contribution receivables, and exclude member refunds and investment expenses payable.

   (b) Determine the average ratio of market to book value as of these valuation dates.

   (c) Apply this average ratio to the book value (as adjusted for accrued investment income and member and employer contribution receivables, and member refunds and investment expenses payable) as of the current valuation date to derive valuation assets. Adopted 1992.

   For the Insurance Funds, the revision in the asset valuation method was deferred until the June 30, 1996 valuation. Prior to that time, the actuarial value of assets continued to be determined based on the book value of assets in the respective funds as of the valuation date adjusted for any receivables and/or payables. Adopted 1996.

3. The percentage of participants assumed to retire at sample ages is shown in Schedule 1. Adopted 1995.

4. The mortality table used for active and retired lives was the 1983 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees. Mortality assumptions for disabled lives are based on Social Security Administration Disability Mortality Rates – Actuarial Study No. 75 (current rates used by PBGC for disabled lives receiving Social Security). Sample annual rates of mortality are shown in Schedule 2. Adopted 1995.

5. Select rates of termination before retirement are shown in Schedule 3. Adopted 1995.

6. Annual pay per member is assumed to increase 6.50% per year, compounded annually, which is based on experience rather than the effects of inflation. Adopted 1995.

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

8. With respect to cost-of-living adjustments, effective August 1, 1996, and on July 1 of each year thereafter, state statutes require retirement benefits to be increased by the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent. The State Legislature reserved the right to suspend or reduce cost-of-living adjustments if in their judgement the welfare of the Commonwealth so demands.

9. The most recent actuarial experience analysis was performed for the period from July 1, 1989 through June 30, 1995. All assumptions used in the most recent actuarial valuation were based on the study performed in 1995.

Assumptions used in determining the actuarial accrued liability for postemployment healthcare benefits are shown in Schedule 4. Adopted 1995.

Schedule 1

Percentage of Participants Assumed to Retire at Sample Ages

Age	55-57	58-59	60-61	62	63-64	65	66-67	68	69	70 & Over
Percent Retiring	.03	.04	.05	.25	.10	.50	.20	.25	.40	1.00

At age 55-64 in lieu of age related rate, 20% are assumed to retire as soon as eligible for unreduced benefits with 27 years service credit.

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

For hazardous duty participants of the County Employees Retirement System it is assumed that 50% will retire as soon as eligible for unreduced benefits with 20 years service credit and the balance will continue to age 55.

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

Schedule 2

Sample Annual Rates of Mortality

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

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

Schedule 3

Select Rates of Termination Prior to Retirement

Sample Ages	Years of Service	Termination General Employees	Termination Hazardous Employees	Disablement General Employees	Disablement Hazardous Employees
	1	25.00%	**	**	**
	2	8.00%	**	**	**
	3	5.00%	**	**	**
	4	4.00%	**	**	**
	5	3.50%	**	**	**
25	Over 5	2.40%	3.04%	0.033%	0.042%
30		2.40%	3.38%	0.039%	0.050%
40		2.00%	1.50%	0.105%	0.132%
50		1.60%	0.00%	0.423%	0.530%
55		1.20%	0.00%	0.794%	0.992%
60		0.20%	0.00%	1.395%	1.743%

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

Schedule 4

Assumed Medical Premium Growth

Years	1996 - 2005	2006 - 2010	2011 – 2015	Thereafter
Increase	10%	9%	8%	7.5%

SUMMARY OF MEMBER VALUATION DATA

Kentucky Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/92		45,363	998,123,312	22,003	
6/30/93		45,672	1,025,939,480	22,463	2.1%
6/30/94		45,781	1,045,848,704	22,845	1.7%
6/30/95		46,767	1,108,720,440	23,707	3.8%
6/30/96		47,145	1,184,165,952	25,118	6.0%
6/30/97		46,073	1,208,230,632	26,224	4.4%

Kentucky (Hazardous) Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/92		3,232	67,862,256	20,997	
6/30/93		3,257	68,456,508	21,018	0.1%
6/30/94		3,241	69,357,624	21,400	1.8%
6/30/95		3,462	76,270,512	22,031	2.9%
6/30/96		3,452	79,514,184	23,034	4.6%
6/30/97		3,532	84,231,840	23,848	3.5%

County Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/92		55,536	854,568,872	15,388	
6/30/93		58,435	918,378,192	15,716	2.1%
6/30/94		62,660	991,583,616	15,825	0.7%
6/30/95		64,655	1,058,609,652	16,373	3.5%
6/30/96		66,273	1,126,719,480	17,001	3.8%
6/30/97		69,219	1,281,975,348	18,521	8.9%

County (Hazardous) Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/92		5,048	139,905,960	27,715	
6/30/93		5,595	155,677,812	27,824	0.4%
6/30/94		5,664	164,550,832	29,052	4.4%
6/30/95		5,970	179,958,564	30,144	3.8%
6/30/96		6,281	197,337,300	31,418	4.2%
6/30/97		6,513	210,180,588	32,271	2,7%

State Police Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/92		963	31,285,572	32,488	
6/30/93		957	30,600,684	31,976	(1.6)%
6/30/94		967	30,908,976	31,964	(0.03)%
6/30/95		986	31,442,040	31,888	(0.2)%
6/30/96		1,002	32,570,292	32,505	1.9%
6/30/97		943	34,948,092	37,061	14.0%

All Participants

Schedule of Active Member Valuation Data

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/92	1,196	110,142	2,091,745,972	18,991	
6/30/93	1,320	113,916	2,199,052,676	19,304	1.7%
6/30/94	1,319	118,313	2,302,249,752	19,459	0.8%
6/30/95	1,344	121,840	2,455,001,208	20,149	3.5%
6/30/96	1,367	124,153	2,620,307,208	21,105	4.8%
6/30/97	1,367	126,280	2,819,566,500	22,328	5.8%

SUMMARY OF ACCRUED AND UNFUNDED LIABILITIES

Kentucky Employees Retirement System

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value Of Assets	Increase In Assets
6/30/92*	2,525,191	170,709	6.8%	2,354,482	
6/30/93	2,703,771	118,562	4.4%	2,585,210	230,727
6/30/94	2,912,050	183,001	6.3%	2,729,049	143,839
6/30/95	3,240,852	257,039	7.9%	2,983,814	244,765
6/30/96	3,415,404	40,109	1.2%	3,375,296	391,482
6/30/97	3,603,966	(246,746)	(6.9)%	3,850,712	475,416

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

Kentucky Employees Insurance Fund

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value Of Assets	Increase In Assets
6/30/92	1,001,704	939,238	93.8%	62,466	
6/30/93	1,177,861	1,100,188	93.4%	77,674	15,208
6/30/94	1,444,613	1,345,529	93.1%	99,084	21,410
6/30/95	1,462,174	1,334,882	91.3%	127,292	28,209
6/30/96*	1,222,394	1,049,748	85.9%	172,646	45,354
6/30/97	1,274,464	1,063,300	83.4%	211,164	38,518

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

County Employees Retirement System

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value Of Assets	Increase In Assets
6/30/92*	1,861,978	126,939	6.8%	1,735,039	
6/30/93	2,079,930	94,249	4.5%	1,985,681	250,642
6/30/94	2,330,344	156,989	6.7%	2,173,355	187,674
6/30/95	2,603,576	149,448	5.7%	2,454,128	280,773
6/30/96	2,778,316	(101,712)	(3.7)%	2,880,029	425,900
6/30/97	3,144,929	(369,097)	(11.7)%	3,514,026	633,997

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

County Employees Insurance Fund

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value Of Assets	Increase In Assets
6/30/92	1,041,905	984,950	94.5%	56,956	
6/30/93	1,244,258	1,170,004	94.0%	74,254	17,298
6/30/94	1,551,139	1,451,624	93.6%	99,515	25,261
6/30/95	1,679,893	1,554,439	92.5%	125,454	25,939
6/30/96*	1,386,660	1,219,124	87.9%	167,536	42,082
6/30/97	1,541,360	1,336,840	86.7%	204,521	36,985

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

State Police Retirement System

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value Of Assets	Increase In Assets
6/30/92*	182,996	(4,795)	(2.6)%	187,791	
6/30/93	191,654	(8,667)	(4.5)%	200,321	12,530
6/30/94	206,763	1,443	0.7%	205,321	5,000
6/30/95	241,690	24,186	10.0%	217,504	12,184
6/30/96	244,541	7,025	2.9%	237,515	20,011
6/30/97	255,785	(23,859)	(9.3)%	279,643	42,128

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

State Police Insurance Fund

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value Of Assets	Increase In Assets
6/30/92	88,408	76,690	86.7%	11,718	
6/30/93	95,290	81,005	85.0%	14,285	2,568
6/30/94	110,193	92,782	84.2%	17,411	3,125
6/30/95	118,996	97,796	82.2%	21,200	3,790
6/30/96*	101,133	73,324	72.5%	27,809	6,609
6/30/97	117,361	83,485	71.1%	33,876	6,100

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

SOLVENCY TEST

Kentucky Employees Retirement System

(Expressed in Thousands)

Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
6/30/92*	462,173	945,540	1,117,478	2,354,482	100%	100%	84.7
6/30/93	508,626	1,032,182	1,162,963	2,585,210	100%	100%	89.8
6/30/94	556,889	1,139,878	1,215,283	2,729,049	100%	100%	84.9
6/30/95	604,968	1,361,244	1,274,640	2,983,814	100%	100%	79.8
6/30/96	654,343	1,425,519	1,335,543	3,375,296	100%	100%	97.0
6/30/97	691,058	1,541,845	1,371,063	3,850,712	100%	100%	118.0

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

County Employees Retirement System

(Expressed in Thousands)

Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
6/30/92*	339,657	600,537	921,784	1,735,039	100%	100%	86.2
6/30/93	395,244	675,211	1,009,475	1,985,681	100%	100%	90.7
6/30/94	440,262	799,654	1,090,428	2,173,355	100%	100%	85.6
6/30/95	493,331	971,302	1,138,943	2,454,128	100%	100%	86.9
6/30/96	546,014	1,042,290	1,190,012	2,880,029	100%	100%	108.6
6/30/97	617,592	1,170,196	1,357,141	3,514,026	100%	100%	127.2

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

State Police Retirement System

(Expressed in Thousands)

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	(1)	(2)	(3)
6/30/92*	26,763	85,065	71,168	187,791	100%	100%	106.7
6/30/93	27,265	95,801	68,588	200,321	100%	100%	112.6
6/30/94	28,192	109,772	68,799	205,321	100%	100%	97.9
6/30/95	27,845	148,398	65,448	217,504	100%	100%	63.0
6/30/96	28,918	152,503	63,120	237,515	100%	100%	88.9%
6/30/97	29,910	153,693	72,182	279,643	100%	100%	133.1

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

RETIRED LIVES SUMMARY

Kentucky Employees Retirement System

	Nonhazardous Retirees		Hazardous Retirees		Total	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Basic Form	7,074	4,276,435	122	41,568	7,196	4,318,003
Joint and Survivor						
100 % to Beneficiary	2,042	1,265,995	69	35,903	2,111	1,301,898
66-2/3% to Beneficiary	690	784,323	18	12,624	708	796,947
50% to Beneficiary	1,145	1,087,000	32	21,127	1,177	1,108,127
Pop-Up Option	1,301	1,219,787	86	42,636	1,387	1,262,423
10 Years Certain	1	-	6	5,867	7	5,867
10 Years Certain and Life	2,357	1,387,840	55	22,452	2,412	1,410,292
15 Years Certain and Life	445	332,924	12	7,004	457	339,928
20 Years Certain and Life	261	208,526	11	8,839	272	217,365
Social Security Option						
Basic Form	990	1,237,926	27	9,261	1,017	1,247,187
Survivorship Option	952	1,199,162	59	54,627	1,011	1,253,789
Dependent Child	-	-	12	2,631	12	2,631
Total	17,258	12,999,918	509	264,539	17,767	13,264,457

RETIRED LIVES SUMMARY

County Employees Retirement System

	Nonhazardous Retirees		Hazardous Retirees		Total	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Basic Form	7,203	2,646,325	257	337,141	7,460	2,983,466
Joint and Survivor						
100 % to Beneficiary	1,860	762,838	230	274,404	2,090	1,037,242
66-2/3% to Beneficiary	453	332,776	115	194,644	568	527,420
50% to Beneficiary	803	548,394	175	265,863	978	814,257
Pop-Up Option	1,197	642,762	560	822,318	1,757	1,465,080
10 Years Certain	2	661	55	125,972	57	126,633
10 Years Certain and Life	2,554	892,052	101	115,977	2,655	1,008,029
15 Years Certain and Life	518	250,925	28	35,912	546	286,837
20 Years Certain and Life	281	163,780	59	82,218	340	245,998
Social Security Option						
Basic Form	342	286,702	83	127,121	425	413,823
Survivorship Option	441	467,840	271	379,653	712	847,493
Dependent Child	-	-	125	30,053	125	30,053
Total	15,654	6,995,055	2,059	2,791,276	17,713	9,786,331

RETIRED LIVES SUMMARY

State Police Retirement System

	Number	Monthly Benefits
Basic Form	52	87,419
Joint and Survivor		
100 % to Beneficiary	93	168,454
66-2/3% to Beneficiary	41	95,384
50% to Beneficiary	46	88,661
Pop-Up Option	107	218,626
10 Years Certain	7	12,292
10 Years Certain and Life	26	58,962
15 Years Certain and Life	8	14,516
20 Years Certain and Life	21	38,793
Social Security Option		
Basic Form	32	66,660
Survivorship Option	173	357,033
Dependent Child	15	3,932
Total	621	1,210,732

BENEFICIARY SUMMARY

Kentucky Employees Retirement System

	Nonhazardous		Hazardous		Total	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Basic Form	1	92	-	-	1	92
Joint and Survivor						
100 % to Beneficiary	1,792	780,715	38	21,001	1,830	801,716
66-2/3% to Beneficiary	226	93,693	5	2,442	231	96,135
50% to Beneficiary	501	161,516	4	671	505	162,187
Pop-Up Option	92	68,596	4	1,731	96	70,327
10 Years Certain	134	97,331	6	2,709	140	100,040
10 Years Certain and Life	155	92,291	5	548	160	92,839
15 Years Certain and Life	101	59,371	1	148	102	59,519
20 Years Certain and Life	53	42,123	3	483	56	42,606
Social Security Option						
Basic Form	1	334	-	-	1	334
Survivorship Option	87	87,025	5	2,839	92	89,864
Beneficiary Under 60	19	7,364	-	-	19	7,364
Five Years Only	120	95,784	5	1,610	125	97,394
Dependent Child	-	-	-	-	-	-
Total	3,282	1,586,235	76	34,182	3,358	1,620,417

BENEFICIARY SUMMARY

County Employees Retirement System

	Nonhazardous Number	Nonhazardous Monthly Benefits	Hazardous Number	Hazardous Monthly Benefits	Total Number	Total Monthly Benefits
Basic Form	-	-	-	-	-	-
Joint and Survivor						
100 % to Beneficiary	1,092	322,861	60	52,075	1,152	374,936
66-2/3% to Beneficiary	105	29,813	10	9,529	115	39,342
50% to Beneficiary	229	53,859	12	7,802	241	61,661
Pop-Up Option	92	44,679	13	16,006	105	60,685
10 Years Certain	132	55,347	11	18,739	143	74,086
10 Years Certain and Life	186	70,133	2	1,577	188	71,710
15 Years Certain and Life	96	39,599	1	68	97	39,667
20 Years Certain and Life	41	20,321	3	3,877	44	24,198
Social Security Option						
Basic Form	-	-	-	-	-	-
Survivorship Option	28	26,551	25	28,779	53	55,330
Beneficiary Under 60	5	922	3	2,726	8	3,648
Five Years Only	137	69,550	15	4,386	152	73,936
Dependent Child	-	-	3	696	3	696
Total	2,143	733,635	158	146,260	2,301	879,895

BENEFICIARY SUMMARY

State Police Retirement System

	Number	Monthly Benefits
Basic Form	-	-
Joint and Survivor		
100 % to Beneficiary	30	35,352
66-2/3% to Beneficiary	3	3,762
50% to Beneficiary	6	5,291
Pop-Up Option	1	1,343
10 Years Certain	-	-
10 Years Certain and Life	-	-
15 Years Certain and Life	-	-
20 Years Certain and Life	1	2,588
Social Security Option		
Basic Form	-	-
Survivorship Option	4	6,161
Beneficiary Under 60	-	-
Five Years Only	-	-
Dependent Child	3	787
Total	48	55,284

KENTUCKY RETIREMENT SYSTEMS

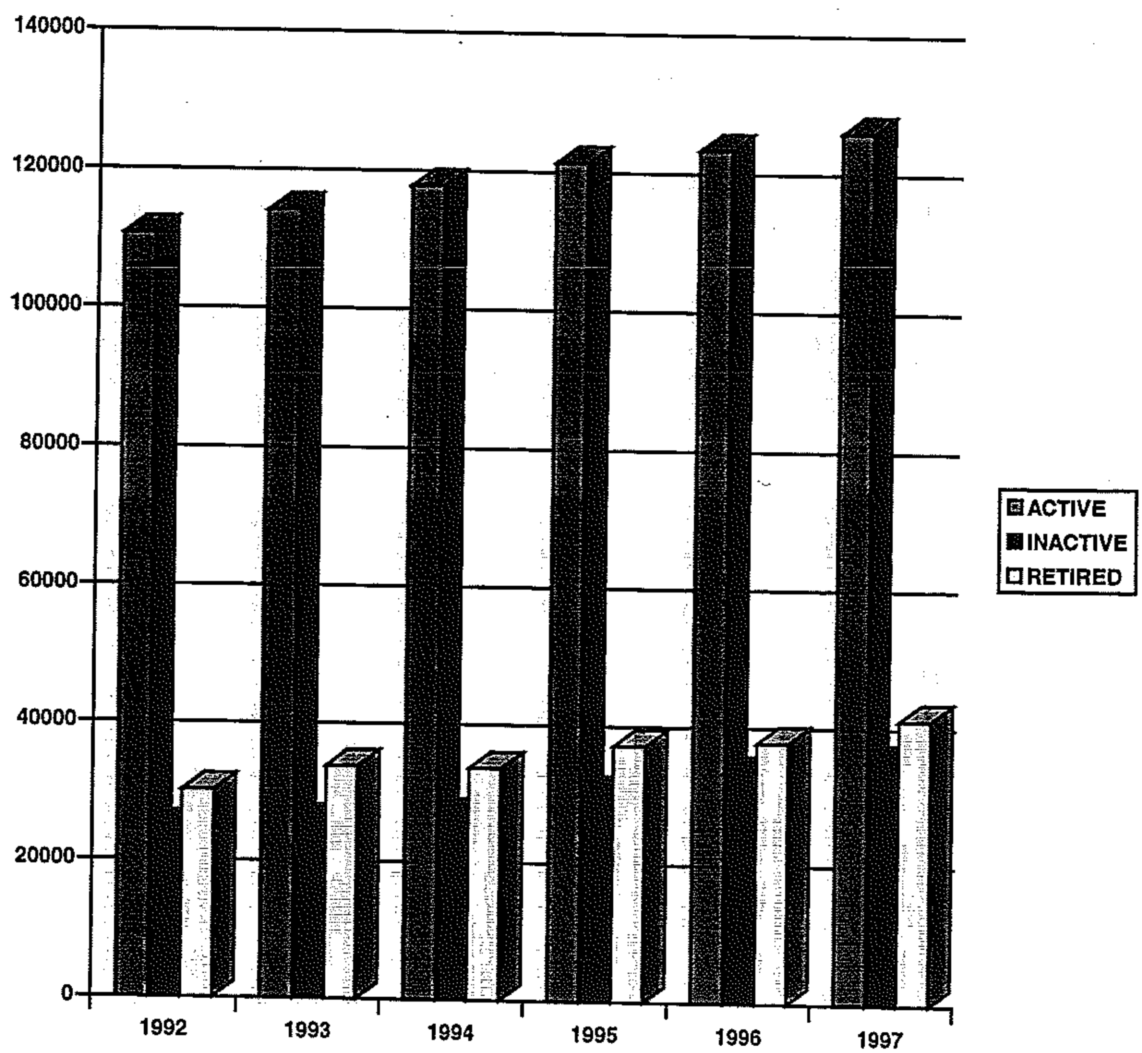
Statistical Section

Comprehensive Annual Financial Report
June 30, 1997

MEMBERSHIP
AS OF JUNE 30, 1997

SYSTEM	ACTIVE	INACTIVE	RETIRED	TOTAL
KERS	45,941	13,862	20,314	80,117
KERS Hazardous	3,491	763	578	4,832
CERS	69,186	20,041	17,451	106,678
CERS Hazardous	6,514	533	2,188	9,235
SPRS	932	168	664	1,764
TOTAL	126,064	35,367	41,195	202,626

SIX-YEAR MEMBERSHIP TREND



Schedule of Participating Employers

Kentucky Employees Retirement System

Agency Classification	Number of Agencies
Agencies Reporting through State Payroll	188
Other Agencies (universities, mental health boards, health departments)	103
Special Districts and Boards	1
Child Support Offices (county attorneys)	66
State-Administered Retirement Systems	3
TOTAL	361

County Employees Retirement System

Agency Classification	Number of Agencies
Area Development Districts	12
Boards of Education	176
Cities	194
County Attorneys	59
County Clerks	10
County Government Agencies	234
Fire Departments	19
Hospitals	3
Jailers	2
Libraries	78
Planning Commissions	7
Police Departments	38
Police & Fire Departments (combined)	37
Sanitation Districts	2
Sheriff Departments	25
Special Districts and Boards	79
Utility Boards	72
Urban County Government Agencies	2
TOTAL	1,049

SCHEDULE OF REVENUE BY SOURCE
(expressed in thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1992	$58,523	$ 87,262	$150,198	$295,983
June 30, 1993	$59,612	$ 90,568	$187,118	$337,298
June 30, 1994	$61,372	$ 91,537	$146,502	$299,411
June 30, 1995	$67,775	$107,582	$186,275	$361,632
June 30, 1996	$68,933	$113,717	$285,100	$467,750
June 30, 1997	$69,075	$118,119	$364,477	$551,671

COUNTY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1992	$58,815	$ 89,150	$103,752	$251,717
June 30, 1993	$67,301	$115,231	$130,722	$313,254
June 30, 1994	$65,388	$114,160	$112,081	$291,629
June 30, 1995	$72,785	$121,881	$146,527	$341,193
June 30, 1996	$72,557	$131,612	$247,816	$451,985
June 30, 1997	$79,342	$145,326	$325,552	$550,220

STATE POLICE RETIREMENT SYSTEM

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1992	$2,530	$6,193	$12,034	$20,757
June 30, 1993	$2,546	$6,114	$14,810	$23,470
June 30, 1994	$2,575	$6,081	$11,171	$19,827
June 30, 1995	$2,727	$6,874	$14,235	$23,836
June 30, 1996	$2,457	$7,089	$20,627	$30,173
June 30, 1997	$2,958	$9,628	$27,393	$39,979

SCHEDULE OF EXPENSES BY SOURCE
(expressed in thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Amounts Transferred to Insurance Fund	Total
June 30, 1992	$110,034	$2,131	$6,452	$22,001	$140,618
June 30, 1993	$119,620	$2,205	$6,749	$22,370	$150,944
June 30, 1994	$129,780	$2,076	$7,903	$31,453	$171,212
June 30, 1995	$144,365	$2,088	$7,820	$40,011	$194,284
June 30, 1996	$158,407	$2,284	$7,485	$42,624	$210,800
June 30, 1997	$173,352	$2,701	$8,262	$43,988	$228,303

COUNTY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Amounts Transferred to Insurance Fund	Total
June 30, 1992	$ 64,993	$2,459	$5,830	$18,391	$91,673
June 30, 1993	$ 72,607	$2,679	$5,373	$22,546	$103,205
June 30, 1994	$ 82,691	$2,782	$8,170	$32,729	$126,372
June 30, 1995	$ 96,419	$2,930	$8,873	$35,002	$143,224
June 30, 1996	$109,081	$3,217	$8,944	$37,622	$158,864
June 30, 1997	$124,187	$3,909	$9,167	$40,816	$178,079

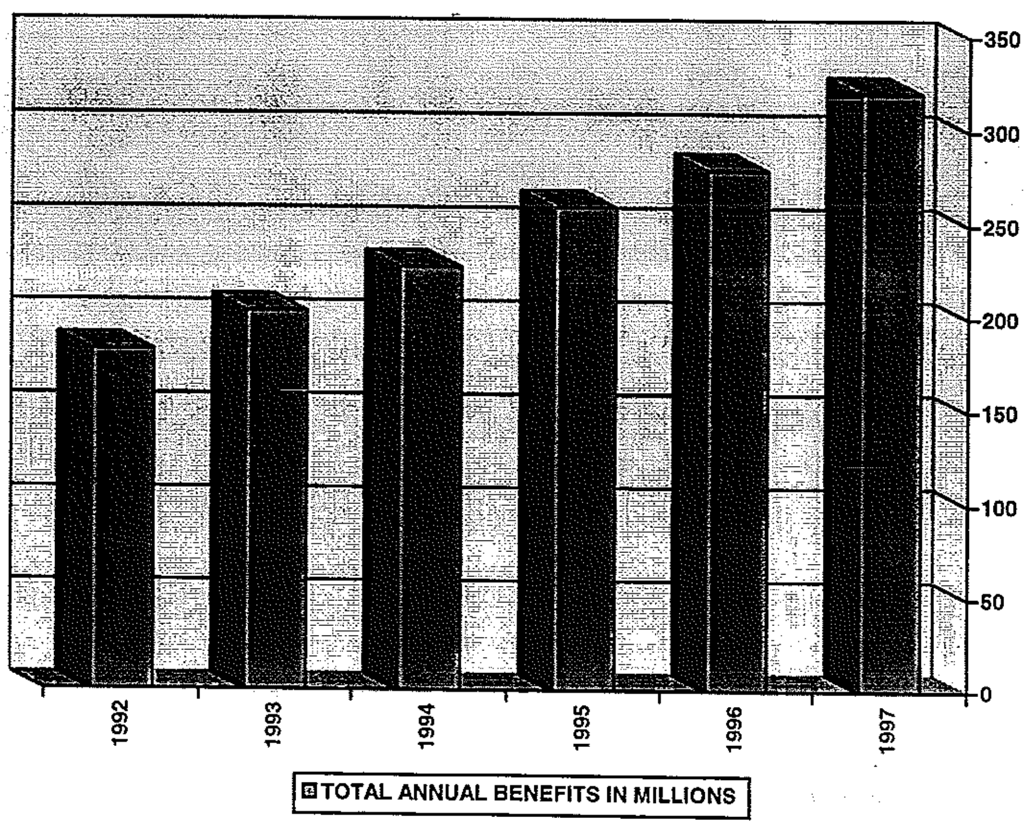
STATE POLICE RETIREMENT SYSTEM

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Amounts Transferred to Insurance Fund	Total
June 30, 1992	$ 9,373	$57	$35	$2,999	$12,464
June 30, 1993	$10,220	$56	$40	$2,922	$13,238
June 30, 1994	$11,147	$33	$44	$3,767	$14,991
June 30, 1995	$12,526	$40	$19	$4,464	$16,377
June 30, 1996	$13,711	$44	$31	$4,606	$18,392
June 30, 1997	$14,682	$52	$57	$5,126	$19,917

ANALYSIS OF INITIAL RETIREMENT
1992-1997

	1992	1993	1994	1995	1996	1997
KERS Retirees	761	1,193	1,339	1,573	1,127	1,523
Average Montly Benefit	$692	$892	$858	$914	$967	$1,117
CERS Retirees	1,267	1,209	1,837	1,906	1,344	1,962
Average Monthly Benefit	$562	$637	$688	$631	$690	$737
SPRS Retirees	16	56	54	77	39	47
Average Monthly Benefit	$1,357	$1,867	$1,994	$1,784	$2,116	$2,185

ANNUAL RETIREMENT PAYMENTS 1992-1997



SCHEDULE OF BENEFIT EXPENSES BY TYPE

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
FY 1991-92					
Average Benefit	$437	$618	$464	$485	$544
Retirees	4,187	8,694	1,136		14,017
Beneficiaries	745	663	507	713	2,628
Total Recipients	4,932	9,357	1,643	713	16,645
Monthly Benefits	$2,152,974	$5,785,696	$762,274	$345,970	$9,046,914
FY 1992-93					
Average Benefit	$460	$659	$488	$518	$579
Retirees	4,206	9,158	1,217		14,581
Beneficiaries	765	720	532	704	2,721
Total Recipients	4,971	9,878	1,749	704	17,302
Monthly Benefits	$2,288,082	$6,511,669	$853,848	$364,612	$10,018,211
FY 1993-94					
Average Benefit	$484	$686	$514	$534	$606
Retirees	4,235	9,623	1,334		15,192
Beneficiaries	771	759	547	706	2,783
Total Recipients	5,006	10,382	1,881	706	17,975
Monthly Benefits	$2,420,610	$7,119,855	$967,106	$337,339	$10,844,910
FY 1994-95					
Average Benefit	$517	$737	$551	$570	$651
Retirees	4,311	10,241	1,452		16,004
Beneficiaries	798	792	570	722	2,882
Total Recipients	5,109	11,033	2,022	722	18,886
Monthly Benefits	$2,643,397	$8,128,080	$1,113,901	$411,780	$12,297,158
FY 1995-96					
Average Benefit	$530	$758	$567	$566	$670
Retirees	4,312	10,717	1,560		16,589
Beneficiaries	815	826	595	733	2,969
Total Recipients	5,127	11,543	2,155	733	19,558
Monthly Benefits	$2,714,747	$8,752,259	$1,221,084	$414,832	$13,102,922
FY 1996-97					
Average Benefit	$562	$817	$596	$600	$721
Retirees	4,322	11,513	1,694		17,529
Beneficiaries	819	853	622	754	3,048
Total Recipients	5,141	12,366	2,316	754	20,577
Monthly Benefits	$2,890,662	$10,108,484	$1,380,195	$452,335	$14,831,676

The information in the above tables includes only retirees and beneficiaries receiving a monthly benefit as of June in the indicated fiscal year. Dependent children, alternate payees under qualified domestic relations orders, retired reemployed members and individuals deceased as of June are not included. As a result, the information for the current year will differ from that shown in the Retired Lives Summary in the Actuarial Section.

SCHEDULE OF BENEFIT EXPENSES BY TYPE

COUNTY EMPLOYEES RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
FY 1991-92					
Average Benefit	$317	$472	$430	$348	$411
Retirees	3,988	6,590	970		11,548
Beneficiaries	459	337	279	492	1,567
Total Recipients	4,447	6,927	1,249	492	13,115
Monthly Benefits	$1,409,879	$3,267,109	$537,606	$170,974	$5,385,568
FY 1992-93					
Average Benefit	$330	$496	$448	$374	$432
Retirees	4,107	7,122	1,104		12,333
Beneficiaries	495	372	297	485	1,649
Total Recipients	4,602	7,494	1,401	485	13,982
Monthly Benefits	$1,520,564	$3,713,780	$627,229	$181,163	$6,042,736
FY 1993-94					
Average Benefit	$353	$535	$485	$394	$467
Retirees	4,311	7,848	1,283		13,442
Beneficiaries	505	383	326	528	1,742
Total Recipients	4,816	8,231	1,609	528	15,184
Monthly Benefits	$1,700,589	$4,403,993	$780,642	$208,204	$7,093,428
FY 1994-95					
Average Benefit	$369	$567	$513	$413	$495
Retirees	4,563	8,721	1,494		14,778
Beneficiaries	528	421	346	552	1,847
Total Recipients	5,091	9,142	1,840	552	16,625
Monthly Benefits	$1,876,514	$5,180,389	$944,147	$228,228	$8,229,278
FY 1995-96					
Average Benefit	$380	$581	$528	$425	$510
Retirees	4,684	9,384	1,660		15,728
Beneficiaries	549	457	380	562	1,948
Total Recipients	5,233	9,841	2,040	562	17,676
Monthly Benefits	$1,988,732	$5,714,564	$1,076,787	$238,803	$9,018,886
FY 1996-97					
Average Benefit	$405	$620	$560	$446	$547
Retirees	4,937	10,453	1,942		17,332
Beneficiaries	574	490	406	576	2,046
Total Recipients	5,511	10,943	2,348	576	19,378
Monthly Benefits	$2,229,937	$6,790,089	$1,314,240	$256,650	$10,590,916

The information in the above tables includes only retirees and beneficiaries receiving a monthly benefit as of June in the indicated fiscal year. Dependent children, alternate payees under qualified domestic relations orders, retired reemployed members and individuals deceased as of June are not included. As a result, the information for the current year will differ from that shown in the Retired Lives Summary in the Actuarial Section.

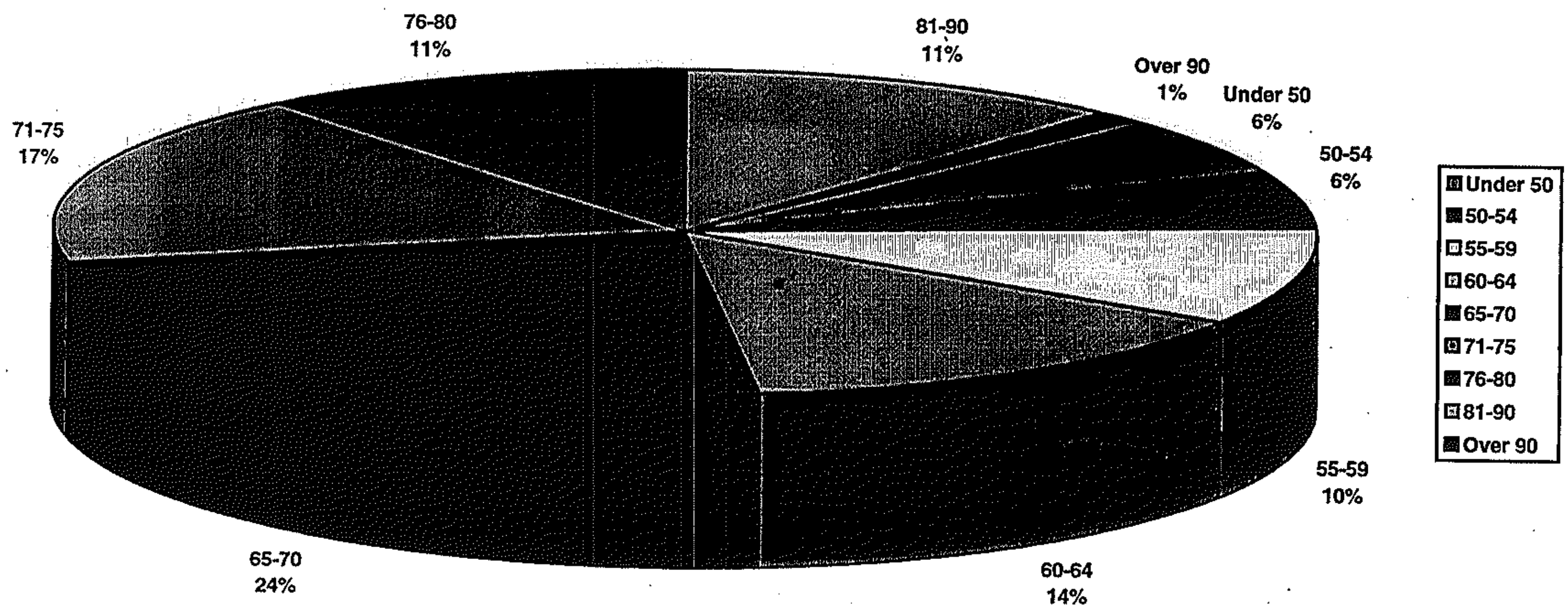
SCHEDULE OF BENEFIT EXPENSES BY TYPE

STATE POLICE RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
FY 1991-92					
Average Benefit	$1,741	$2,014	$1,296	$1,217	$1,877
Retirees	84	271	23		378
Beneficiaries	8	4	2	16	30
Total Recipients	92	275	25	16	408
Monthly Benefits	$160,198	$553,883	$32,405	$19,476	$765,962
FY 1992-93					
Average Benefit	$1,749	$2,016	$1,320	$1,255	$1,893
Retirees	82	315	24		421
Beneficiaries	10	3	2	17	32
Total Recipients	92	318	26	17	453
Monthly Benefits	$160,887	$641,082	$34,332	$21,336	$857,637
FY 1993-94					
Average Benefit	$1,736	$2,020	$1,287	$1,171	$1,892
Retirees	82	356	28		466
Beneficiaries	12	2	2	18	34
Total Recipients	94	358	30	18	500
Monthly Benefits	$163,201	$722,989	$38,615	$21,083	$945,888
FY 1994-95					
Average Benefit	$1,775	$2,018	$1,263	$1,207	$1,907
Retirees	82	417	30		529
Beneficiaries	13	3	3	18	37
Total Recipients	95	420	33	18	566
Montly Benefits	$168,663	$847,649	$41,677	$21,741	$1,079,730
FY 1995-96					
Average Benefit	$1,749	$2,020	$1,241	$1,034	$1,901
Retirees	84	446	30		560
Beneficiaries	12	4	6	17	39
Total Recipients	96	450	36	17	599
Monthly Benefits	$167,947	$908,793	$44,664	$17,582	$1,138,986
FY 1996-97					
Average Benefit	$1,789	$2,079	$1,224	$1,065	$1,958
Retirees	86	484	31		601
Beneficiaries	12	4	8	16	40
Total Recipients	98	488	39	16	641
Monthly Benefits	$175,303	$1,014,787	$47,733	$17,050	$1,254,873

The information in the above tables includes only retirees and beneficiaries receiving a monthly benefit as of June in the indicated fiscal year. Dependent children, alternate payees under qualified domestic relations orders, retired reemployed members and individuals deceased as of June are not included. As a result, the information for the current year will differ from that shown in the Retired Lives Summary in the Actuarial Section.

RECIPIENTS BY AGE



COMPARISON OF AVERAGE MONTHLY BENEFITS BY LENGTH OF SERVICE

KERS

SERVICE	Under 2 Yrs.	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
No. of Recipients	439	728	3,464	3,680	3,390	3,140	3,008	1,827	901
Average Pay	$45	$133	$205	$340	$536	$756	$1,269	$1,582	$2,057

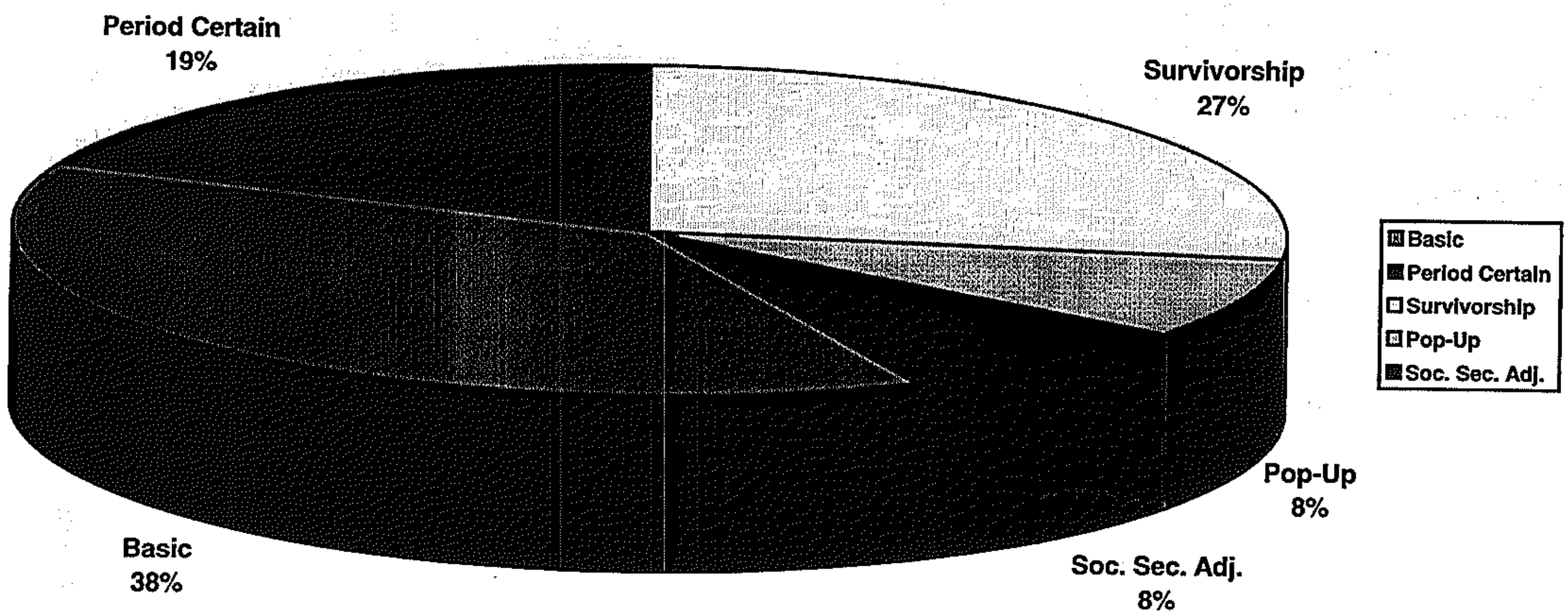
CERS

SERVICE	Under 2 Yrs.	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
No. of Recipients	411	930	4,809	4,464	3,126	2,902	1,728	683	325
Average Pay	$41	$112	$176	$312	$510	$903	$1,351	$1,586	$1,843

SPRS

SERVICE	Under 2 Yrs.	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
No. of Recipients	6	15	24	23	51	204	223	88	7
Average Pay	$77	$270	$562	$879	$1,289	$1,761	$2,322	$2,839	$3,461

PAYMENT OPTIONS BY TYPE



Basic=single life annuity. Period Certain=includes 10-year certain, as well as, life with 10, 15 and 20 years certain. Survivorship=includes100%, 66 2/3% and 50% options. Pop-Up=benefit increases to Basic amount if beneficiary dies or divorces member. Soc. Sec. Adj.=provides an increased benefit until age 62 with a reduced benefit after age 62.

TOTAL FISCAL YEAR RETIREMENT PAYMENTS BY COUNTY

Jefferson	$ 56,455,758	Bell	$ 1,654,947	Todd	$ 833,754
Franklin	$ 38,918,178	Bourbon	$ 1,621,856	Webster	$ 829,446
Fayette	$ 15,972,000	Clark	$ 1,514,182	Allen	$ 829,277
Warren	$ 8,195,969	Trigg	$ 1,437,261	Casey	$ 810,750
Daviess	$ 7,139,563	Logan	$ 1,420,875	Wolfe	$ 768,531
Christian	$ 6,551,819	Johnson	$ 1,413,568	Breckinridge	$ 767,951
Shelby	$ 6,220,962	Carter	$ 1,409,443	Simpson	$ 747,422
Kenton	$ 6,092,640	Grayson	$ 1,405,843	Livingston	$ 744,879
Pulaski	$ 5,148,810	Perry	$ 1,364,328	Metcalfe	$ 734,305
McCracken	$ 5,086,748	Caldwell	$ 1,358,649	Washington	$ 697,955
Hardin	$ 4,560,020	Knott	$ 1,327,680	Lee	$ 695,248
Madison	$ 4,362,205	Breathitt	$ 1,322,649	Lewis	$ 662,067
Anderson	$ 4,149,949	Montgomery	$ 1,236,067	Powell	$ 659,026
Oldham	$ 3,617,374	Lincoln	$ 1,205,559	Lawrence	$ 611,618
Hopkins	$ 3,559,129	Muhlenberg	$ 1,192,400	Jackson	$ 590,618
Boyd	$ 3,265,594	Harrison	$ 1,138,074	Trimble	$ 590,322
Boyle	$ 3,251,320	Larue	$ 1,136,120	McCreary	$ 587,038
Campbell	$ 3,234,110	Taylor	$ 1,133,384	Ballard	$ 587,026
Boone	$ 3,149,887	Marion	$ 1,113,831	Butler	$ 578,536
Henderson	$ 3,121,935	Bath	$ 1,091,717	Green	$ 562,029
Calloway	$ 3,058,603	Adair	$ 1,076,541	Magoffin	$ 538,882
Bullitt	$ 3,022,740	Russell	$ 1,044,515	Owsley	$ 528,368
Pike	$ 2,891,719	Estill	$ 1,027,077	Leslie	$ 525,317
Barren	$ 2,799,657	Fleming	$ 1,008,995	McLean	$ 497,941
Laurel	$ 2,594,178	Ohio	$ 1,002,044	Fulton	$ 489,740
Scott	$ 2,573,564	Lyon	$ 982,562	Carlisle	$ 475,986
Woodford	$ 2,408,187	Letcher	$ 981,418	Menifee	$ 461,191
Whitley	$ 2,349,905	Garrard	$ 979,674	Cumberland	$ 438,859
Rowan	$ 2,332,812	Wayne	$ 978,281	Monroe	$ 434,369
Mercer	$ 2,325,751	Morgan	$ 977,766	Bracken	$ 410,519
Graves	$ 2,285,989	Union	$ 971,152	Nicholas	$ 404,260
Marshall	$ 2,190,257	Greenup	$ 970,785	Clinton	$ 398,813
Owen	$ 1,982,881	Knox	$ 946,981	Martin	$ 397,843
Nelson	$ 1,974,615	Carroll	$ 925,166	Crittenden	$ 375,406
Floyd	$ 1,971,847	Pendleton	$ 897,602	Hancock	$ 374,408
Jessamine	$ 1,891,364	Hart	$ 894,330	Edmonson	$ 370,035
Henry	$ 1,881,250	Rockcastle	$ 886,571	Gallatin	$ 354,666
Grant	$ 1,707,784	Meade	$ 886,315	Elliott	$ 352,550
Clay	$ 1,698,753	Mason	$ 877,387	Hickman	$ 326,503
Harlan	$ 1,690,519	Spencer	$ 871,431	Robertson	$ 113,518

PAYMENTS TO RETIREES LIVING IN OTHER STATES
$ 14,601,228

TOTAL PAYMENTS FOR FISCAL YEAR ENDING JUNE 30, 1997
$320,129,571