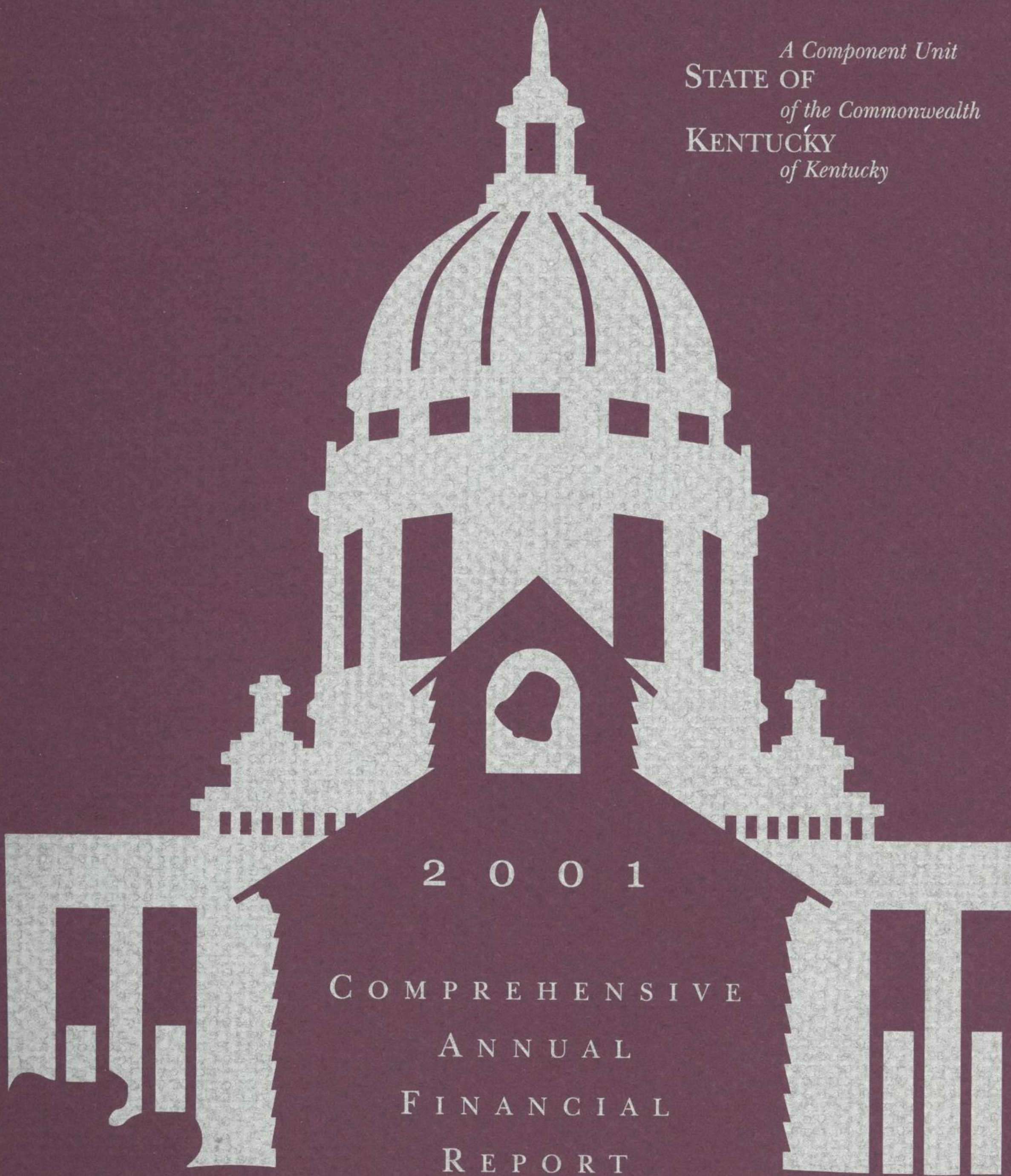
Teachers' Retirement System

A Component Unit
STATE OF
of the Commonwealth
KENTUCKY
of Kentucky



2001

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

for the fiscal year ended June 30, 2001

Teachers' Retirement System of the State of Kentucky

The 61st Comprehensive Annual Financial Report

A Component Unit of the Commonwealth of Kentucky
Fiscal Year Ended June 30, 2001

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800

GARY L. HARBIN
Executive Secretary

This report was printed on recycled paper.

This report was prepared by the Teachers' Retirement System staff.
The cost of printing was paid from state funds pursuant to KRS 57.375

Introductory Section

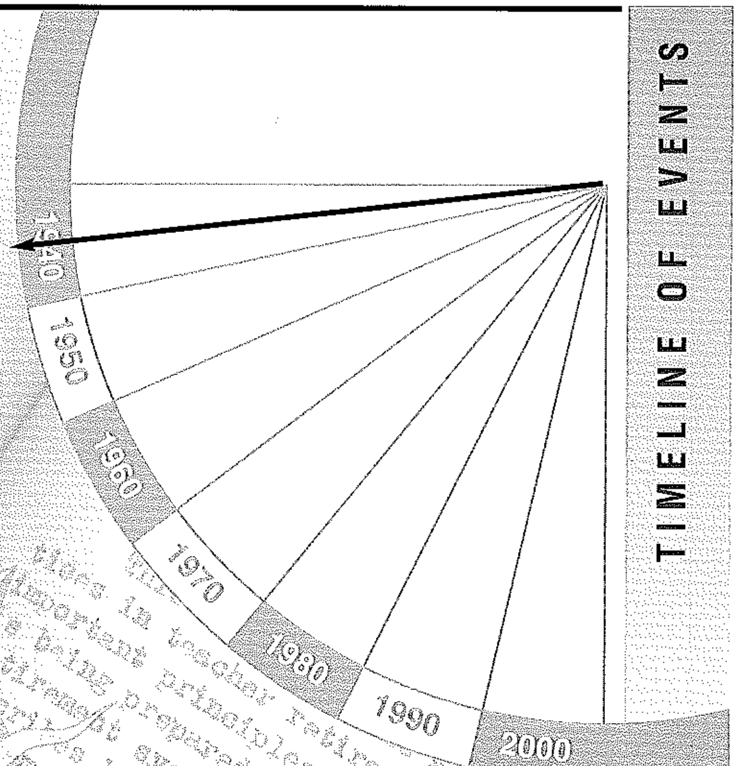
Financial Section

Investment Section

Actuarial Section

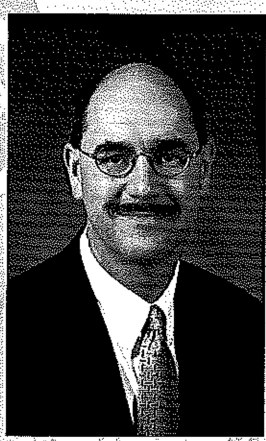
Statistical Section

TIMELINE OF EVENTS

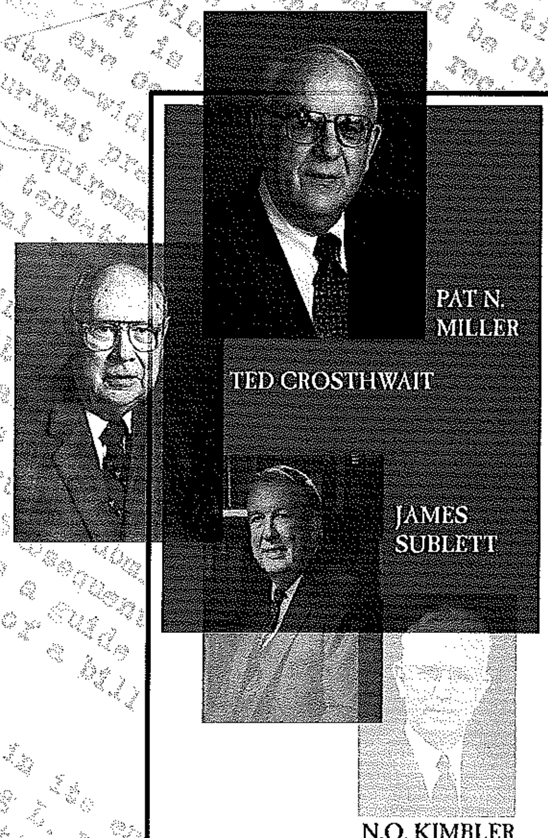


Kentucky Education Association requests that the University of Kentucky conduct a study on the issue of "Teacher Retirement Legislation" for Kentucky **Feb. 1, 1936**

INTRODUCTORY



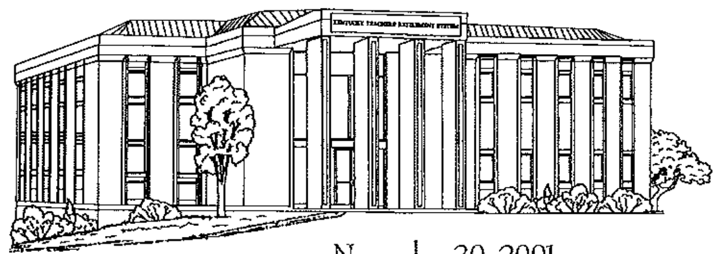
MR. GARY L. HARBIN
Executive Secretary



PAT N. MILLER
TED CROSTHWAIT
JAMES SUBLETT
N.O. KIMBLER

Chairperson's Letter

Teachers' Retirement System of the State of Kentucky



November 30, 2001

Dear Members:

On behalf of the Board of Trustees and staff, I am pleased to present this Comprehensive Annual Financial Report of the Teachers' Retirement System of the State of Kentucky for the year ending June 30, 2001, the 61st year of operation of the System. The accompanying reports from the independent auditor and the consulting actuary substantiate the financial integrity and the actuarial soundness of the system.

KTRS closed the 2000-2001 fiscal year with $12.6 billion in assets. The active membership totaled 54,236 and the retired membership was 31,894 with an annual payroll of $674 million.

The Board of Trustees is totally committed to managing the retirement system funds in a prudent, professional manner. The retirement system is justly proud of the funding level the System has achieved. Every effort will be made to insure that the system continues to operate in a fiscally sound manner. Present and future members of the system deserve to be able to avail themselves of the best possible retirement as authorized by statute.

We appreciate the support and cooperation extended by the Governor and the Legislature. This cooperation allows the system to not only meet current challenges but to also make timely provisions for the future.

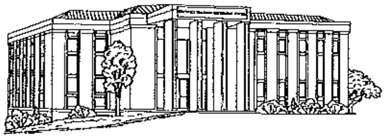
The Board of Trustees pledges to continue to administer the affairs of the Kentucky Teachers' Retirement System in the most competent and efficient manner possible.

Sincerely,

Virginia Murrell

Virginia Murrell
Chairperson
Board of Trustees

Letter of Transmittal



Teachers' Retirement System of the State of Kentucky

Honorable Paul E. Patton, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601-3800

November 30, 2001

Dear Governor Patton:

It is my pleasure to submit the 61st Comprehensive Annual Financial Report of the Teachers' Retirement System of the State of Kentucky, a Component Unit of the Commonwealth of Kentucky, for the fiscal year ended June 30, 2001.

State law provides the legal requirement for the publication of this report and in addition requires an annual audit of the retirement system.

Kentucky Teachers' Retirement System (KTRS) has produced an annual report that will provide you, the General Assembly, and the general public, with information necessary to gain a better understanding of the Teachers' Retirement System.

This Report Consists of Five Sections:

❖ The Introductory Section contains the Board Chairperson's letter, this letter of transmittal, Board of Trustees information, a list of consultants used by the System, and the organizational chart.

❖ The Financial Section contains the opinion of the independent accountants, management's discussion and analysis, financial statements and required supplementary information.

❖ The Investment Section presents investment and portfolio performance. This includes the policies, summary, and profile of the System's holdings.

❖ The Actuarial Section contains the certification from Buck Consultants (the consulting actuary service) as well as the results of the System's actuarial valuation.

❖ The Statistical Section contains various information on the System's membership, both active and retired. A listing of all participating KTRS employers is also presented in this section.

Accounting System and Reports

This report has been prepared in conformity with the principles of governmental accounting and reporting as established by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. This report was prepared by the Kentucky Teachers' Retirement System comptroller's section. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with KTRS. KTRS believes the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of KTRS as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of KTRS' financial affairs have been included.

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses of the System. Revenues of the System are taken into account when earned without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment was made. Fixed assets are recorded at cost and depreciated over the estimated useful lives of the assets.

In developing and evaluating KTRS' accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that KTRS' internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Revenues

The reserves needed to finance retirement and other member benefits are accumulated through the collection of member, employer or state contributions as well as income derived from the investment of reserve funds. Total additions (contributions and net investment income) for the fiscal year were $384 million for the defined benefit plan, while the additions to the medical insurance plan and the tax-sheltered annuity plan were $138 million and $38 thousand respectively. The overall contribution rates remain the same. However, 3.25% of payroll was assigned to the medical insurance plan rather than the defined benefit plan. As of April 30, 1997, the tax-sheltered annuity plan no longer accepts contributions.

Expenses

The primary purpose of a retirement system relates to the purpose for which it was created, the payment of benefits. These payments, along with refunds of contributions to terminated employees, insurance benefits of retired teachers, and the cost of administering the system, comprise the total expenses. The total expenses of the tax-sheltered annuity plan were $55.9 thousand, consisting solely of benefit payments. The total expenses of the medical insurance plan were $88.2 million. The amount is primarily composed of health insurance premiums and actual medical expenses. As detailed below, the defined benefit plan incurred a total of $690.6 million in expenses:

EXPENSES	(MILLIONS)
Benefits	$ 674.0
Refunds	10.7
Administration	5.9

Pension benefits paid to retirees and beneficiaries increased $64.6 million bringing total benefit payments to $674 million. Refunds of contributions paid to former members upon termination of employment decreased slightly from $11.4 million to $10.7 million. Administrative expense rose $1.1 million, or 22.4%, due primarily to the addition of a KTRS call center and costs associated with a new imaging system. These two initiatives will enhance service response and provide greater information security to our membership.

Investments

The investment portfolio's earnings represent a substantial financial contribution to the System. Income from investments provides most of the funds used in paying member annuities. The investment portfolio experienced significant growth during the 2000-2001 fiscal year. The portfolio's par value increased from $11,337,840,290 to $12,059,753,287. The growth of the portfolio primarily was due to investment income that included realized capital gains. Employer and employee contributions also provided significant income to the portfolio.

Investment earnings, including depreciation of asset values, net of investment expenses for the 2000-2001 fiscal year were ($99,579,273). The negative investment earnings can be attributed primarily to the net depreciation of securities being ($549,288,400) that was caused by less favorable investment market conditions. The investment earnings deficit would have been larger had it not been for the significant interest income earned on investments in the amount of $341,358,394. The second largest earnings component of $87,699,292 was earned from dividends. Other income of $24,990,277 was generated from rent and securities lending.

According to KRS 161.430 the KTRS Board of Trustees has the authority to invest the assets of the System. The Board of Trustees, generally, delegates investment authority to an Investment Committee that is comprised of two Trustees and the System's Executive Secretary. The Investment Committee works closely with experienced investment counselors, who are contracted by the Board of Trustees, and the System's professional staff in evaluating investments.

Funding

Based on recommendations of the Board of Trustees, the General Assembly establishes the levels of contribution by statute that are to be made by members and employers to fund the liabilities of the system. Each year, an independent actuary performs a valuation to determine whether the current levels of contribution will be sufficient to cover the cost of benefits earned by members.

The latest actuarial valuation was for the period ending June 30, 2000. This report reflects the System's assets, based on modified market value; totaled $12.8 billion and the liabilities totaled $13.3 billion. The actuary determined that the existing levels of contribution by members and employers would be sufficient to fund all of the System's liabilities within a reasonable period of time. The report concludes that the System is operating on an actuarially sound basis. Assuming that employer contributions continue in the future at rates recommended on the basis of the successive actuarial valuations, the actuary states that the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

KTRS Medical Insurance Plan

KTRS health care costs keep escalating at a much faster clip than revenue growth in the Medical Insurance Plan. Last year, basic doctor/hospital costs and the cost of medications (prescription drugs) rose about 10%. An actuarial valuation of the Medical Insurance Plan for the fiscal year ended June 30, 2000 indicated that the fund has an unfunded liability of $2.2 billion. The KTRS 2000-2002 biennial budget requested additional funding from the Commonwealth, but due to difficult economic times, these funds were not available. The General Assembly partially addressed the issue by allowing an additional 3.25% of the employer contributions to be directed to the medical insurance program.

Effective January 1, 1999 KTRS retirees and dependents under the age of 65 have their health insurance provided by plans managed by the Kentucky Personnel Cabinet. Under this arrangement, KTRS provides a monthly supplement to assist the retiree and their dependents in purchasing their health insurance. Retirees 65 and over remain in the plan administered by KTRS. These retirees also receive a supplement for the cost of their coverage.

The System realizes that these means alone will not solve the medical insurance funding crisis. Additional steps must be taken through legislation on both the state and national levels in order for true cost control to result. Meanwhile, KTRS will address the problem by taking measures to contain costs and by increasing revenues to the insurance fund, adjusting coverage to meet existing revenues, or a combination of the two.

Professional Services

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the KTRS. A certification from the certified public accountant and actuary are enclosed in this report. The system's consultants who are appointed by the Board are listed on pages 8 and 43 of this report.

Our Gratitude

Following twenty-four years of dedicated and exemplary service as Executive Secretary of the KTRS, Mr. Pat N. Miller elected to retire effective November 30, 2000. The KTRS Board and staff wish for Mr. Miller many years of enjoyable retirement.

National Recognition

The System was honored by two National professional organizations in regard to the administration of the retirement program.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2000. The

Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The KTRS has received the Certificate of Achievement for the last thirteen consecutive years (fiscal years ended 1988-2000). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

PPCC Achievement Award

The Public Pension Coordinating Council awarded a Certificate of Achievement to the Teachers' Retirement System of the State of Kentucky for 2000 (this award is issued every two years) for implementing and maintaining high professional standards in administering the affairs of the System. The award is based on compliance with principles judged to underlie exemplary retirement system achievements in the areas of benefits, actuarial valuation, financial reporting, investments and disclosure and are widely acknowledged to be marks of excellence for retirement systems. It represents the highest standards of excellence in the public pension industry.

The PPCC is a coalition of the four major public pension organizations in the nation. These include the National Association of State Retirement Administrators, The National Council on Teacher Retirement, the National Conference on Public Employees Retirement Systems, and Government Finance Officers Association.

Acknowledgments

The preparation of this report reflects the combined efforts of the KTRS staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information. This information serves as a basis for making management decisions and for determining compliance with legal provisions. It is also used to determine responsible stewardship for the assets contributed by the members and their employers.

This report is being mailed to all employer members of the System who form the link between KTRS and its members. Their cooperation continues to contribute significantly to the success of KTRS. Hopefully, the employers and their employees will find this report both informative and helpful.

KTRS is totally committed to the continued operation of an actuarially sound retirement system. The support that you have demonstrated in the past is an essential part of this commitment, and we look forward to continuing this good relationship in the future.

Respectfully Submitted,
Gary L. Harbin
Executive Secretary

BOARD OF TRUSTEES

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800

ADMINISTRATIVE STAFF

GARY L. HARBIN, CPA
Executive Secretary

C. JOE HUTCHISON, MBA, CPA
Deputy Executive Secretary

STUART A. REAGAN, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

ACTUARY

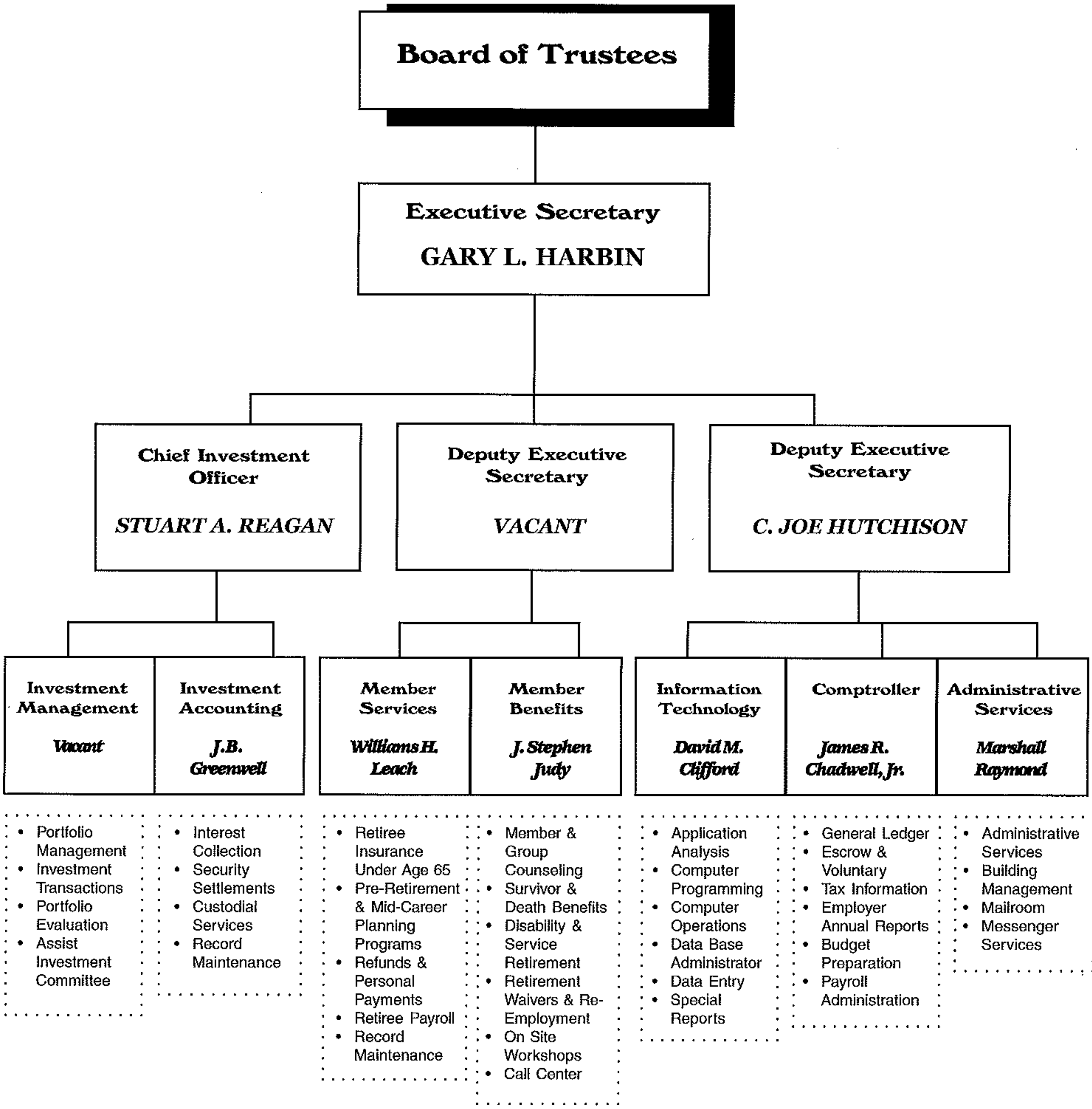
George B. Buck Consulting Actuaries, Inc.
Suite 1200
Galleria Parkway NW
Atlanta, Georgia 30339

AUDITOR

Charles T. Mitchell, LLP
201 West Main Street
P.O. Box 698
Frankfort, Kentucky 40601

* *See page 43 of the Investment Section for investment consultants.*

KTRS Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers' Retirement System of the State of Kentucky

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

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

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

President

Executive Director

Public Pension Coordinating Council

Public Pension Principles

2000 Achievement Award

Presented to

Kentucky Teachers' Retirement System

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

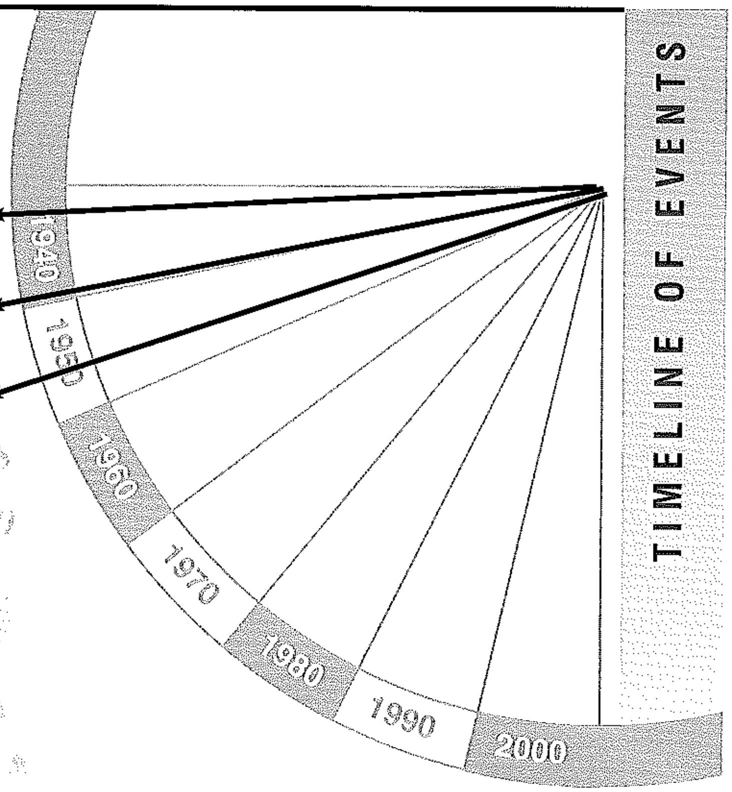
Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

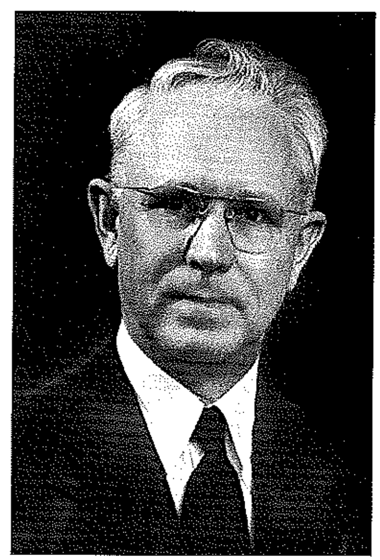
Michael L. Mory
Chairman

UK Study Recommends KTRS **1936**

Legislation Passed to Create KTRS **1938**

Funding for KTRS – $1,000,000 **1940**
N.O. Kimbler is named Executive Secretary to KTRS





N.O. KIMBLER

Executive Secretary
1940-1957

FINANCIAL

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

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Teachers' Retirement System of the State of Kentucky
Frankfort, Kentucky

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

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

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

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

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

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

Charles T. Mitchell Co.

November 26, 2001

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Teachers' Retirement System's financial performance provides an overview of the defined benefit and medical insurance plans' financial year ended June 30, 2001. Please read it in conjunction with the respective financial statements, which begin on page 19.

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan and medical insurance plan, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. The Statement of Plan Net Assets and Statement of Changes in Plan Net Assets (on pages 19-20) provide information about the activities of the defined benefit plan, medical insurance plan and the tax sheltered annuity plan as a whole. The Kentucky Teachers' Retirement System is the fiduciary of funds held in trust for its members.

The Schedule of Funding Progress (on pages 32-33) includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions (on pages 32-33) presents historical trend information about the annual required contributions of employers and the contributions made by employers in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

KENTUCKY TEACHERS' RETIREMENT SYSTEM AS A WHOLE

In the fiscal year ended June 30, 2001, the Kentucky Teachers' Retirement System's combined plan net assets decreased by $257.1 million – from $12,871.6 million to $12,614.5 million. Plan net assets for the prior fiscal year increased by $351.7 million. The following summaries focus on plan net assets and changes in plan net assets of Kentucky Teachers' Retirement System's defined benefit plan, medical insurance plan and the tax sheltered annuity plan.

Summary of Plan Net Assets (In Millions)

Categories	Defined Benefit Plan 2001	2000	Medical Insurance Plan 2001	2000	403(b) Tax Shelter 2001	2000	TOTAL 2001	2000
Cash & Investments	$ 13,190.4	$ 13,148.7	$ 100.4	$ 59.6	$ .7	$ .7	$ 13,291.5	$ 13,209.0
Fixed Assets	4.0	3.3					4.0	3.3
Receiveables	98.6	96.6	9.6	1.7			108.2	98.3
Total Assets	$ 13,293.0	$ 13,248.6	$ 110.0	$ 61.3	$ .7	$ .7	$ 13,403.7	$ 13,310.6
Total Liabilities	(782.6)	(431.6)	(6.6)	(7.4)			(789.2)	(439.0)
Plan Net Assets	$ 12,510.4	$ 12,817.0	$ 103.4	$ 53.9	$ .7	$ .7	$ 12,614.5	$ 12,871.6

Summary of Changes In Plan Net Assets (In Millions)

Categories	Defined Benefit Plan 2001	2000	Medical Insurance Plan 2001	2000	403(b) Tax Shelter 2001	2000	TOTAL 2001	2000
ADDITIONS								
Member's Contributions	$ 208.7	$ 203.1	$ 40.0	$ 36.4			$ 248.7	$ 239.5
Employer's Contributions	280.1	311.3	92.4	48.9			372.5	360.2
Investment Income (net)	(104.9)	454.3	5.3	3.7			(99.6)	458.0
TOTAL ADDITIONS	$ 383.9	$ 968.7	$ 137.7	$ 89.0			$ 521.6	$1,057.7
DEDUCTIONS								
Benefit Payments	674.0	609.4					674.0	609.4
Refunds	10.6	11.3				.1	10.6	11.4
Adminitrative Expense	6.0	4.9	3.2	3.0			9.2	7.9
Insurance Expenses			84.9	77.3			84.9	77.3
TOTAL DEDUCTIONS	$ 690.6	$ 625.6	$ 88.1	$ 80.3		$ .1	$ 778.7	$ 706.0
Increase (Decrease) in Plan Net Assets	$ (306.7)	$ 343.1	$ 49.6	$ 8.7		$ (.1)	$(257.1)	$ 351.7

Plan net assets of the defined benefit plan decreased by 2.4% ($12,510.4 million compared to $12,817.0 million). The decrease is primarily due to the reduced amount of investment income; ($104.9) million compared to $454.3 million, as a result of less favorable investment market conditions in general. These assets are restricted to providing monthly retirement allowances to members and their beneficiaries.

Plan net assets of the medical insurance plan increased by 91.3% ($103.4 million compared to $53.9 million). The increase is primarily due to the state legislature approving additional funding of 3.25% of payroll from the employer matching contribution. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

Defined Benefit Plan Activities

Member contributions increased $5.6 million. Retirement contributions are calculated by applying a percentage factor to salary and are paid in monthly by each member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit.

Employer contributions totaled $280.1 million; a net decrease of $31.2 million over fiscal year 1999-2000 contributions. An increase in covered payroll of $117.5 million generated an increase in employer contribution of $12.3 million. However, the assignment of additional funding of 3.25% of payroll to the Medical Insurance Plan has resulted in a decrease of $43.5 million to the plan.

Net investment income decreased $559.2 million ($104.9 million loss at June 30, 2001 as compared to $454.3 million gain at June 30, 2000). The primary factor for this reduction in net investment income between fiscal years is a decrease in the fair value of investments for the year ended June 30, 2001 as compared to the year ended June 30, 2000. This can be illustrated as follows:

	In Millions
Appreciation in fair value of investments – June 30, 2001	$ 471.7
Appreciation in fair value of investments – June 30, 2000	1,518.8
Net depreciation in fair value of investments	(1,047.1)
Net income (net of investment expense)	444.3
Net gain on sale of investments	497.9
Investment Income (net) – June 30, 2001	$ (104.9)

Program deductions in 2000-2001 increased $65.1 million. The increase was caused principally by an increase of $64.6 million in benefit payments. Members who were drawing benefits as of June 2000 received an increase of 2.3% to their retirement allowances in July 2000. Also, there was an increase of 1,282 members and beneficiaries on the retired payroll as of June 30, 2001.

Medical Insurance Plan Activities

As explained above, employer contributions paid into the insurance fund increased by $43.5 million over the prior year. An increase in the amount of covered payroll, $117.5 million, and increases in the percentage of covered payroll paid into the medical insurance fund accounts for the increased employer contributions.

Program deductions increased $7.8 million explained almost totally by an increase in payment of insurance expenses of $7.6 million. The monthly premiums and medical/prescription claims increased for all retirees coupled with an increase of 755 in the number of retirees receiving premium subsidies.

Net investment income increased $1.6 million. This is due solely to the recognition of interest income. Since all investments for the Medical Insurance Plan are short term in nature, the recognition of appreciation in fair value is not feasible. This can be illustrated as follows:

	In Millions
Appreciation in fair value of investments – June 30, 2001	$ 0
Appreciation in fair value of investments – June 30, 2000	0
Net depreciation in fair value of investments	0
Net income (net of investment expense)	5.3
Net gain on sale of investments	0
Investment Income (net) – June 30, 2001	$ 5.3

HISTORICAL TRENDS

Accounting standards require that the statement of plan net assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the defined benefit plan and the medical insurance plan is provided in the Schedule of Funding Progress (on pages 32-33). The asset value stated in the Schedule of Funding Progress is determined by the system actuary. The actuarial accrued liability is calculated using the projected unit credit cost method.

In the past, the defined benefit plan has experienced improvement year to year in its funding position with more than adequate assets to meet pension obligations. The 2000-2001 fiscal year reveals a decline in funding position due to declining financial markets and an increase in actuarial liability. Even under these adverse conditions, the defined benefit plan continues to be well funded.

The medical insurance plan is not as vulnerable to adverse market conditions since its assets are all short term in nature and less likely to experience huge fluctuations. Although, the plan continues to have a large unfunded actuarial liability, the current obligations are being met by current funding.

Annual required contributions of the employers and contributions made by the employees in relation to the required contributions are provided in the Schedule of Employer Contributions (on pages 32-33). This schedule indicates that employers are generally meeting their responsibilities to provide resources to the plans.

Statements of Plan Net Assets
As of June 30, 2001 and 2000

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2001	2000	2001	2000	2001	2000	2001	2000
ASSETS								
Cash	$ 4,386,962	$ 1,595,580					$ 4,386,962	$ 1,595,580
Prepaid expenses	197,146	254,331					197,146	254,331
Receivables								
Contributions	13,446,193	21,705,562	$ 9,634,270	$ 1,707,488			23,080,463	23,413,050
State of Kentucky	1,179,855						1,179,855	
Investment income	62,086,748	63,900,058					62,086,748	63,900,058
Investment sales receivable	20,268,793	9,212,393					20,268,793	9,212,393
Other receivables	1,598,113	1,792,622					1,598,113	1,792,622
Total receivables	98,579,702	96,610,635	9,634,270	1,707,488			108,213,972	98,318,123
Investments, at fair value (See Note 4)								
Short term investments	893,113,704	818,099,133	100,438,593	59,585,346	$ 647,703	$ 665,521	994,200,000	878,350,000
Bonds and mortgages	4,613,416,077	4,355,407,607					4,613,416,077	4,355,407,607
Common stock	6,613,084,210	7,393,185,234					6,613,084,210	7,393,185,234
Real estate	303,270,917	230,462,637					303,270,917	230,462,637
Total investments	12,422,884,908	12,797,154,611	100,438,593	59,585,346	647,703	665,521	12,523,971,204	12,857,405,478
Invested security lending collateral	762,967,508	349,778,001					762,967,508	349,778,001
Fixed assets, at cost net of accumulated depreciation of $1,704,491 (See Note 2)	4,040,992	3,252,119					4,040,992	3,252,119
Total assets	13,293,057,218	13,248,645,277	110,072,863	61,292,834	647,703	665,521	13,403,777,784	13,310,603,632
LIABILITIES								
Liabilities								
Accounts payable	1,208,696	812,101	323,592	75,852			1,532,288	887,953
Treasurer's unredeemed checks	31,628	19,608					31,628	19,608
Insurance claims payable			6,300,100	7,240,347			6,300,100	7,240,347
Compensated absences payable	518,685	502,315					518,685	502,315
Unearned insurance premium receipts			7,116	106,788			7,116	106,788
State of Kentucky		3,325,999						3,325,999
Investment purchases payable	17,922,783	77,096,075					17,922,783	77,096,075
Obligations under securities lending	762,967,508	349,778,001					762,967,508	349,778,001
Total Liabilities	782,649,300	431,534,099	6,630,808	7,422,987			789,280,108	438,957,086
Net Assets Held in Trust for Pension Benefits	$12,510,407,918	$12,817,111,178	$ 103,442,055	$ 53,869,847	$ 647,703	$ 665,521	$12,614,497,676	$12,871,646,546

(A schedule of funding progress is presented on page 32-33.)

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

Statements of Changes in Plan Net Assets
As of June 30, 2001 and 2000

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2001	2000	2001	2000	2001	2000	2001	2000
ADDITIONS								
Contributions								
Employer	$ 280,108,701	$ 311,286,811	$ 92,429,167	$ 48,946,646			$ 372,537,868	$ 360,233,457
Member	208,702,802	203,149,281	40,017,682	36,392,846			248,720,484	239,542,127
Total contributions	488,811,503	514,436,092	132,446,849	85,339,492			621,258,352	599,775,584
Investment Income								
Net appreciation (depreciation) in fair value of Investments	(549,288,400)	23,754,849					(549,288,400)	23,754,849
Interest	336,033,926	326,956,123	5,286,426	3,710,881	$ 38,042	$ 38,672	341,358,394	330,705,676
Dividends	87,699,292	87,536,232					87,699,292	87,536,232
Rental income, net	24,388,117	20,222,465					24,388,117	20,222,465
Securities lending, gross earnings	28,885,774	22,176,234					28,885,774	22,176,234
Gross investment income	(72,281,291)	480,645,903	5,286,426	3,710,881	38,042	38,672	(66,956,823)	484,395,456
Less investment expense	(4,338,836)	(4,957,052)					(4,338,836)	(4,957,052)
Less securities lending expense	(28,283,614)	(21,437,527)					(28,283,614)	(21,437,527)
Net investment income	(104,903,741)	454,251,324	5,286,426	3,710,881	38,042	38,672	(99,579,273)	458,000,877
Total additions	383,907,762	968,687,416	137,733,275	89,050,373	38,042	38,672	521,679,079	1,057,776,461
DEDUCTIONS								
Benefits	673,987,005	609,359,896			55,860	62,437	674,042,865	609,422,333
Refunds of contributions	10,673,981	11,304,485	5,155	2,246		132,059	10,679,136	11,438,790
Insurance expenses			84,934,200	77,339,737			84,934,200	77,339,737
Administrative expense	5,950,036	4,859,623	3,221,712	3,023,755			9,171,748	7,883,378
Total deductions	690,611,022	625,524,004	88,161,067	80,365,738	55,860	194,496	778,827,949	706,084,238
Net increase (decrease)	(306,703,260)	343,163,412	49,572,208	8,684,635	(17,818)	(155,824)	(257,148,870)	351,692,223
Net assets held in trust for pension benefits								
Beginning of year	12,817,111,178	12,473,947,766	53,869,847	45,185,212	665,521	821,345	12,871,646,546	12,519,954,323
Ending of year	$12,510,407,918	$12,817,111,178	$ 103,442,055	$ 53,869,847	$ 647,703	$ 665,521	$12,614,497,676	$12,871,646,546

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

Notes to Financial Statements
Years Ended June 30, 2001 and 2000

Note 1: Description of Plan

A. REPORTING ENTITY

The Teachers' Retirement System of the State of Kentucky (KTRS) was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS is a cost-sharing multiple-employer defined benefit plan established to provide pension benefit plan coverage for local school districts and other public educational agencies in the state.

B. PARTICIPANTS

As of June 30, 2001 a total of 202 employers participated in the plan. Employers are comprised of 176 local school districts, 20 Department of Education Agencies and other educational organizations, 5 universities and also the Kentucky Community and Technical College System.

According to KRS 161.220 "... any regular or special teacher, or professional occupying a position requiring certification or graduation from a four (4) year college or university ... " is eligible to participate in the System. The following illustrates the classifications of members:

Active contributing members:	2001	2000
Vested	38,528	37,730
Non-vested	15,708	14,890
Inactive members, both vested and non-vested	5,710	5,172
Retirees and beneficiaries currently receiving benefits	31,894	30,612
Total members, retirees and beneficiaries	91,840	88,404

C. BENEFIT PROVISIONS

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or

2.) Complete 27 years of Kentucky service.

Note 1: Description of Plan continued . . .

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. University employees receive monthly benefits equal to two (2) percent of their final average salary for each year of credited service. The final average salary is the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. The system also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is $2,000 for active contributing members and $5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases, and any other benefit amendments must be authorized by the General Assembly.

Note 2: Summary of Significant Accounting Policies

A. BASIS OF ACCOUNTING

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. CASH

KTRS has two cash accounts. At June 30, 2001, the pension cash account totaled $4,105,572 and the administrative expense fund cash account was $281,391; therefore, the carrying value of cash was $4,386,962 and the corresponding bank balance was $4,364,443. The difference is primarily due to outstanding checks and items not deposited by the bank on June 30, 2001.

C. FIXED ASSETS

Fixed assets are recorded at historical cost less straight-line accumulated depreciation. The classes of fixed assets are furniture and equipment, the KTRS office buildings and land. Furniture and equipment are depreciated over an average useful life of five to seven years. The office buildings are depreciated over forty years.

D. INVESTMENTS

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers.

Note 2: Summary of Significant Accounting Policies continued . . .

Purchase and sales of debt securities, equity securities, and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Upon sale of investments, the difference between sales proceeds and cost is reflected in the statement of changes in plan net assets.

Investment expenses consist of investment manager and consultant fees along with fees for custodial services.

E. COMPENSATED ABSENCES

Expenses for accumulated vacation days and compensatory time earned by the System's employees are recorded when earned. Upon termination or retirement, employees of the system are paid for accumulated vacation time limited to 450 hours and accumulated compensatory time limited to 240 hours. As of June 30, 2001 accrued compensated absences were $518,685.

F. RISK MANAGEMENT

Destruction of assets, theft, employee injuries and court challenges to administrative policy are among the various risks to which the system is exposed. In order to cover such risks the system carries appropriate insurance policies such as fire and tornado, employee bonds, fiduciary liability, worker's compensation and equipment insurance.

G. OTHER RECEIVABLES

KTRS now allows qualified purchases of service credit to be made by installment payments not to exceed a five year period. Revenue is recognized in the initial year of the installment contract agreement. The June 30, 2001 and 2000 installment contract receivables were $1,576,823 and $1,785,365, respectively.

H. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. INCOME TAXES

The defined benefit plan is organized as a tax-exempt retirement plan under the Internal Revenue Code. The tax sheltered annuity plan is no longer continued and will be fully terminated when all lifetime annuities have expired. The system's management believes that it has operated the plans within the constraints imposed by federal tax law.

Note 3: Contributions and Reserves

A. CONTRIBUTIONS

Contribution rates are established by Kentucky Revised Statutes. Members are required to contribute 9.855% of their salaries to the System. University members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 6.16% of their salary to KTRS.

The Commonwealth of Kentucky is required to contribute 13.105% of salaries for its non-university members and 13.84% of salaries for university members.

The member and employer contributions consist of pension contributions and post-retirement contributions. The post-retirement contribution .75% finances KTRS' retiree medical insurance plan. In addition to the .75% contribution, employers and the Commonwealth contribute 3.25% to the medical insurance plan.

If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee contributions plus interest are refunded to the employee upon the member's request.

B. RESERVES

Member Reserve

This fund was established by KRS 161.420(2) as the Teacher Savings Fund and consists of contributions paid by university and non-university members. The fund also includes interest authorized by the Board of Trustees from Unallocated Reserves. The accumulated contributions of members that are returned upon withdrawal or paid to the estate or designated beneficiary in the event of death are paid from this fund. Upon retirement, the member's contributions and the matching state contributions are transferred from this fund to Benefit Reserves, the fund from which retirement benefits are paid.

Employer Reserve

This fund was established by KRS 161.420(3) as the State Accumulation Fund and receives state appropriations to the Retirement System. The state matches an amount equal to members' contributions. State appropriations during the year are based on estimates of members' salaries. At year-end when actual salaries are known, the required state matching is also realized by producing either a receivable from or a payable to the State of Kentucky. The analysis of fiscal years 2001 and 2000 has resulted in a receivable (under-appropriation) from the state for fiscal year 2001 and a payable (over-appropriation) to the state for fiscal year 2000.

Benefit Reserve

This fund was established by KRS 161.420(4) as the Allowance Reserve Fund, the source for retirement, disability, and survivor benefits paid to members of the System. These benefits are paid from the retired members' contributions until they are exhausted, at which time state matching contributions are used to pay the benefits. After an individual member's contributions and the state matching contributions have been exhausted, retirement benefits are paid from monies transferred from Unallocated Reserves.

Note 3: Contributions and Reserves continued . . .

Unallocated Reserve

This fund was established by KRS 161.420(6) as the Guarantee Fund to collect income from investments, state matching contributions of members withdrawn from the System, and state matching contributions for cost of living adjustments (COLAs). In addition, it receives money for which disposition is not otherwise provided. This fund provides interest to the other funds, benefits in excess of both members' and state matching contributions, monies for administrative expenses of the System, and deficiencies not covered by the other funds.

Administrative Expense Reserve

This fund was established by KRS 161.420(1) as the Expense Fund. Monies transferred to this fund from Unallocated Reserves are used to pay the administrative expenses of the System. The Board of Trustees annually adopts a budget that, according to KRS 161.420(1), cannot be greater than four percent (4%) of income earned from investments.

Life Insurance Reserve

This fund was established pursuant to the provisions of KRS 161.655 to provide a life insurance benefit to retired and active members of the Kentucky Teachers' Retirement System. This benefit is financed by KTRS employer contributions that are actuarially determined. As of June 30, 2001 the balance in this fund was $13,453,484.

Critical Shortage Reserve

This fund was established by KRS 161.420(9) to allow KTRS retired teachers to return to work in areas designated by the Kentucky Department of Education as critical shortage areas. Monies in this fund are contributed by the employee and matched by the employer. At June 30, 2001 the balance is this fund was $470,042.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements)

A. Summary of Investments

The following disclosures are meant to help the users of KTRS's financial statements assess the risks KTRS takes in investing public funds. The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The parameters as outlined in Title 102, Chapter 1.175, Section 2 of the Kentucky Administrative Regulations are as follows:

- There shall be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
- Not more than thirty-five percent (35%) of the assets of the System at book value shall be invested in corporate debt obligations.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

- Not more than sixty percent (60%) of the assets of the System at book value shall be invested in common stocks or preferred stocks. Not more than twenty-five percent (25%) of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, United States stock index.

- Not more than ten percent (10%) of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.

- Not more than one percent (1%) of the assets of the System at book value shall be invested in venture capital investments, providing at least seventy-five percent (75%) of such investments must be in-state.

- Not more than ten percent (10%) of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board of Trustees shall approve by resolution such additional category or categories of investments.

The chart on the following page represents the fair values of the investments of the Kentucky Teachers' Retirement System for June 30, 2001.

The KTRS bank balance consists of cash totaling $4,364,443 which is fully insured or collateralized with securities by KTRS or its agent in the entity's name.

B. Securities Lending

Section 161.430 of the Kentucky Revised Statutes empowers the Board of Trustees with complete fiduciary responsibility for the funds of the System. The System operates a securities lending program in which it temporarily lends securities to qualified agents in exchange for a net fee and high quality collateral. U.S. Government and agency securities and selected domestic stocks and bonds are the types of securities that are lent. The System's securities sub-custodian, The Bank of New York, acts as lending agent in exchanging securities for collateral. The collateral has a value of not less than 102% of the market value of the lent securities plus any accrued, unpaid distributions. The collateral consists of cash, marketable U.S. Government securities, and selected marketable U.S. Government agency securities approved by the System. Cash collateral is invested in short-term obligations fully guaranteed by the United States Government or select Government agencies and Government Repurchase Agreements with qualified agents. The System cannot pledge or sell collateral securities received unless the borrower defaults. The lending agent also indemnifies the System from any financial loss associated with a borrower's default and collateral inadequacy. As of June 30, 2001, the weighted average maturity of cash collateral investments was three days. At fiscal year end, the System has no credit risk exposure to borrowers, since the amounts the System owes the borrowers exceeds the amounts the borrowers owe the System.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

Schedule of Investments

		June 30, 2001		June 30, 2000
Short Term Investments				
Repurchase Agreements (1)	$	994,200,000	$	878,350,000
Total Short Term Investments	$	994,200,000	$	878,350,000
Bonds and Mortgages				
U.S. Government Obligations				
Treasury Notes & Bonds	$	1,281,385,822	$	1,134,865,286
Agencies		1,093,595,776		944,372,549
GNMA (Single Family)		141,596,931		134,400,060
Other Miscellaneous		185,544,686		135,352,129
Total U.S. Government Obligations	$	2,702,123,215	$	2,348,990,024
Corporate Bonds				
Industrial	$	614,686,874	$	560,254,071
Finance		919,982,508		1,032,376,853
Utility Bonds (Except Telephone)		107,019,034		125,892,109
Telephone Bonds		151,757,044		164,072,073
Railroad Obligations		106,400		102,141
Total Corporate Bonds	$	1,793,551,860	$	1,882,697,247
Other Fixed Income Investments				
FHA and VA Single Family Mortgages	$	339,597	$	484,259
Project Mortgages (FHA & GNMA)		91,364,865		100,196,850
State and Local Government Issues		26,036,540		23,039,227
Total Other Investments	$	117,741,002	$	123,720,336
Total Bonds and Mortgages	$	4,613,416,077	$	4,355,407,607
Stocks	$	6,613,084,210	$	7,393,185,234
Real Estate	$	303,270,917	$	230,462,637
Total Investments	$	12,523,971,204	$	12,857,405,478

(1) Includes $100,438,593 of Medical Insurance Fund investments and $647,703 of Tax-Sheltered Annuity Plan investments for June 30, 2001. Does not include $762,967,508 securities lending collateral.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

C. Summary of Categorized Investments

The following chart categorizes KTRS' investments, which gives an indication of the level of risk assumed by KTRS at June 30, 2001. Category 1 includes investments that are insured or registered or for which the securities are held by KTRS' custodial agent in KTRS' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in KTRS' name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the System with the simultaneous receipt of cash collateral for the loaned securities. Cash collateral is reinvested in accordance with the System's securities lending agreement. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of KTRS.

Included in Category 1 are individual repurchase agreements which are ordered by KTRS under the terms of master repurchase agreements with various qualified brokers. The terms of these master agreements are dictated by KTRS. The repurchase agreements and their supporting collateral are held by the custodial agent's correspondent bank in an account identified by the custodian's name and KTRS' nominee name. This account is unique to KTRS. The master repurchase agreements require that the supporting collateral have a market value of at least 100% of the value of the repurchase agreements. Also, listed among the Other Government Guaranteed Fixed Income Investments are mortgages which are either securitized or unsecuritized, but all are insured through various Federal or State Agencies (FHA, GNMA, VA).

Summary of Categorized Investments as of June 30, 2001

	Total Fair Value
Investments - Category 1	
Repurchase Agreements (1)	$ 994,200,000
U.S. Government Obligations	$ 1,999,217,188
Corporate Bonds	1,793,551,860
State and Local Government Issues	26,036,540
Common Stocks	6,602,911,961
Investments - Category 3	
Securities Lending Short-Term Collateral Repurchase Agreements	$ 762,967,508
SUBTOTAL	$ 12,178,885,057
Investments - Not Categorized	
Investments held by broker dealers under securities loans with cash collateral	
U.S. Government Obligations	$ 721,921,859
Common Stocks	10,172,249
Other Government Guaranteed Fixed Income Investments	$ 72,688,630
Real Estate	303,270,917
TOTAL	$ 13,286,938,712

(1) Includes $100,438,593 of Medical Insurance Fund investments and $647,703 of Tax-Sheltered Annuity Plan investments.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

D. Derivatives

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

The Defined Benefit Plan and the Medical Insurance Plan invest in high quality collateral mortgage obligations (CMOs) and other asset-backed securities to increase return and adjust duration of the portfolio. KTRS may invest in exchange-traded funds as equity investments.

Collateral mortgage obligations and exchange-traded funds pose no greater risk than other similar investment grade holdings in KTRS' portfolios. The fair values of CMOs at June 30, 2001 and 2000 were approximately $34 million and $28 million, respectively.

Note 5: Medical Insurance Plan & Post-Employment Benefits

A. PLAN DESCRIPTION

In addition to the required pension benefits described in Note 1, Kentucky Revised Statute 161.675 allows KTRS to provide post-retirement healthcare benefits to members and dependents. To be eligible for medical benefits, the member must have retired either for service or disability, attain age 55 with 5 years of Kentucky service or had 27 years of Kentucky service.

The KTRS self insured plan is limited to KTRS members and spouses at least the age of 65. All KTRS members under the age of 65 were offered commercial insurance through a state insurance purchasing pool administered by the Kentucky Personnel Cabinet. The Personnel Cabinet's primary function is to negotiate contracts with health plans to obtain the best price for persons covered. KTRS members were given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement was based on the member's service credit and age. Premiums over the monthly supplement were paid by the member. The system bears no risk for excess claims expenses under the commercial insurance coverage.

KTRS members and spouses at least age 65 in the KTRS self-insured plan were also given a supplement based on service credit. Members with 20 or more years of service received the highest supplement.

At June 30, 2001, KTRS insurance covered 25,907 retirees and 6,128 dependents.

Note 5: Medical Insurance Plan & Post-Employment Benefits continued . . .

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Medical Insurance Plan financial statements are prepared using the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Healthcare premiums charged to retired members are recognized when due and any premiums collected in advance are recognized as a liability.

Method Used to Value Investments

Since the investments are all short-term investments they are reported at cost, which is fair value.

C. CONTRIBUTIONS

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefits, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description help meet the medical expenses of the plan.

Since medical expenses have skyrocketed in the last decade, it has become increasingly difficult to meet the expenses of the retiree health insurance program. To fund the plan, the state legislature has approved additional funding of 3.25% of payroll from the employer matching contribution to the Medical Insurance Plan.

D. INCURRED BUT NOT REPORTED CLAIMS LIABILITIES

July 1, 1991 KTRS became self-insured assuming all liability for post-retirement care costs. Effective January 1, 1997, insurance plan participants under age 65 were offered insurance through a state purchasing pool as described in the preceding plan description. KTRS recognizes estimates of liabilities for self-insured unpaid claims that have incurred (both reported and unreported) using the development method. This method uses past observed patterns of time between the date the claim is incurred and the date the claim is paid to estimate incurred claims from available paid claim information. The following schedule shows the change in the claims and liability and the claims activity for the years ended June 30, 2001 and 2000.

Note 5: Medical Insurance Plan & Post-Employment Benefits continued . . .

	Fiscal Year 2001	Fiscal Year 2000
Beginning Unpaid Claims Liability	$ 7,316,199	$ 5,402,348
Claims Incurred		
Current Year	86,571,232	75,182,546
Increase (Decrease) in Prior Years	(1,644,595)	2,157,191
Total Incurred Claims	$ 84,926,637	$ 77,339,737
Claims Paid		
Current Year	$ 81,229,284	$ 69,786,513
Prior Years	4,713,452	5,639,373
Total Payments	$ 85,942,736	$ 75,425,886
Ending Unpaid Claims Liability	$ 6,300,100	$ 7,316,199

E. ADMINISTRATIVE EXPENSES

The total administrative expenses of $3,221,712 are processing fees paid to third party administrators.

Note 6: 403(b) Tax-Sheltered Annuity Plan

A. Plan Description

KTRS has, in prior years, administered a salary deferral program as permitted by section 403(b) of the Internal Revenue Code. Under this program members were able to voluntarily defer a portion of their compensation within the limits established by the applicable laws and regulations. However, the System's Board of Trustees determined that the cost of providing the necessary services to assure the System of continuing compliance with these laws and regulations was not economically feasible due to the limited participation in the program by the System's members. The Board decided, therefore, to discontinue offering the program as of April 30, 1997. Members who were not receiving annuities from their account as of April 30, 1997, were able to transfer their respective accounts directly into other tax-sheltered plans on a tax-free basis. As of June 30, 2001, the fifty-six members who are receiving annuities will continue to receive distributions according to the terms of their respective elections.

B. Summary of Significant Policies

Basis of Accounting

The Tax-sheltered Annuity Plan financial statements are prepared using an accrual basis of accounting. Contributions are no longer being accepted into the plan, therefore, there are no receivables to be recognized.

Method Used to Value Investments

Since the investments are all short-term investments they are reported at cost, which is fair value.

Required Supplemental Schedule
Defined Benefit Plan
Schedule of Funding Progress
(dollar amounts in millions)

VALUATION YEAR JUNE 30	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITIES	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	a	b	(b-a)	(a/b)	c	[(b-a)/c]
1995	$ 6,621.2	$ 8,210.0	$ 1,588.8	80.7%	$ 1,819.8	87.3%
1996	7,624.7	9,178.6	1,553.9	83.1	1,877.9	82.7
1997	8,789.9	9,906.2	1,116.3	88.7	1,925.0	58.0
1998	10,370.6	11,516.6	1,146.0	90.0	1,973.7	58.1
1999	11,958.6	12,288.2	329.6	97.3	2,041.4	16.1
2000	12,759.6	13,330.4	570.8	95.7	2,133.7	26.8
2001	13,299.2	14,642.1	1,342.9	90.8	2,213.8	60.7

The amounts reported in this schedule of funding progress do not include assets or liabilities for post-employment healthcare benefits, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Required Supplemental Schedule
Defined Benefit Plan
Schedule of Employer Contributions
(dollar amounts in millions)

FISCAL YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
1996	$ 282.1	100%
1997	293.7	100%
1998	294.3	100%
1999	288.5	100%
2000	311.3	100%
2001	262.8 (1)	100%

(1) Does not include $17.3 million in contributions to the Life Insurance Fund.

Required Supplemental Schedule
Medical Insurance Plan
Schedule of Funding Progress
(dollar amounts in millions)

VALUATION YEAR JUNE 30	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITIES	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	a	b	(b-a)	(a/b)	c	[(b-a)/c]
2000	$ 54.0	$ 2,202.0	$ 2,148.0	2.5 %	$ 2,133.7	100.7%
2001	103.4	2,531.0	2,427.6	4.1	2,213.8	109.7

The amounts reported in this schedule of funding progress do not include assets or liabilities for the defined benefit plan, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Required Supplemental Schedule
Medical Insurance Plan
Schedule of Employer Contributions
(dollar amounts in millions)

FISCAL YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
2000	$ 48.9	100%
2001	92.4	100%

Notes to Required Supplementary Information

Note 1: Description of Schedule of Funding Progress

Defined Benefit Plan

The schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2001, and each of the preceding five years. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented. Of note, the actuarial report published in this annual report is for June 30, 2000. Although KTRS receives current year information on actuarial accrued liabilities, actuarial valuation of assets and covered payroll (in order to present these schedules) the current year actuarial report is not published in time to be included in the actuarial section of this June 30, 2001 financial annual report.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the retirement system. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

Medical Insurance Plan

The schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2001 and 2000. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Note 2: Actuarial Methodologies and Assumptions

Defined Benefit Plan

A. Methodologies

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. The actuarial value of assets was determined using the method illustrated in the Actuarial Value of Assets table. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period using an open amortization approach.

Actuarial Value of Assets

(1)	Actuarial Value of Assets on June 30, 2000	$ 12,759,635,558
(2)	2000/2001 Net Cash Flow	
	a. Contributions	471,494,550
	b. Disbursements	680,550,586
	c. Net Cash Flow (2)a - (2)b	(209,056,036)
(3)	Expected Investment Return [(1) x .075] + [(2)c x .0375]	949,133,066
(4)	Expected Actuarial Value of Assets on June 30, 2001 (1) + (2)c + (3)	13,499,712,588
(5)	Market Value of Assets on June 30, 2001	12,496,954,434
(6)	Excess of Market Value over Expected Actuarial Value (5) - (4)	(1,002,758,154)
(7)	20% Adjustment towards Market Value .20 x (6)	(200,551,631)
(8)	Actuarial Value of Assets on June 30, 2001 (4) + (7)	$ 13,299,160,957

B. Assumptions

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2001, the most recent updated actuarial information include:

*	Assumed inflation rate	4.0%
*	Assumed investment rate	7.5%
*	Assumed projected salary increases	4.0% - 8.1%
*	Assumed post retirement benefit increase	1.5%

Note 2: Actuarial Methodologies and Assumptions continued . . .

Medical Insurance Plan

A. Methodologies

The actuarial value of assets is determined by using the market value as provided by KTRS. Compliance with applicable current or future accounting standards may require use of different actuarial methods or assumptions. For purposes of estimating the amortization, a 3.5% salary scale is used.

B. Assumptions

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2001, the most recent updated actuarial information include:

*	Assumed discount rate	7.5%
*	Assumed plan asset return rate	7.5%
*	Assumed pre-Medicare benefit cost trend rate	9.0%
*	Assumed post-Medicare benefit cost trend rat e	13.5%
*	Assumed ultimate cost trend rate	5.0%
*	Assumed ultimate cost trend rate achieved	2009

Supporting Schedule 1

Schedule of Administrative Expenses
Year Ended June 30, 2001

ADMINISTRATIVE EXPENSES		YEAR ENDED JUNE 30, 2001
Salaries	$	4,246,332
Other Personnel Costs		18,415
Professional Services & Contracts		236,941
Utilities		52,406
Rentals		12,143
Maintenance		90,276
Postage & Related Services		273,010
Printing		115,449
Insurance		71,460
Miscellaneous Services		113,364
Telecommunications		24,888
Computer Services		96,016
Supplies		42,880
Depreciation		179,403
Travel		64,234
Dues & Subscriptions		23,913
Miscellaneous Commodities		15,228
Furniture, Fixtures, & Equipment not Capitalized		257,308
Compensated Absences		16,370
TOTAL ADMINISTRATIVE EXPENSES	$	5 ,950,036

Supporting Schedule 2

Schedule of Contracted Investment Management Expenses
Year Ended June 30, 2001

Fixed Income Managers		
National Asset Management Corporation	$ 368,755	
Todd Investment Advisors	299,389	
Total Fixed Income Managers		$ 668,144
EQUITY MANAGERS		
Brinson Partners	$ 500,000	
National Asset Management Corporation	750,000	
Todd Investment Advisors	390,516	
Wellington Management Company	1,540,675	
Total Equity Managers		$ 3,181,191
CUSTODIAN		
Farmers Bank		$ 444,501
CONSULTANT		
Becker, Burke Associates		$ 45,000
TOTAL CONTRACTED INVESTMENT MANAGEMENT EXPENSES		$ 4,338,836

Supporting Schedule 3

Schedule of Professional Fees for Year Ended June 30, 2001

PROFESSIONAL	NATURE OF SERVICE	YEAR ENDED JUNE 30, 2001
Charles T. Mitchell Company, LLP	Auditing Services	$ 24,500
Buck Actuaries	Actuarial Services	113,257
International Claim Specialist	Investigative Services	5,499
Farmers Bank	Banking Service	21,685
FileNet	Computer Design Service	72,000
	TOTAL	$ 236,941

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

CTM

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

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

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

Board of Trustees
Teachers' Retirement System
of the State of Kentucky
Frankfort, Kentucky

We have audited the general purpose financial statements of Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated November 26, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

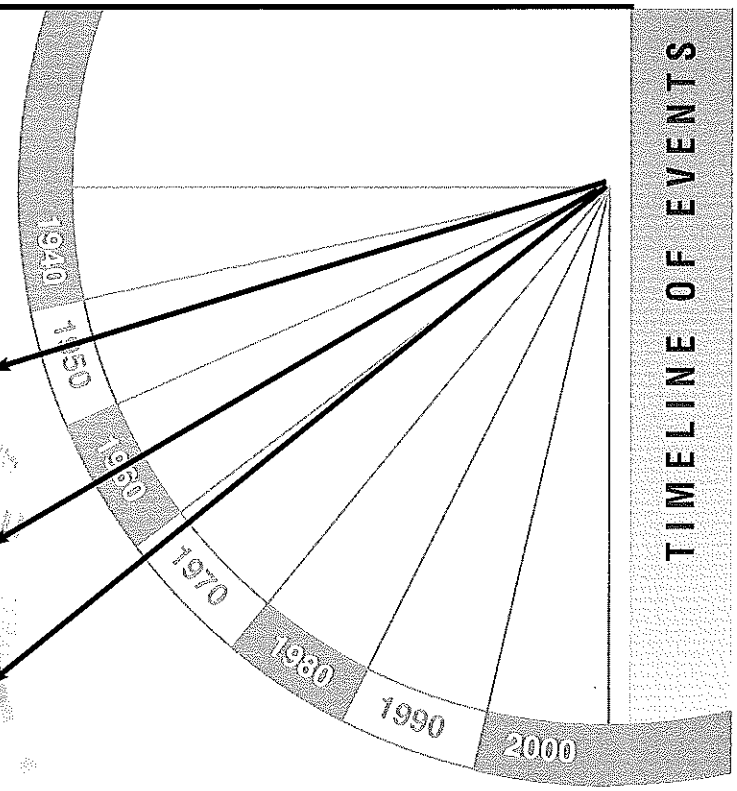
Internal Control Over Financial Reporting

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

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

Charles T. Mitchell Co.

November 26, 2001



James Sublett is named Executive **1957**
Secretary at the retirement of N.O.
Kimbler after 17 years with KTRS

Pat N. Miller is named **1968**
Deputy Executive Secretary

Medical insurance **1957-**
1% statutory COLA **1970**
High 5

JAMES SUBLETT

Executive Secretary
1957-1970

INVESTMENT

OVERVIEW

The Board of Trustees of the Teachers' Retirement System annually appoints an Investment Committee consisting of two Board members and the Executive Secretary. This Committee acts on behalf of the Board, subject to its approval, in all matters concerning investments. In compliance with the Kentucky Revised Statutes, the Board of Trustees has adopted an "Investment Policy" which it reviews periodically. The investment objectives of the Board of Trustees are as follows:

1. The funds of the Teachers' Retirement System of the State of Kentucky shall be invested solely in the interest of its members and their beneficiaries. Investment income shall be used for the exclusive purpose of providing benefits to the members and their beneficiaries and making payment of reasonable expenses in administering the Plan and its Trust Funds.

2. The specific objective of the investment program shall be the investment of the Fund's assets in securities which shall provide a reasonable rate of total return with major emphasis being placed upon the protection of the invested assets. When investments are acquired, current income together with prospects for capital appreciation shall be weighed in regard to the long range needs of providing benefits to members and their beneficiaries. Short term fluctuations in the market value of the Fund's assets shall be considered as secondary to the long-term objectives and needs of the System.

Within the Kentucky Revised Statutes and pertinent policies, the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent man rule", as identified in KRS 161.430 (2)(b). Investment activities shall be conducted, "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims". The responsibility for investing the assets of the System is clearly assigned to the Board of Trustees.

INVESTMENT COMMITTEE

MR. EARLE V. POWELL
Chairman

MR. ROBERT M. CONLEY
Vice-Chairman

MR. GARY L. HARBIN, CPA
Ex-Officio Member, Executive Secretary

EXECUTIVE INVESTMENT STAFF

MR. GARY L. HARBIN, CPA
Executive Secretary

MR. STUART A. REAGAN, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

Investment Advisors

Fixed Income and Equity Managers

Todd Investment Advisors
3160 National City Tower
Louisville, Kentucky 40202

Invesco-National Asset Management
101 South Fifth Street
Louisville, Kentucky 40202

Equity Managers

Brinson Partners
Suite 102
209 South LaSalle Street
Chicago, Illinois 60604-1295

Wellington Management Company
75 State Street
Boston, Massachusetts 02109

Investment Consultant

Becker, Burke Associates, Inc.
Suite 1000
221 North LaSalle Street
Chicago, Illinois 60601

Investment Custodian

Farmers Bank and Capital Trust Co.
Farmers Bank Plaza
Frankfort, Kentucky 40601

INVESTMENT CONSULTANT'S STATEMENT

Becker, Burke Associates served as Investment Consultant to the Kentucky Teachers' Retirement System during the 2000-01 fiscal year as it has in several previous years. Becker, Burke Associates is familiar with the operation of the System's investment program as well as its performance. The investment program of the Retirement System is operated in a prudent manner that reflects a desire to preserve capital while maximizing returns. The assets of the Retirement System are assigned to various portfolios in order to diversify the System's investments and take advantage of opportunities in various asset classes and sectors. The System gravitates toward relatively conservative holdings in each asset class. The overall effect of diversification is to minimize risk. The manner in which the Retirement System operates and its investment results are commensurate with other risk-averse institutional investors in similar regulatory environments.

Edmund M. Burke

Edmund M. Burke
President
Becker, Burke Associates
September 25, 2001

ASSET ALLOCATION

The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The asset allocation limits complement the investment principles used by the Board and Committee regarding security, diversification, high return, and liquidity. The asset allocation policy is adopted by the Board of Trustees and approved in the form of administrative regulation. The asset allocation parameters are structured in order to maximize return while at the same time provide a prudent diversification of assets and preserve the capital of the Teachers' Retirement System. The Board is interested in assuming secure investments that will provide long term growth to the fund. The Board does not arbitrarily compromise security in order to enhance the prospects of return. The Investment Committee and the Board are mindful of the fund's liquidity and its capability at meeting both short and long term obligations. Asset allocation parameters follow:

1. There will be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.

2. Not more than 35% of the assets of the System at book value shall be invested in corporate debt obligations.

3. Not more than 60% of the assets of the System at book value shall be invested in common stocks or preferred stocks. No more than 25% of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, U.S. stock index.

4. Not more than 10% of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.

5. Not more than 1% of the assets of the System at book value shall be invested in venture capital investments providing at least 75% of such investments must be in-state.

6. Not more than 10% of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board shall approve by resolution such additional category or categories of investments. Within this parameter, the Board approved a provision in 1999-2000 that permits limited ownership of foreign equities. The System may acquire equity in large capitalization companies whose stock is traded in the U.S., but the companies are domiciled in select foreign countries. Foreign exposure is limited to 1.2% of the System's assets at book value.

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year than it was on June 30, 2001. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2000-01 fiscal year, the market value of the stock position decreased from 58% to 53% of assets. The portion of the portfolio in Government securities increased from 18% to 22%. The cash position increased during the year from 7% to 8% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 2%.

The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 2000-01 as the System's principal investment counselor, providing assistance in the management of $2.4 billion of stocks and bonds. Invesco-National Asset Management, Brinson Partners, and Wellington Management Company also were retained during the 2000-01 fiscal year to provide investment counseling services. Invesco-National Asset Management assisted in the management of approximately $1 billion in bonds, as well as managing about $905 million in equity investments. Brinson Partners was responsible for managing approximately $508 million in equities, and Wellington Management Company managed about $1.1 billion in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about $5.6 billion of fixed income and equity assets. All of the investment firms, while specializing in particular asset classes or sectors, are required to work within the same broad objectives, portfolio constraints, and administrative guidelines. Four investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a $12.5 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2000-01 as the Custodian of Securities with the Bank of New York serving as a sub-custodian.

The System regularly votes proxy statements associated with its equity ownership. The positions assumed by the System are intended to represent the financial interests of the membership. The Board of Trustees has adopted a policy that directs the staff not to subjugate the financial concerns of the System to social or political protests. At the same time, the System expects the companies in which it acquires stock to be solid corporate citizens that abide by Federal, state, and local laws.

FINANCIAL ENVIRONMENT

The fiscal year ended June 30, 2001, was a difficult year for equity investors. The booming economy of the late 1990s slowed dramatically, and overcapacity became apparent in many industries, especially in telecommunications and technology. With revenue growth slowing while cost pressures continued to rise, profit margins were squeezed and corporate profits declined. Excessive valuations in telecommunications, technology, and large-capitalization growth stocks, generally, were unsustainable as boom turned to bust. On the other hand, sectors of the market that missed the boom of the late 1990s were spared the bust and held up relatively well. The technology-dominated Nasdaq Composite declined a stunning 45.5% over the fiscal year. The Standard & Poor's 500 Index declined 14.8%. The Dow Jones Industrial Index, however, was up 2.2%, while the Standard & Poor's 400 Mid Cap Index was up 8.9%, and the Standard & Poor's 600 Small Cap Index was up 11.1%.

Gross Domestic Product, adjusted for inflation, grew only 1.3% over the fiscal year, down from 5.2% growth in the previous twelve months. The slowdown was led by a decline in capital spending by businesses. The unemployment rate rose from 4.0% to 4.5%. Productivity growth slowed, and costs per unit of production rose, eroding profitability. In the second half of the fiscal year, the Federal Reserve embarked on an aggressive easing campaign, lowering the Federal Funds rate six times from 6.50% to 3.75%, in an attempt to keep the economy from sliding into recession.

Bad news for the stock market is often good news for the bond market. A weakening economy, turmoil in the equity market, aggressive Federal Reserve easing, and expectations of lower inflation led to higher prices and lower yields in the bond market. The Lehman Government/Credit Index produced a strong return of 11.1% over the fiscal year. The Federal Reserve lowered the Federal Funds rate by a total of 2.75 percentage points in the second half of the fiscal year, bringing short-term rates back below long-term rates in a sharp reversal of the previous restrictive monetary policy. The consumer price index rose 3.3% over the fiscal year, down from 3.7% in the previous twelve months, and expectations were for inflation to ease further.

PORTFOLIO CHARACTERISTICS

At year's end, the System's entire stock portfolio, exclusive of the stock index fund, could be characterized as high quality and diversified. The KTRS portfolio, as measured by beta, was approximately as risky as the Standard & Poor's 500 Index. Beta is a measure of the volatility in price of a particular stock or portfolio compared to the volatility of the index. The beta of the KTRS portfolio at the end of the fiscal year was 0.95, compared to the index's beta of 1.00. The KTRS portfolio registered a price-earnings multiple that was lower than the index. The price-earnings ratio for the portfolio at the end of the fiscal year was 22.1, compared to 25.2 for the index. Two factors attesting to the high quality of the portfolio were the high rate of growth in both earnings per share and dividends per share. The average earnings growth rate over the past five years for the KTRS stock portfolio was 16.5%. The average dividend growth rate for the past five years of the KTRS portfolio was 10.4%. At the end of the 2000-01 fiscal year, the yield level for the KTRS portfolio stood at 1.4%, which was slightly higher than the index.

The stock position, apart from the stock index fund, began the 2000-01 fiscal year by being 32% of assets at market value, and by year-end, it constituted 30.4% of assets. In dollars, the value of the stock position decreased from approximately $4.1 billion to about $3.8 billion in 2000-01. The stock index fund represented another $2.8 billion that was invested in stocks at year end. Stock selections during 2000-01 affected a variety of market sectors. At the end of 2000-01, the sector weightings in the KTRS stock portfolio were similar to those of the Standard & Poor's 500 Index. The greatest differences were underweightings by KTRS in the consumer non-durables and technology sectors and overweightings in the materials & services and financial sectors.

On June 30, 2001, the System's entire bond portfolio had a duration of 6.3 years. Its yield to maturity was 6%. The average coupon rate for the holdings was 6.6%. As of June 30, 2001, the effective maturity of the fixed income portfolio was 10.2 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 71% of the fixed income investments, including short term cash equivalents, will mature by the end of 2013, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

PORTFOLIO RETURNS

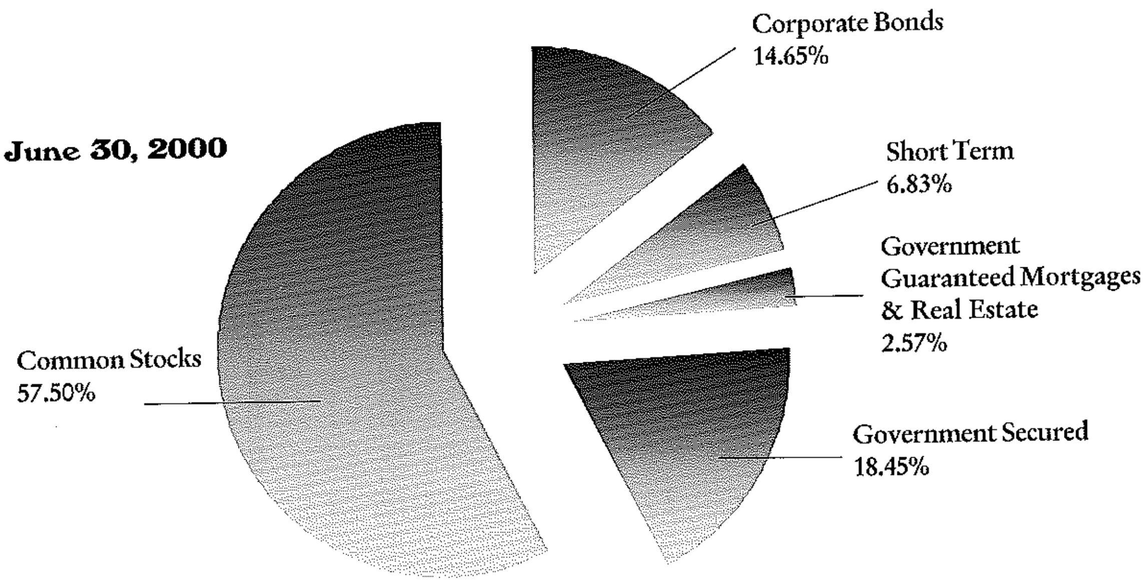
The investment portfolio experienced growth in book values during the 2000-01 year, but market values decreased slightly. The market value of the portfolio decreased $333.4 million to a total of $12.5 billion at year-end. The book value of the fund increased $713.7 million during the year. The System accumulated in excess of $953 million of investment income during 2000-01; this investment income total excludes monies earned but not received by the end of the fiscal year. The income resulted from interest, dividends, rental income, lending income, and gains. At year-end, the "net indicated yield" on fixed income investments at book value was 5.7%. The "indicated dividend yield" on common stocks was 1.5%.

For the 2000-01 fiscal year, the total return earned by the System's stock position is better than the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position earned a total return of (8.9)% in 2000-01, while the stock index earned (14.8)%. The ten year annualized return for the years 1992 through 2001 was 15.2% for the System's stock position and 15.1% for the stock index. The System's bond position earned a ten year annualized total return of 8.0%. This is the same return earned by the Lehman Brothers Government/Credit Index. In 2000-01, the System's bonds earned a total return of 10.7%, while the Lehman Brothers Index earned 11.1%. The entire portfolio earned a total return of (0.7)% in 2000-01. The portfolio's ten year annualized rate of total return was 10.7%. The total return of the portfolio more than kept up with the rate of inflation and provided real growth. In 2000-01, the Consumer Price Index registered an inflation rate of 3.3%. The ten year annualized rate is 2.8%. The System conforms to "AIMR Performance Presentation Standards" in calculating portfolio returns.

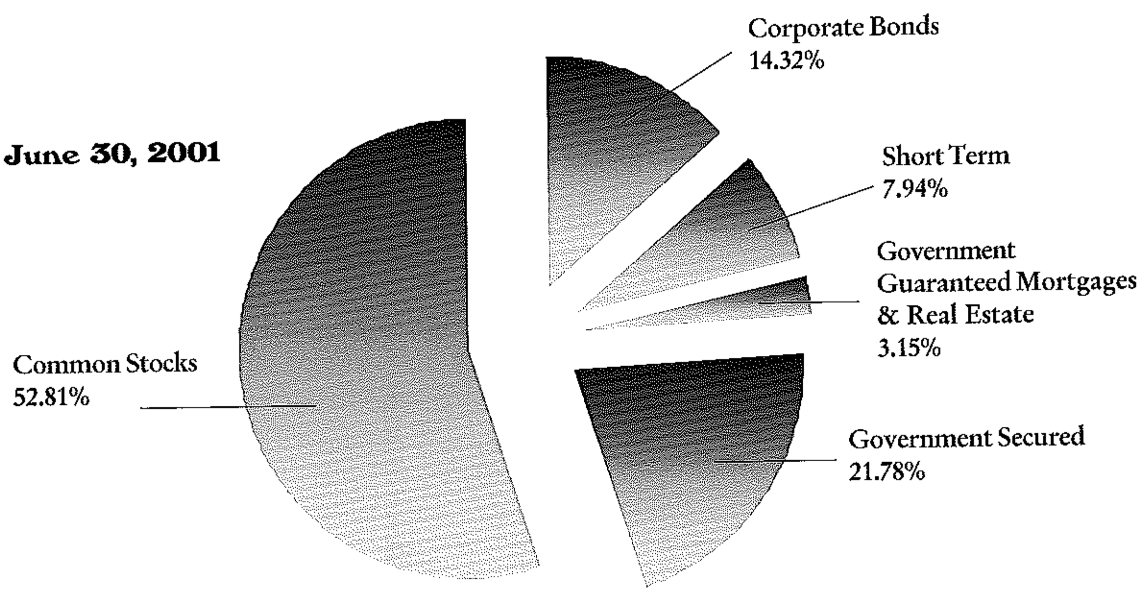
The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs. Following the charts is a summary description of investments held at June 30, 2001. The pages thereafter provide a detailed listing of all investments held on June 30, 2001. The System annually produces a detailed investment report that is available on request.

Distribution of Investments
Market Values

June 30, 2000

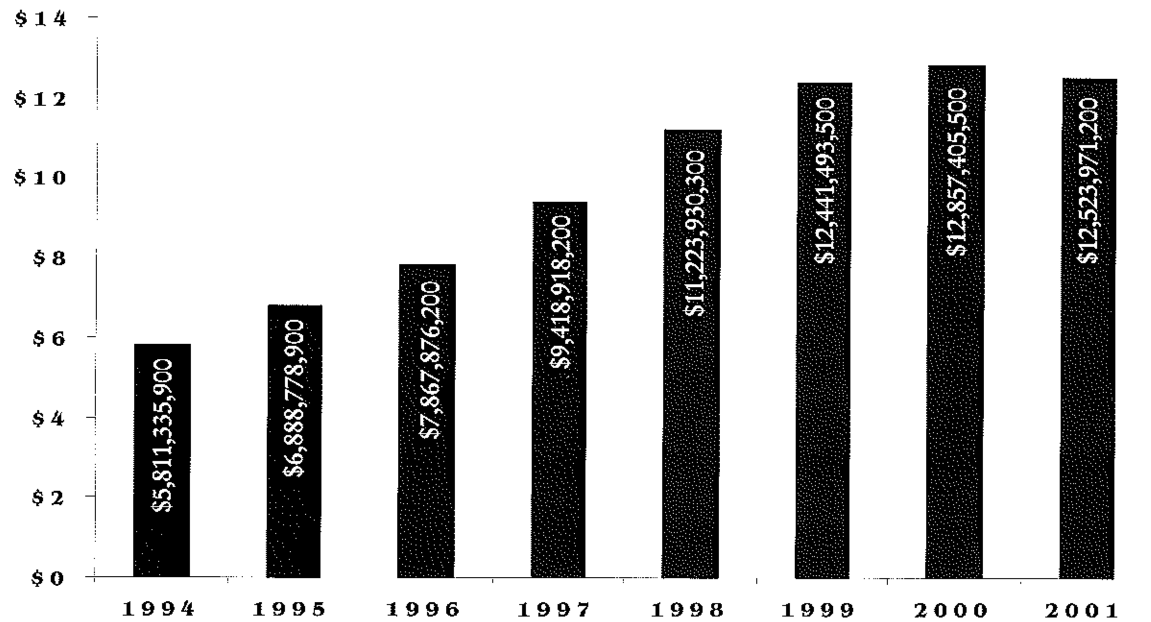


June 30, 2001



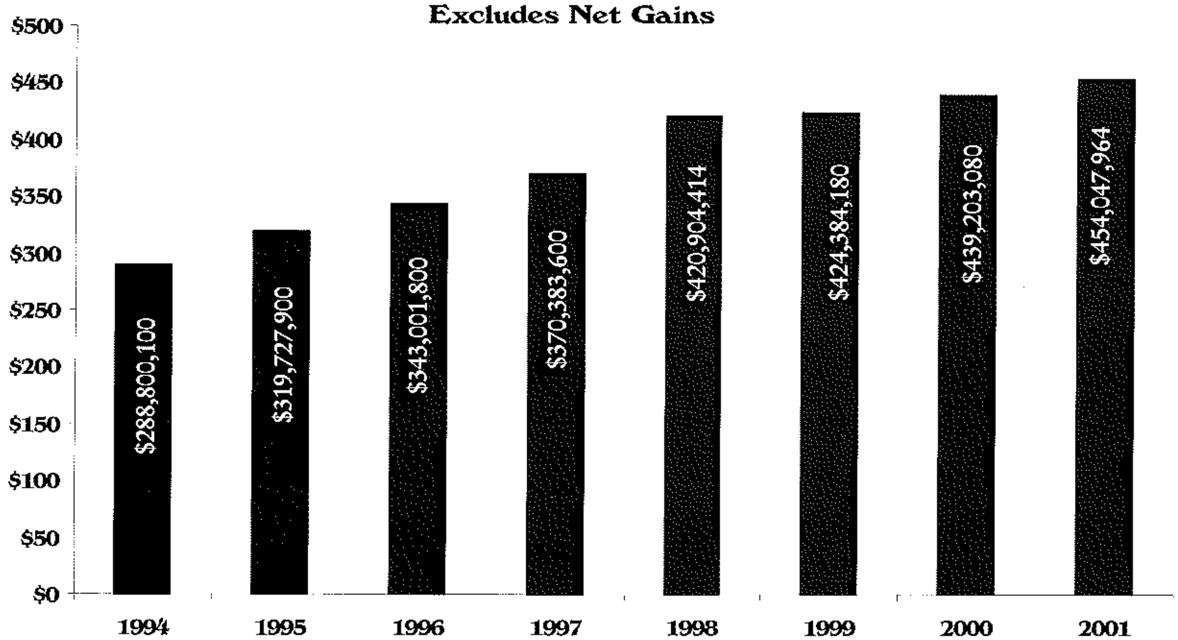
Investment Portfolio Growth

Market Values



Investment Income Growth

Excludes Amortization
Excludes Net Gains



Total Return on KTRS Investments*

Percentages

Fiscal Year	Standard & Poor's 500 Index	KTRS Stocks	Lehman Brothers Govt./Credit Bond Index	KTRS Bond Funds	Consumer Price Index	KTRS Cash Collection Fund	KTRS Real Estate	KTRS Total Portfolio
1991-92	13.4	13.7	14.2	14.9	3.1	5.2	6.8	12.5
1992-93	13.6	13.3	13.2	13.2	3.0	3.0	9.0	12.1
1993-94	1.4	2.2	(1.5)	(.9)	2.5	3.6	7.2	.7
1994-95	26.1	25.3	12.8	12.7	3.0	6.3	10.1	16.9
1995-96	26.0	25.3	4.7	4.3	2.8	6.0	11.6	13.5
1996-97	34.7	33.1	7.8	7.8	2.3	5.8	8.8	19.6
1997-98	30.2	29.2	11.3	11.6	1.7	6.1	9.7	19.4
1998-99	22.8	22.0	2.7	2.3	2.0	5.3	9.7	11.5
1999-00	7.3	3.6	4.3	4.9	3.7	5.8	9.9	4.1
2000-01	(14.8)	(8.9)	11.1	10.7	3.3	6.0	9.5	(0.7)
Three Year Annualized Rate	3.9	4.8	6.0	6.0	3.0	5.7	9.7	4.8
Five Year Annualized Rate	14.5	14.7	7.4	7.4	2.6	5.8	9.5	10.5
Ten Year Annualized Rate	15.1	15.2	8.0	8.0	2.8	5.3	9.2	10.7

* *Teachers' Retirement System of the State of Kentucky has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS). AIMR has not been involved with the preparation or review of this report.*

Investment Summary
Fair Market Value
06/30/2001

Type of Investment	Fair Value 07/01/00	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/01
Short Term	878,350,000	39,458,978,700	191,300	39,343,320,000	994,200,000
Fixed Income	4,355,407,600	3,087,574,800	181,137,800	3,010,704,100	4,613,416,100
Equities	7,623,647,900	2,828,112,200	(730,617,500)	2,804,787,500	6,916,355,100
TOTAL	12,857,405,500	45,374,665,700	(549,288,400)	45,158,811,600	12,523,971,200

Contracted Investment Management Expenses
($ Thousands) as of 06/30/2001

	Assets Under Management	Expenses	Basis Points *
INVESTMENT MANAGER FEES			
Fixed Income Managers	$ 1,018,518	$ 369	3.6
Equity Managers	2,544,153	2,790	11.0
Balanced Manager	2,443,088	690	2.8
TOTALS	$ 6,005,759	$ 3,849	6.4
OTHER INVESTMENT SERVICES			
Custodian Services	$ 12,523,971	$ 445	0.4
Investment Consultant		45	
TOTAL		$ 490	
GRAND TOTAL		$ 4,339	

* One basis point is one-hundreth of one percent or the equivalent of .0001.

Transaction Commissions

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
A B WATLEY	27,900	2,186.00	0.0784
A G EDWARDS	2,233,297	111,664.85	0.0500
ABN AMRO	289,100	27,510.00	0.0952
ADVEST	2,314,950	116,975.50	0.0505
AUTRANET INC	19,900	995.00	0.0500
B TRADE SERVICES	909,417	18,368.34	0.0202
BANC OF AMERICA SECURITIES	496,750	57,585.00	0.1159
BBNT CAPITAL MARKETS	29,000	2,514.00	0.0867
BEAR STEARNS	1,080,850	137,511.00	0.1272
BERNSTEIN SANFORD & CO	121,000	4,986.00	0.0412
BLAIR, WILLIAM & CO	38,100	4,572.00	0.1200
BOENNING & SCATTERGOOD	1,669,200	66,768.00	0.0400
BRANDT ROBERT	45,200	2,260.00	0.0500
BRIDGE TRADING	713,604	14,362.08	0.0201
C E UNTERBERG HARRIS	210,800	25,296.00	0.1200
C S FIRST BOSTON	5,220,850	472,510.00	0.0905
CANTOR FITZGERALD	153,000	6,452.00	0.0422
CAPITAL INSTITUTIONAL SERVICES	138,890	6,944.50	0.0500
CAPITAL RESOURCE ADVISORS	1,800	90.00	0.0500
CHASE H & Q	544,500	66,697.00	0.1225
CIBC OPPENHEIMER	379,800	26,373.00	0.0694
COWEN & CO	1,246,200	62,207.00	0.0499
DAIN RAUSCHER INC	22,500	1,881.00	0.0836
DEUTSCHE MORGAN	1,010,400	57,923.00	0.0573
DOMINICK & DOMINICK	6,200	310.00	0.0500
DONALDSON LUFKIN	1,572,700	94,072.00	0.0598
DRESDNER KLEINWORT	75,500	3,775.00	0.0500
FACTSET DATA	31,700	1,585.00	0.0500
FERRIS BAKER WATTS	12,500	9,625.00	0.7700
FIRST ALBANY CORP	35,300	4,236.00	0.1200
FIRST UNION CAPITAL	2,959,960	175,081.00	0.0591
FOX-PITT KELTON INC	73,700	3,685.00	0.0500
FREIDMAN BILLINGS	195,400	16,264.00	0.0832
FURMAN SELZ ING BARINGS LLC	58,800	7,056.00	0.1200
GOLDMAN SACHS	5,752,750	328,471.00	0.0571
HAMBRECHT and QUIST	19,000	2,280.00	0.1200
HEFLIN & CO	1,097,538	44,102.52	0.0402
HERZOG HEINE GEDULD	207,500	24,900.00	0.1200
HOEFER AND ARNETT INC	11,100	1,332.00	0.1200
HOWE BARNES INVESTMENT	7,700	924.00	0.1200
INSTINET	423,260	7,925.10	0.0187
INVESTMENT TECHNOLOGY	11,522,532	268,670.83	0.0233
ISI GROUP	1,160,100	58,005.00	0.0500
J P MORGAN CHASE	1,201,635	153,196.28	0.1275
JEFFERIES	3,927,414	272,349.68	0.0693
JJB HILLIARD WL LYONS	2,273,995	113,699.75	0.0500
JONES & ASSOCIATES	465,400	36,376.00	0.0782
KEEFE BRUYETTE & WOOD	428,300	31,852.00	0.0744
KNIGHT SECURITIES	60,800	6,323.00	0.1040
KV EXECUTION SERVICE	33,000	660.00	0.0200
LAZARD	6,808,296	387,194.37	0.0569
LEGG MASON	2,054,720	112,396.00	0.0547

Transaction Commissions continued . . .

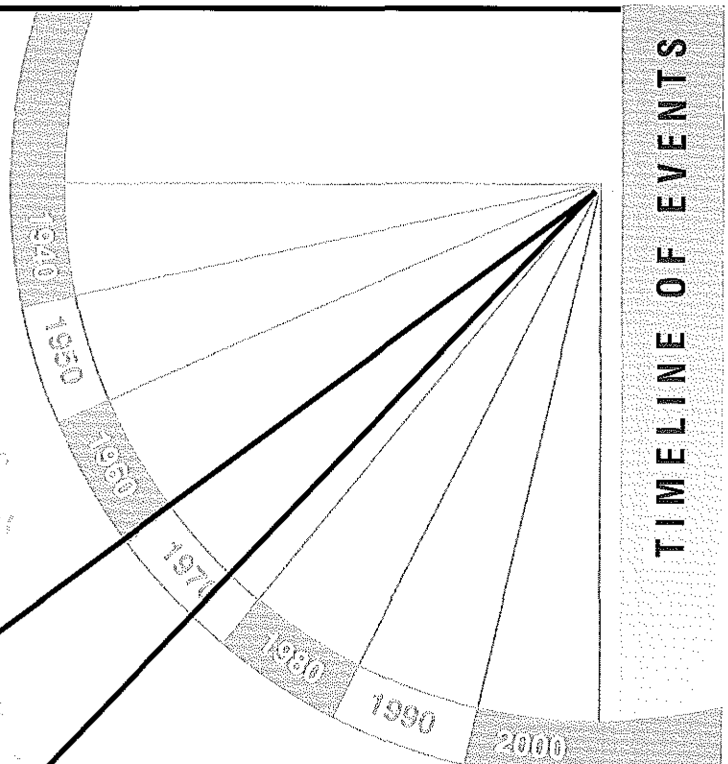
COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
LEHMAN BROTHERS	1,652,700	107,802.00	0.0652
LEXINGTON INVESTMENT	1,273,990	76,607.50	0.0601
MCDONALD INVESTMENTS	58,700	3,257.00	0.0555
MERRILL LYNCH	33,194,577	1,535,380.54	0.0463
MORGAN KEEGAN	2,145,300	109,098.00	0.0509
MORGAN STANLEY DEAN WITTER	6,211,260	362,524.00	0.0584
NDB CAPITAL MARKETS	71,400	8,568.00	0.1200
NEEDHAM & CO	62,700	7,524.00	0.1200
OTA LIMITED PARTNERS	6,900	345.00	0.0500
PAINE WEBBER	12,178,666	625,446.30	0.0514
PCS SECURITIES	16,800	840.00	0.0500
PRUDENTIAL SECURITIES	1,433,300	80,159.00	0.0559
PUTNAM LOVELL THORNTON	26,900	1,345.00	0.0500
R W BAIRD	25,100	3,012.00	0.1200
RAGEN MACKENZIE	12,600	1,512.00	0.1200
RAYMOND JAMES & ASSOCIATES	3,585,066	208,821.30	0.0582
ROBERTSON STEPHENS	876,400	71,636.00	0.0817
ROBINSON HUMPHREY CO	9,500	1,140.00	0.1200
SALOMON SMITH BARNEY	4,164,336	268,163.80	0.0644
SANDLER O'NEILL	194,378	20,204.90	0.1039
SCHWAB CHARLES	7,300	876.00	0.1200
SPEAR LEED & KELLOGG	151,900	18,228.00	0.1200
STANDARD & POORS	621,000	27,780.00	0.0447
STERNE AGEE AND LEACH	800	96.00	0.1200
SUNTRUST EQUITABLE	25,000	3,000.00	0.1200
THOMAS WEISEL PARTNERS	171,600	17,260.00	0.1006
TUCKER CLEARY GULL	48,792	5,658.04	0.1160
U S BANCORP PIPER J	287,200	16,306.00	0.0568
WACHOVIA SECURITIES	1,632,010	81,600.50	0.0500
WARBURG DILLON READ	544,800	75,748.00	0.1390
WASSERSTEIN PERELLA	37,600	1,798.00	0.0478
WEEDEN	4,150,238	277,096.95	0.0668
WESTMINISTER RESEARCH	114,800	5,740.00	0.0500
WIT SOUNDVIEW TECH	58,400	7,008.00	0.1200
TOTAL	136,445,821	7,492,559.63	0.0549

Over-the-counter transactions and small capitalization stock transactions increase the overall average commission per share. The over-the-counter commission rate on medium to large capitalization stocks is assumed to be $.12 per share. Small capitalization stock transactions can have even higher rates. The acquisition of initial public offerings (IPOs) represented a significant portion of small capitalization stock purchases. IPOs usually have a high commission rate. However, the security issuers and not the investors pay the commissions. In 2000-01, the System bought small capitalization IPOs that generated $299,253.00 in commissions. Although these commissions were not paid by the Retirement System, they resulted from the System's investment activities and are included in the total commissions of $7,492,559.63. Medium to large capitalization stocks are bought and sold at significantly less expensive rates, frequently $.04 or $.05 per share. Investment companies usually provide investment research for brokerage clients. On occasion, investment companies direct third party research to active clients. The Retirement System received third party research through Merrill Lynch. Trading commissions of $427,179.79 were associated with third party research obligations. The primary research providers were: Bloomberg, Capital Management Science, Capital Resource Advisors, and Vestek.

Schedule of Investments
as of June 30, 2001

Investment		Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value
Repurchase Agreements		994,200,000.00	994,200,000.00	7.94
Total Short Term		994,200,000.00	994,200,000.00	7.94
Treasury Notes and Bonds		1,181,035,000.00	1,281,385,821.90	10.23
Agencies		1,094,406,192.68	1,093,595,775.84	8.73
GNMA (Single Family)		142,099,937.10	141,596,930.95	1.13
Collateralized Mortgage Obligations		33,922,078.00	34,248,166.19	0.27
Treasury Strip Bonds		216,170,080.00	151,296,520.65	1.21
Other Miscellaneous		32,887.02	0.00	0.00
Total U.S. Government Obligations		2,667,666,174.80	2,702,123,215.53	21.57
Industrials		614,874,497.76	614,686,874.12	4.91
Finance		908,623,959.36	919,982,508.18	7.35
Utility Bonds (Except Telephone)		112,050,000.00	107,019,033.50	0.85
Telephone Bonds		163,780,000.00	151,757,044.30	1.21
Railroad Obligations		107,000.00	106,399.73	0.00
Total Corporate Bonds		1,799,435,457.12	1,793,551,859.83	14.32
FHA & VA Single Family Mortgages		325,952.31	339,596.70	0.00
Project Mortgages (FHA & GNMA)		89,942,868.60	91,364,865.33	0.73
State and Local Government Issues		25,300,000.00	26,036,540.00	0.21
Total Other Fixed Income		115,568,820.91	117,741,002.03	0.94
Subtotal (Fixed Income)		5,576,870,452.83	5,607,616,077.39	44.77
Real Estate Equity		299,997,459.53	303,270,916.53	2.42
Total Real Estate Equity		299,997,459.53	303,270,916.53	2.42
Common Stocks	80,435,753 Shares	3,407,891,591.16	3,479,730,346.44	27.79
Small Cap Stocks	16,487,252 Shares	303,326,068.11	331,601,037.21	2.65
Stock Index	71,126,472 Shares	2,471,667,715.42	2,801,752,826.32	22.37
Total Stocks	168,049,477 Shares	6,182,885,374.69	6,613,084,209.97	52.81
Subtotal (Equity)		6,482,882,834.22	6,916,355,126.50	55.23
Total Investments		12,059,753,287.05	12,523,971,203.89	100.00

* In this asset display, par value represents the redemption value of bonds and the cost value of equities. Market value is a volatile measure that changes daily and represents the approximate transaction value of an investment on a particular day--in this case June 30, 2001. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.



Ted Crosthwait is named Executive Secretary at the retirement of James Sublett after 13 years with KTRS **1970**

Gary L. Harbin becomes associated with KTRS in auditing capacity **1975**

TED CROSTHWAIT

Executive Secretary
1970-1976

ACTUARIAL

BUCK CONSULTANTS
200 Galleria Parkway, N. W. Suite 1200
Atlanta, Georgia 30339

March 14, 2001

Board of Trustees
Teachers' Retirement System of the State of Kentucky
479 Versailles Road
Frankfort, Kentucky 40601-3800

Members of the Board:

Section 161.400 of the law governing the operation of the Teachers' Retirement System of the State of Kentucky provides that the actuary shall make an actuarial valuation of the System. We have submitted the results of the actuarial valuation prepared as of June 30, 2000. The valuation indicates that combined member and State contributions at the rate of 17.64% of university members' salaries and 20.60% of non-university members' salaries are sufficient to support the benefits of the System. We strongly recommend that the State statutory rates and the additional special appropriations be continued, with 0.75% being contributed to the Life Insurance Fund and 4.00% to the Medical Insurance Fund. While not verifying the data at source, the actuary performed tests for consistency and reasonability.

The valuation takes into account the effect of amendments to the System enacted through the 2000 Session of the Legislature and effective on the valuation date. Since the previous valuation, the System has been amended as follows: (1) a separate fund has been created for the life insurance benefit, which was previously part of the retirement System as a death benefit; (2) the System has been amended to allow the Board to allocate up to 3.25% of active members' salaries to the medical insurance fund; (3) the minimum annual retirement allowance has been increased from $310 per year of service to $325 per year of service effective July 1, 2000 and to $335 per year of service effective July 1, 2001; and (4) a one-time 0.8% cost-of-living increase was granted effective July 1, 2000 and a one-time 1.0% cost-of-living increase was granted effective July 1, 2001.

Since the previous valuation, the asset valuation method has been changed to a five year smoothed market related value of assets.

The financing objective of the System is that contribution rates will remain relatively level over time as a percentage of payroll. The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. Five-year market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 12-year period, on the assumption that payroll will increase by 4.0% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the trend information shown in the Schedule of Funding Progress in the Financial Section of the Annual Report and Schedules A, B, C, and D, Solvency Test and Analysis of Financial Experience shown in the Actuarial Section of the Annual Report.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

Respectfully submitted,

Edward A. Macdonald, ASA, MAAA, FCA
Principal and Consulting Actuary

Report of Actuary on the Valuation

Prepared as of June 30, 2000

Section I - Summary of Principal Results

1. For convenience of reference, the principal results of the valuation and a comparison with the results of the previous valuation are summarized below (all dollar amounts are $1,000's) :

Valuation Date	June 30, 2000		June 30, 1999	
Number of active members		53,002		51,983
Annual salaries	$	2,133,743	$	2,041,0463
Number of annuitants and beneficiaries		30,627		29,193
Annual allowances[1]	$	634,064	$	570,722
Assets				
Market value	$	12,817,111	$	12,473,948
Actuarial value	$	12,759,636	$	11,958,584
Unfunded actuarial accrued liability	$	570,782	$	329,647
Amortization period (years)		12		4

Contribution rates:	University	Non-University	University	Non-University
Pension Plan:				
Normal	13.86%	17.75%	13.77%	17.92%
Accrued liability[2]	3.78	2.85	6.05	4.86
Total	17.64%	20.60%	19.82%	22.78%
Member	7.625%	9.105%	7.625%	9.105%
State (ARC)	10.015	11.495	12.195	13.675
Total	17.64%	20.60%	19.82%	22.78%
Life Insurance Fund:				
State	0.75%	0.75%	N/A[3]%	N/A[3]%
Medical Insurance Fund:				
Member	0.75%	0.75%	0.75%	0.75%
State	4.00	4.00	2.40	2.40
Total	4.75%	4.75%	3.15%	3.15%
Total Contributions:				
Member Statutory	8.375%	9.855%	8.375%	9.855%
State Statutory	11.625	13.105	11.625	13.105
State Special[2]	3.14	3.14	2.97	2.97
Total	23.14%	26.10%	22.97%	25.93%

[1] *Includes cost-of-living adjustments effective through the valuation date.*

[2] *Includes special appropriation of $67,044,300 as of June 30, 2000 and $60,656,200 as of June 30, 1999 as a percentage of payroll.*

[3] *Death benefits included in Pension Plan as of June 30, 1999.*

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2. The valuation indicates that combined member and State contributions at the rate of 17.64% of salaries for university members and at 20.60% for non-university members are sufficient to support the benefits of the System. We strongly recommend that the State statutory rates and the additional special appropriations be continued, with 0.75% being contributed to the Life Insurance Fund and 4.00% to the Medical Insurance Fund. Comments on the valuation results as of June 30, 2000 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.

3. Schedule B of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. Since the previous valuation, the asset valuation method has been changed from a modified market value, which was calculated by multiplying the book value of assets by the average ratio of market to book value during the previous five year period, to a five year smoothed market related value of assets. The actuarial value of assets is developed in Schedule C.

4. The valuation takes into account the effect of amendments to the System enacted through the 2000 Session of the Legislature and effective on the valuation date. Since the previous valuation, the System has been amended as follows: (1) a separate fund has been created for the life insurance benefit, which was previously part of the retirement System as a death benefit; (2) the System has been amended to allow the Board to allocate up to 3.25% of active members' salaries to the medical insurance fund; (3) the minimum annual retirement allowance has been increased from $310 per year of service to $325 per year of service effective July 1, 2000 and to $335 per year of service effective July 1, 2001; and (4) a one-time 0.8% cost-of-living increase was granted effective July 1, 2000 and a one-time 1.0% cost-of-living increase was granted effective July 1, 2001. Provisions of the System which were taken into account in the current valuation are summarized in Schedule D.

Section II - MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuation were furnished by the Retirement System office. The following table shows the number of active members and their annual salaries as of June 30, 2000 on the basis of which the valuation was prepared.

Group	Number	Annual Salaries ($1,000)
Men	13,667	$ 616,044
Women	39,335	1,517699
Total	53,002	$ 2,133,743

The table reflects the active membership for whom complete valuation data was submitted. The results of the valuation were adjusted to take account of inactive members and members for whom incomplete data was submitted.

2. The following table shows the number and annual retirement allowances payable to annuitants and beneficiaries on the roll of the Retirement System as of the valuation date.

The Number and Annual Retirement Allowances of Annuitants and Beneficiaries on the Roll as of June 30, 2000

Group	Number	Annual Retirement Allowances[2] ($1,000)
Service Retirements	26,554	$ 578,106
Disability Retirements	1,608	30,075
Beneficiaries of Deceased Members[1]	2,024	23,685
Total	30,186	$ 631,866

[1] *In addition, there are 441 beneficiaries entitled to term-certain only annuities totaling $2,197,806 annually.*

[2] *Includes the annual 1.5% cost-of-living adjustment effective July 1, 2000, as well as one-time cost-of-living increases effective July 1, 1999 and July 1, 2000.*

3. Tables 1 and 2 of Schedule F (not shown in this report) give the distribution by age and by years of service of the number and annual salaries of active members included in the valuation, while Tables 3, 4 and 5 give the number and annual retirement allowances of annuitants and beneficiaries included in the valuation, distributed by age.

Section III - ASSETS

1. As of June 30, 2000, a five-year smoothed market related value of assets was used for valuation purposes.
2. As of June 30, 2000 the market value of assets for valuation purposes held by the System amounted to $12,817,111,178. This value excludes assets in the Medical Insurance Fund and the 403(b) Program Reserve Fund, which are not included in the assets used for valuation purposes.
3. The five-year market related value of assets used for valuation purposes as of June 30, 2000 was $12,759,635,558. Schedule C shows the development of the actuarial value of assets as of June 30, 2000.

Section IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation (amounts are $1,000's). The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule B.

2. The valuation shows that the System has an actuarial accrued liability of $6,146,994 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of benefits payable to annuitants and beneficiaries amounts to $7,010,230 of which $523,032 is for special appropriations remaining to be made toward funding minimum annuities and ad hoc increases granted after 1981. The liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is $173,194. The total actuarial accrued liability of the System amounts to $13,330,418. Against these liabilities, the System has present assets for valuation purposes of $12,759,636. When this amount is deducted from the actuarial accrued liability of $13,330,418, there remains $570,782 as the unfunded actuarial accrued liability.

3. The normal contribution rate is equal to the actuarial present value of benefits accruing during the current year divided by the annual active members' payroll. The normal contribution rate is determined to be 13.86% of payroll for university members and 17.75% for non-university members.

Section V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

1. Section 161.540 of the retirement law provides that each university member will contribute 8.375% of his annual salary to the System and each non-university member will contribute 9.855% of salary. Of this amount, 0.75% is paid to the Medical Insurance Fund for medical benefits leaving 7.625% for university members and 9.105% for non-university members applicable for the retirement benefits taken into account in the valuation.

2. Section 161.550 provides that the State will match the member contributions and contribute an additional 3.25% of members' salaries towards discharging the System's unfunded obligations. The System was amended as of June 30, 2000 to allow the Board to allocate up to a maximum of the entire 3.25% to the Medical Insurance Fund.

3. For pension Plan purposes, the employer net statutory contribution rate is, therefore, 7.625% of active university members' salaries and 9.105% for active non-university members. Of this amount, 0.75% of payroll will be allocated to the Life Insurance Fund. In addition, an appropriation of $67,044,300, or 3.14% of total payroll will be made by the State. The total employer contribution rate to the Pension Plan is, therefore, 10.015% for university members and 11.495% for non-university members. The total member and employer contribution rates to the Pension Plan are shown in the following table.

Total Contributin Rates to Pension Plan

Source	University	Non-University
Member	7.625 %	9.105 %
State	10.015	11.495
Total	17.64 %	20.60 %

4. The valuation indicates that normal contributions at the rate of 13.86% of active university members' salaries are required to meet the cost of benefits currently accruing. The normal rate for non-university members is 17.75%. The difference between the total contribution rate and the normal rate remains to be applied toward the liquidation of the unfunded actuarial accrued liability. This accrued liability rate is 3.78% for university members and 2.85% for non-university members. These rates include special appropriations of $67,044,300 or 3.14% of payroll to be made by the State for the fiscal year ending June 30, 2000. These rates are shown in the following table.

ACTUARIALLY DETERMINED CONTRIBUTION RATES

	PERCENTAGE OF ACTIVE MEMBERS' SALARIES	
Rate	**University**	**Non-University**
Normal	13.86 %	17.75 %
Accrued Liability*	3.78	2.85
Total	17.64 %	20.60 %

**Includes special appropriations of $67,044,300 or 3.14% of payroll to be made by the State for the fiscal year ending June 30, 2000.*

5. The unfunded actuarial accrued liability amounts to $570,782,000 as of the valuation date. Accrued liability contributions at the rate of 3.78% of active university members' payroll and 2.85% of non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over the 12 year period commencing June 30, 2000, based on the assumption that the payroll will increase by 4.0% annually.

Section VI - COMMENTS ON LEVEL OF FUNDING

1. The benefit percentage for non-university members is 2.0% for service accrued through July 1, 1983 and 2.5% for service accrued after that date. The total net contribution rate is 20.60% of payroll for these members. For university members the benefit percentage is 2.0% for all service and the contribution rate is 17.64%. Our calculations indicate that these contribution rates will be sufficient to cover the basic benefits of the System, the annual 1.5% increases in the allowances of retired members and beneficiaries, and the liabilities for minimum annuities, ad hoc increases and sick leave allowances granted after 1981.
2. The valuation indicates that the present statutory contribution rates and special appropriations are sufficient to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a reasonable period of time. The net effect of the System experience, amendments and the change in asset method has produced an increase in the funding period for the unfunded actuarial accrued liability from 4 years to 12 years.
3. The System has been operating on an actuarially sound basis. However, there are no excess assets or contributions available to provide additional benefits. Any further benefit improvements should be accompanied by the additional contributions necessary to support the benefits.

Section VII - ANALYSIS OF FINANCIAL EXPERIENCE

The following table shows the estimated gain or loss from various factors that resulted in an increase of $241,135,000 in the unfunded accrued liability from $329,647,000 to $570,782,000 during the year ending June 30, 2000.

(Dollar amounts in thousands)

ITEM	Amount of Increase/ (Decrease)
Interest (7.50%) added to previous unfunded accrued liability	$24,724
Accrued liability contribution	(84,696)
Experience:	
Valuation asset growth	(650,652)
Pensioners' mortality	24,495
Turnover and retirements	192,834
New entrants	12,555
Salary Increases	55,996
Method changes	636,232
Amendments	29,597
Assumption changes	0
TOTAL	$ 241,135

Section VIII - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 25 and 27 set forth certain items of required supplementary information to be disclosed in the financial statements of the System and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

Number of Active and Retired Members as of June 30, 2000

GROUP	NUMBER
Retirees and Beneficiaries currently receiving benefits	30,627
Terminated employees entitled to benefits but not yet receiving benefits	5,172
Active Plan Members:	53,002
TOTAL	**88,801**

2. Another such item is the schedule of funding progress as shown below.

Schedule of Funding Progress (Dollar amount in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL as a Percentage of Covered Payroll ((b-a) /c)
06/30/91	$ 4,259,123	5,852,915	1,593,792	72.8%	1,522,497	104.7
06/30/92	4,808,670	6,649,716	1,841,046	72.3	1,669,228	110.3
06/30/93	5,454,581	7,173,717	1,719,136	76.0	1,696,901	101.3
06/30/94	6,006,636	7,779,919	1,773,283	77.2	1,748,141	101.4
06/30/95	6,621,235	8,438,218	1,816,983	78.5	1,819,778	99.8
06/30/96	7,624,699	9,178,577	1,553,878	83.1	1,877,888	82.7
06/30/97	8,789,911	9,906,260	1,116,349	88.7	1,925,047	58.0
06/30/98*	10,370,595	11,516,619	1,146,024	90.0	1,973,749	58.1
06/30/99	11,958,584	12,288,231	329,647	97.3	2,041,463	16.1
06/30/00**	12,759,636	13,330,418	570,782	95.7	2,133,743	26.8

* *Reflects changes in actuarial assumptions and System amendments.*
** *Reflects change in asset valuation method and System amendments.*

3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2000. Additional information as of the latest actuarial valuation follows.

Valuation Date	06/30/2000
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	12 years
Asset valuation method	5-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return*	7.50%
Projected Salary Increases*	4.00 - 8.10%
Cost-of-Living Adjustment	1.50% Annually
*Includes Inflation at	4.00%

TREND INFORMATION

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
June 30, 1998	$294,323,253	100%	$0
June 30, 1999	$288,543,990	100%	$0
June 30, 2000	$ 311,286,811	100%	$0

SCHEDULE A

Results of the Valuation
Prepared as of June 30, 2000
($1,000)

1. ACTUARIAL ACCRUED LIABILITY

Present value of prospective benefits payable in respect:

(a) Present active members:		
• Service retirement benefits	$ 5,821,325	
• Disability retirement benefits	174,084	
• Death and survivor benefits	60,984	
• Refunds of member contributions	90,601	
Total		$ 6,146,994
(b) Present inactive members and members entitled to deferred vested benefits:		173,194
(c) Present annuitants and beneficiaries		
• Service retirement benefits	$ 6,527,193	
• Disability retirement benefits	252,442	
• Death and survivor benefits	230,595	
Total		7,010,230
(d) Total actuarial accrued liability		$ 13,330,418
2. PRESENT ASSETS FOR VALUATION PURPOSES		12,759,636
3. Unfunded Actuarial Accrued Liability [(1) MINUS (2)]		$570,782

4. NORMAL CONTRIBUTION RATE

	UNIVERSITY	NON-UNIVERSITY
(a) Actuarial present value of benefits accruing annually	$ 19,896	$ 353,275
(b) Annual payroll of active members	143,558	1,990,185
(c) Normal contribution rate [4(a) divided by 4(b)]	13.86%	17.75%

SCHEDULE B

Outline of Actuarial Assumptions and Methods

Investment Rate of Return: 7.5% per annum, compounded annually.

Salary Increases: : Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.0% per annum:

Age	20	25	30	35	40	45	50	55	60	65
Annual Rate	8.10%	7.20%	6.20%	5.50%	5.00%	4.70%	4.50%	4.30%	4.20%	4.00%

Separations From Service: : Representative values of the assumed annual rates of death, disability, withdrawal, service retirement and early retirement are as follows:

MEN: Annual Rate of . . .

AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
20	.005 %	.01 %	7.16%		
25	.014	.01	7.45		
30	.023	.01	6.46		
35	.046	.05	4.49		
40	.068	.07	3.11		
45	.091	.10	2.12		
50	.149	.29	1.58	10.00%	
55	.308	1.20		17.00	4.00%
60	.535	.05		20.00	
62	.626	.03		27.00	
65	.808			45.00	
70				100.00	

** It is also assumed that an additional 15% of men will retire in their first year of eligibility if before age 60.*

WOMEN: Annual Rate of . . .					
AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
20	.004%	.01%	5.66%		
25	.008	.01	6.84		
30	.022	.01	6.30		
35	.035	.04	4.08		
40	.056	.09	2.61		
45	.065	.18	1.92		
50	.078	.29	1.57	10.00%	
55	.100	.60		17.00	5.00%
60	.143	.25		20.00	
62	.161	.06		22.00	
65	.187			35.00	
70				100.00	

** It is also assumed that an additional 20% of women will retire in their first year of eligibility if before age 60.*

Deaths After Retirement: Representative values of the assumed annual rates of death after service and disability retirement are as follows:

Annual Rate of Death After . . .

	Service Retirement		Disability Retirement	
Age	MEN	WOMEN	MEN	WOMEN
40	.1%	.1%	5.1%	4.5%
50	.4	.2	5.1	4.5
55	.6	.2	5.1	4.5
60	1.1	.4	5.1	4.5
65	1.9	.7	5.1	4.5
70	3.1	1.4	5.1	4.5
75	4.6	2.6	5.1	4.5
80	7.0	4.4	7.8	5.5
85	11.0	7.5	12.3	9.4
90	16.8	12.8	19.1	15.9
95	23.2	21.1	29.2	26.2

Actuarial Method: Unit Credit Actuarial Cost Method with projected benefits. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

Assets: Five-year market related actuarial value, as developed in Schedule C. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return. The amount recognized each year is 20% of the difference between market value and expected actuarial value. Prior to the June 30, 2000 valuation, modified market value was used. This value was calculated by multiplying the book value of assets available for valuation purposes by the average ratio of market to book value during the five years ending on the valuation date.

Expense Load: None

Percent Married: 100%, with females 3 years younger than males.

SCHEDULE C

Development of June 30, 2000
Actuarial Value of Assets

1.	Actuarial Value of Assets on June 30, 1999	$ 11,958,584,375
2.	1999/2000 Net Cash Flow	
	a. Contributions	514,436,092
	b. Disbursements	620,664,381
	c. Net Cash Flow (2)a - (2)b	(106,228,289)
3.	Expected Investment Return [(1) x .075] + [(2)c x .0375]	892,910,567
4.	Expected Actuarial Value of Assets on June 30, 2000 (1) + (2) c + (3)	12,745,266,653
5.	Market Value of Assets on June 30, 2000	12,817,111,178
6.	Excess of Market Value over Expected Actuarial Value (5) - (4)	71,844,525
7.	20% Adjustment towards Market Value .20 x (6)	14,368,905
8.	Actuarial Value of Assets on June 30, 2000 (4) + (7)	$ 12,759,635,558

SCHEDULE D

Summary of Main System Provisions As Interpreted for Valuation Purposes

The Teachers' Retirement System of the State of Kentucky was established on July 1, 1940. The valuation took into account amendments to the System effective through June 30, 2000. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

DEFINITIONS

"Final average salary" means the average of the five highest annual salaries which the member has received for service in a covered position and on which the member has made contributions or on which the public board, institution or agency has picked up the member contributions. For a member who retires after attaining age 55 with 27 years of service, "final average salary" means the average of the three highest annual salaries.

BENEFITS

Service Retirement Allowance

Condition for Allowance: Completion of 27 years of service or attainment of age 55 and 5 years of service.

Amount of Allowance: The annual retirement allowance equals the sum of:

(a) 2% of final average salary multiplied by service after July 1, 1941, plus

(b) $100 multiplied by credited service prior to July 1, 1941.

For service after July 1, 1983, the annual allowance for non-university members is 2.5% of final average salary.

The annual allowance is reduced by actuarial equivalent factors from the earlier of age 60 or the date the member would have completed 27 years of service

The minimum annual service retirement allowance is the greater of:

(a) $325.00 multiplied by credited service, or

(b) For a member who has attained age 60 at retirement, $900.00.

Disability Retirement Allowance

Condition for Allowance: Totally and permanently incapable of being employed as a teacher and under age 60 but after completing 5 years of service.

Amount of Allowance: The disability allowance is equal to the greater of the service retirement allowance or 60% of the member's final average salary. The disability allowance is payable over an entitlement period equal to 25% of the service credited to the member at the date of disability or five years, whichever is longer. After the disability entitlement period has expired and if the member remains disabled, he will be retired under service retirement. The service retirement allowance will be computed with service credit given for the period of disability retirement. The allowance will not be less than $6,000 per year. The service retirement allowance will not be reduced for commencement of the allowance before age 60 or the completion of 27 years of service.

Benefits Payable on Separation from Service

Any member who ceases to be in service is entitled to receive his contributions with allowable interest. A member who has completed 5 years of creditable service and leaves his contributions with the System may be continued in the membership of the System after separation from service, and file application for service retirement after the attainment of age 60.

Death Benefits

A separate Life Insurance fund has been created as of June 30, 2000 to pay benefits on behalf of deceased KTRS active and retired members.

Options: In lieu of the regular Option 1, a retirement allowance payable in the form of a life annuity with refundable balance, any member before retirement may elect to receive a reduced allowance which is actuarially equivalent to the full allowance, in one of the following forms:

Option 2. A single life annuity payable during the member's lifetime with payments for 10 years certain.

Option 3. At the death of the member his allowance is continued throughout the life of his beneficiary.

Option 3(a). At the death of the beneficiary designated by the member under Option 3, the member's benefit will revert to what would have been paid had he not selected an option.

Option 4. At the death of the member one half of his allowance is continued throughout the life of his beneficiary.

Option 4(a). At the death of the beneficiary designated by the member under Option 4, the member's benefit will revert to what would have been paid had he not selected an option.

Post-Retirement Adjustments

The retirement allowance of each retired member and of each beneficiary shall be increased by 1-1/2% each July 1.

CONTRIBUTIONS

Member Contributions

University members contribute 8.375% of salary of which 7.625% is contributed to the Retirement System and 0.75% is contributed to the Medical Insurance Fund. Non-university members contribute 9.855% of salary of which 9.105% is contributed to the Retirement System and 0.75% is contributed to the Medical Insurance Fund. Member contributions are picked up by the employer.

Solvency Test

(in millions of dollars)

Aggregate Accrued Liabilities For

Fiscal Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets
1995	$ 1,691.7	$ 3,281.5	$ 3,236.8	$ 6,621.2
1996	1,805.3	4,018.2	3,355.0	7,624.7
1997	1,893.5	4,575.5	3,437.3	8,789.9
1998	1,967.2	5,680.4	3,869.0	10,370.6
1999	2,051.1	6,291.7	3,945.4	11,958.6
2000	2,128.4	7,183.4	4,018.6	12,759.6

	Fiscal Year	(1)	(2)	(3)
Portion of	1995	100 %	100 %	51 %
Accrued	1996	100	100	54
Liabilities	1997	100	100	68
Covered	1998	100	100	70
by	1999	100	100	92
Assets	2000	100	100	86

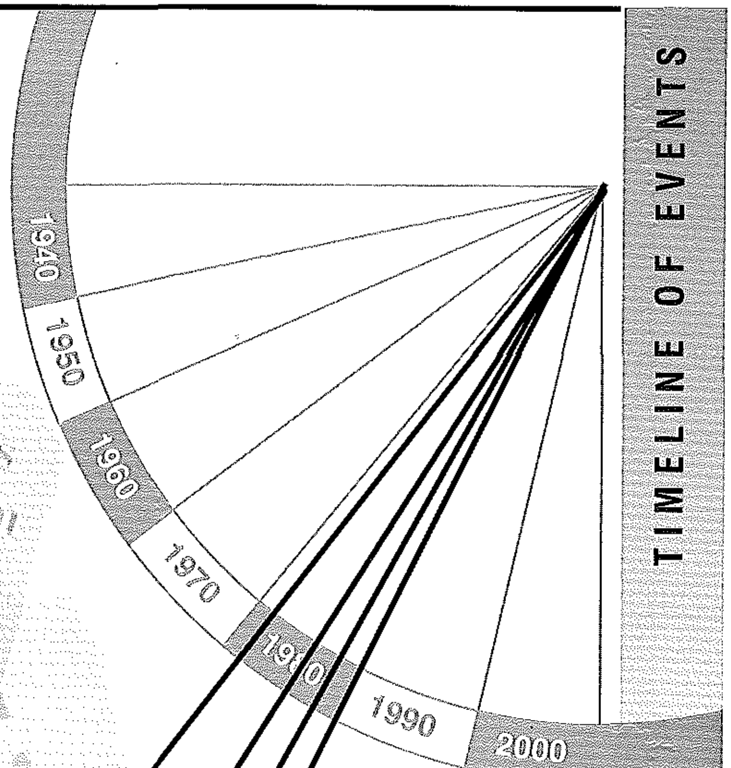
Schedule of Active Member Valuation Data

Fiscal Year	(1) Number of Active Members	(2) Total Annual Payroll	(3) Average Annual Pay	(4) % Increase (Decrease) in Average Pay
1995	50,903	1,819,778,000	$ 35,750	2.8 %
1996	51,429	1,877,888,000	36,514	2.1
1997	51,297	1,925,047,000	37,527	2.8
1998	51,677	1,973,749,000	38,194	1.8
1999	51,983	2,041,463,000	39,272	2.8
2000	53,002	2,133,743,000	40,258	2.5

Schedule of Retirants, Beneficiaries and Survivors Added to and Removed from Rolls

	Add to Rolls		Remove from Rolls		Rolls End-of-Year	
Fiscal Year	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)
1995	1,973	$ 49.2	903	$ 10.1	23,934	$350.9
1996	1,910	50.1	967	11.4	24,877	389.5
1997	2,383	62.9	976	11.6	26,284	440.8
1998	2,500	66.7	1,040	13.4	27,744	494.1
1999	2,415	73.9	998	13.9	29,161	554.0
2000	2,462	79.2	1,008	14.1	30,615	619.2

Fiscal Year	% Increase in Annual Allowances	Average Annual Allowances
1995	12.6	$ 14,659
1996	11.0	15,658
1997	13.2	16,771
1998	12.1	17,809
1999	12.1	19,000
2000	11.8	20,226

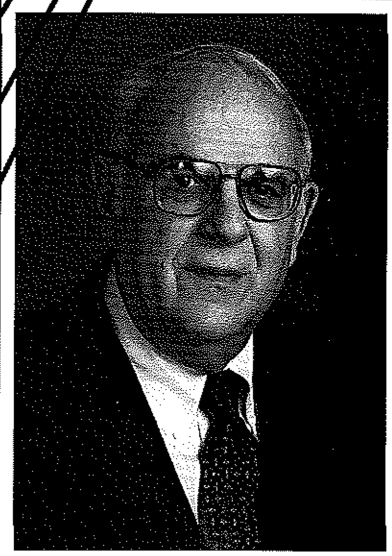


Pat N. Miller is named Executive Secretary at the retirement of Ted Crosthwait after 6 years with KTRS **1976**

Full benefits at any age with 30 years of service **1978**

The "high three" for eligible retirees at age 55 **1998**

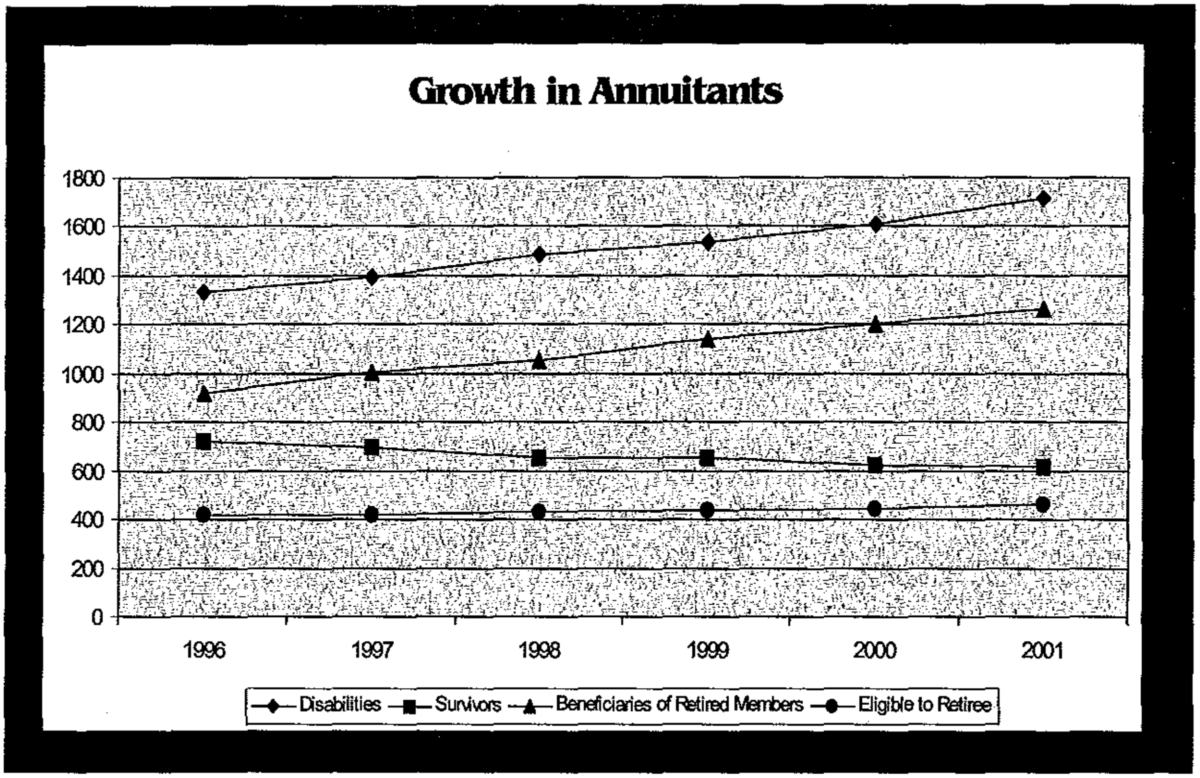
Gary L. Harbin is named Executive Secretary at the retirement of Pat N. Miller after 32 years with KTRS **2000**

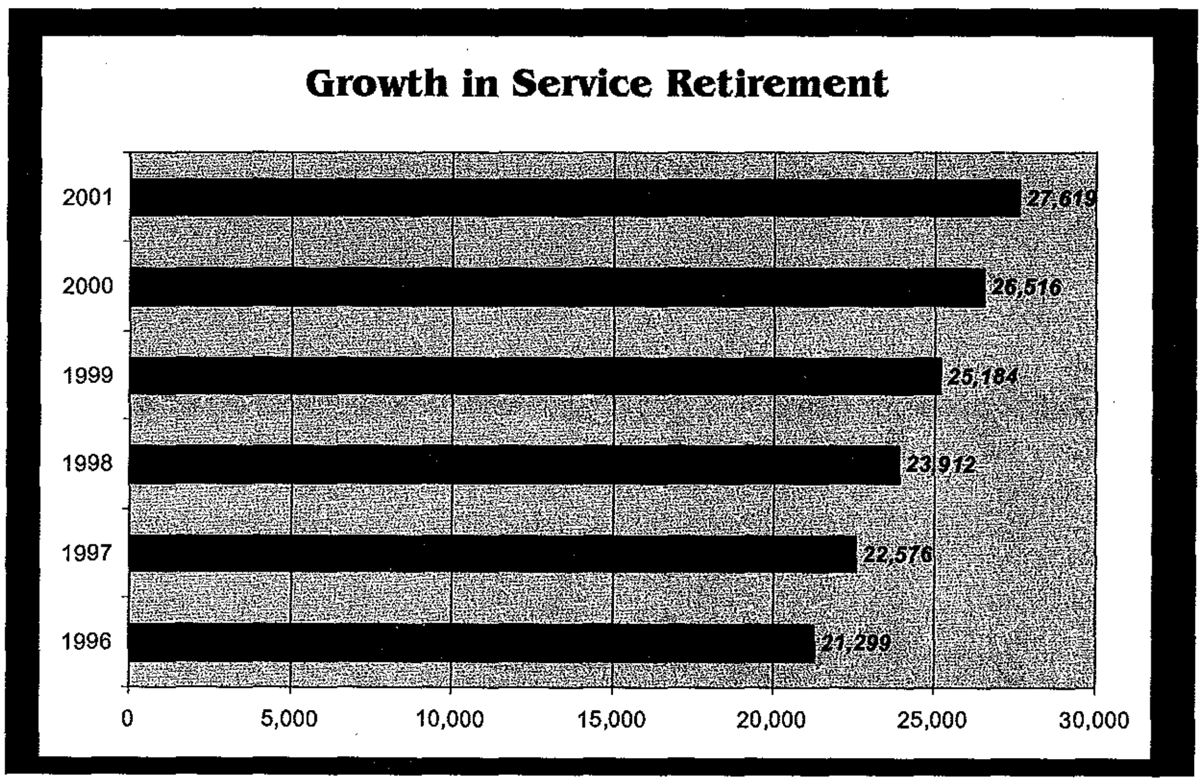


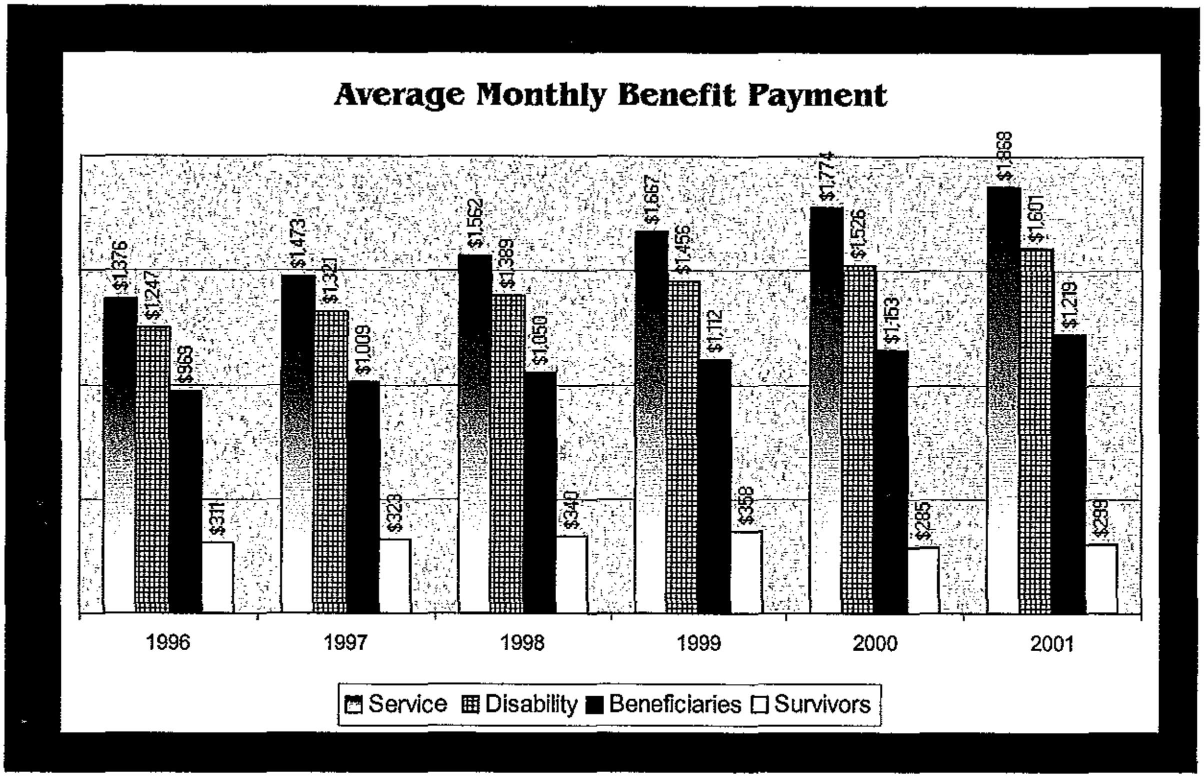
PAT N. MILLER

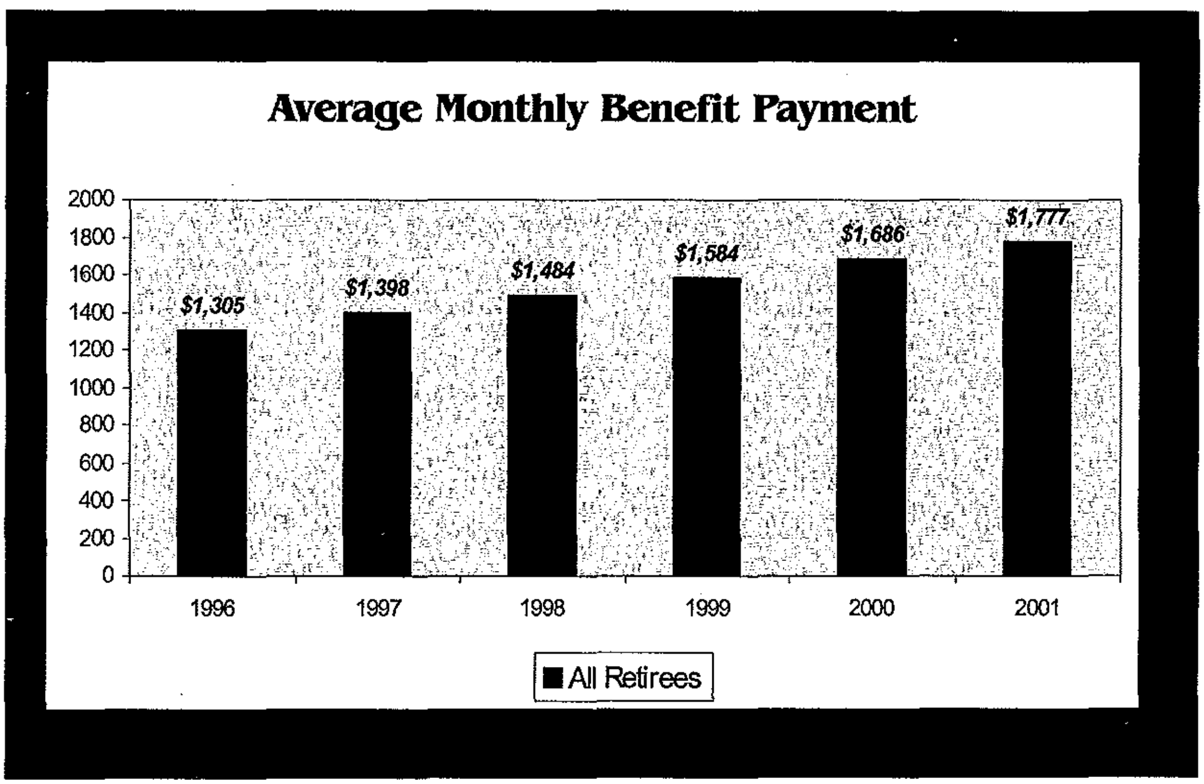
Executive Secretary
1976-2000

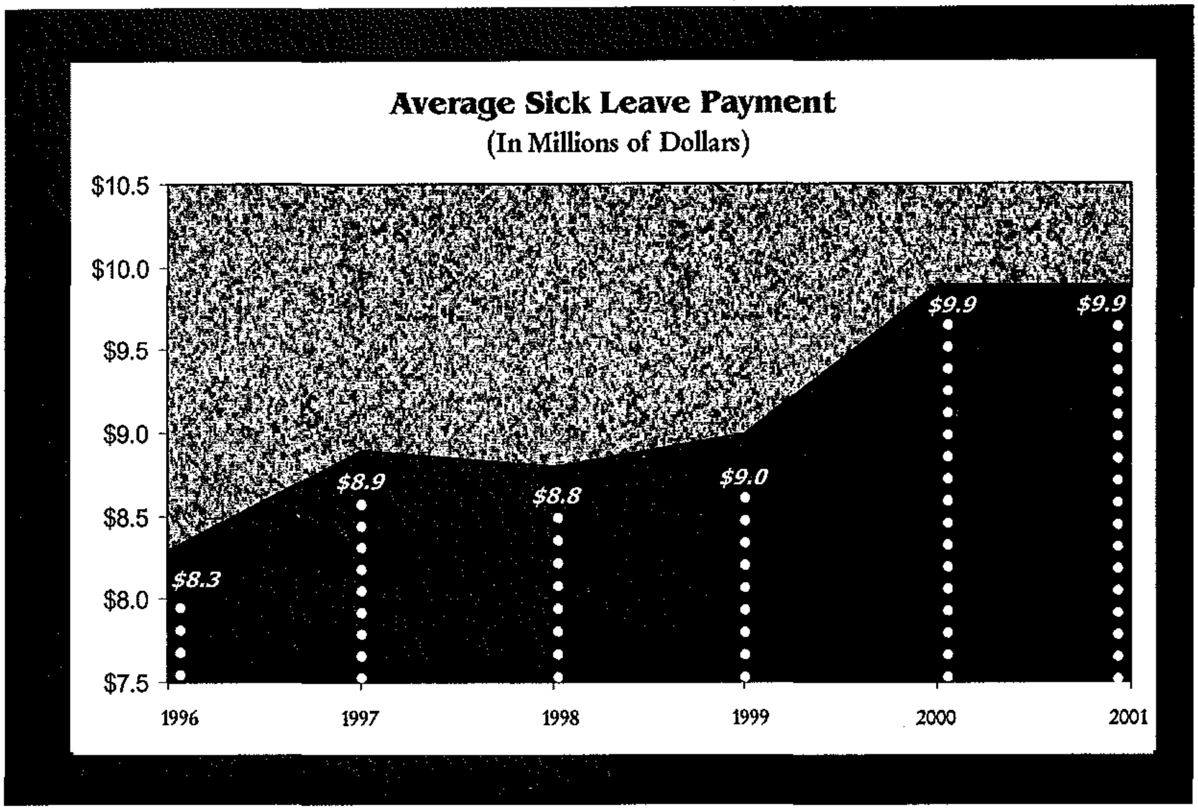
STATISTICAL

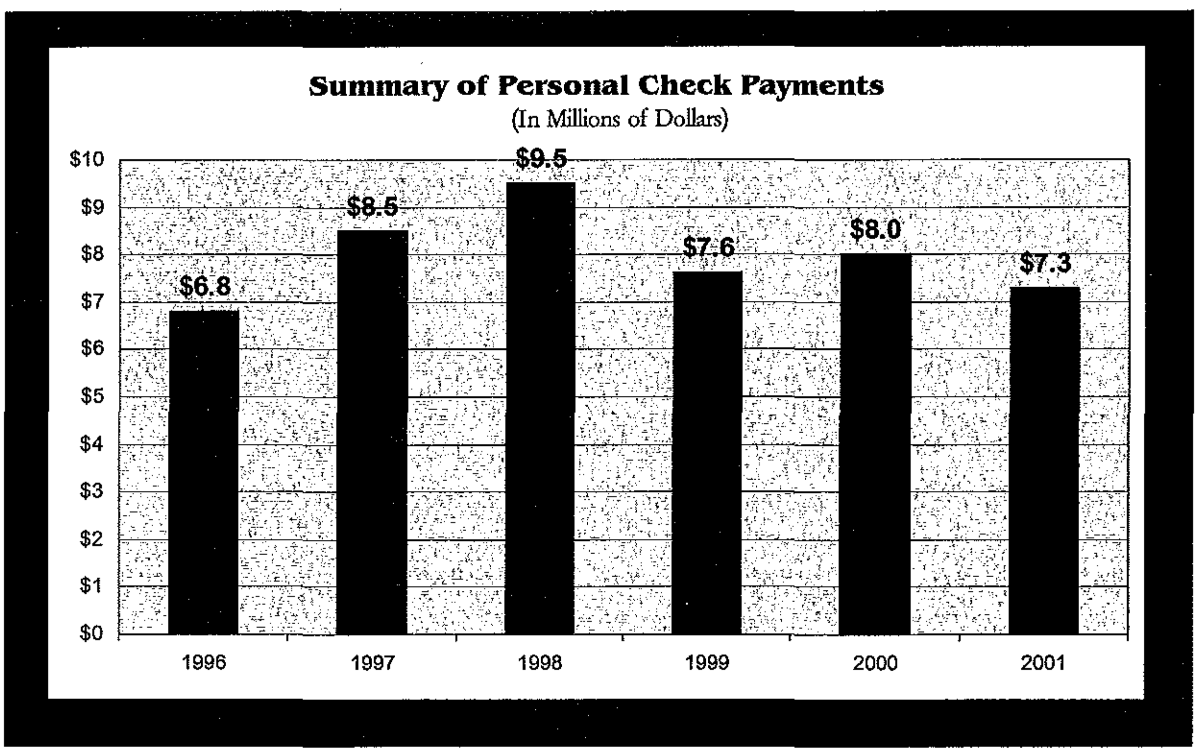

Growth in Annuitants
1800
1600
1400
1200
1000
800
600
400
200
0
1996
1997
1998
1999
2000
2001
Disabilities
Survivors
Beneficiaries of Retired Members
Eligible to Retiree

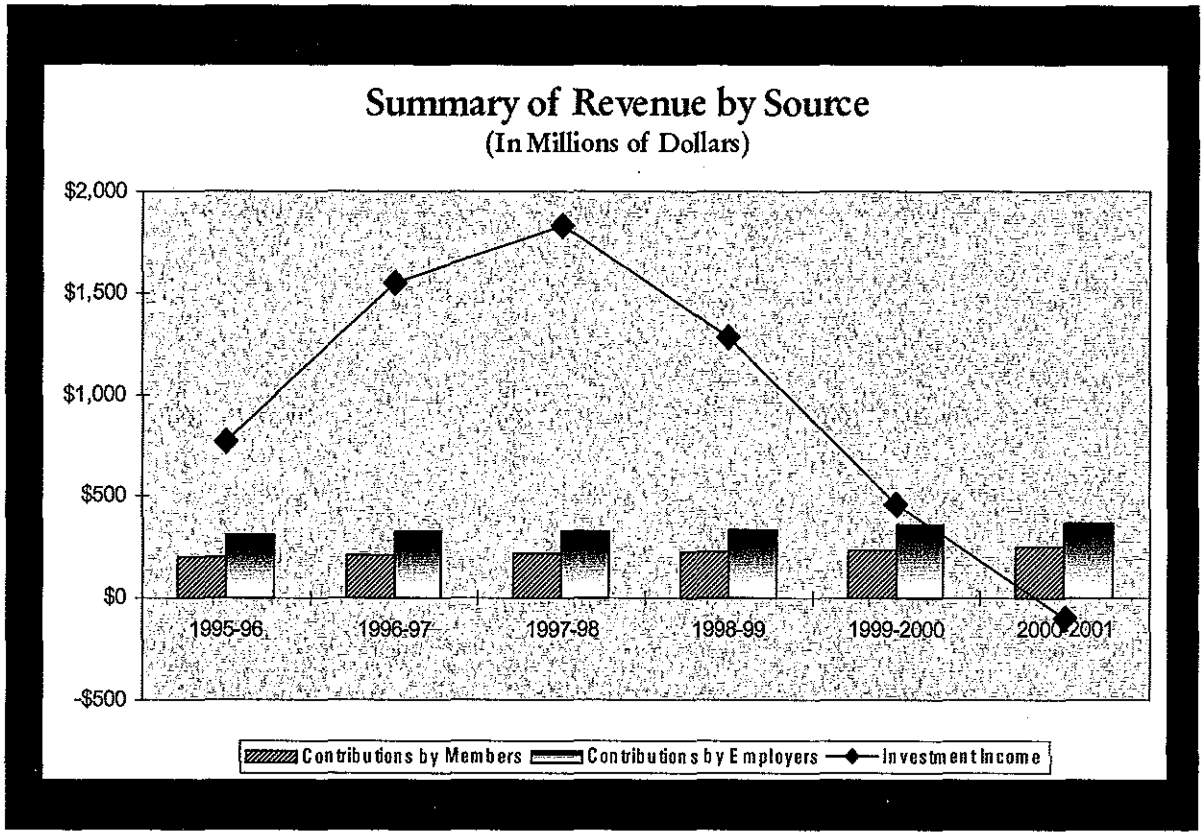

Growth in Service Retirement
2001
2000
1999
1998
1997
1996
27,619
26,516
25,184
23,912
22,576
21,299
0
5,000
10,000
15,000
20,000
25,000
30,000


Average Monthly Benefit Payment
$1,376
$1,247
$963
$311
$1,473
$1,321
$1,009
$323
$1,562
$1,389
$1,050
$340
$1,667
$1,455
$1,112
$358
$1,774
$1,526
$1,153
$285
$1,868
$1,601
$1,219
$299
1996
1997
1998
1999
2000
2001
Service
Disability
Beneficiaries
Survivors


Average Monthly Benefit Payment
2000
1800
1600
1400
1200
1000
800
600
400
200
0
$1,305
$1,398
$1,484
$1,584
$1,686
$1,777
1996
1997
1998
1999
2000
2001
All Retirees


Average Sick Leave Payment
(In Millions of Dollars)
$10.5
$10.0
$9.5
$9.0
$8.5
$8.0
$7.5
$8.3
$8.9
$8.8
$9.0
$9.9
$9.9
1996
1997
1998
1999
2000
2001

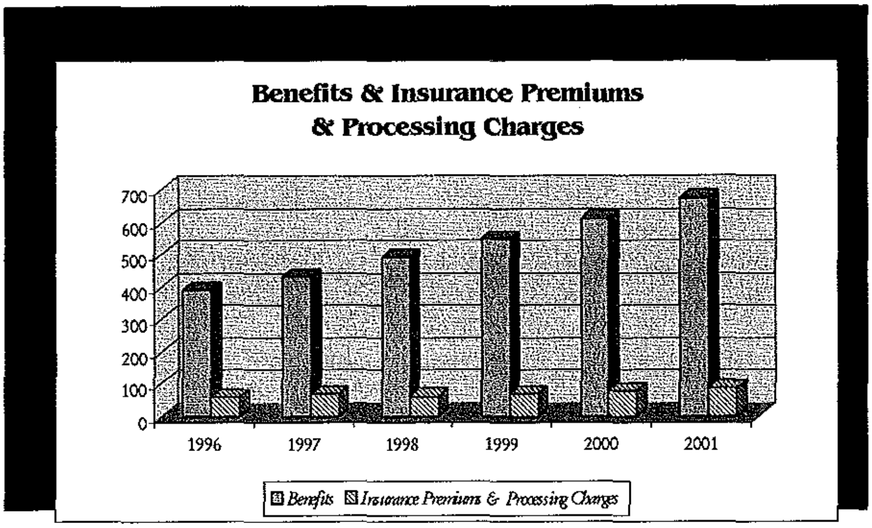

Summary of Personal Check Payments
(In Millions of Dollars)
$10
$9
$8
$7
$6
$5
$4
$3
$2
$1
$0
$6.8
$8.5
$9.5
$7.6
$8.0
$7.3
1996
1997
1998
1999
2000
2001

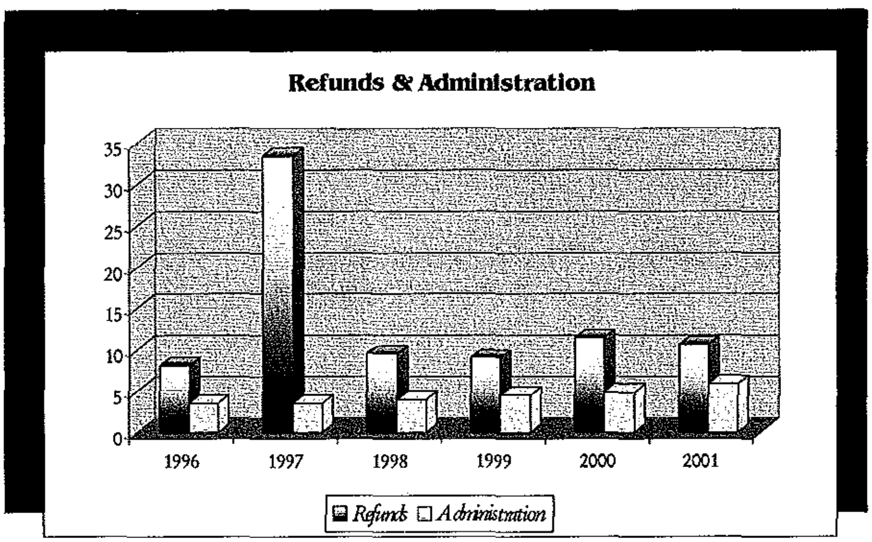


Summary of Revenue by Source

YEAR	CONTRIBUTIONS BY MEMBERS	CONTRIBUTIONS BY EMPLOYERS Dollars	CONTRIBUTIONS BY EMPLOYERS % of Covered Payroll	INVESTMENT INCOME	TOTAL
1995-96	$ 201,890,485	$ 307,111,462	16.35 %	$ 772,668,343	$ 1,281,670,290
1996-97	212,571,963	328,607,418	17.07	1,546,473,337	2,087,652,718
1997-98	218,147,253	329,493,235	16.85	1,833,833,069	2,381,473,557
1998-99	229,327,245	334,712,004	16.40	1,277,114,068	1,841,153,317
1999-00	239,542,127	360,233,457	16.88	458,000,877	1,057,776,461
2000-01	248,720,484	372,537,868	16.83	(99,579,273)	521,679,079

Summary of Expenses by Type
(In Millions of Dollars)





YEAR	BENEFITS	INSURANCE PREMIUMS & PROCESSING CHARGES	REFUNDS	ADMINISTRATION
1995-96	$ 388,760,547	$ 61,607,051	$ 8,418,031	$ 3,575,187
1996-97	431,597,292	67,962,768	33,319,583	3,487,717
1997-98	491,442,664	62,586,420	9,525,548	3,997,314
1998-99	547,385,965	70,354,071	9,089,605	4,522,908
1999-00	609,422,333	80,363,492	11,438,790	4,859,623
2000-01	674,042,865	88,155,912	10,679,136	5,950,036

Schedule of Benefit Expenses by Type

Year Ended	Service Retirants	Disability Retirants	Survivors	Life Insurance	Refunds
June 30, 1992	$ 232,027,180	$ 11,896,196	$ 5,770,289	$ 1,627,527	$ 6,516,430
June 30, 1993	260,267,306	13,557,546	6,379,427	1,848,216	6,714,014
June 30, 1994	286,963,990	15,188,244	6,962,111	2,085,691	6,690,665
June 30, 1995	321,855,622	17,328,942	7,483,006	1,898,670	8,528,796
June 30, 1996	359,085,382	19,661,323	7,834,903	2,178,939	8,418,031
June 30, 1997	399,493,437	21,775,003	8,204,891	2,123,959	33,319,583*
June 30, 1998	456,467,869	24,305,495	8,375,394	2,293,906	9,525,548
June 30, 1999	509,873,252	26,464,287	8,718,626	2,329,800	9,089,605
June 30, 2000	568,598,419	29,148,420	9,322,582	2,350,600	11,438,790
June 30, 2001	627,693,740	32,233,070	10,005,656	4,110,400	10,679,136

* Includes benefit and refund expenses of the tax-sheltered annuity plan.

Summary of State Match and Supplemental Appropriations for Member Contributions to Teachers' Retirement System

Fiscal Year	Total Member Contributions	Employer/ Federal Payments	Required State Match Contributions	Required Supplemental Appropriation	Required Sick Leave Payments	Total State Appropriation	(Deficit) Surplus State Funding
1944-48	3,184,178		3,184,178			3,039,017	(145,160)
1948-52	4,951,458		4,951,458			5,090,848	(139,390)
1952-56	7,267,163		7,267,163			6,494,102	(773,062)
1956-60	14,970,961		14,970,961			14,963,272	(7,689)
1960-64	25,945,897		25,945,897			25,938,763	(7,134)
1964-68	49,957,299	2,042,014	47,915,285			45,317,694	(2,597,591)
1968-72	82,922,869	6,044,865	76,878,005			80,091,951	3,213,946
1972-76	120,349,350	8,019,216	112,330,134			111,665,685	(664,449)
1976-80	189,072,371	12,044,186	177,028,185	75,010,028		256,784,030	4,745,817
1980-84	272,744,772	16,334,937	256,409,836	109,622,111	5,197,234	378,667,011	7,437,831
1984-88	413,932,416	21,417,604	392,514,811	141,251,827	13,341,243	515,932,177	(31,175,706)
1988-92	602,399,432	119,352,211	483,347,221	133,545,987	28,978,117	634,358,200	(11,537,557)
1992-96	756,817,769	154,296,351(2)	602,521,418	213,030,177	53,308,591	854,138,311	(14,751,875)
1996-97	206,462,720	41,264,724	165,197,996	58,543,960	24,728,591	243,977,468	(4,493,079)
1997-98	211,161,650	41,757,997	169,403,653	59,838,776	18,480,413	253,962,432	6,239,590
1998-99	217,872,677	42,658,177	175,214,500	61,828,816	see (1)	240,946,421	3,903,105
1999-00	228,456,973	45,356,991	183,099,982	65,189,042		251,615,023	3,325,999
2000-01	232,984,317	43,818,800	189,165,517	67,154,519		255,140,180	(1,179,856)

(1) The state under-appropriation at June 30, 2001 is $1,179,856. The state appropriations for the 2000-2001 year's sick leave deficit will be amortized over a 15-year period. The sick leave deficit is not included in the 2000-2001 under-appropriation calculation.

(2) Beginning with the 1988-89 fiscal year, the Department of Education and the state universities were responsible for matching their members' contributions with the state reimbursing the respective agencies in their normal budget appropriation.

Summary of Fiscal Year 2000-2001 Retiree Sick Leave Payments

ACTUARIAL RATE

Grand Total Members Retiring		2,060
Total members receiving sick leave payments		1,551
Total amount of sick leave payments @ 9.855% contribution rate	$	15,381,004.46
Average payment per retiree	$	9,916.83
Total increase in final average salary base	$	3,986,696.03
Average increase in FAS	$	2,570.40
Total service credit of retirees		42,400.58
Average service credit of retirees		27.34
AVERAGE YEARLY ANNUITY	$	1,636.83
AVERAGE MONTHLY ANNUITY	$	136.40
ANTICIPATED LIFETIME PAYOUT OF ADDITIONAL ANNUITY	$	31,958,386.76

Funding of Additional Payout

Member contributions 9.855% x Sick Leave Payment	$	1,515,797.99
State Contributions 13.105% x Sick Leave Payment		2,015,680.63
TOTAL Member-State Contributions	$	3,531,478.62
DEFICIT		
Anticipated additional payout	$	31,958,386.76
Less total member & state contributions		3,531,478.62
Subtotal unfunded debt		28,426,908.14
Less current year appropriations	$	3,698,800.00
TOTAL DEFICIT	**$**	**24,728,108.14 ***

* The sick leave deficit for June 30, 2001 will be amortized over a fifteen year period.

Distribution of Retirement Payments Worldwide

As of June 30, 2001

95	Alabama
5	Alaska
61	Arizona
23	Arkansas
78	California
39	Colorado
6	Connecticut
7	Delaware
1	District of Columbia
701	Florida
129	Georgia
2	Hawaii
4	Idaho
69	Illinois
361	Indiana
9	Iowa
20	Kansas
20	Louisiana
9	Maine
20	Maryland
11	Massachusetts
27	Michigan
12	Minnesota
40	Mississippi
45	Missouri
5	Montana
4	Nebraska
14	Nevada
3	New Hampshire
10	New Jersey
11	New Mexico
31	New York
131	North Carolina
3	North Dakota
387	Ohio
16	Oklahoma
17	Oregon
25	Pennsylvania
0	Rhode Island
60	South Carolina
0	South Dakota
480	Tennessee
113	Texas
11	Utah
3	Vermont
90	Virginia
17	Washington
58	West Virginia
8	Wisconsin
1	Wyoming

Additional Distribution Outside USA

4	CANADA
2	MILITARY APO
1	SWITZERLAND
2	MEXICO
1	PHILIPPINES
1	TURKEY

TOTAL: Out of State 3,303
TOTAL: Out of State Payments $47,961,307
TOTAL: Number of Payments 33,118
GRAND TOTAL: Amount of Payments $669,877,705

Distribution of Retirement Payments Statewide

as of June 30, 2001

County Name		Total Payments	Number of Recipients
Adair	$	3,109,637	166
Allen		2,614,051	123
Anderson		2,250,459	114
Ballard		1,404,095	67
Barren		6,014,868	300
Bath		1,943,403	103
Bell		6,337,229	331
Boone		10,725,871	464
Bourbon		2,944,741	146
Boyd		8,520,481	410
Boyle		5,004,764	252
Bracken		997,886	51
Breathitt		3,776,812	190
Breckinridge		2,366,139	115
Bullitt		6,086,562	257
Butler		1,421,348	78
Caldwell		2,213,861	116
Calloway		9,323,474	446
Campbell		9,106,737	417
Carlisle		647,221	37
Carroll		1,136,486	57
Carter		4,863,731	247
Casey		2,340,387	131
Christian		7,237,874	357
Clark		4,206,606	208
Clay		4,487,331	239
Clinton		2,174,776	104
Crittenden		889,983	47
Cumberland		1,199,268	61
Daviess		15,488,399	734
Edmonson		1,167,643	61
Elliott		923,503	54
Estill		1,722,901	94
Fayette		37,243,436	1,719
Fleming		2,009,957	104
Floyd		9,675,551	475
Franklin		10,663,693	608
Fulton		1,136,100	58
Gallatin		333,762	19
Garrard		2,127,356	106
Grant		2,251,238	105

Distribution of Retirement Payments Statewide

as of *June 30, 2001 continued . . .*

County Name	Total Payments	Number of Recipients
Graves	4,749,518	234
Grayson	3,563,381	178
Green	2,009,417	103
Greenup	5,823,070	278
Hancock	1,208,179	56
Hardin	10,586,189	486
Harlan	7,032,486	336
Harrison	2,825,686	146
Hart	2,166,855	103
Henderson	6,016,002	279
Henry	2,598,699	134
Hickman	441,921	28
Hopkins	7,017,428	337
Jackson	1,916,604	111
Jefferson	100,996,133	4,386
Jessamine	3,921,171	190
Johnson	5,395,146	257
Kenton	11,863,707	552
Knott	3,540,686	186
Knox	4,237,142	210
Larue	2,409,553	104
Laurel	7,257,750	381
Lawrence	1,840,622	99
Lee	1,228,987	72
Leslie	2,357,446	126
Letcher	6,169,782	295
Lewis	3,034,772	148
Lincoln	4,331,420	204
Livingston	1,187,008	69
Logan	3,557,410	199
Lyon	1,586,987	79
Madison	17,054,535	793
Magoffin	2,421,863	124
Marion	2,239,216	112
Marshall	5,012,905	233
Martin	1,804,128	99
Mason	2,686,493	123
McCracken	10,462,709	498
McCreary	3,447,713	159
McLean	1,439,893	69
Meade	2,215,602	90

Distribution of Retirement Payments Statewide
as of *June 30, 2001* continued . . .

County Name	Total Payments	Number of Recipients
Menifee	834,565	50
Mercer	3,557,004	192
Metcalfe	1,942,687	97
Monroe	2,754,049	140
Montgomery	3,355,073	161
Morgan	2,446,113	121
Muhlenberg	4,380,934	213
Nelson	4,907,251	228
Nicholas	891,612	42
Ohio	2,694,687	140
Oldham	5,418,610	254
Owen	971,121	56
Owsley	1,788,603	85
Pendleton	2,101,450	99
Perry	5,726,790	306
Pike	14,315,547	697
Powell	1,675,647	77
Pulaski	10,283,590	515
Robertson	195,769	12
Rockcastle	2,756,741	144
Rowan	7,288,271	336
Russell	3,213,108	168
Scott	3,889,671	177
Shelby	4,896,693	235
Simpson	2,344,984	116
Spencer	1,381,204	66
Taylor	3,889,647	195
Todd	1,589,544	84
Trigg	2,248,635	107
Trimble	687,227	33
Union	1,913,369	95
Warren	22,362,810	1,069
Washington	1,729,031	90
Wayne	3,760,640	184
Webster	1,716,723	92
Whitley	8,470,807	433
Wolfe	2,099,392	104
Woodford	3,690,969	165
Total in Kentucky	$ 621,916,398	29,815

School Districts Electing to Pay for Sick Leave

Under KRS 161.155(8) for Fiscal Year 2000-2001

County School District	Number of Members	Total Additional Compensation
Adair	11	78,854.69
Allen	7	68,713.85
Anderson	8	46,225.15
Ballard	3	44,706.25
Barren	11	120,508.89
Bath	5	51,483.00
Bell	9	71,193.41
Boone	27	300,838.53
Bourbon	7	54,764.79
Boyd	10	53,074.19
Boyle	12	143,982.45
Bracken	5	43,491.32
Breathitt	11	141,631.46
Breckinridge	11	121,881.49
Bullitt	21	211,360.51
Butler	3	24,924.70
Caldwell	5	60,749.76
Calloway	10	103,164.98
Campbell	17	145,558.30
Carlisle	3	26,892.94
Carroll	2	17,721.06
Carter	9	85,300.46
Casey	5	32,730.81
Christian	30	249,137.47
Clark	16	138,505.34
Clay	15	81,691.42
Clinton	3	21,351.29
Crittenden	2	5,012.27
Cumberland	3	23,329.18
Daviess	24	253,829.62
Edmonson	5	24,660.78
Elliott	2	25,759.61
Estill	8	69,306.66
Fayette	93	1,058,035.82
Fleming	7	112,002.13
Floyd	14	85,197.58
Franklin	21	153,006.18
Fulton	1	471.13
Garrard	3	33,637.04
Grant	7	80,035.62

School Districts Electing to Pay for Sick Leave
Under KRS 161.155(8) for Fiscal Year 2000-2001 continued . . .

County School District	Number of Members	Total Additional Compensation
Graves	4	51,143.68
Grayson	13	109,588.43
Green	5	49,873.97
Greenup	12	126,691.93
Hancock	4	73,478.03
Hardin	18	146,493.76
Harlan	12	59,388.55
Harrison	16	115,541.94
Hart	8	96,005.78
Henderson	7	79,833.19
Henry	8	40,689.70
Hickman	6	77,412.27
Hopkins	16	123,922.19
Jackson	3	11,814.81
Jefferson	253	2,754,215.41
Jessamine	11	128,250.23
Johnson	11	117,367.02
Kenton	27	258,170.15
Knott	5	32,587.72
Knox	11	68,990.98
Larue	4	47,603.95
Laurel	22	139,743.76
Lawrence	8	55,564.48
Lee	2	24,749.47
Leslie	2	9,777.77
Letcher	9	49,345.40
Lewis	5	60,871.13
Lincoln	6	79,089.80
Livingston	5	37,533.94
Logan	14	101,883.11
Lyon	2	31,165.20
Madison	27	360,188.75
Magoffin	9	85,930.10
Marion	11	103,891.23
Marshall	8	91,771.89
Martin	4	20,422.72
Mason	12	125,449.13
McCracken	12	198,826.07
McCreary	5	32,172.40
McLean	7	42,342.87

School Districts Electing to Pay for Sick Leave

Under KRS 161.155(8) for Fiscal Year 2000-2001 continued . . .

County School District	Number of Members	Total Additional Compensation
Meade	2	73,746.02
Menifee	2	14,363.78
Mercer	3	27,278.03
Metcalfe	4	39,076.11
Monroe	5	67,530.20
Montgomery	8	64,358.38
Morgan	6	40,327.34
Muhlenberg	19	206,905.93
Nelson	18	185,532.12
Nicholas	3	15,930.90
Ohio	11	118,466.87
Oldham	16	166,660.47
Owen	3	27,028.01
Owsley	4	50,035.02
Pendleton	7	112,957.68
Perry	12	86,718.72
Pike	23	124,369.36
Powell	6	30,102.80
Pulaski	15	194,754.46
Robertson	2	23,279.95
Rockcastle	5	34,503.20
Rowan	5	46,159.41
Russell	10	78,194.32
Scott	6	47,559.42
Shelby	11	110,614.94
Simpson	8	55,495.79
Spencer	5	40,490.42
Taylor	5	60,613.80
Todd	6	36,010.26
Trigg	6	42,763.88
Union	10	105,883.82
Warren	19	252,495.18
Washington	4	56,322.68
Wayne	4	50,418.98
Webster	8	81,900.86
Whitley	7	65,503.90
Wolfe	1	11,937.49
Woodford	6	49,014.81

School Districts Electing to Pay for Sick Leave
Under KRS 161.155(8) for Fiscal Year 2000-2001 continued . . .

City School District	Number of Members	Total Additional Compensation
Ashland	9	119,451.54
Augusta	2	10,082.59
Bardstown	2	19,257.74
Berea	2	10,655.10
Bowling Green	5	44,590.87
Burgin	1	5,298.12
Campbellsville	3	30,563.67
Caverna	4	51,397.87
Cloverport	2	18,714.26
Corbin	4	27,880.38
Covington	10	92,805.16
Danville	7	62,752.71
Dawson Springs	4	49,928.26
Dayton	2	21,544.91
Erlanger-Elsmere	6	46,464.94
Fairview	3	47,751.20
Fort Thomas	5	20,013.40
Frankfort	1	3,989.55
Fulton	2	30,983.97
Glasgow	5	49,905.73
Harlan	1	10,759.72
Harrodsburg	1	2,800.51
Hazard	4	60,561.34
Ludlow	4	60,505.32
Mayfield	5	40,734.04
Middlesboro	8	71,187.01
Monticello	1	11,911.21
Murray	6	91,321.66
Newport	10	127,256.12
Owensboro	10	112,332.32
Paducah	10	119,349.97
Paintsville	1	4,202.54
Pikeville	3	25,634.40
Providence	2	7,461.70
Raceland	1	19,662.10
Russell	5	75,830.64
Russellville	5	76,073.96
Somerset	1	10,548.86
Southgate	4	45,013.29
Walton-Verona	2	38,790.46
Williamsburg	1	13,303.81
KY School Boards	1	3,566.01
Ohio Valley	1	8,355.15
Total For All Districts	1,551	$ 15,381,004.46

Schedule of KTRS Annuitants by Type of Benefit as of June 30, 2001

Amount of Monthly Benefit ($)	Number of Annuitants	Type of Retirement* 1	2	3	4	5
1 - 200	1,430	621	11	527	55	216
201 - 400	1,183	1,022	7	36	118	0
401 - 600	1,077	847	19	22	189	0
601 - 800	1,338	934	193	0	211	0
801 - 1,000	2,048	1,643	150	0	255	0
1,001 - 1,200	2,098	1,800	125	0	173	0
1,201 - 1,400	1,987	1,676	150	1	160	0
1,401 - 1,600	2,205	1,947	138	1	119	0
1,601 - 1,800	2,403	2,068	220	3	112	0
1,801 - 2,000	3,041	2,691	251	9	90	0
Over 2,000	13,084	12,370	449	18	247	0
TOTALS	31,894	27,619	1,713	617	1,729	216

***Type of Retirement**

1 - *Normal Retirement for Age & Service*
2 - *Disability Retirement*
3 - *Survivor Payment - Active Member*
4 - *Beneficiary Payment - Retired Member*
5 - *Mentally Disabled Child*

Distribution of Active Contributing Members as of June 30, 2001

By Age

Age	Male	Female
20-24	268	1,231
25-29	1,506	5,102
30-34	1,780	5,649
35-39	1,685	5,004
40-44	1,732	5,765
45-49	2,519	7,629
50-54	2,580	6,803
55-59	1,158	2,444
60-64	435	685
65-69	92	110
Over 70	21	38
Total	13,776	40,460

By Service

Years of Service	Male	Female
Less than 1	511	1,411
1-4	3,483	10,737
5-9	2,913	8,604
10-14	1,997	6,385
15-19	1,413	4,650
20-24	1,314	4,080
25-29	1,451	3,627
30-34	575	854
35 or more	119	112
TOTAL	13,776	40,460

KTRS Schedule of Participating Employers
School Districts: County Schools

1. Adair
2. Allen
3. Anderson
4. Ballard
5. Barren
6. Bath
7. Bell
8. Boone
9. Bourbon
10. Boyd
11. Boyle
12. Bracken
13. Breathitt
14. Breckinridge
15. Bullitt
16. Butler
17. Caldwell
18. Calloway
19. Campbell
20. Carlisle
21. Carroll
22. Carter
23. Casey
24. Christian
25. Clark
26. Clay
27. Clinton
28. Crittenden
29. Cumberland
30. Daviess
31. Edmonson
32. Elliott
33. Estill
34. Fayette
35. Fleming
36. Floyd
37. Franklin
38. Fulton
39. Gallatin
40. Garrard
41. Grant
42. Graves
43. Grayson
44. Green
45. Greenup
46. Hancock
47. Hardin
48. Harlan
49. Harrison
50. Hart
51. Henderson
52. Henry
53. Hickman
54. Hopkins
55. Jackson
56. Jefferson
57. Jessamine
58. Johnson
59. Kenton
60. Knott
61. Knox
62. Larue
63. Laurel
64. Lawrence
65. Lee
66. Leslie
67. Letcher
68. Lewis
69. Lincoln
70. Livingston
71. Logan
72. Lyon
73. Madison
74. Magoffin
75. Marion
76. Marshall
77. Martin
78. Mason
79. McCracken
80. McCreary
81. McLean
82. Meade
83. Menifee
84. Mercer
85. Metcalfe
86. Monroe
87. Montgomery
88. Morgan
89. Muhlenberg
90. Nelson
91. Nicholas
92. Ohio
93. Oldham
94. Owen
95. Owsley
96. Pendleton
97. Perry
98. Pike
99. Powell
100. Pulaski
101. Robertson
102. Rockcastle
103. Rowan
104. Russell
105. Scott
106. Shelby
107. Simpson
108. Spencer
109. Taylor
110. Todd
111. Trigg
112. Trimble
113. Union
114. Warren
115. Washington
116. Wayne
117. Webster
118. Whitley
119. Wolfe
120. Woodford

School Districts: City Schools

1. Anchorage
2. Ashland
3. Augusta
4. Barbourville
5. Bardstown
6. Beechwood
7. Bellevue
8. Berea
9. Bowling Green
10. Burgin
11. Campbellsville
12. Caverna
13. Cloverport
14. Corbin
15. Covington
16. Danville
17. Dawson Springs
18. Dayton
19. East Bernstadt
20. Elizabethtown
21. Eminence
22. Erlanger-Elsmere
23. Fairview
24. Fort Thomas
25. Frankfort
26. Fulton
27. Glasgow
28. Harlan
29. Harrodsburg
30. Hazard
31. Jackson
32. Jenkins
33. Ludlow
34. Mayfield
35. Middlesboro
36. Monticello
37. Murray
38. Newport
39. Owensboro
40. Paducah
41. Paintsville
42. Paris
43. Pikeville
44. Pineville
45. Providence
46. Raceland
47. Russell
48. Russellville
49. Science Hill
50. Silver Grove
51. Somerset
52. Southgate
53. Walton-Verona
54. West Point
55. Williamsburg
56. Williamstown

KTRS Schedule of Participating Employers
(continued)

Universities & Community/Technical Colleges

1. Eastern Kentucky
2. Kentucky State
3. Morehead State
4. Murray State
5. Western Kentucky
6. Kentucky Community & Technical College System

State of Kentucky/Other Organizations

State of Kentucky

1. Education and Humanities Cabinet
2. Labor Cabinet*
3. Legislative Research Commission*
4. Workforce Development Cabinet
5. Cabinet for Families and Children*

Other Organizations

1. Christian County Health Department*
2. Education Professional Standards Board
3. Kentucky Education Association President
4. Kentucky Academic Association
5. Kentucky Association of School Administration
6. Kentucky Educational Development Corporation
7. Kentucky High School Athletic Association
8. Kentucky School Boards Association
9. Kentucky Valley Educational Cooperative
10. Northern Kentucky Cooperative for Educational Services
11. Ohio Valley Educational Cooperative
12. Pennyroyal Region Mental Health*
13. West Kentucky Education Cooperative
14. Green River Regional Education Cooperative
15. Central Kentucky Special Education Cooperative

* *According to Kentucky Revised Statue 161.607(1), any member of the Kentucky Teachers' Retirement System who entered employment covered by the Kentucky Employees Retirement System, the State Police Retirement System, or the County Employees Retirement System prior to July 1, 1976, may retain membership in the Teachers' Retirement System instead of joining the new system. These organizations have members who are in this category. Once these members retire, the organization will no longer be considered a KTRS participating employer.*