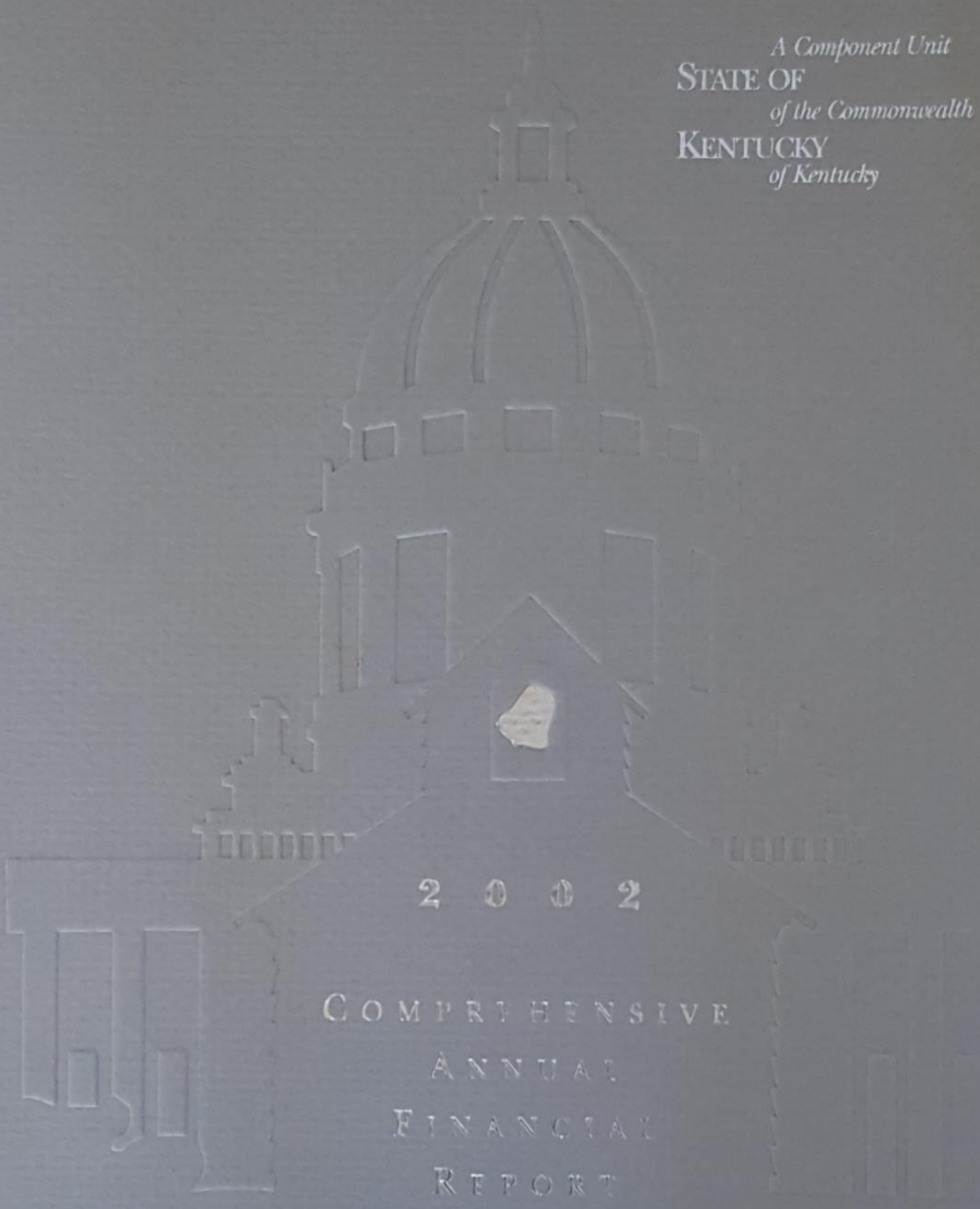
Teachers' Retirement System

A Component Unit
STATE OF
of the Commonwealth
KENTUCKY
of Kentucky



2002

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

Teachers' Retirement System of the State of Kentucky

The 62nd Comprehensive Annual Financial Report

A Component Unit of the Commonwealth of Kentucky
Fiscal Year Ended June 30, 2002

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.

INTRODUCTORY SECTION

FINANCIAL SECTION

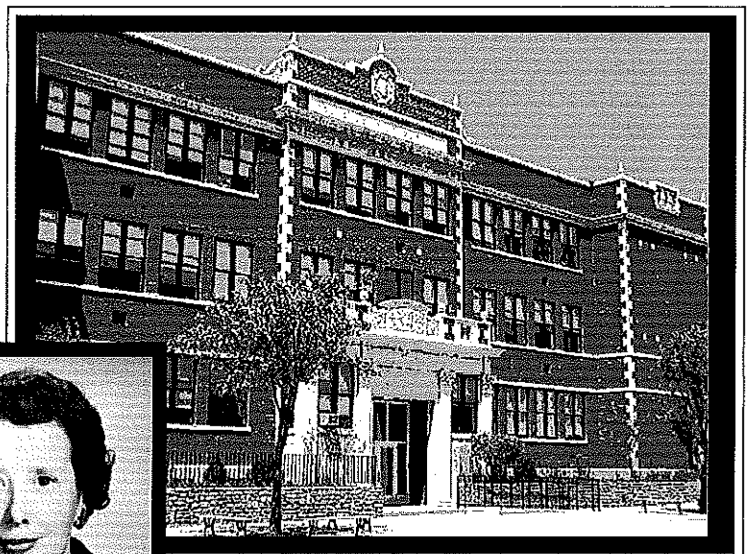
INVESTMENT SECTION

ACTUARIAL SECTION

STATISTICAL SECTION

INTRODUCTORY SECTION

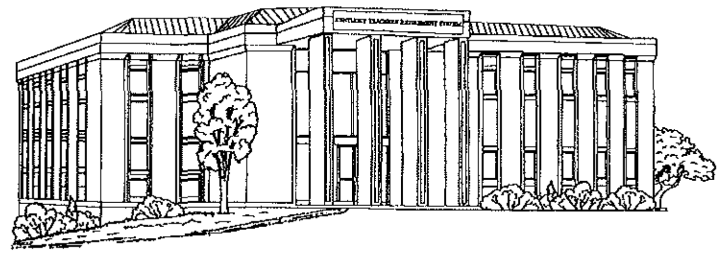
BELLEVUE HIGH SCHOOL IN BELLEVUE, KENTUCKY



VIRGINIA MURRELL
CHAIRPERSON
KTRS BOARD OF TRUSTEES

VIRGINIA MURRELL serves as Chairperson of the Kentucky Teachers' Retirement System Board of Trustees. Ms. Murrell became a member of the Board in 1988 as a retired trustee member and has served as Chairperson since 1991. Her educational achievements include a B.S. degree from the University of Kentucky, M.A. degree from Columbia University plus graduate work at the Cincinnati Conservatory of Music. She served as Music Supervisor in the Bellevue Public Schools for 35 years. In addition to serving as the elected president of the state's largest retired and active teacher associations, Ms. Murrell's positions of leadership in public education include president of the Kentucky Choral Directors' Association; president of her local and district education associations; state president of Delta Kappa Gamma; member of National Education Association's Board of Directors. She was awarded a life membership in the Kentucky PTA.

Chairperson's Letter
Teachers' Retirement System of the State of Kentucky



November 27, 2002

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, 2002, the 62nd 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 2001-2002 fiscal year with $11.9 billion in assets. The active membership totaled 54,175 and the retired membership was 33,457 with an annual payroll of $739 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 that 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.

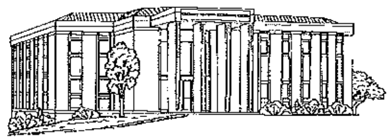
The Board of Trustees pledges to continue to administer the affairs of the Kentucky Teachers' Retirement System in the most competent and efficient manner possible.

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 27, 2002

Dear Governor Patton:

It is my pleasure to submit the 62nd 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, 2002.

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 (pages 15-18), financial statements and required supplemental schedules.

❖ 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. Discussion and analysis of net assets and related additions and deductions is presented in the MD&A beginning on page 15.

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.

At the beginning of this fiscal year, in order to further support the commitment to the accuracy and conformity to these controls, KTRS created a new position of Internal Auditor that reports directly to the Executive Secretary.

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 $7.7 million for the defined benefit plan, while the additions to the medical insurance plan and the tax-sheltered annuity plan were $148 million and $20 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 $51.7 thousand, consisting solely of benefit payments. The total expenses of the medical insurance plan were $105 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 $755.3 million in expenses:

EXPENSES	(MILLIONS)
Benefits	$ 739.4
Refunds	9.2
Administration	6.7

Pension benefits paid to retirees and beneficiaries increased $65.4 million bringing total benefit payments to $739.4 million. Refunds of contributions paid to former members upon termination of employment decreased from $10.6 million to $9.2 million. Administrative expense rose $0.7 million, or 12.2%, due primarily to increasing costs associated with evolving information technology and actuarial consulting fees.

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 modest growth during the 2001-2002 fiscal year. The portfolio's par value increased from $12,059,753,287 to $12,252,386,835. The growth of the portfolio primarily was due to investment income that included interest and dividend income. Employer and employee contributions also provided significant income to the portfolio.

Investment earnings, including depreciation of asset values, net of investment expenses for the 2001-2002 fiscal year were ($514,051,220). The negative investment earnings can be attributed primarily to the net depreciation of securities being ($929,284,858) 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 $294,598,784. The second largest earnings component of $95,029,241 was earned from dividends. Other income of $29,850,548 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, 2002. This report reflects the System's assets, based on modified market value; totaled $13.6 billion and the liabilities totaled $15.7 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 19.5%. An actuarial valuation of the Medical Insurance Plan for the fiscal year ended June 30, 2001, indicated that the fund has an unfunded liability of $2.4 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 3.25% of the 13.105% contributed by KTRS employers 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.

Legislative Update

Significant legislation affecting the Kentucky Teachers' Retirement System (KTRS) was passed during the 2002 session of the Kentucky General Assembly. A summary of the major legislative changes follows:

Field of Membership Expansion

Effective July 1, 2002, persons performing substitute and part-time teaching services will become members of the Kentucky Teachers' Retirement System. This provision will make these persons eligible for some important retirement benefits and allow them to earn fractional service credit. Before July 1, 2002, these positions did not contribute to KTRS. In addition, bringing them into the field of membership will provide additional funding to the retirement system. This provision does not apply to personnel employed in University positions.

New Retired Teacher Program

July 1, 2002, also marks the date under which retired members are permitted to return to work on a full-time or part-time basis and start a second retirement account with the retiree continuing to receive his/her retirement annuity. A limited number of retirees (4%) are allowed to return to full-time employment. Employers are not limited on the number of part-time employees they can hire. Retired members in the old 100-day program can remain in the program until June 30, 2007, and now contribute toward a second retirement account.

Service Purchase Reform

The Kentucky Revised Statutes pertaining to out-of-state and military service purchases was amended effective July 1, 2002, to require the member to pay the full actuarial cost when purchasing these types of service credit.

Service Changes to Retirement Multipliers

The retirement factor (multiplier) for each year of service was changed for all members joining the system after July 1, 2002. The new legislation also provides that individuals who become a member after July 1, 2002, will earn a retirement multiplier of 2% for each year of service if, upon retirement, their total service is less than ten years. New members who retire with ten or more years of total service would be entitled to a retirement multiplier of 2.5% for each year of service, including the first ten years.

In addition, as of July 1, 2004, retirees with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3%.

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

Ms. Judith Gambill of Russell retired from the Board of Trustees effective July 1, 2002. Her service began in 1989 and besides serving as Vice Chairperson of the Board, she has served in recent years as Chairperson of the Medical Insurance Committee.

continued . . .

The leadership she has demonstrated will be missed by the Board and the staff of the System. Ms. Gambill was a most dedicated member of the Board of Trustees and worked to protect the System as well as to provide benefits for active and retired members. We wish Ms. Gambill many happy and productive years.

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, 2001. 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 fourteen consecutive years (fiscal years ended 1988-2001). 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 (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, CPA
Executive Secretary

BOARD OF TRUSTEES

VIRGINIA MURRELL
Chairperson,
Retired Teacher Trustee
Somerset

JUDITH GAMBILL
Vice Chairperson,
Teacher Trustee
Ashland

ROBERT CONLEY
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EARLE POWELL
Lay Trustee
Frankfort

BARBARA STERRETT
Teacher Trustee
Lexington

GENE WILHOIT
Ex Officio Trustee
Commissioner,
Dept. of Education

JONATHAN MILLER
Ex Officio Trustee
State Treasurer

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

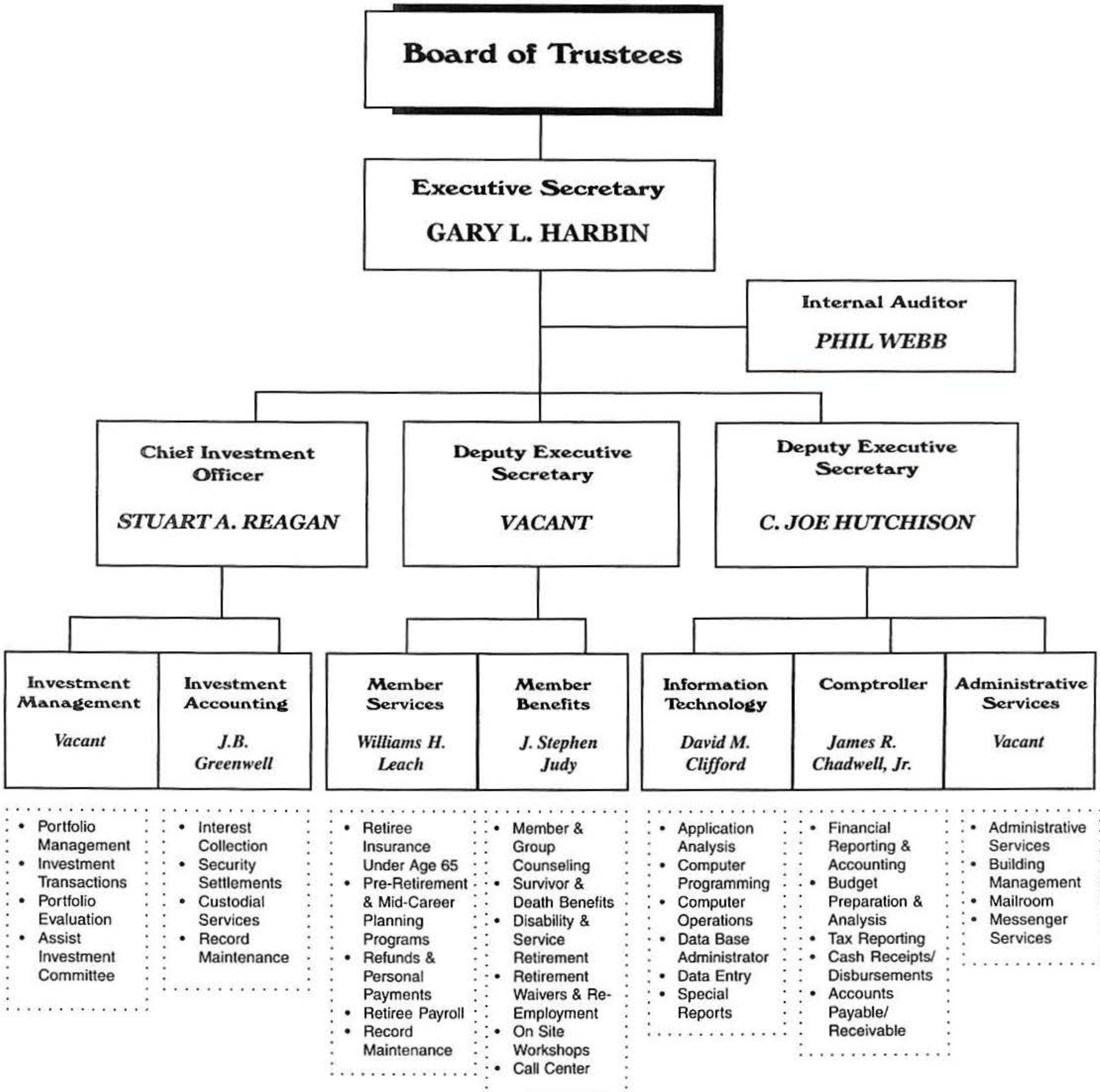
George B. Buck Consulting Actuaries, Inc.
Suite 1200
Galleria Parkway NW
Atlanta, Georgia 30339

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, 2001

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Douglas R Ellsworth

President

Jeffrey L. Esser

Executive Director

Public Pension Coordinating Council

Public Pension Principles

2000 Achievement Award

Presented to

Kentucky Teachers' Retirement System

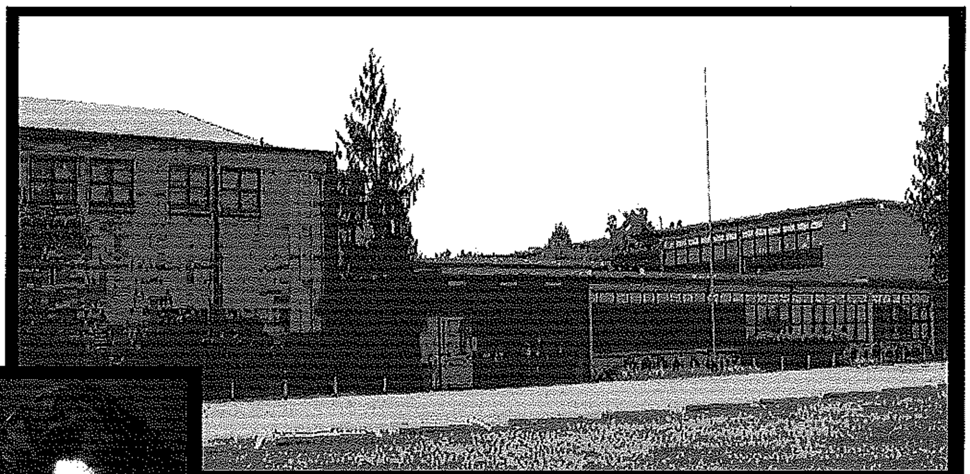
In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

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)

Scott Engmann
Chairman

FINANCIAL SECTION

RUSSELL INDEPENDENT HIGH SCHOOL IN RUSSELL, KENTUCKY



JUDITH GAMBILL
VICE CHAIRPERSON
KTRS BOARD OF TRUSTEES

JUDITH GAMBILL serves as Vice Chairperson of the Kentucky Teachers' Retirement System. She was appointed to the KTRS Board of Trustees in 1989 and subsequently elected to a full term. Ms. Gambill obtained her B.A. in Education at the University of Kentucky as well as a double Masters in English and Education plus Rank I studies at Morehead State University. Ms. Gambill was a classroom teacher at Russell Independent High School in Russell, Kentucky. She received several appointments to state and federal education committees including Kentucky Teacher Education and Certification and the Appalachian Education Laboratory. Ms. Gambill retired July 1, 2002, from the Kentucky Education Association (KEA) where she was elected to serve two terms. She retired from the Kentucky Teachers' Retirement System Board of Trustees this past July 1, 2002.

Charles T. Mitchell Company, LLP
Certified Public Accountants
201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40602-0698
TELEPHONE - (502) 227-7395
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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, 2002 and 2001 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, 2002 and 2001 and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2002 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, 2002 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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

Charles T. Mitchell Co.

November 22, 2002

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, 2002. 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, 2002, Kentucky Teachers' Retirement System's combined plan net assets decreased by $705 million - from $12,614.5 million to $11,909.5 million. Plan net assets for the prior fiscal year decreased by $257.1 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 2002	Defined Benefit Plan 2001	Medical Insurance Plan 2002	Medical Insurance Plan 2001	403(b) Tax Shelter 2002	403(b) Tax Shelter 2001	TOTAL 2002	TOTAL 2001
Cash & Investments	$12,255.8	$ 13,190.4	$ 149.4	$ 100.4	$ .6	$ .7	$ 12,405.8	$ 13,291.5
Fixed Assets	3.8	4.0					3.8	4.0
Receivables	106.6	98.6	4.5	9.6			111.1	108.2
Total Assets	$ 12,366.2	$ 13,293.0	$ 153.9	$ 110.0	$ .6	$ .7	$ 12,520.7	$ 13,403.7
Total Liabilities	(603.4)	(782.6)	(7.8)	(6.6)			(611.2)	(789.2)
Plan Net Assets	$ 11,762.8	$ 12,510.4	$ 146.1	$ 103.4	$ .6	$ .7	$ 11,909.5	$ 12,614.5

Summary of Changes In Plan Net Assets (In Millions)

Categories	Defined Benefit Plan 2002	Defined Benefit Plan 2001	Medical Insurance Plan 2002	Medical Insurance Plan 2001	403(b) Tax Shelter 2002	403(b) Tax Shelter 2001	TOTAL 2002	TOTAL 2001
ADDITIONS								
Member's Contributions	$ 224.4	$ 208.7	$ 46.2	$ 40.0			$ 270.6	$ 248.7
Employer's Contributions	303.5	280.1	95.3	92.4			398.8	372.5
Investment Income (net)	(520.2)	(104.9)	6.1	5.3			(514.1)	(99.6)
TOTAL ADDITIONS	$ 7.7	$ 383.9	$ 147.6	$ 137.7			$ 155.3	$ 521.6
DEDUCTIONS								
Benefit Payments	739.4	674.0					739.4	674.0
Refunds	9.2	10.6					9.2	10.6
Administrative Expense	6.7	6.0	3.5	3.2			10.2	9.2
Insurance Expenses			101.5	84.9			101.5	84.9
TOTAL DEDUCTIONS	$ 755.3	$ 690.6	$ 105.0	$ 88.1			$ 860.3	$ 778.7
Increase (Decrease) in Plan Net Assets	$ (747.6)	$ (306.7)	$ 42.6	$ 49.6			$(705.0)	$(257.1)

Plan net assets of the defined benefit plan decreased by 6% ($11,762.8 million compared to $12,510.4 million). The decrease is primarily due to the reduced amount of investment income; $(520.2) million compared to $(104.9) million, because 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 41.2% ($146.1 million compared to $103.4 million) due primarily to an increase in covered payroll. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

Defined Benefit Plan Activities

Member contributions increased $15.7 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 $303.5 million, a net increase of $23.4 million over fiscal year 2000-2001 contributions. An increase in covered payroll of $158.8 million generated an overall increase in employer contribution of $26.3 million.

Net investment income decreased $415.3 million ($520.2 million loss at June 30, 2002, as compared to a $104.9 million loss at June 30, 2001). 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, 2002, as compared to the year ended June 30, 2001. This can be illustrated as follows:

	2002	2001
	(In Millions)	
Appreciation in fair value of investments – June 30	$ (479.3)	$ (471.7)
Appreciation in fair value of investments – June 30, prior year	471.7	1,518.8
Net depreciation in fair value of investments	(951.0)	(1,047.1)
Net income (net of investment expense)	409.1	444.3
Net gain on sale of investments	21.7	497.9
Investment Income (net) – June 30	$ (520.2)	$ (104.9)

Program deductions in 2001-2002 increased $64.6 million. The increase was caused principally by an increase of $65.4 million in benefit payments. Members who were drawing benefits as of June 2001 received an increase of 2.5% to their retirement allowances in July 2001. Also, there was an increase of 1,696 members and beneficiaries on the retired payroll as of June 30, 2002.

Medical Insurance Plan Activities

During the 2001-2002 fiscal year, member contributions increased $6.2 million and employer contributions increased by $2.9 million over fiscal year 2000-2001. An increase in the amount of covered payroll, $158.8 million, accounts for the increase in contributions.

Program deductions increased $16.9 million explained almost totally by an increase in payment of insurance expenses of $16.6 million. The monthly premiums and medical/prescription claims increased for all retirees coupled with an increase of 774 in the number of retirees receiving premium subsidies.

Net investment income increased $.8 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:

	2002	(In Millions)	2001
Appreciation in fair value of investments – June 30,	$ 0		$ 0
Appreciation in fair value of investments – June 30 prior year	0		0
Net depreciation in fair value of investments	0		0
Net income (net of investment expense)	6.1		5.3
Net gain on sale of investments	0		0
Investment Income (net) – June 30	$ 6.1		$ 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's independent 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 2001-2002 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.

Statement of Plan Net Assets
As of June 30, 2002 and 2001

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2002	2001	2002	2001	2002	2001	2002	2001
ASSETS								
Cash	$ 4,039,040	$ 4,386,962					$ 4,039,040	$ 4,386,962
Prepaid expenses	155,281	197,146					155,281	197,146
Receivables								
Contributions	22,621,280	13,446,193	$ 4,530,557	$ 9,634,270			27,151,837	23,080,463
State of Kentucky	12,762,611	1,179,855					12,762,611	1,179,855
Investment income	61,535,867	62,086,748			$ 6,578		61,542,445	62,086,748
Investment sales receivable	8,572,715	20,268,793					8,572,715	20,268,793
Installment accounts receivable	1,080,132	1,576,823					1,080,132	1,576,823
Other receivables	15,045	21,290					15,045	21,290
Total receivables	106,587,650	98,579,702	4,530,557	9,634,270	6,578		111,124,785	108,213,972
Investments, at fair value (See Note 4)								
Short term investments	849,681,878	893,104,862	149,402,725	100,438,593	115,397	$ 656,545	999,200,000	994,200,000
Bonds and mortgages	4,627,536,878	4,613,416,077			503,281		4,628,040,159	4,613,416,077
Common stock	5,842,308,336	6,613,084,210					5,842,308,336	6,613,084,210
Real estate	338,130,190	303,270,917					338,130,190	303,270,917
Total investments	11,657,657,282	12,422,876,066	149,402,725	100,438,593	618,678	656,545	11,807,678,685	12,523,971,204
Invested security lending collateral	593,934,649	762,967,508					593,934,649	762,967,508
Fixed assets, at cost net of accumulated depreciation of $1,187,760 (See Note 2)	3,801,657	4,040,992					3,801,657	4,040,992
Total assets	12,366,175,559	13,293,048,376	153,933,282	110,072,863	625,256	656,545	12,520,734,097	13,403,777,784
LIABILITIES								
Accounts payable	1,068,422	1,208,696		323,592			1,068,422	1,532,288
Treasurer's unredeemed checks	36,344	31,628					36,344	31,628
Insurance claims payable			7,879,932	6,300,100			7,879,932	6,300,100
Compensated absences payable	593,240	518,685					593,240	518,685
Unearned insurance premium receipts			8,042	7,116			8,042	7,116
Revenues collected in advance	142,071						142,071	
Investment purchases payable	7,603,513	17,922,783					7,603,513	17,922,783
Obligations under securities lending	593,934,649	762,967,508					593,934,649	762,967,508
Total Liabilities	603,378,239	782,649,300	7,887,974	6,630,808			611,266,213	789,280,108
Net assets held in trust for pension benefits	$11,762,797,320	$12,510,399,076	$146,045,308	$ 103,442,055	$ 625,256	$ 656,545	$11,909,467,884	$12,614,497,676

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

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

Statement of Changes in Plan Net Assets
For the Years Ended June 30, 2002 and 2001

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2002	2001	2002	2001	2002	2001	2002	2001
ADDITIONS								
Contributions								
Employer	$ 303,521,106	$ 280,108,701	$ 95,261,407	$ 92,429,167			$ 398,782,513	$ 372,537,868
Member	224,361,453	208,702,802	46,184,010	40,017,682			270,545,463	248,720,484
Total contributions	527,882,559	488,811,503	141,445,417	132,446,849			669,327,976	621,258,352
Investment Income								
Net appreciation (depreciation) in fair value of investments	(929,287,361)	(549,288,400)			$ 2,503		(929,284,858)	(549,288,400)
Interest	288,438,013	336,033,926	6,142,817	5,286,426	17,954	$ 38,042	294,598,784	341,358,394
Dividends	95,029,241	87,699,292					95,029,241	87,699,292
Rental income, net	29,207,465	24,388,117					29,207,465	24,388,117
Securities lending, gross earnings	15,177,118	28,885,774					15,177,118	28,885,774
Gross investment income	(501,435,524)	(72,281,291)	6,142,817	5,286,426	20,457	38,042	(495,272,250)	(66,956,823)
Less investment expense	(4,244,935)	(4,338,836)					(4,244,935)	(4,338,836)
Less securities lending expense	(14,534,035)	(28,283,614)					(14,534,035)	(28,283,614)
Net investment income	(520,214,494)	(104,903,741)	6,142,817	5,286,426	20,457	38,042	(514,051,220)	(99,579,273)
Total additions	7,668,065	383,907,762	147,588,234	137,733,275	20,457	38,042	155,276,756	521,679,079
DEDUCTIONS								
Benefits	739,445,182	673,987,005			51,746	55,860	739,496,928	674,042,865
Refunds of contributions	9,146,820	10,673,981	6,066	5,155			9,152,886	10,679,136
Insurance expenses			101,487,266	84,934,200			101,487,266	84,934,200
Administrative expense	6,677,819	5,950,036	3,491,649	3,221,712			10,169,468	9,171,748
Total deductions	755,269,821	690,611,022	104,984,981	88,161,067	51,746	55,860	860,306,548	778,827,949
Net increase (decrease)	(747,601,756)	(306,703,260)	42,603,253	49,572,208	(31,289)	(17,818)	(705,029,792)	(257,148,870)
Net assets held in trust for pension benefits								
Beginning of year	12,510,399,076	12,817,102,336	103,442,055	53,869,847	656,545	674,363	12,614,497,676	12,871,646,546
Ending of year	$ 11,762,797,320	$12,510,399,076	$ 146,045,308	$ 103,442,055	$ 625,256	$ 656,545	$11,909,467,884	$12,614,497,676

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

Notes to Financial Statements
Years Ended June 30, 2002 and 2001

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, 2002, a total of 201 employers participated in the plan. Employers are comprised of 176 local school districts, 19 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:	2002	2001
Vested	37,955	38,055
Non-vested	16,220	15,515
Inactive members, both vested and non-vested	5,995	5,710
Retirees and beneficiaries currently receiving benefits	33,457	31,761
Total members, retirees and beneficiaries	93,627	91,041

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 who 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 three cash accounts. At June 30, 2002, the pension cash account totaled $1,714,325, the administrative expense fund cash account was $138,467 and the life insurance cash account totaled $2,186,248; therefore, the carrying value of cash was $4,039,040 and the corresponding bank balance was $5,586,976. The difference is primarily due to outstanding checks and items not processed by the bank on June 30, 2002.

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 200 hours. As of June 30, 2002 and 2001 accrued compensated absences were $593,241 and $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. INSTALLMENT ACCOUNTS RECEIVABLE

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, 2002 and 2001 installment contract receivables were $1,080,132 and $1,576,823.

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 2002 and 2001 has resulted in a receivable (under-appropriation) from the state for fiscal years 2002 and 2001.

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.

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.

Critical Shortage Reserve

This fund was established in 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.

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, 2002.

The KTRS bank balance consists of cash totaling $5,586,976 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, 2002, the weighted average maturity of cash collateral investments was one day. 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, 2002		June 30, 2001
Short Term Investments				
Repurchase Agreements	$	999,200,000	$	994,200,000
Total Short Term Investments	$	999,200,000	$	994,200,000
Bonds and Mortgages				
U.S. Government Obligations				
Treasury Notes & Bonds	$	1,213,862,044	$	1,281,385,822
Agencies		1,091,248,715		1,093,595,776
GNMA (Single Family)		160,478,011		141,596,931
Other Miscellaneous		184,891,868		185,544,686
Total U.S. Government Obligations	$	2,650,480,638	$	2,702,123,215
Corporate Bonds				
Industrial	$	657,606,628	$	614,686,874
Finance		991,087,047		919,982,508
Utility Bonds (Except Telephone)		125,744,818		107,019,034
Telephone Bonds		123,346,419		151,757,044
Railroad Obligations		108,360		106,400
Total Corporate Bonds	$	1,897,893,272	$	1,793,551,860
Other Fixed Income Investments				
FHA and VA Single Family Mortgages	$	214,685	$	339,597
Project Mortgages (FHA & GNMA)		52,398,595		91,364,865
State and Local Government Issues		27,052,969		26,036,540
Total Other Investments	$	79,666,249	$	117,741,002
Total Bonds and Mortgages	$	4,628,040,159	$	4,613,416,077
Stocks	$	5,842,308,336	$	6,613,084,210
Real Estate	$	338,130,190	$	303,270,917
Total Investments	$	11,807,678,685	$	12,523,971,204

This schedule does not include $593,934,649 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's investments, which gives an indication of the level of risk assumed by KTRS at June 30, 2002. 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, 2002

	Total Fair Value
Investments - Category 1	
Repurchase Agreements	$ 999,200,000
U.S. Government Obligations	$ 2,092,886,477
Corporate Bonds	1,893,458,865
State and Local Government Issues	27,052,969
Common Stocks	5,836,228,033
Investments - Category 3	
Securities Lending Short-Term Collateral Repurchase Agreements	$ 593,934,649
SUBTOTAL	$ 11,442,760,993
Investments - Not Categorized	
Investments held by broker dealers under securities loans with cash collateral	
U.S. Government Obligations	$ 561,546,267
Corporate Bonds	4,434,407
Common Stocks	6,080,303
Other Government Guaranteed Fixed Income Investments	$ 48,661,174
Real Estate	338,130,190
TOTAL	$ 12,401,613,334

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, 2002 and 2001 were approximately $43 million and $34 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 are 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 are 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 are also given a supplement based on service credit. Members with 20 or more years of service received the highest supplement.

At June 30, 2002, KTRS insurance covered 26,681 retirees and 6,188 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 benefit, 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 healthcare 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, 2002 and 2001.

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

	Fiscal Year 2002	Fiscal Year 2001
Beginning Unpaid Claims Liability	$ 6,300,100	$ 7,316,199
Claims Incurred		
Current Year	99,923,619	86,571,232
Increase (Decrease) in Prior Years	1,563,647	(1,644,595)
Total Incurred Claims	$ 101,487,266	$ 84,926,637
Claims Paid		
Current Year	$ 94,180,836	$ 81,229,284
Prior Years	5,726,598	4,713,452
Total Payments	$ 99,907,434	$ 85,942,736
Ending Unpaid Claims Liability	$ 7,879,932	$ 6,300,100

E. ADMINISTRATIVE EXPENSES

The total administrative expenses of $3,491,649 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, 2002, the fifty-three 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

The short-term investments are reported at cost, which is fair value. A bond, purchased in this fiscal year, is reported at fair market 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]
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
2002	13,588.8	15,695.6	2,106.8	86.6	2,313.7	91.1

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
1997	$ 293.7	100%
1998	294.3	100
1999	288.5	100
2000	311.3	100
2001	262.8	100
2002	284.8	100

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
2002	146.0	2,806.0	2,660.0	5.2	2,313.7	114.9

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
2002	95.3	100

Notes to Required Supplemental 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, 2002, and each of the preceding five years. The data presented in the schedules was 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 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, 2002 and 2001. The data presented in the schedule was 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, 2001	$ 13,299,160,957
(2)	2001/2002 Net Cash Flow	
	a. Contributions	509,156,163
	b. Disbursements	744,381,202
	c. Net Cash Flow (2)a - (2)b	(235,225,039)
(3)	Expected Investment Return [(1) x .075] + [(2)c x .0375]	988,616,133
(4)	Expected Actuarial Value of Assets on June 30, 2002 (1) + (2)c + (3)	14,052,552,051
(5)	Market Value of Assets on June 30, 2002	11,734,028,537
(6)	Excess of Market Value over Expected Actuarial Value (5) - (4)	(2,318,523,514)
(7)	20% Adjustment towards Market Value .20 x (6)	(463,704,703)
(8)	Actuarial Value of Assets on June 30, 2002 (4) + (7)	$ 13,588,847,348

B. Assumptions

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

Valuation Date	June 30, 2002
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5-Year Smoothed Market

Actuarial Assumptions:	
Investment Rate	7.5%
Projected Salary	4.0 to 8.1%
Post-retirement Benefit Increase	1.5%
Inflation Rate	4.0%

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, 2002, 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 rate	13.5%
*	Assumed ultimate cost trend rate	5.0%
*	Assumed ultimate cost trend rate achieved	2010

Supporting Schedule 1

Schedule of Administrative Expenses
Year Ended June 30, 2002

ADMINISTRATIVE EXPENSES		YEAR ENDED JUNE 30, 2002
Salaries	$	4,305,660
Other Personnel Costs		253,288
Professional Services & Contracts		604,231
Utilities		50,812
Rentals		14,795
Maintenance		206,276
Postage & Related Services		268,726
Printing		107,557
Insurance		67,466
Miscellaneous Services		115,470
Telecommunications		32,710
Computer Services		134,105
Supplies		53,019
Depreciation		167,567
Travel		28,121
Dues & Subscriptions		21,084
Miscellaneous Commodities		5,410
Furniture, Fixtures, & Equipment not Capitalized		166,966
Compensated Absences		74,556
TOTAL ADMINISTRATIVE EXPENSES	$	6,677,819

Supporting Schedule 2

Schedule of Contracted Investment Management Expenses
Year Ended June 30, 2002

FIXED INCOME MANAGERS		
National Asset Management Corporation	$ 367,939	
Todd Investment Advisors	346,986	
Total Fixed Income Managers		$ 714,925
EQUITY MANAGERS		
UBS Global Asset Management Corporation	$ 500,000	
National Asset Management Corporation	750,000	
Todd Investment Advisors	433,014	
Wellington Management Company	1,373,107	
Total Equity Managers		$ 3,056,121
CUSTODIAN		
Farmers Bank		$ 428,889
CONSULTANT		
Becker, Burke Associates		$ 45,000
TOTAL CONTRACTED INVESTMENT MANAGEMENT EXPENSES		$ 4,244,935

Supporting Schedule 3

Schedule of Professional Fees for Year Ended June 30, 2002

PROFESSIONAL	NATURE OF SERVICE	YEAR ENDED JUNE 30, 2002
Charles T. Mitchell Company, LLP	Auditing Services	$ 24,500
Buck Consulting	Actuarial Services	135,347
Buck Consulting	Consulting Services	325,000
International Claim Specialist	Investigative Services	2,461
Farmers Bank	Banking Services	21,298
FileNet	Computer Design Services	95,625
	TOTAL	$ 604,231

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, 2002, and have issued our report thereon dated November 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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.

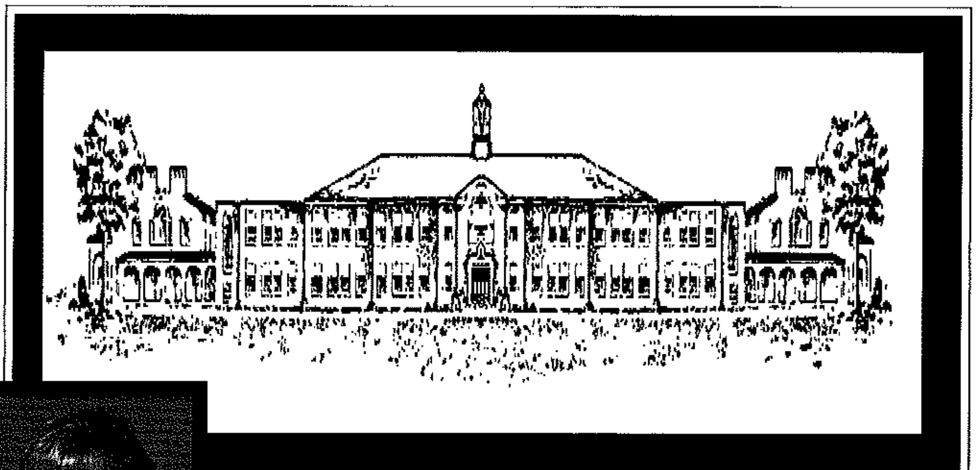
This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Charles T. Mitchell Co.

November 22, 2002

INVESTMENT SECTION

LAFAYETTE HIGH SCHOOL IN LEXINGTON, KENTUCKY



BARBARA G. STERRETT
ACTIVE TEACHER TRUSTEE
KTRS BOARD OF TRUSTEES

BARBARA G. STERRETT has served on the Board of Trustees of the Kentucky Teachers' Retirement System since 1990. Ms. Sterrett is currently a math teacher at Layfayette High School in Lexington, Kentucky, with over twenty-eight years of service. She has a Rank I with Master's and Specialist Degrees from the University of Pittsburgh. She is active in KEA and NEA and has served as president and treasurer of the Fayette County Education Association as well as a member of their legislative contact team. Ms. Sterrett also serves on the Fayette County Public Schools District Benefits Committee. In the past she served on the District's Long Range Planning Committee on Compensation, the Sabbatical Leave Committee and the Cafeteria Plan for Fringe Benefits Committee. She is also a member of Lafayette's School Based Decision Making Council and is on the Board of Directors of the Kentucky Association of School Councils. Ms. Sterrett is a member of the National, Kentucky, and Lexington Councils of Teachers of Mathematics, the League of Women Voters, National Organization for Women and Alpha Delta Kappa.

REPORT ON INVESTMENT ACTIVITY

This report is prepared by the Investment staff of the Kentucky Teachers' Retirement System.

Mr. Stuart A. Reagan, CFA	Mr. Benny Greenwell, CPA
Chief Investment Officer	Director of Investment Accounting

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	MR. ROBERT M. CONLEY
Chairman	*Vice-Chairman*

MR. GARY L. HARBIN, CPA

Ex-Officio Member, Executive Secretary

EXECUTIVE INVESTMENT STAFF

MR. GARY L. HARBIN, CPA	MR. STUART A. REAGAN, CFA
Executive Secretary	*Chief Investment Officer*

PROFESSIONAL CONSULTANTS

Investment Advisors

Fixed Income and Equity Managers

Todd Investment Advisors
101 South Fifth Street
National City Towers, Suite 3160
Louisville, Kentucky 40202

Invesco-National Asset Management
400 West Market Street
Suite 2500
Louisville, Kentucky 40202

Equity Managers

UBS Global Asset Management
UBS Tower
One North Wacker Drive
Chicago, Illinois 60606

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 & 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 2001-02 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 12, 2002

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, 2002. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2001-02 fiscal year, the market value of the stock position decreased from 53% to 49% of assets. The portion of the portfolio in Government securities remained the same at 22%. The cash position, also remained the same during the year at 8% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 3%.

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 2001-02 as the System's principal investment counselor, providing assistance in the management of $2.3 billion of stocks and bonds. Invesco-National Asset Management, UBS Global Asset Management, and Wellington Management Company also were retained during the 2001-02 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 $849 million in equity investments. UBS Global Asset Management, formerly Brinson Partners, was responsible for managing approximately $467 million in equities, and Wellington Management Company managed about $927 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about $5.4 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 $11.8 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2001-02 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

In the fiscal year ended June 30, 2002, the equity market seemed to be battered by blow after blow. The September 11 terrorist attacks, a recessionary economy, and a wave of corporate scandals involving accounting fraud and other malfeasance by corporate executives, all took a toll. The technology-dominated NASDAQ Composite declined by 32.3% after falling 45.5% the previous fiscal year. The Standard & Poor's 500 Index declined 18.0%, and the Dow Jones Industrial Average declined 10.3%. In a continuation of a trend from the previous fiscal year, smaller-capitalization and value stocks performed better. The Standard & Poor's 400 Mid Cap Index declined 4.7%, while the Mid Cap 400 Value Index was up 3.1%. The Standard & Poor's 600 Small Cap Index was up 0.3%.

After slipping into recession in the previous fiscal year and being briefly staggered by the terrorist attacks in September, the economy struggled to recover over the winter and spring of 2001-02. Consumer spending and housing showed remarkable resilience while capital spending remained weak. The war on terrorism gave a boost to government spending. Gross domestic product, adjusted for inflation, grew 2.1% over the fiscal year after declining 0.1% in the previous twelve months. With growth remaining well below the economy's potential, the unemployment rate rose from 4.6% to 5.9%. Inflation, as measured by the Consumer Price Index, fell to 1.1% over the fiscal year, down from 3.3% in the preceding year. The Federal Reserve battled the weak economic conditions by lowering the federal funds rate from 3.75% in mid-summer of 2001 to 1.75% by mid-December. Corporate profits were already showing improvement by late 2001 and into the first half of 2002 on cost cutting and improvements in productivity.

Throughout the fiscal year, high quality bonds served as a safe haven during sharp downturns in the stock market. High quality was essential, however, as the corporate bond market landscape seemed to be filled with credit quality land mines. The performance differential between the highest quality bonds and lower credit quality bonds was unprecedentedly wide. The bond market benefited from aggressive monetary policy as the federal funds rate was lowered between August and December, 2001, from 3.75 to 1.75% -- its lowest rate in forty years. Long-term interest rates declined significantly less, as the yield gap between long and short-term interest rates widened. Overall, the Lehman Government/Credit Index returned 8.3% for the fiscal year, well above consumer price index inflation of only 1.1%.

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 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 24.1, compared to 26.2 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 17.0%. The average dividend growth rate for the past five years of the KTRS portfolio was 3.0%. At the end of the 2001-02 fiscal year, the yield level for the KTRS portfolio stood at 1.6%, which was identical to the index.

The stock position, apart from the stock index fund, began the 2001-02 fiscal year by being 30.4% of assets at market value, and by year-end, it constituted 29.0% of assets. In dollars, the value of the stock position decreased from approximately $3.8 billion to about $3.4 billion in 2001-02. The stock index fund represented another $2.4 billion that was invested in stocks at year end. Stock selections during 2001-02 affected a variety of market sectors. At the end of 2001-02, 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 discretionary and information technology sectors and overweightings in the industrial and financial sectors.

On June 30, 2002, the System's entire bond portfolio had a duration of 6.2 years. Its yield to maturity was 5.3%. The average coupon rate for the holdings was 6.4%. As of June 30, 2002, the effective maturity of the fixed income portfolio was 8.9 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 73% of the fixed income investments, including short term cash equivalents, will mature by the end of 2014, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

PORTFOLIO RETURNS

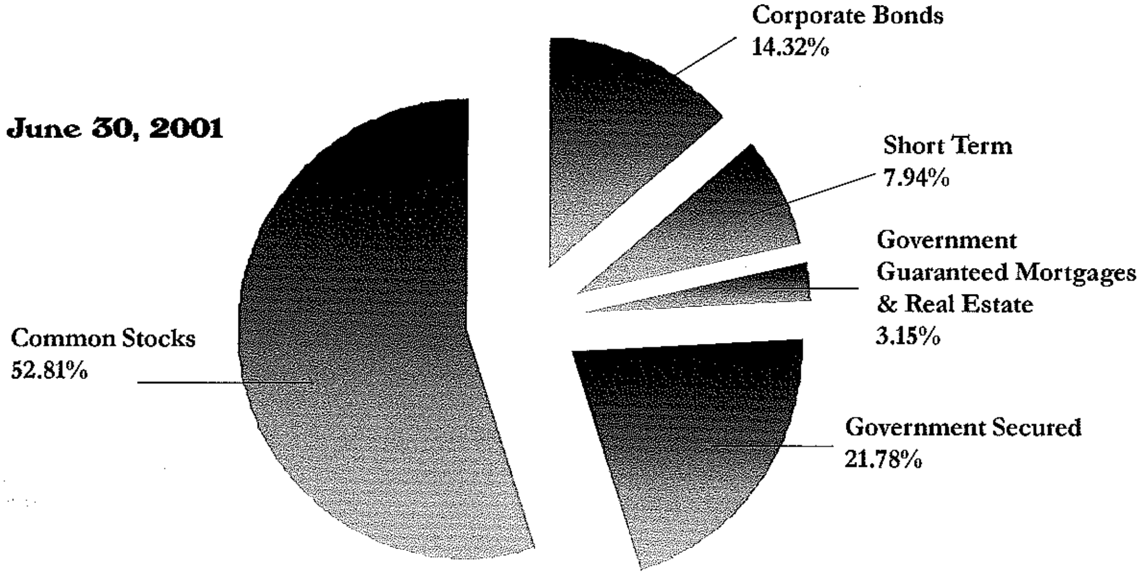
The investment portfolio experienced growth in its book value during the 2001-02 year, while its market value decreased. The market value of the portfolio decreased $716.3 million to a total of $11.8 billion at year-end. The book value of the fund increased $234.6 million during the year. The System accumulated in excess of $441 million of investment income during 2001-02; 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 realized gains. At year-end, the "net indicated yield" on fixed income investments at book value was 5.2%. The "indicated dividend yield" on common stocks was 1.5%.

For the 2001-02 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 (14.5)% in 2001-02, while the stock index earned (18.0)%. The ten year annualized return for the years 1993 through 2002 was 11.9% for the System's stock position and 11.4% for the stock index. The System's bond position earned a ten year annualized total return of 7.5%. This is slightly better than the 7.4% return earned by the Lehman Brothers Government/Credit Index. In 2001-02, the System's bonds earned a total return of 9.5%, while the Lehman Brothers Index earned 8.3%. The entire portfolio earned a total return of (4.1)% in 2001-02. The portfolio's ten year annualized rate of total return was 9.0%. The total return of the portfolio over ten years more than kept up with the rate of inflation and provided real growth. In 2001-02, the Consumer Price Index registered an inflation rate of 1.1%. The ten year annualized rate was 2.5%. The System conforms to "AIMR Performance Presentation Standards" in calculating portfolio returns.

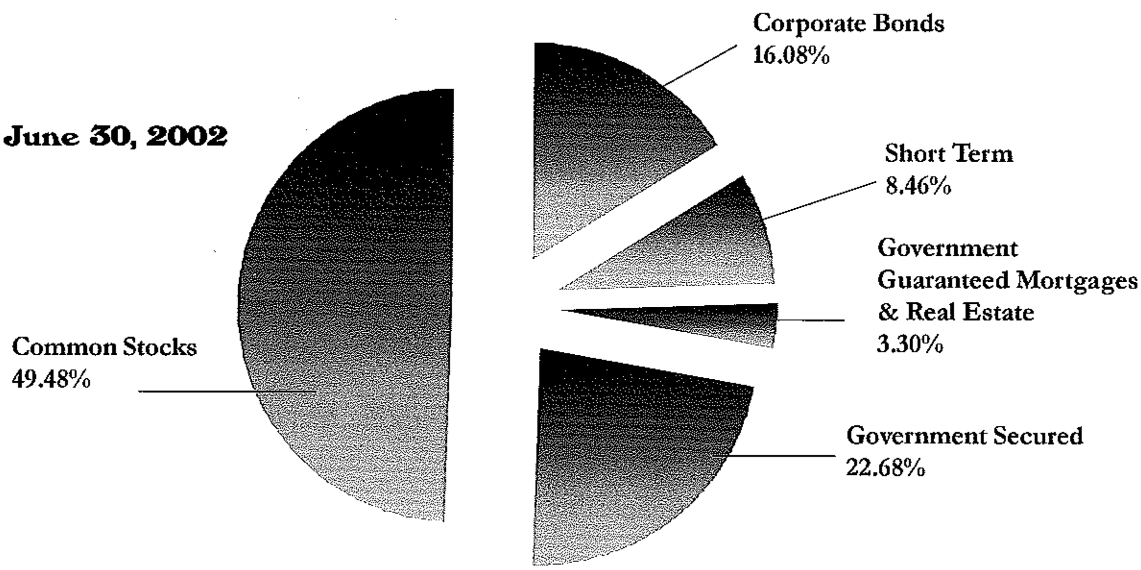
The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs. Following the charts is a summary description of investments held at June 30, 2002. The System annually produces a detailed investment report that is available on request.

Distribution of Investments
Market Values

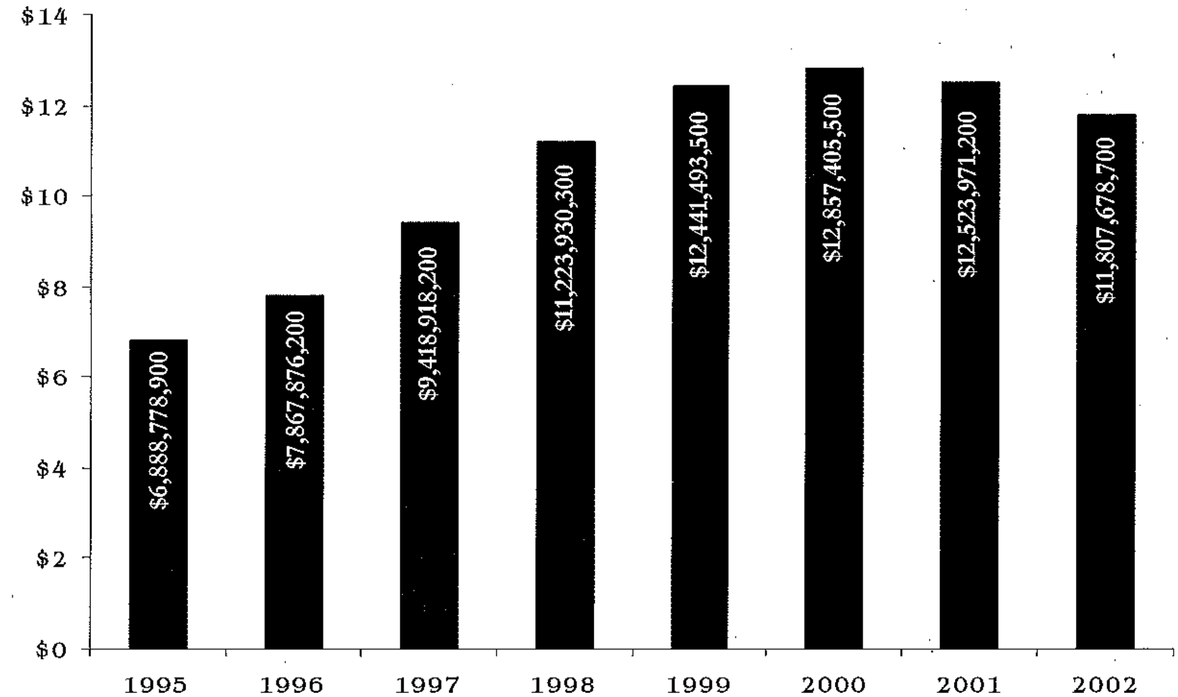
June 30, 2001



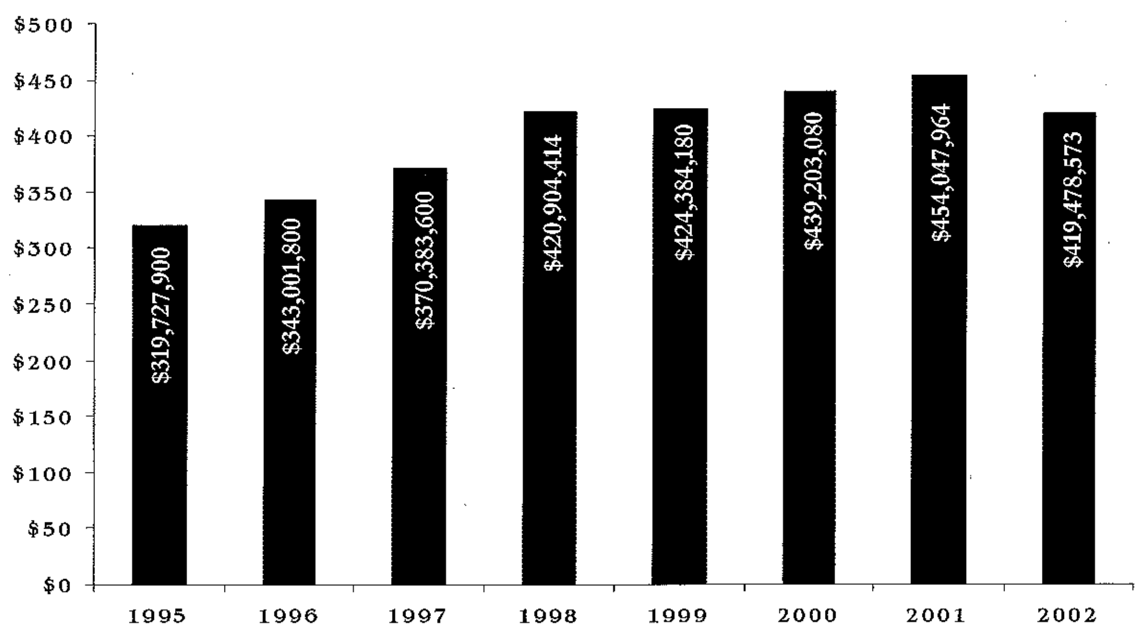
June 30, 2002



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 Bonds	Consumer Price Index	KTRS Cash Collection Fund	KTRS Real Estate	KTRS Total Portfolio
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)	(0.9)	2.5	3.6	7.2	0.7
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	10.9	3.3	6.0	9.5	(0.7)
2001-02	(18.0)	(14.5)	8.3	9.5	1.1	2.5	6.0	(4.1)
Three Year Annualized Rate	(9.2)	(6.9)	7.9	8.4	2.7	4.8	8.4	(0.3)
Five Year Annualized Rate	3.7	4.9	7.5	7.8	2.3	5.1	8.9	5.7
Eight Year Annualized Rate	12.5	13.0	7.8	7.9	2.5	5.5	9.4	9.7
Ten Year Annualized Rate	11.4	11.9	7.4	7.5	2.5	5.0	9.1	9.0

* *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
06/30/2002

Type of Investment	Fair Value 07/01/01	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/02
Short Term	994,200,000	35,650,476,400	723,600	35,646,200,000	999,200,000
Fixed Income	4,613,416,100	1,576,979,700	152,460,100	1,714,815,700	4,628,040,200
Equities	6,916,355,100	1,539,743,200	(1,082,468,600)	1,193,191,200	6,180,438,500
TOTAL	12,523,971,200	38,767,199,300	(929,284,900)	38,554,206,900	11,807,678,700

Contracted Investment Management Expenses
($ Thousands) as of 06/30/2002

	Assets Under Management	Expenses	Basis Points *
INVESTMENT MANAGER FEES			
Fixed Income Managers	$ 1,026,431	$ 368	3.6
Equity Managers	2,240,781	2,623	11.7
Balanced Manager	2,320,004	780	3.4
TOTALS	$ 5,587,216	$ 3,771	6.7
OTHER INVESTMENT SERVICES			
Custodian Services	$ 11,807,679	$ 429	0.4
Investment Consultant		45	
TOTAL		$ 474	
GRAND TOTAL		$ 4,245	

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

Transaction Commissions

06/30/2002

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
A B WATLEY	67,800	3,390.00	0.0500
A G EDWARDS	1,607,800	80,390.00	0.0500
ABN AMRO	80,300	5,982.00	0.0745
ADAMS HARKNESS & HILL	216,300	17,644.00	0.0816
ADVEST INC	1,303,000	65,150.00	0.0500
AUTRANET INC	18,900	756.00	0.0400
B B & T INVESTMENT SERVICES	77,700	3,885.00	0.0500
B TRADE SERVICES	647,400	12,905.50	0.0199
BANC OF AMERICA	232,500	17,555.00	0.0755
BEAR STEARNS & CO	505,650	63,392.50	0.1254
BERNSTEIN SANFORD & CO	162,700	8,135.00	0.0500
BOENNING & SCATTERGOOD	652,350	22,924.00	0.0351
BRANDT ROBERT	43,500	1,604.00	0.0369
BRIDGE TRADING CO	259,100	4,789.00	0.0185
C L KING & ASSOCIATES	36,600	1,464.00	0.0400
C S FIRST BOSTON	5,367,270	352,287.10	0.0656
CANTOR FITZGERALD	181,100	11,455.00	0.0633
CE UNTERBERG HARRIS TOWBIN	221,800	25,130.00	0.1133
CIBC WORLD MARKETS	435,600	23,791.00	0.0546
CITATION GROUP	40,852	2,042.60	0.0500
COWEN & CO	1,617,100	62,815.00	0.0388
CUTTONE & CO	1,000	30.00	0.0300
D A DAVIDSON & CO	13,800	690.00	0.0500
DAIN RAUSCHER INC	110,000	7,847.00	0.0713
DEUTSCHE MORGAN	1,133,800	88,225.00	0.0778
DRESDNER KLEINWORT	38,900	1,945.00	0.0500
FACTSET DATA	139,600	6,980.00	0.0500
FIRST UNION CAPITAL	1,775,800	90,587.00	0.0510
FLEETBOSTON ROBERTSON STEPHENS	855,200	70,776.00	0.0828
FREIDMAN BILLINGS	69,200	24,500.00	0.3540
GARBAN INTERCAPITAL	10,100	505.00	0.0500
GERARD KLAUER MATTIS	4,700	235.00	0.0500
GOLDMAN SACHS	4,737,484	232,401.20	0.0491
GORDON HASKET & CO	144,900	5,796.00	0.0400
HAMBRECHT & QUIST	2,200	264.00	0.1200
HEFLIN & CO	529,200	21,198.00	0.0401
HERZOG HEINE GEDULD	191,675	22,205.00	0.1158
HOEFER & ARNETT INC	14,030	1,683.60	0.1200
HOWE BARNES INVESTMENTS	14,900	1,788.00	0.1200
INSTINET	2,117,200	47,082.50	0.0222
INVESTMENT TECHNOLOGY	10,231,085	215,237.42	0.0210
ISI GROUP	1,541,400	77,070.00	0.0500
JEFFERIES & CO	2,336,152	162,017.60	0.0694
JJB HILLIARD WL LYONS	1,376,600	68,830.00	0.0500
JOHNSON RICE & CO	19,000	760.00	0.0400
JONES & ASSOCIATES	744,000	31,648.00	0.0425
JP MORGAN CHASE & CO	1,299,100	95,325.00	0.0734
KEEFE BRUYETTE & WOODS	130,000	9,608.00	0.0739
KENNY & CO LLC	1,900	57.00	0.0300
KNIGHT SECURITIES	397,800	27,869.50	0.0701
LAZARD FRERES & CO	4,015,147	223,362.48	0.0556
LEERINK SWANN & CO	1,400	168.00	0.1200

Transaction Commissions continued . . .

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
LEGG MASON WOOD WALK	1,458,300	74,931.00	0.0514
LEHMAN BROTHERS	2,457,361	120,149.05	0.0489
LEXINGTON INVESTMENT CO	878,100	48,651.00	0.0554
MCDONALD INVESTMENTS	43,400	5,208.00	0.1200
MERRILL LYNCH	13,349,831	638,186.13	0.0478
MIDWEST RESEARCH	43,000	2,150.00	0.0500
MILLER JOHNSON STEIC	26,500	3,180.00	0.1200
MORGAN KEEGAN	1,148,750	57,437.50	0.0500
MORGAN STANLEY DEAN WITTER	4,724,695	301,074.75	0.0637
NEEDHAM & CO	36,800	4,172.00	0.1134
OTA LIMITED PARTNERS	31,200	1,560.00	0.0500
PAINE WEBBER INC	6,652,543	359,654.15	0.0541
PCS SECURITIES	21,200	1,060.00	0.0500
PRUDENTIAL SECURITIES	1,057,129	66,945.45	0.0633
R W BAIRD	83,100	7,162.00	0.0862
RAYMOND JAMES & ASSOCIATES	3,191,740	170,574.00	0.0534
ROBINSON HUMPHREY CO	70,100	26,832.00	0.3828
SANDERS MORRIS	92,000	3,680.00	0.0400
SANDLER O'NEILL	128,300	7,890.00	0.0615
SCHWAB CHARLES & CO	1,000	50.00	0.0500
SMITH BARNEY SALOMON	3,348,993	230,620.85	0.0689
SPEAR LEEDS & KELLOGG	1,237,690	67,572.30	0.0546
STANDARD & POORS	271,000	12,941.00	0.0478
STATE STREET BROKERAGE	12,000	353.00	0.0294
STEPHENS INC	29,700	1,485.00	0.0500
STIFEL NICHOLAUS & CO	3,900	3,900.00	1.0000
SUNTRUST EQUITIES	2,100	105.00	0.0500
THOMAS WEISEL PARTNERS	337,500	22,188.00	0.0657
THOMSON INSTITUTIONAL	41,900	1,905.00	0.0455
TUCKER CLEARY GULL	24,300	1,215.00	0.0500
U S BANCORP PIPER JAFFRAY	339,400	27,015.00	0.0796
WARBURG SECURITIES UBS DILLON READ	648,094	67,547.74	0.1042
WEEDEN & CO	3,234,600	179,248.00	0.0554
WIT SOUNDVIEW TECH	958,805	36,460.10	0.0380
TOTAL	93,757,626	4,877,281.02	0.0520

The over-the-counter commission rate on medium to large capitalization stocks is assumed to be $0.05 per share. The acquisition of initial public offerings (IPOs) represented a 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 2001-02, the System bought small capitalization IPOs that generated $267,030.43 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 $4,877,281.02. Typical stock transactions occur at lower commission rates than IPO transactions, 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 $413,190.19 were associated with third party research obligations. The primary research providers were: Bloomberg, Capital Management Science, Capital Resource Advisors, and Vestek.

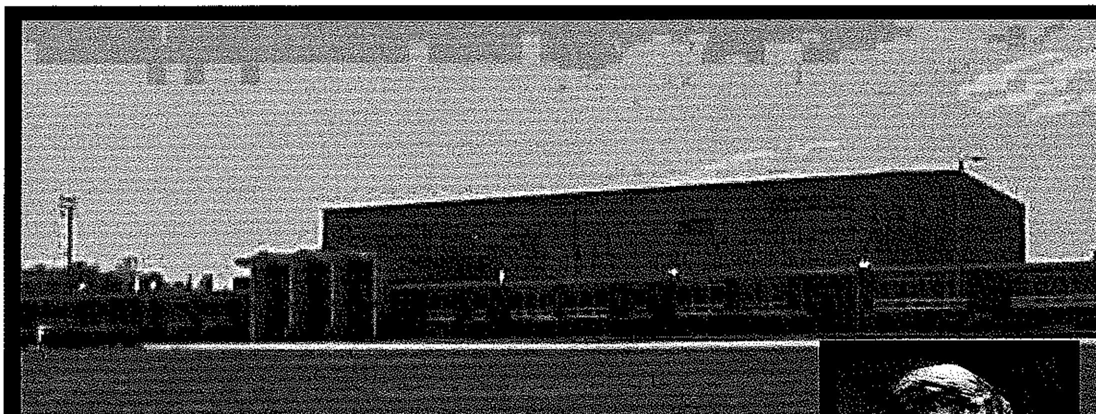
Schedule of Investments
as of June 30, 2002

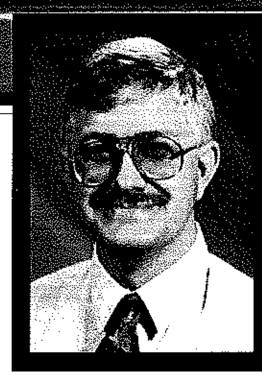
Investment		Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value
Repurchase Agreements		999,200,000.00	999,200,000.00	8.46
Total Short Term		999,200,000.00	999,200,000.00	8.46
Treasury Notes and Bonds		1,094,835,000.00	1,213,862,044.15	10.28
Agencies		1,043,702,093.79	1,091,248,714.77	9.24
GNMA (Single Family)		156,065,330.87	160,478,011.17	1.36
Collateralized Mortgage Obligations		42,388,327.55	43,355,451.35	0.37
Treasury Strip Bonds		178,170,080.00	141,536,416.38	1.20
Total U.S. Government Obligations		2,515,160,832.21	2,650,480,637.82	22.45
Industrials		634,072,190.12	657,606,627.98	5.57
Finance		948,014,708.44	991,087,047.60	8.39
Utility Bonds (Except Telephone)		121,450,000.00	125,744,817.85	1.07
Telephone Bonds		141,280,000.00	123,346,419.34	1.05
Railroad Obligations		107,000.00	108,359.76	0.00
Total Corporate Bonds		1,844,923,898.56	1,897,893,272.53	16.08
FHA & VA Single Family Mortgages		185,552.78	214,684.58	0.00
Project Mortgages (FHA & GNMA)		44,595,687.88	52,398,595.37	0.44
State and Local Government Issues		24,900,000.00	27,052,969.00	0.23
Total Other Fixed Income		69,681,240.66	79,666,248.95	0.67
Subtotal (Fixed Income)		5,428,965,971.43	5,627,240,159.30	47.66
Real Estate Equity		345,105,394.53	338,130,190.00	2.86
Total Real Estate Equity		345,105,394.53	338,130,190.00	2.86
Common Stocks	87,034,927 Shares	3,526,664,964.50	3,116,197,872.30	26.39
Small Cap Stocks	19,382,189 Shares	312,752,524.68	308,088,248.57	2.61
Stock Index	76,285,756 Shares	2,638,897,979.71	2,418,022,215.08	20.48
Total Stocks	182,702,872 Shares	6,478,315,468.89	5,842,308,335.95	49.48
Subtotal (Equity)		6,823,420,863.42	6,180,438,525.95	52.34
Total Investments		12,252,386,834.85	11,807,678,685.25	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, 2002. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.

ACTUARIAL SECTION

TODD COUNTY HIGH SCHOOL IN ELKTON, KENTUCKY





ARTHUR GREEN
ACTIVE TEACHER TRUSTEE
KTRS BOARD OF TRUSTEES

ARTHUR GREEN has served on the KTRS Board of Trustees since 1996. Mr. Green has over twenty-eight years as an Agriculture Teacher at Todd County Central High School in Elkton, Kentucky. He holds B.S. and M.S. degrees plus Rank I from Murray State University. Mr. Green is an active member at the local, district, and state levels of the Kentucky Education Association, serving on numerous committees. He is a delegate and Parliamentarian to the KEA Assembly and has served ten years on the Board of Directors. He also served on the National Education Board of Directors and Resolution Committee for six years. He is past President of the Kentucky Vocational Agriculture Teachers' Association. Mr. Green is a member of the state and national vocation organization, Educational Professional Standards Board, and National Agriculture Education Association.

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

December 5, 2002

Board of Trustees
Teachers' Retirement System of the State of Kentucky
479 Versailles Road
Frankfort, KY 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 annual actuarial valuation prepared as of June 30, 2002. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that combined member and State contributions at the rate of 20.07% of university members' salaries and 23.03% of non-university members' salaries are sufficient to support the benefits of the System. We are recommending that 0.95% of the contribution towards the Medical Insurance Fund and 0.06% of the contribution towards the Life Insurance Fund be allocated to the Retirement System in order to amortize the unfunded liability of the Retirement System within a period of less than 30 years. We also recommend that 0.69% be contributed to the Life Insurance Fund and 2.05% to the Medical Insurance Fund.

The valuation takes into account the effect of amendments to the System enacted through the 2002 Session of the Legislature.

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 30-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 Schedule A, Schedule B, Schedule C, 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, Consulting Actuary

Report of Actuary on the Valuation
Prepared as of June 30, 2002
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, 2002	June 30, 2001
Number of active members	54,175	53,570
Annual salaries	$ 2,313,663	$ 2,213,772
Number of annuitants and beneficiaries	33,457	31,761
Annual allowances[1]	$ 776,476	$ 697,170
Assets		
Market value	$ 11,734,029	$ 12,496,954
Actuarial value	$ 13,588,847	$ 13,299,161
Unfunded actuarial accrued liability	$ 2,106,726	$ 1,342,968
Amortization period (years)	30	26

Contribution rates:	University (2002)	Non-University (2002)	University (2001)	Non-University (2001)
Pension Plan:				
Normal	14.44%	18.22%	14.21%	18.19%
Accrued liability[2]	5.63	4.81	4.58	3.56
Total	20.07%	23.03%	18.79%	21.75%
Member	7.625%	9.105%	7.625%	9.105%
State (ARC)	12.445	12.925	11.135	12.645
Total	20.07%	23.03%	18.79%	21.75%
Life Insurance Fund:				
State	0.69%	0.69%	0.75%	0.75%
Medical Insurance Fund:				
Member	0.75%	0.75%	0.75%	0.75%
State Match	0.75	0.75	0.75	0.75
State Additional	1.30	1.30	2.25	2.25
Total	2.80%	2.80%	3.75%	3.75%
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]	3.56	3.56	3.29	3.29
Total	23.56%	26.52%	23.29%	26.25%

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

[2] *Includes special appropriation of $82,479,500 as of June 30, 2002 and $72,797,000 as of June 30, 2001 as a percentage of payroll.*

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2. The valuation indicates that combined member and State contributions at the rate of 20.07% of salaries for university members and at 23.03% for non-university members are sufficient to support the benefits of the System. We also recommend that 0.69% be contributed to the Life Insurance Fund and 2.05% to the Medical Insurance Fund. Comments on the valuation results as of June 30, 2002 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.

3. Schedule D of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. There have been no changes since the previous valuation.

4. The valuation takes into account the effect of amendments to the System enacted through the 2002 Session of the Legislature. Since the previous valuation, the System has been amended as follows. The benefit formula multiplier has been changed to 2% for members hired on and after July 1, 2002 who retire with less than 10 years of service. The formula multiplier has been increased to 3% for each year of service in excess of 30 years for members who retire on and after July 1, 2004. In addition, the minimum annual retirement allowance has been increased from $335 per year of service to $400 per year of service effective July 1, 2002 and to $440 per year of service effective July 1, 2003. Also, a one-time 1.4% cost-of-living increase was granted effective July 1, 2002 and a one-time 1.5% cost-of-living increase was granted effective July 1, 2003. Provisions of the System which were taken into account in the current valuation are summarized in Schedule E.

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, 2002 on the basis of which the valuation was prepared.

Group	Number	Annual Salaries ($1,000)
Men	13,798	$ 654,750
Women	40,377	1,658,913
Total	54,175	$ 2,313,663

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.

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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, 2002

Group	Number	Annual Retirement Allowances[2] ($1,000)
Service Retirements	28,987	$ 705,898
Disability Retirements	1,810	37,439
Beneficiaries of Deceased Members[1]	2,217	30,406
Total	33,014	$ 773,743

[1] In addition, there are 443 beneficiaries entitled to term-certain only annuities totaling $2,733,882 annually.

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

Section III - ASSETS

1. As of June 30, 2002 the market value of Pension Plan assets for valuation purposes held by the System amounted to $11,734,028,537. This value excludes assets in the Medical Insurance Fund, the 403(b) Program Reserve Fund, and the Life Insurance Fund, which are not included in the assets used for valuation purposes.

2. The five-year market related value of Pension Plan assets used for valuation purposes as of June 30, 2002 was $13,588,847,348. Schedule B shows the development of the actuarial value of assets as of June 30, 2002.

3. Schedule C shows the receipts and disbursements for the year preceding the valuation date and a reconciliation of the asset balances for the Pension Plan.

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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 D.

2. The valuation shows that the System has an actuarial accrued liability of $6,878,630 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 $8,608,753 of which $716,259 is for special appropriations remaining to be made toward funding minimum annuities, ad hoc increases and sick leave allowances granted after 1981. The liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is $208,192. The total actuarial accrued liability of the System amounts to $15,695,574. Against these liabilities, the System has present assets for valuation purposes of $13,588,847. When this amount is deducted from the actuarial accrued liability of $15,695,574, there remains $2,106,726 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 14.44% of payroll for university members and 18.22% 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. For the fiscal 2003/2004 fiscal year, we recommend that the Board allocate 1.30% to the Medical Insurance Fund, leaving 1.95% to be contributed towards the Pension Plan.

3. Therefore, 9.575% of active university members' salaries and 11.055% for active non-university members is available for the Pension Plan and Life Insurance Fund. Of this amount, 0.69% of payroll will be allocated to the Life Insurance Fund. An additional appropriation of $82,479,500, or 3.56% of total payroll will be made by the State. The total employer contribution rate to the Pension Plan is, therefore, 12.445% for university members and 13.925% for non-university members. The total member and employer contribution rates to the Pension Plan are shown in the following table.

Total Contribution Rates to Pension Plan

Source	University	Non-University
Member	7.625 %	9.105 %
State	12.445	13.925
Total	20.07 %	23.03 %

4. The valuation indicates that normal contributions at the rate of 14.44% of active university members' salaries are required to meet the cost of benefits currently accruing. The normal rate for non-university members is 18.22%. 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 5.63% for university members and 4.81% for non-university members. These rates include special appropriations of $82,479,500 or 3.56% of payroll to be made by the State for the fiscal year ending June 30, 2002. These rates are shown in the following table.

ACTUARIALLY DETERMINED CONTRIBUTION RATES

	PERCENTAGE OF ACTIVE MEMBERS' SALARIES	
Rate	University	Non-University
Normal	14.44 %	18.22 %
Accrued Liability*	5.63	4.81
Total	20.07 %	23.03 %

**Includes special appropriations of $82,479,500 or 3.56% of payroll to be made by the State for the fiscal year ending June 30, 2002.*

5. The unfunded actuarial accrued liability amounts to $2,106,726,000 as of the valuation date. Accrued liability contributions at the rate of 5.63% of active university members' payroll and 4.81% of non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over the 30 year period commencing June 30, 2002, based on the assumption that the payroll will increase by 4.0% annually.

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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. However, for members who join the System on or after July 1, 2002 and retire with less than 10 years of service, the benefit percentage is 2.0%. For members who retire on or after July 1, 2004, the benefit percentage for service earned in excess of 30 years will be 3.0%. The total net contribution rate is 23.03% of payroll for non-university members. For university members the benefit percentage is 2.0% for all service and the contribution rate is 20.07%. Our calculations indicate that these contribution rates will be sufficient to cover the 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, if continued at the current level percentage, 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 and the change in benefit structure has produced an increase in the funding period for the unfunded actuarial accrued liability from 26 years to 30 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 $763,758,000 in the unfunded accrued liability from $1,342,968,000 to $2,106,726,000 during the year ending June 30, 2002.

ITEM	Amount of Increase/ (Decrease)
Interest (7.50%) added to previous unfunded accrued liability	$ 100,723
Accrued liability contribution	(80,581)
Experience:	
Valuation asset growth	463,705
Pensioners' mortality	23,192
Turnover and retirements	(82,380)
New entrants	13,408
Salary Increases	77,672
Method changes	0
Amendments	248,019
Assumption changes	0
TOTAL	$ 763,758

(Dollar amounts in thousands)

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, 2002

GROUP	NUMBER
Retirees and Beneficiaries currently receiving benefits	33,457
Terminated employees entitled to benefits but not yet receiving benefits	5,995
Active Plan Members:	54,175
TOTAL	**93,627**

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)
06/30/97	$ 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
06/30/01 ***	13,299,161	14,642,129	1,342,968	90.8	2,213,772	60.7
06/30/02	13,588,847	15,695,574	2,106,726	86.6	2,313,663	91.1

* *Reflects changes in interest rate and salary increase assumptions.*
** *Reflects change in asset valuation method and System amendments.*
*** *Reflects change in decremental assumptions.*

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3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2002. Additional information as of the latest actuarial valuation follows.

Valuation Date	06/30/2002
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 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, 2000	$ 311,286,811	100%	$0
June 30, 2001	$ 262,791,748	100%	$0
June 30, 2002	$ 284,794,710	100%	$0

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SCHEDULE A

Results of the Valuation
Prepared as of June 30, 2002
($1,000)

1.	**ACTUARIAL ACCRUED LIABILITY**		
	Present value of prospective benefits payable in respect of:		
(a)	Present active members:		
	• Service retirement benefits	$ 6,482,784	
	• Disability retirement benefits	229,074	
	• Death and survivor benefits	43,711	
	• Refunds of member contributions	123,061	
	Total		$ 6,878,630
(b)	Present inactive members and members entitled to deferred vested benefits:		208,191
(c)	Present annuitants and beneficiaries		
	• Service retirement benefits		
	• Disability retirement benefits	$ 7,998,003	
	• Death and survivor benefits	315,347	
		295,403	
	Total		8,608,753
(d)	Total actuarial accrued liability		$ 15,695,574
2.	**PRESENT ASSETS FOR VALUATION PURPOSES**		13,588,847
3.	**Unfunded Actuarial Accrued Liability** [(1) MINUS (2)]		$ 2,106,726

4. NORMAL CONTRIBUTION RATE

		UNIVERSITY	NON-UNIVERSITY
(a)	Actuarial present value of benefits accruing annually	$ 21,163	$ 394,743
(b)	Annual payroll of active members	$ 143,534	$ 2,167,129
(c)	Normal contribution rate [4(a) divided by 4(b)]	14.44%	18.22%

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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
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
2001	2,215.5	8,037.0	4,389.6	13,299.2
2002	2,303.3	8,816.9	4,576.4	13,588.8

	Fiscal Year	(1)	(2)	(3)
Portion of Accrued Liabilities Covered by Assets	1997	100 %	100 %	68 %
	1998	100	100	70
	1999	100	100	92
	2000	100	100	86
	2001	100	100	69
	2002	100	100	54

SCHEDULE B

Development of June 30, 2002
Actuarial Value of Assets

1.	Actuarial Value of Assets on June 30, 2001	$ 13,299,160,957
2.	2001/2002 Net Cash Flow	
	a. Contributions	509,156,163
	b. Disbursements	744,381,202
	c. Net Cash Flow (2)a - (2)b	(235,225,039)
3.	Expected Investment Return [(1) x .075] + [(2)c x .0375]	988,616,133
4.	Expected Actuarial Value of Assets on June 30, 2002 (1) + (2)c + (3)	14,052,552,051
5.	Market Value of Assets on June 30, 2002	11,734,028,537
6.	Excess of Market Value over Expected Actuarial Value (5) - (4)	(2,318,523,514)
7.	20% Adjustment towards Market Value .20 x (6)	(463,704,703)
8.	Actuarial Value of Assets on June 30, 2002 (4) + (7)	$ 13,588,847,348

SCHEDULE C

Pension Plan Assets
Summary of Receipts & Disbursements*
(Market Value)

	For the Year Ending	
RECEIPTS FOR THE YEAR	June 30, 2002	June 30, 2001
Contributions		
Members	$ 224,361,453	$ 208,702,802
Employers	284,794,710	262,791,748
Total	$ 509,156,163	$ 471,494,550
Net Investment Income	(521,014,197)	(105,150,672)
TOTAL	(11,858,034)	366,343,878
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	735,234,382	669,876,605
Refunds to Members	9,146,820	10,673,981
Medical Insurance Premium	0	0
Miscellaneous, including expenses	6,677,819	5,950,036
TOTAL	751,059,021	686,500,622
EXCESS OF RECEIPTS OVER DISBURSEMENTS	(762,917,055)	(320,156,744)
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	12,496,945,592**	12,817,111,179
Excess of Receipts over Disbursements	(762,917,055)	(320,156,744)
Asset Balance as of End of the Year	$ 11,734,028,537	$ 12,496,954,434

* *Excludes assets for Medical Insurance Fund, the 403(b) Program Reserve Fund and the Life Insurance Fund.*
** *Adjusted since previous valuation.*

SCHEDULE D

Outline of Actuarial Assumptions and Methods

The assumptions and methods used in the valuation were selected by the Actuary based on the actuarial experience investigation as of June 30, 2000 and adopted by the Board of Trustees on December 17, 2001.

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:

MALES: Annual Rate of . . .					
AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
20	.003 %	.01 %	8.65%		
25	.010	.01	8.95		
30	.016	.02	6.46		
35	.032	.04	4.49		
40	.048	.08	3.21		
45	.064	.18	2.12	15.00%	
50	.104	.33	2.33	15.00	
55	.216	.55	3.00	25.00	4.00%
60	.375	.87		20.00	
62	.438	1.03		28.00	
65	.566			40.00	
70				100.00	

* *It is also assumed that an additional 15% will retire in the first year eligible for unreduced benefits if before age 60.*

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FEMALES: Annual Rate of . . .					
AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
20	.002%	.03%	7.16 %		
25	.007	.03	8.34		
30	.014	.04	6.30		
35	.026	.07	4.08		
40	.044	.14	2.61		
45	.055	.26	1.92		
50	.066	.42	2.02	15.00%	
55	.085	.64	2.50	30.00	5.00%
60	.122	.91		25.00	
62	.137	1.05		25.00	
65	.159			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	MALE	FEMALE	MALE	FEMALE
45	.2%	.1%	5.1%	4.5%
50	.3	.2	5.1	4.5
55	.5	.2	5.1	4.5
60	.9	.4	5.1	4.5
65	1.7	.7	5.1	4.5
70	2.8	1.4	5.1	4.5
75	4.2	2.6	5.1	4.5
80	6.5	4.4	7.8	6.1
85	10.0	7.5	12.3	10.5
90	15.5	12.8	19.1	17.6
95	21.9	21.1	29.2	28.8

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 B. 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.

Expense Load: None.

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

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SCHEDULE E

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, 2002. 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) 2.0% of final average salary multiplied by service before July 1, 1983, plus
(b) 2.5% of final average salary multiplied by service after July 1, 1983.
(c) For members retiring on or after July 1, 2004, the retirement allowance formula is 3.0% of final average salary for each year of service credit earned in excess of 30 years.
(d) For individuals who become members of the Retirement System on or after July 1, 2002 and have less than 10 years of service at retirement, the retirement allowance is 2.0% of final average salary multiplied by service.

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

The annual retirement allowance for university members is equal to 2.0% of final average salary multiplied by all years of service.

The annual retirement allowance for university members is equal to 2.0% of final average salary multiplied by all years of service.

The minimum annual service retirement allowance is the greater of:

(a) $440 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.

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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 1.50% 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.

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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
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
2001	53,570	2,213,772,000	41,325	2.7
2002	54,175	2,313,663,000	42,707	3.3

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)
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
2001	2,410	77.0	1,128	16.5	31,897	679.8
2002	2,577	86.2	1,063	16.8	33,408	749.2

Fiscal Year	% Increase in Annual Allowances	Average Annual Allowances
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
2001	9.8	21,311
2002	10.2	22,425

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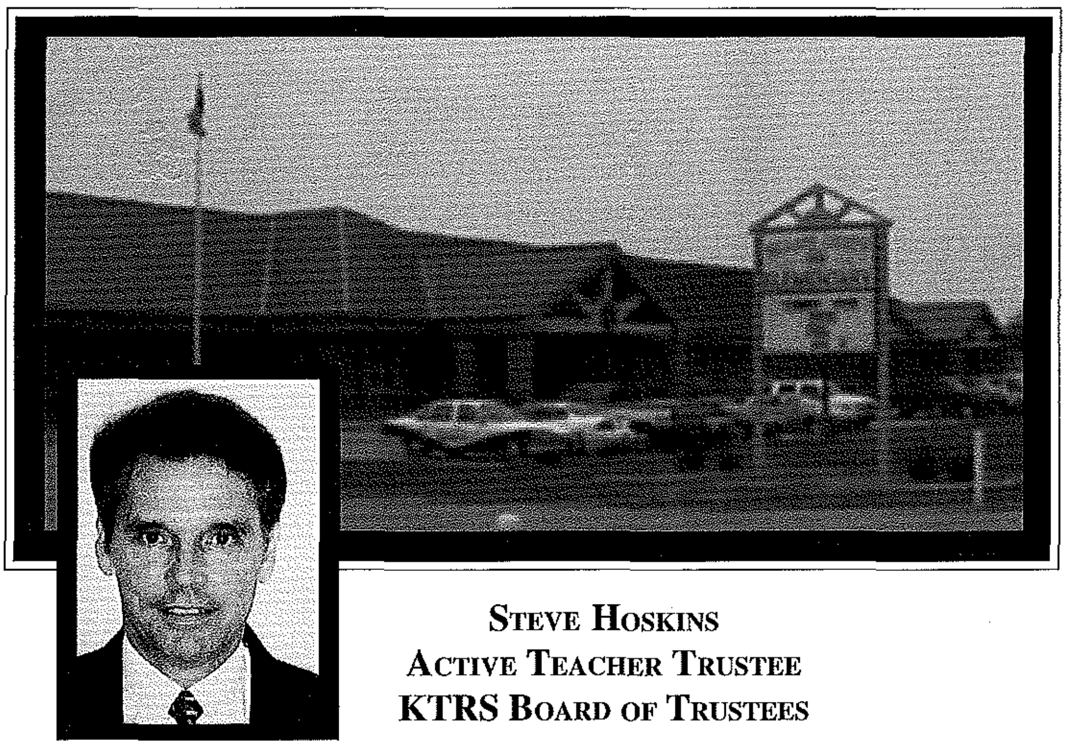
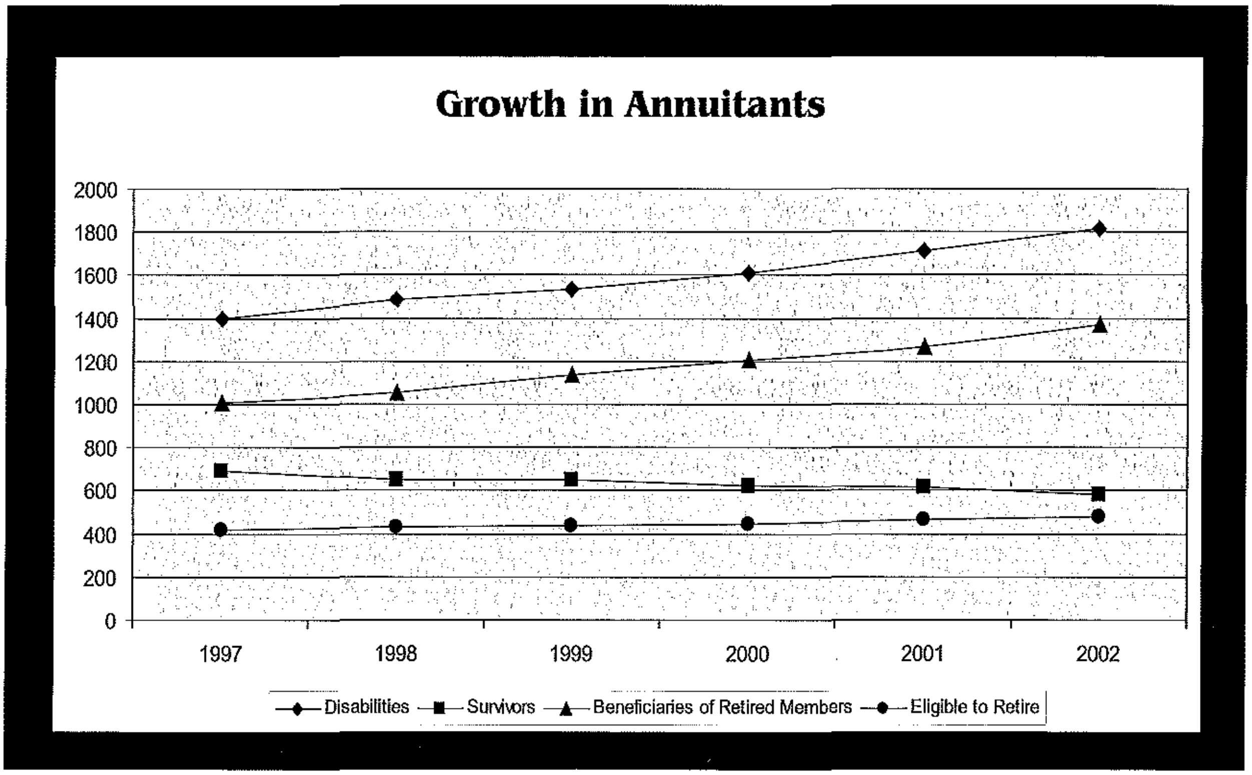
STATISTICAL SECTION

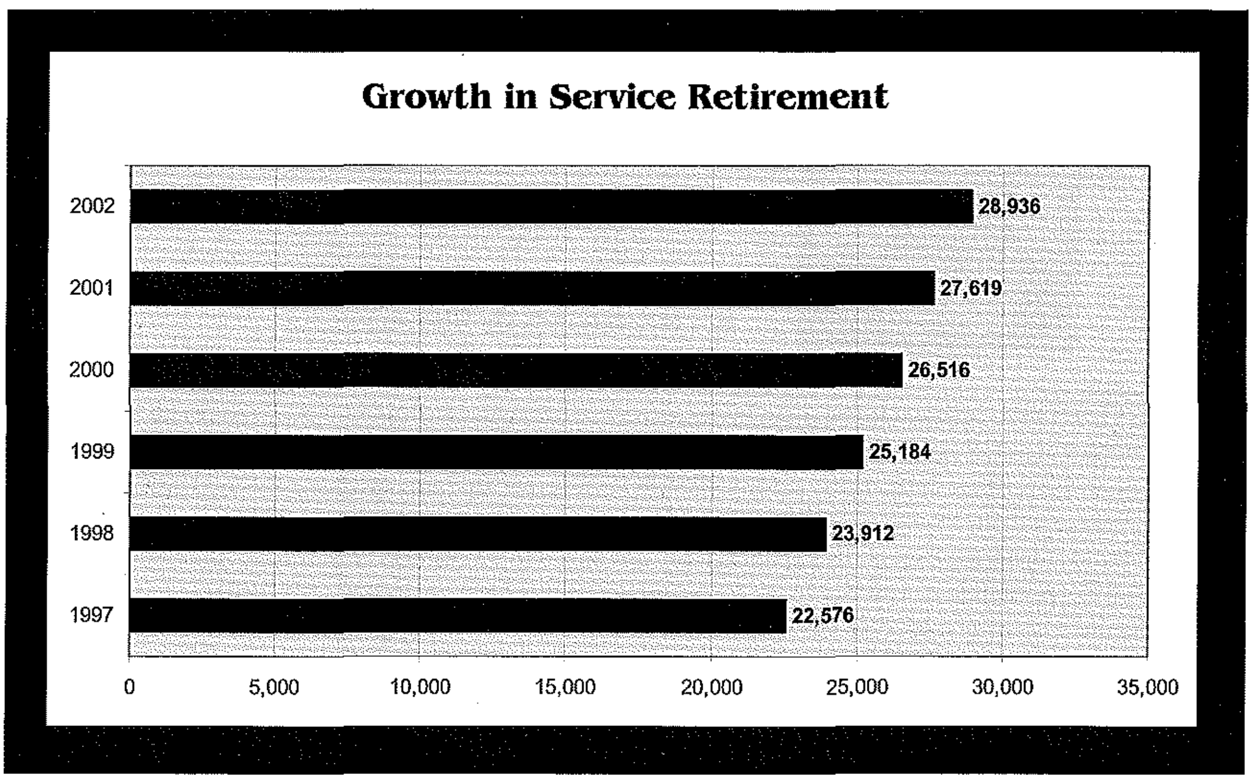
BALLARD ELEMENTARY SCHOOL IN BARLOW, KENTUCKY

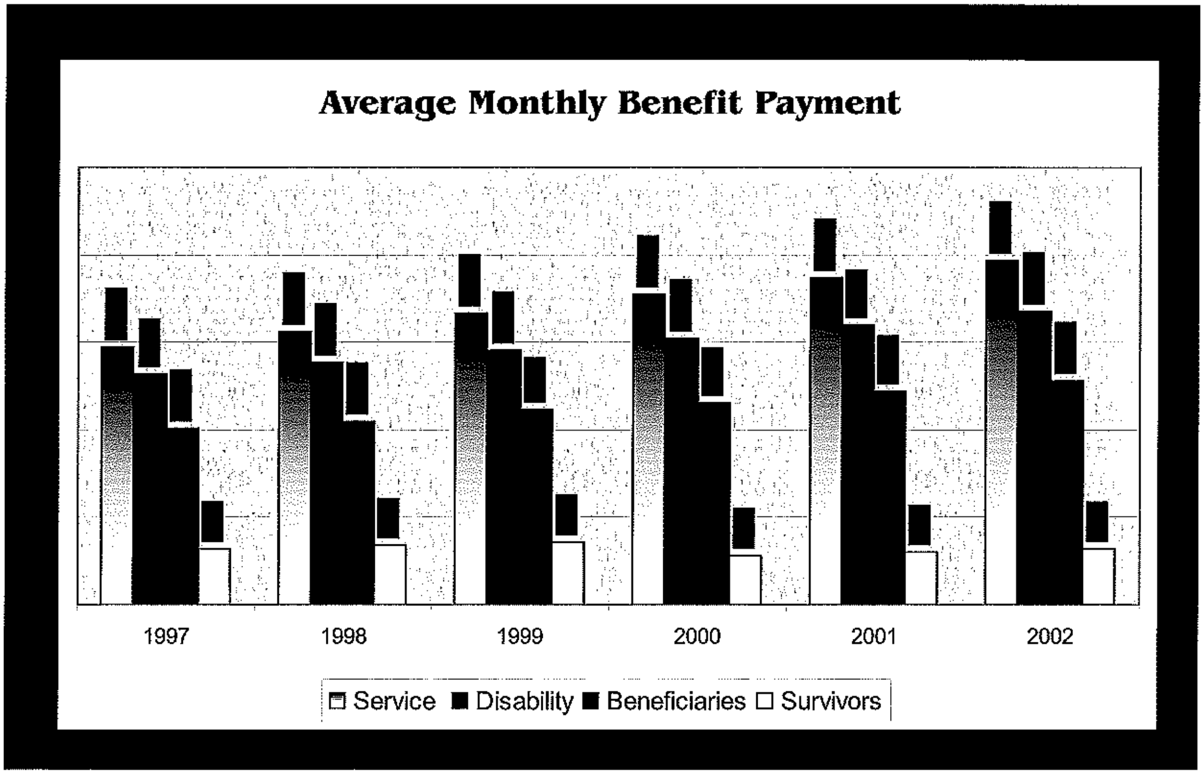


STEVE HOSKINS
ACTIVE TEACHER TRUSTEE
KTRS BOARD OF TRUSTEES

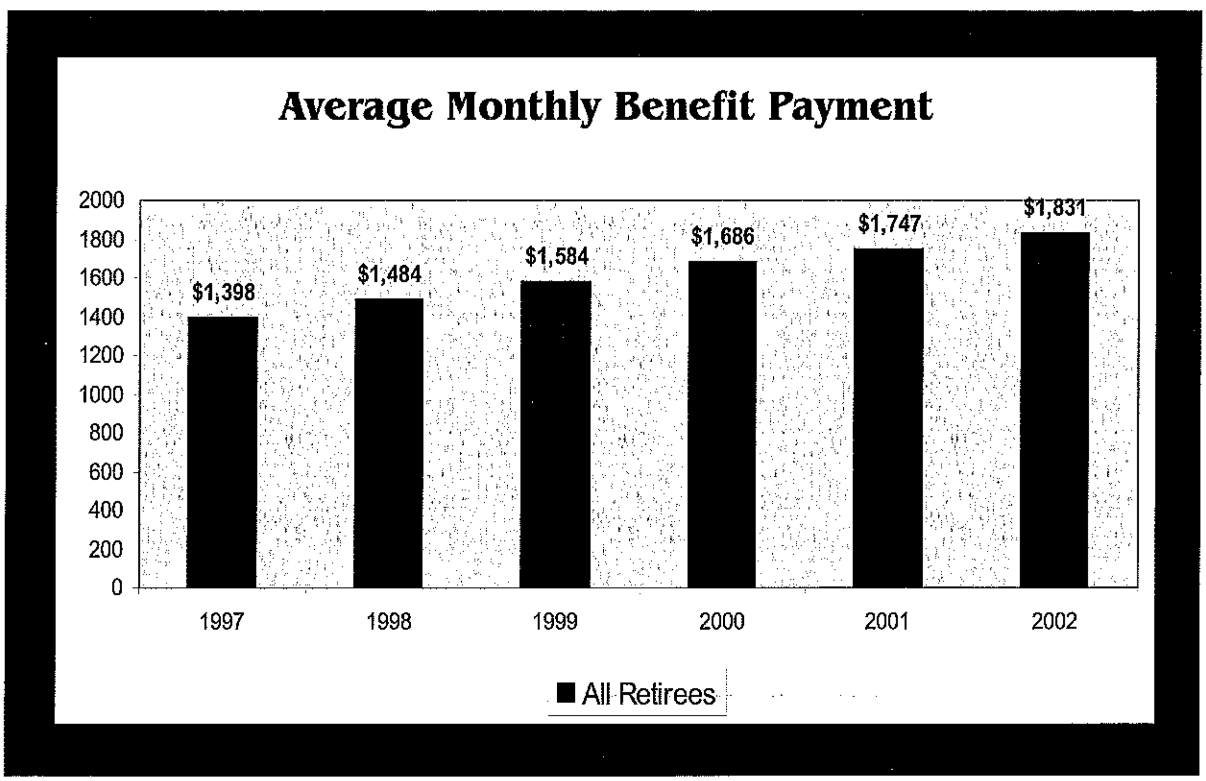
STEVE HOSKINS was elected to the Board in 2000. He received B.S. and Master degrees plus Rank I Certification in Education Administration from Murray State University. Mr. Hoskins has over twenty-two years of experience in Kentucky public schools as teacher, assistant principal, assistant superintendent and superintendent. He served as Superintendent of Carlisle County Schools prior to his employment in 1997 as Superintendent of the Ballard County Schools. He is a member of Kentucky Association of School Superintendents and Kentucky Association of School Administrators. Mr. Hoskins has held numerous leadership roles in professional and civic organizations including President Elect of the West Kentucky Education Cooperative in FY 2000-2001. He serves on governing boards of the Ballard County Economic Development Board and the Great River Rural Economic Development Cooperative.


Growth in Annuitants
2000
1800
1600
1400
1200
1000
800
600
400
200
0
1997
1998
1999
2000
2001
2002
Disabilities
Survivors
Beneficiaries of Retired Members
Eligible to Retire

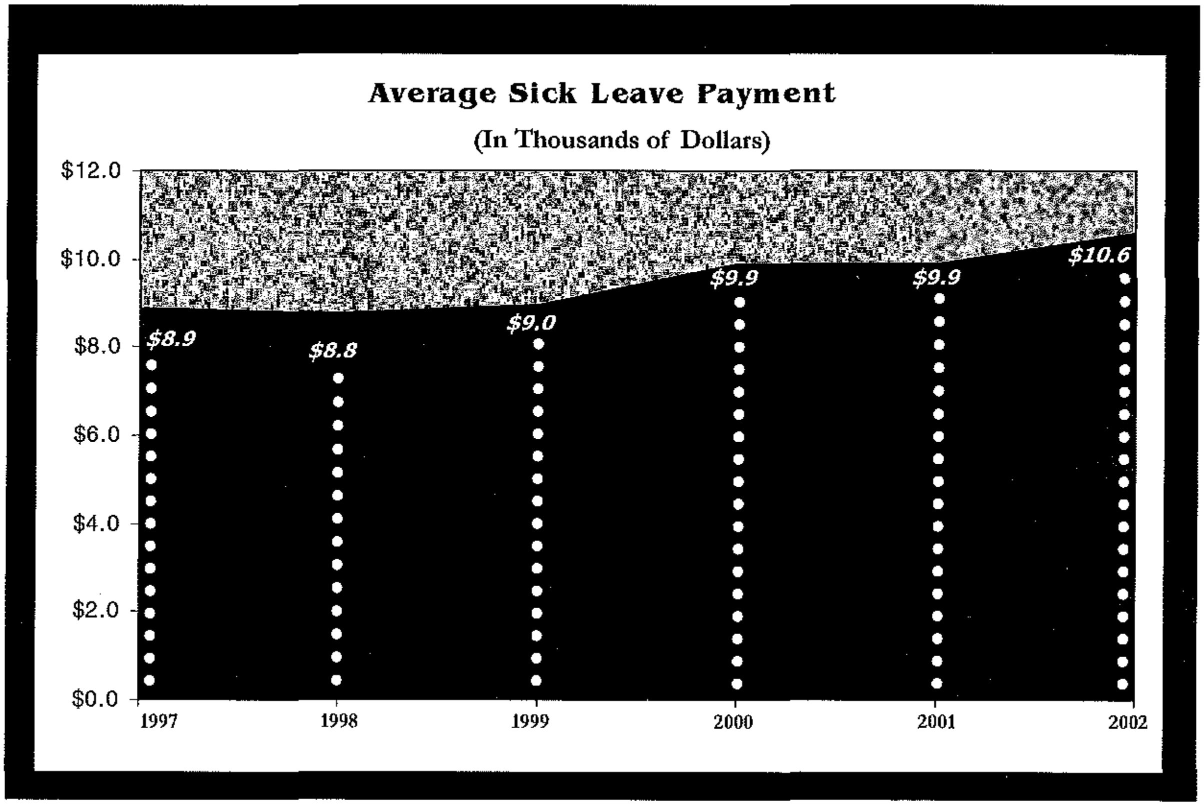

Growth in Service Retirement
2002
28,936
2001
27,619
2000
26,516
1999
25,184
1998
23,912
1997
22,576
0
5,000
10,000
15,000
20,000
25,000
30,000
35,000

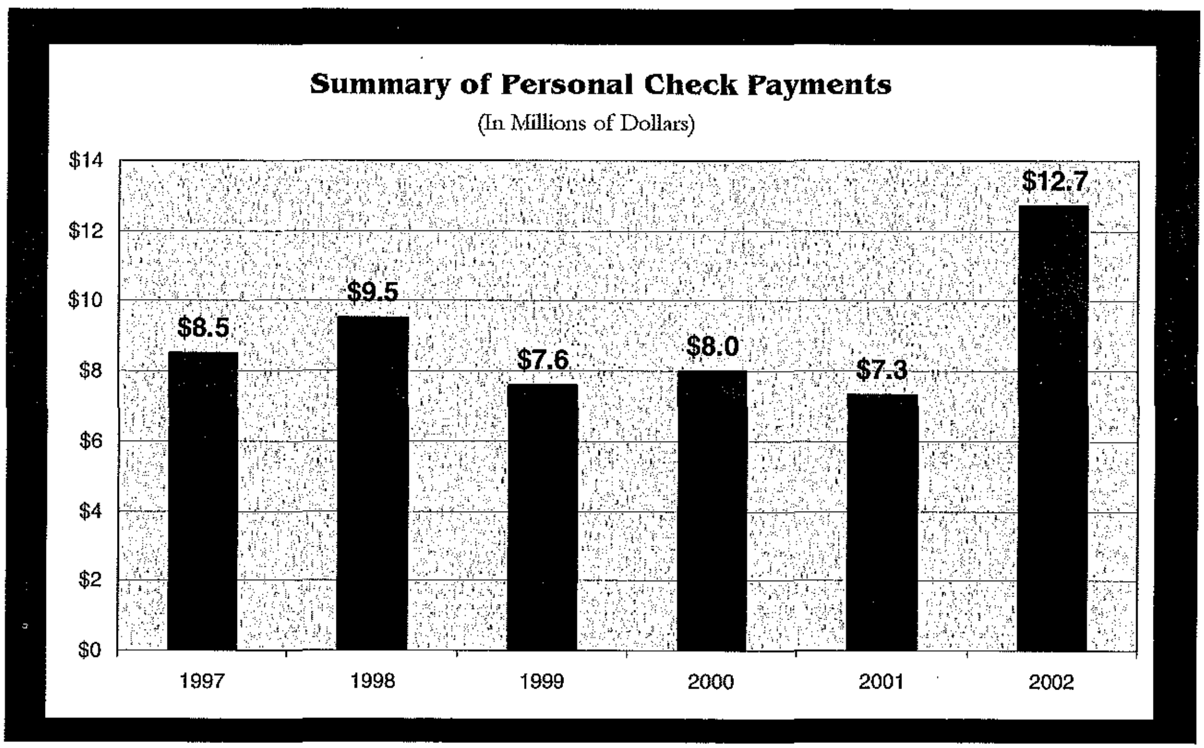


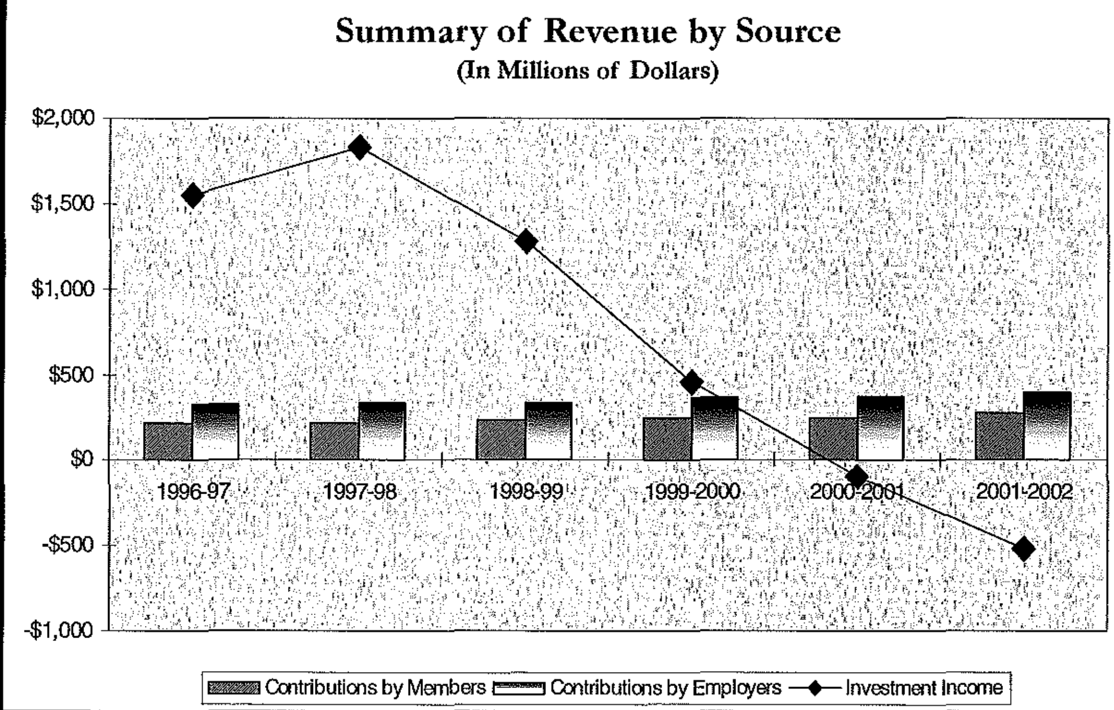
Average Monthly Benefit Payment
1997
1998
1999
2000
2001
2002
Service
Disability
Beneficiaries
Survivors



Average Monthly Benefit Payment
2000
1800
1600
1400
1200
1000
800
600
400
200
0
$1,398
$1,484
$1,584
$1,686
$1,747
$1,831
1997
1998
1999
2000
2001
2002
All Retirees


Average Sick Leave Payment
(In Thousands of Dollars)
$12.0
$10.0
$8.0
$6.0
$4.0
$2.0
$0.0
$8.9
$8.8
$9.0
$9.9
$9.9
$10.6
1997
1998
1999
2000
2001
2002


Summary of Personal Check Payments
(In Millions of Dollars)
$14
$12
$10
$8
$6
$4
$2
$0
$8.5
$9.5
$7.6
$8.0
$7.3
$12.7
1997
1998
1999
2000
2001
2002

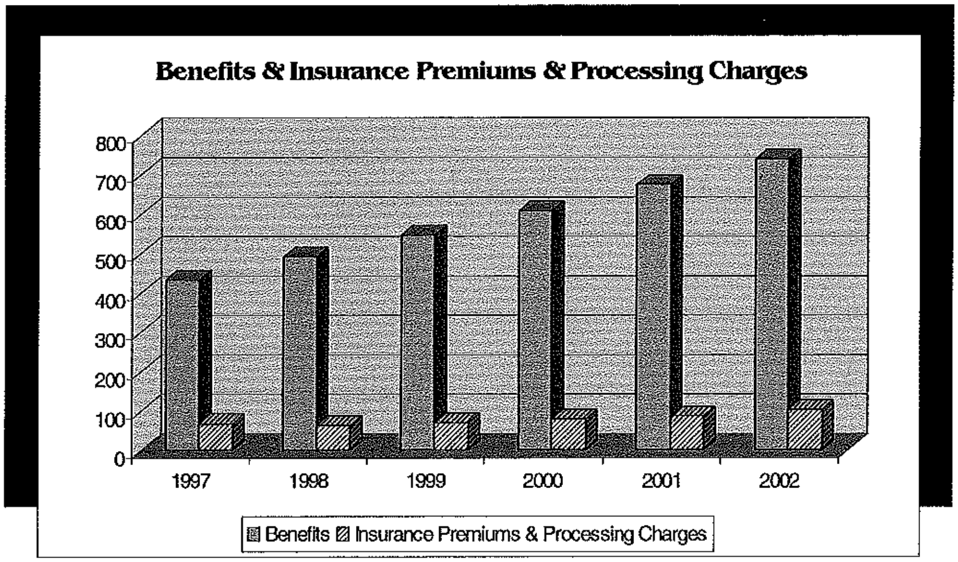


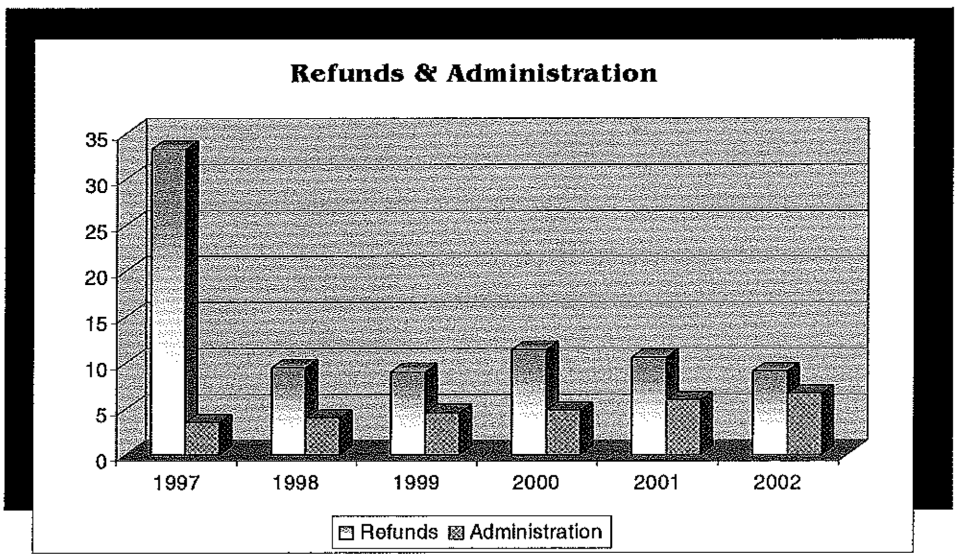
Summary of Revenue by Source

YEAR	CONTRIBUTIONS BY MEMBERS	CONTRIBUTIONS BY EMPLOYERS Dollars	CONTRIBUTIONS BY EMPLOYERS % of Covered Payroll	INVESTMENT INCOME	TOTAL
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
2001-02	270,545,463	398,782,513	17.24	(514,051,220)	155,276,756

Summary of Expenses by Type

(In Millions of Dollars)





YEAR	BENEFITS	INSURANCE PREMIUMS & PROCESSING CHARGES	REFUNDS	ADMINISTRATION
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
2001-02	739,496,928	104,978,915	9,152,886	6,677,819

Schedule of Benefit Expenses by Type

Year Ended	Service Retirants	Disability Retirants	Survivors	Life Insurance	Refunds
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
June 30, 2002	690,785,876	35,947,786	10,532,466	4,210,800	9,152,886

* 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)
2001-02	248,592,121	46,687,129	201,904,992	71,913,789		262,236,026	(11,582,756)

(1) 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 2001-2002 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 2001-2002 Retiree Sick Leave Payments

ACTUARIAL RATE

Grand Total Members Retiring		2,295
Total members receiving sick leave payments		1,693
Total amount of sick leave payments @ 9.855% contribution rate	$	17,995,633.66
Average payment per retiree	$	10,629.44
Total increase in final average salary base	$	4,820,858.09
Average increase in FAS	$	2,847.52
Total service credit of retirees		46,825.94
Average service credit of retirees		27.66
AVERAGE YEARLY ANNUITY	$	1,845.77
AVERAGE MONTHLY ANNUITY	$	153.81
ANTICIPATED LIFETIME PAYOUT OF ADDITIONAL ANNUITY	$	38,795,387.86

Funding of Additional Payments

Member contributions 9.855% x Sick Leave Payment	$	1,773,469.70
State Contributions 13.105% x Sick Leave Payment		2,358,327.79
TOTAL Member-State Contributions	$	4,131,797.49
DEFICIT		
Anticipated additional payout	$	38,795,387.86
Less total member & state contributions		4,131,797.49
Subtotal unfunded debt		34,663,590.37
Less current year appropriations	$	4,187,600.00
TOTAL DEFICIT	$	**30,475,990.37** *

* The sick leave deficit for June 30, 2002 will be amortized over a fifteen year period.

Distribution of Retirement Payments Worldwide

As of June 30, 2002

96	Alabama
4	Alaska
58	Arizona
23	Arkansas
83	California
43	Colorado
7	Connecticut
7	Delaware
1	District of Columbia
753	Florida
144	Georgia
3	Hawaii
3	Idaho
74	Illinois
386	Indiana
9	Iowa
20	Kansas
23	Louisiana
7	Maine
25	Maryland
12	Massachusetts
25	Michigan
13	Minnesota
42	Mississippi
52	Missouri
4	Montana
5	Nebraska
11	Nevada
4	New Hampshire
13	New Jersey
13	New Mexico
33	New York
139	North Carolina
4	North Dakota
408	Ohio
21	Oklahoma
15	Oregon
24	Pennsylvania
1	Rhode Island
73	South Carolina
0	South Dakota
520	Tennessee
132	Texas
10	Utah
2	Vermont
96	Virginia
18	Washington
55	West Virginia
11	Wisconsin
2	Wyoming

Additional Distribution Outside USA

4	CANADA
2	MILITARY APO
1	SWITZERLAND
2	MEXICO
1	PHILIPPINES

TOTAL: Number of Out of State Payments 3,537
TOTAL: Out of State Payments .... $ 54,373,201
TOTAL: Number of Payments 34,592
GRAND TOTAL: Amount of Payments .... $ 735,224,342

Distribution of Retirement Payments Statewide

as of June 30, 2002

County Name	Total Payments	Number of Recipients
Adair	$3,281,084	164
Allen	2,793,007	126
Anderson	2,511,666	132
Ballard	1,538,221	66
Barren	6,590,744	313
Bath	2,181,898	109
Bell	6,801,347	332
Boone	11,868,170	496
Bourbon	3,184,127	150
Boyd	9,193,874	415
Boyle	5,686,772	266
Bracken	1,180,143	58
Breathitt	4,329,229	215
Breckinridge	2,556,605	120
Bullitt	6,669,883	273
Butler	1,461,678	75
Caldwell	2,335,847	117
Calloway	10,088,013	458
Campbell	10,368,920	443
Carlisle	747,588	36
Carroll	1,191,436	55
Carter	5,307,928	261
Casey	2,482,195	131
Christian	8,328,432	387
Clark	4,616,558	215
Clay	4,874,685	235
Clinton	2,249,420	107
Crittenden	963,182	51
Cumberland	1,324,611	61
Daviess	16,704,863	753
Edmonson	1,252,544	63
Elliott	909,038	56
Estill	1,862,194	90
Fayette	40,863,010	1,802
Fleming	2,229,661	111
Floyd	10,306,468	494
Franklin	11,575,770	630
Fulton	1,250,663	58
Gallatin	361,029	17
Garrard	2,475,820	115
Grant	2,423,908	109
Graves	5,281,721	257

Distribution of Retirement Payments Statewide

as of *June 30, 2002* continued . . .

County Name	Total Payments	Number of Recipients
Grayson	3,862,460	185
Green	2,093,418	102
Greenup	6,303,129	283
Hancock	1,228,407	57
Hardin	11,260,286	511
Harlan	7,445,148	348
Harrison	3,330,528	154
Hart	2,468,416	110
Henderson	6,375,743	291
Henry	2,878,750	142
Hickman	596,187	31
Hopkins	7,625,256	355
Jackson	2,105,712	114
Jefferson	110,869,806	4,579
Jessamine	4,293,688	201
Johnson	5,871,892	272
Kenton	12,888,677	578
Knott	3,699,616	183
Knox	4,595,368	219
Larue	2,731,572	109
Laurel	8,120,663	399
Lawrence	2,010,842	104
Lee	1,228,429	70
Leslie	2,398,148	132
Letcher	6,547,874	304
Lewis	3,093,422	150
Lincoln	4,613,850	213
Livingston	1,254,621	68
Logan	4,207,053	212
Lyon	1,792,704	81
Madison	19,760,876	820
Magoffin	2,710,716	132
Marion	2,511,190	119
Marshall	5,573,288	250
Martin	1,995,838	105
Mason	3,120,169	136
McCracken	11,309,708	514
McCreary	3,572,755	161
McLean	1,607,699	69
Meade	2,564,381	100
Menifee	888,788	51
Mercer	3,772,428	195

Distribution of Retirement Payments Statewide

as of *June 30, 2002* continued . . .

County Name	Total Payments	Number of Recipients
Metcalfe	2,046,238	98
Monroe	2,866,006	144
Montgomery	3,863,062	177
Morgan	2,661,086	128
Muhlenberg	4,983,405	225
Nelson	5,474,975	244
Nicholas	973,106	43
Ohio	2,910,315	145
Oldham	6,360,612	272
Owen	1,094,801	60
Owsley	2,024,254	90
Pendleton	2,281,304	102
Perry	6,129,523	304
Pike	15,269,903	714
Powell	1,833,381	83
Pulaski	11,022,601	523
Robertson	279,156	15
Rockcastle	2,901,388	150
Rowan	7,849,794	357
Russell	3,532,618	172
Scott	4,482,038	198
Shelby	5,291,123	243
Simpson	2,422,298	116
Spencer	1,658,124	67
Taylor	4,349,065	207
Todd	1,751,282	87
Trigg	2,510,679	116
Trimble	823,557	36
Union	2,092,906	94
Warren	24,389,518	1,099
Washington	1,993,292	97
Wayne	3,948,298	185
Webster	1,900,806	97
Whitley	9,290,918	457
Wolfe	2,232,924	102
Woodford	3,973,332	177
Total in Kentucky	$ 680,851,141	31,055

School Districts Electing to Pay for Sick Leave

Under KRS 161.155(8) for Fiscal Year 2001-2002

County School District	Number of Members	Total Additional Compensation
Adair	6	$41,444.95
Allen	3	39,022.02
Anderson	10	92,137.09
Ballard	3	57,543.27
Barren	8	43,427.31
Bath	6	41,452.67
Bell	11	74,689.29
Boone	23	257,223.11
Bourbon	8	117,097.71
Boyd	10	72,921.35
Boyle	7	55,155.67
Bracken	9	102,120.53
Breathitt	10	83,068.70
Breckinridge	4	55,226.49
Bullitt	30	312,733.84
Butler	8	72,277.64
Caldwell	6	79,919.73
Calloway	4	7,494.67
Campbell	14	160,906.44
Carlisle	3	8,047.29
Carroll	1	344.80
Carter	14	107,246.78
Casey	4	25,991.99
Christian	32	347,266.56
Clark	14	137,521.87
Clay	13	71,794.12
Clinton	1	14,523.59
Crittenden	5	38,195.75
Cumberland	5	73,064.83
Daviess	26	348,458.56
Edmonson	4	32,052.26
Elliott	1	3,093.25
Estill	7	69,469.91
Fayette	93	1,079,269.78
Fleming	9	100,151.80
Floyd	9	104,131.71
Franklin	8	63,244.44
Fulton	6	17,920.65
Gallatin	3	33,978.89
Garrard	2	12,408.83

School Districts Electing to Pay for Sick Leave
Under KRS 161.155(8) for Fiscal Year 2001-2002 continued . . .

County School District	Number of Members	Total Additional Compensation
Grant	2	25,283.00
Graves	17	155,987.52
Grayson	13	147,492.45
Green	2	21,144.39
Greenup	11	117,407.00
Hancock	3	19,603.46
Hardin	31	380,577.16
Harlan	15	116,716.08
Harrison	8	102,585.28
Hart	7	101,380.73
Henderson	15	112,799.29
Henry	6	36,001.93
Hickman	3	13,813.09
Hopkins	20	177,021.71
Jackson	7	30,453.68
Jefferson	314	3,921,592.35
Jessamine	11	75,076.91
Johnson	19	215,807.41
Kenton	24	271,083.71
Knott	4	26,839.37
Knox	7	42,320.95
Larue	8	152,235.32
Laurel	24	206,376.27
Lawrence	5	54,073.77
Lee	3	10,439.67
Leslie	4	34,451.34
Letcher	9	87,817.24
Lewis	7	71,326.64
Lincoln	14	161,562.67
Livingston	2	26,788.94
Logan	7	34,192.19
Lyon	2	28,174.94
Madison	20	180,863.21
Magoffin	6	43,462.20
Marion	8	60,523.79
Marshall	9	117,128.77
Martin	1	4,615.73
Mason	10	96,128.98
McCracken	19	241,083.41
McCreary	4	27,638.06

School Districts Electing to Pay for Sick Leave
Under KRS 161.155(8) for Fiscal Year 2001-2002 continued . . .

County School District	Number of Members	Total Additional Compensation
McLean	3	16,129.98
Meade	8	85,248.20
Mercer	7	63,110.01
Metcalfe	2	12,954.85
Monroe	4	50,730.80
Montgomery	15	168,325.11
Morgan	7	50,029.73
Muhlenberg	13	110,121.24
Nelson	8	106,536.28
Nicholas	3	24,107.16
Ohio	13	114,932.60
Oldham	16	182,879.33
Owen	1	5,311.31
Owsley	3	31,531.51
Pendleton	9	124,743.76
Perry	8	70,175.55
Pike	26	179,929.36
Powell	6	51,115.06
Pulaski	16	151,343.07
Robertson	2	20,862.40
Rockcastle	3	35,052.26
Rowan	10	82,814.90
Russell	6	59,964.39
Scott	17	210,340.25
Shelby	15	161,254.39
Simpson	8	57,480.69
Spencer	4	43,668.80
Taylor	7	60,340.44
Todd	9	121,918.22
Trigg	5	60,358.70
Trimble	6	112,404.36
Union	6	61,245.55
Warren	20	240,401.20
Washington	7	93,039.26
Wayne	8	88,890.82
Webster	6	55,409.75
Whitley	7	55,280.76
Wolfe	1	15,570.07
Woodford	5	61,793.10

School Districts Electing to Pay for Sick Leave

Under KRS 161.155(8) for Fiscal Year 2001-2002 continued . . .

City School District	Number of Members	Total Additional Compensation
Anchorage	1	13,541.76
Ashland	7	57,724.71
Barbourville	1	16,584.98
Beechwood	1	1,096.30
Bellevue	4	49,726.63
Berea	6	60,388.23
Bowling Green	9	148,303.50
Campbellsville	4	49,837.85
Caverna	4	42,752.62
Cloverport	2	20,357.89
Corbin	6	75,057.64
Covington	16	177,174.22
Danville	5	49,754.03
Dawson Springs	1	3,232.98
Dayton	5	71,792.69
East Bernstadt	1	8,102.99
Elizabethtown	2	17,587.93
Erlanger-Elsmere	6	56,894.06
Fairview	3	16,945.20
Fort Thomas	8	32,452.46
Frankfort	2	6,254.08
Fulton	2	23,247.38
Glasgow	2	28,182.34
Harlan	3	32,036.83
Harrodsburg	1	6,061.90
Hazard	3	36,225.98
Jackson	3	28,201.21
Jenkins	3	24,355.86
Ludlow	3	34,247.59
Mayfield	8	91,904.82
Middlesboro	4	34,804.26
Monticello	2	32,607.10
Murray	8	92,497.22
Newport	16	207,176.07
Owensboro	18	199,982.46
Paducah	8	83,245.26
Paintsville	3	39,154.84
Paris	2	17,966.62
Pikeville	5	48,185.89
Providence	2	15,017.86
Raceland	2	22,291.74
Russell	10	110,143.18
Russellville	8	95,449.21
Science Hill	2	28,942.36
Silver Grove	1	9,969.66
Somerset	10	93,834.39
Walton-Verona	1	13,551.50
Williamsburg	3	35,360.73
Williamstown	3	28,973.01
Ohio Valley Educational Cooperative	1	2,418.47
KY Education Development Cooperative	1	2,779.20
Total For All Districts	1,693	$ 17,995,633.66

Schedule of KTRS Annuitants by Type of Benefit as of June 30, 2002

Amount of Monthly Benefit ($)	Number of Annuitants	Type of Retirement* 1	2	3	4	5
1 - 200	1,450	658	10	499	56	227
201 - 400	1,196	1,039	9	29	119	0
401 - 600	1,065	845	20	21	179	0
601 - 800	1,254	867	176	0	211	0
801 - 1,000	1,849	1,454	135	0	260	0
1,001 - 1,200	2,018	1,699	125	0	194	0
1,201 - 1,400	1,937	1,609	149	0	179	0
1,401 - 1,600	2,035	1,780	140	1	114	0
1,601 - 1,800	2,303	1,948	223	3	129	0
1,801 - 2,000	2,908	2,532	273	9	94	0
Over 2,000	15,393	14,505	552	22	314	0
TOTALS	33,408	28,936	1,812	584	1,849	227

***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, 2002

By Age

Age	Male	Female
20-24	266	1,280
25-29	1,573	5,216
30-34	1,926	6,000
35-39	1,728	5,197
40-44	1,723	5,748
45-49	2,264	7,188
50-54	2,438	6,632
55-59	1,145	2,562
60-64	403	643
65-69	86	102
Over 70	23	32
TOTAL	13,575	40,600

By Service

Years of Service	Male	Female
Less than 1	533	1,360
1-4	3,607	11,380
5-9	3,005	8,838
10-14	2,048	6,458
15-19	1,453	4,919
20-24	1,161	3,675
25-29	1,187	3,059
30-34	495	831
35 or more	88	80
TOTAL	13,575	40,600

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 Cooperative
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. West Kentucky Education Cooperative
13. Green River Regional Education Cooperative
14. 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.*