FINANCIAL AND COMPLIANCE AUDIT REPORT

Kansas Public Employees Retirement System
Fiscal Year 2005

A Report to the Legislative Post Audit Committee
By Berberich Trahan & Co., a certified public accounting firm
under contract with the Legislative Division of Post Audit
State of Kansas
December 2005

Legislative Post Audit Committee
Legislative Division of Post Audit

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about $11 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (including the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

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LEGISLATURE OF KANSAS

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December 8, 2005

To: Members, Legislative Post Audit Committee

Representative John Edmonds, Chair	Senator Les Donovan, Vice-Chair
Representative Tom Burroughs	Senator Anthony Hensley
Representative Bill McCreary	Senator Nick Jordan
Representative Peggy Mast	Senator Derek Schmidt
Representative Tom Sawyer	Senator Chris Steineger

This report contains significant findings, conclusions, and recommendations from the completed financial-compliance audit of the Kansas Public Employees Retirement System covering fiscal year 2005. This audit was conducted by Berberich Trahan & Co., a certified public accounting firm under contract with the Legislative Division of Post Audit.

The report emphasizes certain information relating to employer contribution rates, the unfunded actuarial liability, and the death and disability program. We would be happy to discuss this report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor

Berberich Trahan & Co., P.A.

Certified Public Accountants

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FINANCIAL AND COMPLIANCE AUDIT REPORT

YEAR ENDED JUNE 30, 2005

with

INDEPENDENT AUDITORS' REPORT

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended June 30, 2005

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INTRODUCTION

The Kansas Public Employees Retirement System (the System or KPERS) provides a systematic retirement plan, as well as group life and disability insurance coverage for Kansas public employees who are Plan members. Plan membership generally requires that a person be employed by a participating employer for more than one year. The System is actually an umbrella organization administering the following three statewide retirement systems under one plan, as provided by K.S.A. 74, Article 49: the Kansas Public Employees Retirement System, the Kansas Police and Firemen's Retirement System, and the Kansas Retirement System for Judges.

In order to pay the various retirement, disability and death benefits to eligible System members and beneficiaries, the System accumulates assets by receiving employer and employee contributions and by receiving earnings on its investments. The System maintains six reserves used to accumulate contributions and earnings and to pay benefits. Investment decisions are made by contracted investment management firms and are monitored by the System's investment staff. Employer contribution rates are recommended by the System's actuary. Employee contribution and benefit formulas are legislated by State statute.

The audit work performed fulfills the annual audit requirements mandated by the Public Employees Retirement Act.

AUDIT FINDINGS AND RECOMMENDATIONS

Emphasis of Certain Matters Contained in the Financial Statements

We would like to emphasize three matters which involve actuarial valuations since our report does not contain the actuary's valuation report.

Employers' Contributions - As can be seen on the chart on page 37, the percentage contributed in 2005 versus the annual actuarial recommended contribution was 72.4%. The basic reason for the current difference is that legislation has limited the amounts that employers are required to contribute for State/School employees and Local employees. The actuarial impact on the unfunded actuarial liability was $ 179 million for the year ended June 30, 2005.

Unfunded Actuarial Accrued Liability - In the schedule of funding progress on page 38, the unfunded actuarial accrued liability at December 31, 2004 is reflected at $ 4.74 billion which is up from $ 3.59 billion at December 31, 2003. On page 33 there is a table showing the changes in the unfunded actuarial liability for the year ended December 31, 2004.

The funding objective of the system is to establish contribution rates that over time will remain relatively level, as a percentage of payroll, and to pay off the unfunded liability by the year 2033. During 2003 and 2004, certain actions were taken by the Legislature and the Board of Trustees to address long-term funding issues. See page 10 for further discussion. It should be noted that the actuarial report has the following sentences: "Prior actuarial valuation reports have addressed concerns about the long term funding of KPERS. KPERS' long term funding outlook has improved due to legislation, Board action and strong investment performance in 2003 and 2004. The State, School and Local groups are projected to reach equilibrium (actuarial and statutory contribution rate are equal) before the end of the amortization period (2033). Therefore the System is in actuarial balance over the long term if all actuarial assumptions are met. Despite the fact that the market value of assets is slightly higher than the actuarial value, if the assumed 8% investment return is achieved, an actuarial loss is expected in 2005. Subsequent years are expected to show actuarial asset gains. This is due to the use of an asset smoothing method and the delayed reflection of market experience in the actuarial value of assets. The experience loss on assets for 2005 will result in an increase in the UAL and a corresponding increase in the contribution for the UAL payment, but the System is expected to remain in actuarial balance. In addition, the shortfall between the actuarial and statutory contribution rates will produce additional increases in the UAL. As a result, the actuarial contribution rate is expected to increase until equilibrium is reached."

We encourage the reading of the actuarial valuation report as it provides a look at the System over the long term while the financial statements in this report give a "snapshot" picture of the System's financial position at June 30, 2005.

Death and Disability Program – In prior years there have been periodic moratoriums on contributions to the Group Insurance Reserve. As of June 30, 2005 the balance in the reserve was less than fully funded. The employers resumed the historical contributions to this fund beginning July 1, 2004. However, funding at this level is not sufficient to keep this fund solvent after June 30, 2005. Legislation passed in 2005 increases the insurance contribution rate from 0.6% to 0.8% of covered payroll effective July 1, 2005 and to 1.0% on July 1, 2006. These increased rates and other modifications to the program will provide financial stability to the Death and Disability Program. See page 12 for further discussion.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Emphasis of Certain Matters Contained in the Financial Statements

See current year findings and recommendations.

Berberich Trahan & Co., P.A.

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Kansas Public Employees Retirement System:

We have audited the accompanying statement of plan net assets of the Kansas Public Employees Retirement System (the System), a component unit of the State of Kansas, as of June 30, 2005, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Kansas Public Employees Retirement System as of June 30, 2005, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2005 on our consideration of the System's internal control over financial reporting and on our tests on its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 6 through 12 and the Required Supplementary Information on pages 37 through 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information included on pages 40 through 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berberich Trahan & Co., P.A.

October 18, 2005

MANAGEMENT'S DISCUSSION & ANALYSIS

This section presents management's discussion and analysis of the Kansas Public Employees Retirement System financial performance during the fiscal year that ended June 30, 2005.

The Kansas Public Employees Retirement System (KPERS, the Retirement System, or the System) is an umbrella organization administering the following three statewide pension groups under one plan, as provided by chapter 74, article 49 of the Kansas Statutes:

- Kansas Public Employees Retirement System
- Kansas Police and Firemen's Retirement System
- Kansas Retirement System for Judges

All three systems are part of a governmental, defined benefit, contributory plan covering substantially all Kansas public employees. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups. The State of Kansas and Kansas school districts are required to participate, whereas participation by local political subdivisions is optional but irrevocable once elected.

FINANCIAL HIGHLIGHTS

- The System's net assets increased by $897 million or 8.6 percent from $10,427,142,572 to $11,324,364,904.
- As of December 31, 2004, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 69.8 percent compared with a funded ratio of 75.2 percent for the prior year.
- The unfunded actuarial liability increased from $3.586 billion at December 31, 2003, to $4.743 billion at December 31, 2004.
- On a market value basis, this year's investment return rate was 12.1 percent, compared with last year's return of 15.4 percent.
- Monthly benefits paid to retirees and beneficiaries increased 9 percent from $677 million in fiscal year 2004 to $738 million in fiscal year 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the System's basic financial statements, which comprise the following components:

1) Basic financial statements
2) Notes to basic financial statements
3) Required supplementary information
4) Supplementary information

The information available in each of these sections is briefly summarized as follows:

(1) BASIC FINANCIAL STATEMENTS

A Statement of Plan Net Assets as of June 30, 2005, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2005, are presented with the previous year's comparative information.

These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as the changes in those resources during the year.

(2) NOTES TO BASIC FINANCIAL STATEMENTS

The financial statement notes provide additional information that is essential to a full understanding of the data provided in the financial statements. Information available in the notes to the financial statements is described below.

- Note 1 provides a general description of the Retirement System, as well as a description of the plan benefits and overview of the contributions that are paid by employers and members. Information regarding a breakdown of the number of participating employers and members is also provided.

- Note 2 provides a summary of significant accounting policies, including the basis of accounting, investments, including investing authority, investment risk categorizations, and the method used to value investments, and additional information about cash, securities lending and derivatives. In the reserves section of Note 2 is information regarding the Retirement System's required reserves. The various reserves include the Members Accumulated Contribution Reserve, Retirement Benefit Accumulation Reserve, Retirement Benefit Payment Reserve, Group Insurance Reserve, the Expense Reserve and the Optional Term Life Insurance.

- Note 3 provides information about System funding policies and employer contributions made to the System by the three different funding groups.

- Note 4 describes System capital expenditure commitments to real estate and alternative investments. This section also generally describes potential System contingencies.

(3) REQUIRED SUPPLEMENTARY INFORMATION

The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plans administered by the Retirement System.

(4) SUPPLEMENTARY INFORMATION

Supplementary information includes detailed information on contributions by employer coverage groups, administrative expenses, an investment income summary, a schedule of investment fees and expenses, an investment summary, a schedule of expenses by type, and a schedule of cash receipts and disbursements.

FINANCIAL ANALYSIS OF THE RETIREMENT SYSTEM

The System provides benefits to State of Kansas and other local and school employees. Benefits are funded by member and employer contributions and by investment earnings. Net assets held in trust for benefits at June 30, 2005, amounted to $11,324,364,904, an increase of $897 million (8.6 percent) from $10,427,142,572 at June 30, 2004. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2004 and 2005.

Summary Comparative Statements of Plan Net Assets

	As of June 30, 2005	As of June 30, 2004	Percentage Change
Assets			
Cash and deposits	$ 377,423	$ 3,611,466	(89.55) %
Receivables	1,116,168,461	1,452,424,569	(23.15)
Investments at fair value	11,545,296,448	10,759,162,291	7.31
Invested securities lending collateral	2,225,521,793	2,078,302,191	7.08
Capital assets and supplies inventory	3,778,000	2,503,441	50.91
Total Assets	14,891,142,125	14,296,003,958	4.16
Liabilities			
Administrative costs	680,314	828,108	(17.85)
Benefits payable	2,045,328	1,313,956	55.66
Investments purchased	1,338,529,786	1,788,417,131	(25.16)
Securities lending collateral	2,225,521,793	2,078,302,191	7.08
Total Liabilites	3,566,777,221	3,868,861,386	(7.81)
Net Assets	$ 11,324,364,904	$ 10,427,142,572	8.60 %

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2005	Year Ended June 30, 2004	Percentage Change
Additions			
Contributions	$ 527,178,455	$ 944,703,176	(44.20) %
Net investment income	1,218,018,786	1,331,971,630	(8.56)
Net investment income from securities lending activities	5,077,335	4,254,284	19.35
Total net investment income	1,223,096,121	1,336,225,914	(8.47)
Other miscellaneous income	178,105	182,113	(2.20)
Total additions	1,750,452,681	2,281,111,203	(23.26)
Deductions			
Monthly retirement benefits	737,563,276	676,918,614	8.96
Refunds	46,773,933	41,179,470	13.59
Death benefits	7,849,884	8,685,182	(9.62)
Insurance premiums and benefits	53,703,109	50,396,392	6.56
Administrative	7,340,147	7,231,295	1.51
Total deductions	853,230,349	784,410,953	8.77
Net increase	897,222,332	1,496,700,250	(40.05)
Net assets beginning of year	10,427,142,572	8,930,442,322	16.76
Net assets end of year	$ 11,324,364,904	$ 10,427,142,572	8.60 %

Additions to the System's net assets held in trust for benefits include employer and member contributions, as well as investment income. Total contributions to the Retirement System decreased from $944.7 million in fiscal year 2004 to $527.2 million in fiscal year 2005. The $417.5 million decrease in contributions is due an extraordinary high amount in fiscal year 2004 that included pension obligation bond proceeds of $479.1 million.

The System recognized a net investment gain of $1.223 billion for the 2005 fiscal year, compared with a net investment gain of $1.336 billion for the 2004 fiscal year. Total return for the portfolio was a positive 12.1 percent. System net investments amounted to $11.285 billion at June 30, 2005, which was $902 million more than the $10.383 billion in total System investments at June 30, 2004. The Retirement System's one, three, five and ten-year investment performance against the assumed rate of investment return are shown in the chart below.

One Year	Latest Three Years	Latest Five Years	Latest Ten Years	Assumed Rate of Return
12.11%	10.41%	3.51%	9.06%	8.00%

At June 30, 2005, the System held $6.1 billion in U.S. equity and international equity securities, an increase of approximately $490 million from the 2004 fiscal year. U.S. equity and international equity securities earned returns of approximately positive 9.3 percent and 13.7 percent, respectively, for the 2005 fiscal year. These compare with the Retirement System's benchmark returns of 8.1 percent and 14.3 percent, respectively.

The System held $3.5 billion in U.S. debt and international debt securities, a decrease of $165 million from the 2004 fiscal year. The TIPS portfolio return for 2005 was positive with a return of 17.4 percent versus the benchmark return of 17.4 percent. The performance of the System's other fixed income securities during fiscal year 2005 was 9.1 percent compared with the benchmark of 8.0 percent. Real estate investments increased $135 million to $842.2 million at June 30, 2005. Real estate investments returned approximately 26.1 percent for the 2005 fiscal year, versus the benchmark real estate return of 18.9 percent. The System held $515.3 million in alternative investments, which was a $22.6 million decrease from June 30, 2004. Alternative investments earned a return of approximately 12.8 percent for the 2005 fiscal year, compared to the benchmark alternative investment return of 7.1 percent. At June 30, 2005, the System held $527.4 million in short-term investments, which was an increase of $344.9 million from June 30, 2004.

The Retirement System earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The Retirement System invests cash collateral received from the brokers in order to earn interest. For the fiscal year 2005, net securities lending income amounted to $5.1 million compared with $4.3 million in fiscal year 2004.

Deductions from net assets held in trust for benefits include retirement, death and survivor benefits, and administrative expenses. For the 2005 fiscal year, retirement, death and insurance benefits amounted to $845.9 million, an increase of $68.7 million (8.8 percent) from the 2004 fiscal year. The increase in benefit payments was a result of an increase in the number of retirees. For the 2005 fiscal year, System administrative expenses amounted to $7.340 million compared with $7.231 million in fiscal year 2004. The ratio of System administrative expenses to the number of members (approximately $29 per member) continues to be very cost-efficient compared to other statewide retirement plans.

FUNDING STATUS

An actuarial valuation of the Retirement System's assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, December 31, 2004, the funded status decreased to 69.8 percent from 75.2 percent at December 31, 2003. The unfunded liability was $4.743 billion at December 31, 2004, compared with $3.586 billion at December 31, 2003. The increased unfunded liability can be largely attributed to new actuarial assumptions for mortality and retirement rates, and recognition of deferred investment losses in the computation of the actuarial value of assets.

In recent years, the Kansas Public Employees Retirement System's highest priority has been the development of a comprehensive plan to address the long-term retirement funding shortfall in the KPERS plan (state, school and local groups). The System's Board of Trustees, staff and actuary have worked closely with the Legislature's Joint Committee on Pensions, Investments and Benefits and the Governor's office on the development of this plan. In 2001 and 2002, actuarial projections indicated the KPERS plan was not in actuarial balance. In 2003 and 2004, the Legislature responded with several funding improvements:

- Raised statutory caps on annual employer contribution rate increases to 0.4% in FY 2006, 0.5% in FY 2007, and 0.6% in 2008 and thereafter.

- Issued $500 million in pension obligation bonds with $440.2 million in net proceeds to KPERS and debt service payments amortized in addition to employer contributions to the System.

These improvements represent major steps toward restoring the System's financial health. Significant challenges remain as participating employers begin budgeting for higher contribution rates and short-term funding projections will deteriorate until employer contributions reach the actuarially-required fields.

According to the most recent actuarial valuation report, the Retirement System's unfunded actuarial liability (UAL) increased from $3.586 billion as of December 31, 2003, to $4.743 billion as of December 31, 2004 and the funded ratio (assets to liabilities) declined from 75.2 percent to 69.8 percent. The primary reasons for the 2004 UAL increases were:

- An increase in liabilities from revising mortality assumptions to recognize that retirees are living longer.

- Continued negative impact of 5-year smoothing of investment losses from 2001 and 2002.

- The System's amortization schedule (established in 1993) causes the UAL to increase substantially until the statutory employer contribution rates (actual rates paid by the employers) reach the actuarially-required rates.

The UAL will continue to increase and the funded ratio will decrease until the statutory rates catch up with the rates actuarially required to fund benefits.

The funding status of the plan is highly dependent on the achievement of the 8% investment return assumption. Consequently, future investment returns that are under this target will cause the funding status of the plan to deteriorate further. The System's Board of Trustees, staff and its actuary will continue to closely monitor the funding status and will propose to the Legislature and Governor future contribution rate increases and/or plan design changes as needed to ensure the financial stability of the plan.

Death & Disability Program

The Retirement System administers the group insurance reserve fund as described in Note 2 of the notes to the basic financial statements. The actuary performs an actuarial valuation of this fund on an annual basis with the last valuation completed as of June 30, 2004. As of June 30, 2005, the fund had assets of $13.9 million. Employers resumed the historical contributions (0.6 percent of payroll) to this fund beginning July 1, 2004. However, funding at this level is not sufficient to keep this fund solvent after June 30, 2005.

In order to address the financial viability of the death and disability program, the 2005 Legislature passed Senate Substitute for House Bill 2037 modifying funding and benefits of the KPERS death and disability program for active employees by:

- expanding the KPERS Board of Trustees' authority to administer the program within available funds and to adjust the plan design as needed;
- increasing employer contributions from 0.6 percent to 0.8 percent of payroll on July 1, 2005, and 1.0 percent of payroll on July 1, 2006;
- authorizing loans from the Pooled Money Investment Board, subject to State Finance Council approval, if Death and Disability Fund balances are insufficient;
- adjusting the maximum duration of KPERS disability benefit payments for employees disabled after age 65 to ensure compliance with federal Age Discrimination and Employment Act (ADEA).

In May 2005, the KPERS Board of Trustees adopted plan design modifications to the disability program effective for employees becoming disabled on or after January 1, 2006. These plan design modifications, along with the increase contribution rates, are key elements that will provide financial stability to the Death and Disability Program.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS

June 30, 2005
With Comparative Totals for June 30, 2004

	2005	2004
ASSETS		
Cash and deposits:		
Cash	$ 165,801	$ 54,643
Deposits with insurance carrier	211,622	3,556,823
Total cash and deposits	377,423	3,611,466
Receivables:		
Contributions	37,970,025	40,332,275
Investment income	40,477,200	42,778,358
Sale of investment securities	1,037,721,236	1,369,313,936
Total receivables	1,116,168,461	1,452,424,569
Investments at fair value:		
Domestic equities	3,533,295,661	3,513,446,210
International equities	2,611,045,616	2,136,913,681
Cash and equivalents	527,388,132	182,506,767
Fixed income	3,516,052,684	3,681,472,192
Alternative investments	515,346,294	537,928,156
Real estate	842,168,061	706,895,285
Total investments at fair value	11,545,296,448	10,759,162,291
Invested securities lending collateral	2,225,521,793	2,078,302,191
Capital assets and supplies inventory	3,778,000	2,503,441
Total assets	14,891,142,125	14,296,003,958
LIABILITIES		
Administrative costs	680,314	828,108
Benefits payable	2,045,328	1,313,956
Securities purchased	1,338,529,786	1,788,417,131
Securities lending collateral	2,225,521,793	2,078,302,191
Total liabilities	3,566,777,221	3,868,861,386
Net assets held in trust for pension benefits (a schedule of funding progress for the plan is presented on page 38)	$ 11,324,364,904	$ 10,427,142,572

See accompanying notes to basic financial statements.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS

Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004

	2005	2004
Additions:		
Contributions:		
Member contributions	$ 233,226,034	$ 230,349,955
Employer contributions	293,952,421	714,353,221
Total contributions	527,178,455	944,703,176
Investments:		
Net appreciation in fair value of investments	932,881,712	1,087,128,878
Interest	132,806,082	132,004,016
Dividends	130,167,483	91,477,150
Real estate income, net of operating expenses	43,821,311	39,514,695
Other investment income	412,211	565,492
	1,240,088,799	1,350,690,231
Less investment expense	(22,070,013)	(18,718,601)
Net investment income	1,218,018,786	1,331,971,630
From securities lending activities:		
Securities lending income	53,059,141	23,020,103
Securities lending expenses:		
Borrower rebates	(46,714,331)	(17,697,447)
Management fees	(1,267,475)	(1,068,372)
Total securities lending activities expenses	(47,981,806)	(18,765,819)
Net income from securities lending activities	5,077,335	4,254,284
Total net investment income	1,223,096,121	1,336,225,914
Other miscellaneous income	178,105	182,113
Total additions	1,750,452,681	2,281,111,203
Deductions:		
Monthly retirement benefits paid	(737,563,276)	(676,918,614)
Refunds of contributions	(46,773,933)	(41,179,470)
Death benefits	(7,849,884)	(8,685,182)
Insurance premiums and benefits	(53,703,109)	(50,396,392)
Administrative expenses	(7,340,147)	(7,231,295)
Total deductions	(853,230,349)	(784,410,953)
Net increase	897,222,332	1,496,700,250
Net assets held in trust for pension benefits:		
Balance, beginning of year	10,427,142,572	8,930,442,322
Balance, end of year	$ 11,324,364,904	$ 10,427,142,572

See accompanying notes to basic financial statements.

1 - Plan Description

Plan Membership

The Kansas Public Employees Retirement System (the Retirement System, or the System) is a body corporate and an instrumentality of the State of Kansas. The Retirement System is an umbrella organization administering the following three statewide pension groups under one plan, as provided by K.S.A. 74, Article 49: the Kansas Public Employees Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F), and the Kansas Retirement System for Judges (Judges). All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost sharing groups. The State of Kansas and Kansas schools are required to participate, while participation by local political subdivisions is optional but irrevocable once elected. Participating employers and Retirement System membership are as follows:

Number of participating employers:

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	24	-
Cities	359	50	-
Townships	53	-	-
School Districts	301	-	-
Libraries	117	-	-
Conservation Districts	82	-	-
Extension Councils	80	-	-
Community Colleges	43	-	-
Recreation Commissions	40	-	-
Hospitals	29	-	-
Cemetery Districts	13	-	-
Other	162	-	-
Total	1,385	75	1

1 - Plan Description (Continued)

Plan Membership (Continued)

Membership by retirement systems:

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	57,401	3,558	166	61,125
Terminated employees entitled to benefits but not yet receiving them	8,871	115	14	9,000
Inactive members, deferred disabled	3,004	-	-	3,004
Inactive members not entitled to benefits	28,320	941	4	29,265
Current employees	140,779	6,721	251	147,751
Total	238,375	11,335	435	250,145

Plan Benefits

Members (except KP&F members) with 10 or more years of credited service may retire as early as age 55 (KP&F members may be age 50 with 20 years of credited service) with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with 10 years of credited service, or whenever a member's combined age and years of credited service equal 85 "points" (KP&F members' normal retirement ages are age 60 with 15 years of credited service, age 55 with 20 years, age 50 with 25 years, or any age with 32 years of service). Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922. Members choose one of seven options to receive their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

1 - Plan Description (Continued)

Plan Benefits (Continued)

Active members (except KP&F members) are covered by basic group life insurance. The life insurance benefit is 150% of the annual compensation rate at the time of an active member's death. Generally, in cases of death as a result of an on-the-job accident, for KPERS members there is a $ 50,000 lump sum benefit and a monthly benefit payable to a surviving spouse, minor children, or dependent parents (in this order). Service-connected accidental death benefits are in addition to any life insurance benefit. There is a $ 4,000 death benefit payable to the beneficiary(ies) upon the death of a retired member under any of the three systems.

Active members (except KP&F and Judges members) are also covered by the provisions of the disability income benefit contract. Annual disability income benefits are based on two-thirds of the annual rate of compensation at the time of disability, less primary social security benefits, one-half of worker's compensation, and any other employment-related disability benefit. The minimum monthly benefit is $ 100. Beginning in 2006, the annual disability income benefit will be based on 60% of the annual rate of compensation. There is a waiting period of 180 continuous days from the date of disability before benefits can be paid. During the period of approved disability, the member continues to have group life insurance coverage and to accrue participating service credit.

1 - Plan Description (Continued)

Contributions

Member contributions (from four percent to seven percent of gross compensation), employer contributions and net investment income fund Retirement System reserves. Member contribution rates are established by state law and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). For fiscal years beginning in 1995, State of Kansas legislation placed a statutory limit of 0.1% of payroll on annual increases in the contribution rates for KPERS employers. During the 1995 legislative session, the statutory limits were increased to 0.2% of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 0.15% over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group will increase to 0.4% in fiscal year 2006, with subsequent increases of 0.5% in fiscal year 2007 and 0.6% in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group will increase to 0.4% in calendar year 2006, with subsequent increases of 0.5% in fiscal year 2007 and 0.6% in fiscal year 2008 and beyond. The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993.

Employer contributions for group life insurance and long-term disability income benefits are set by statute at 0.6% of covered payroll for KPERS and 0.4% for Judges. However, legislation passed in 2000 and 2001 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period April 1, 2000 through December 31, 2001. Calendar year 2002 and 2003 legislation placed additional moratoriums on contributions to this fund. Moratoriums were in effect for the period July 1, 2002 through December 31, 2002 and the period of April 1, 2003 through June 30, 2004. Legislation passed in 2005, increases the insurance contribution rate to 0.8% of covered payroll effective July 1, 2005 and to 1.0% on July 1, 2006.

2 - Summary of Significant Accounting Policies

Reporting Entity

The Kansas Public Employees Retirement System is a component unit of the State of Kansas. A nine-member board of trustees administers the Retirement System: four trustees are appointed by the Governor, one by the President of the Senate, one by the Speaker of the House of Representatives, two are elected by Retirement System members, and one is the elected State Treasurer. The Board of Trustees appoints the executive director, who is the Retirement System's managing officer.

Basis of Accounting

The Retirement System's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Pending Governmental Accounting Standards Board Statements

At June 30, 2005, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Retirement System. The statements that might impact the System are as follows:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, was issued in November 2003 and it will apply to financial statements of the System for fiscal year 2006. Statement No. 42 establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2004.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in April 2004. The objective of this statement is to establish uniform financial reporting standards for other postemployment benefit plans (OPEB plans). The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and, (b) other types of postemployment benefits (i.e., life insurance) if provided separately from a pension plan. This statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The provisions of this statement are effective for periods beginning after December 15, 2005.

2 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, was issued in May 2004. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, guiding the preparation of the statistical section. Statement No. 44 establishes the objectives of the statistical section and the five categories of information it contains – financial trends information, revenue capacity information, debt capacity information, demographic and economic information, as well as operating information. The provisions of this statement are effective for periods beginning after June 15, 2005.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* was issued in June 2004. This statement establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and, (b) other types of postemployment benefits (i.e., life insurance) if provided separately from a pension plan. The provisions of this statement are effective for periods beginning after December 15, 2006.

GASB Statement No. 47, *Accounting for Termination Benefits*, was issued in July 2004. This statement establishes standards of accounting and financial reporting for termination benefits. Termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination or as a consequence of the involuntary early termination of services. Termination benefits include early-retirement incentives, severance benefits and other termination-related benefits. The requirements of this Statement are effective in two parts. This statement is effective for financial statements for the periods beginning after June 15, 2005.

2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Investments that are not publicly traded are reported at estimated fair value.

Cash and Deposits

Cash deposits are classified in three categories of credit risk to give an indication of the level of risk assumed by the Retirement System. The three categories of credit risk are:

1. Insured or collateralized with securities held by the State Treasurer or its custodian in the name of the State of Kansas,

2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the name of the State of Kansas, and

3. Uncollateralized.

As of June 30, 2005, cash deposits of $ 165,676 held by the State Treasurer were in credit risk category "1". The Retirement System's deposits with its insurance carrier were $ 211,622 at June 30, 2005, and were in credit risk category "3".

Investments

Investments and the investment process are governed by K.S.A. 74-4921. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses the governing provisions of the law, as well as specifying additional guidelines for the investment process.

2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Statutory authority for the Retirement System's investment program is provided for in K.S.A. 74-4901, et. seq., effective July 1, 1993. The Retirement Act addresses the following areas:

- Establishes the structure of the Board of Trustees, defines the Trustees' responsibilities and imposes the prudent expert standard upon the Trustees' actions with respect to managing the assets of the Retirement System.

- Requires that the assets be invested to preserve capital and solely to provide benefits to members and the members' beneficiaries.

- Limits the possible allocation of common stock to 60% of the total book value of the fund.

- Limits the allocation of private placements and other alternative (non-publicly traded) investments to 5% of the total investment assets of the fund, but if market forces increase allocation above the 5% limitation, it does not require the sale of such investments held unless the sale is in the best interests of members.

- Establishes limits on the structure of future investments in real estate or alternative investments.

- Requires that the Board develop investment policies and objectives for the investment and reinvestment of fund assets.

- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.

- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations acts.

- Provides for an annual audit and requires that the Board annually examine the investment program, specific investments and its policies and practices.

2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

The Retirement System's permissible investment categories include equities, fixed income securities, cash equivalents, real estate, derivative products, and alternative investments. In fulfilling its responsibilities, the Board of Trustees has contracted with 14 investment management firms and a master global custodian.

Presently the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Daily, the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of counterparties to futures contracts is minimal. At June 30, 2005, the Retirement System had futures contracts with a fair value of approximately $ 419,400,000. Cash equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the Statement of Investment Policy.

2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

The Retirement System's Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Mellon Trust. The System receives income from the loan of the securities, in addition to the income which accrues to the System as owner of the securities. The securities loans are open contracts and therefore could be terminated at any time by either party. The types of securities lent include U.S. Government securities, domestic and international equities, and domestic and international bonds. The borrower collateralizes the loan with either cash or government securities of 102% of fair value on domestic securities and 105% of fair value on international securities loaned. Cash collateral is invested in the Retirement System's name in a dedicated short-term investment fund consisting of investment grade debt securities. The System does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2005, the maturities of securities in this dedicated bond portfolio are as follows: 43% of the fair value of the securities mature within 30 days; 28% mature between 31 and 180 days; and 29% mature after 180 days. The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Therefore, the Retirement System does not incur any credit risk as it relates to this activity. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan was $ 2,372,391,980 and $ 2,136,687,810 as of June 30, 2005 and 2004, respectively. Collateral held by the Retirement System was $ 2,441,833,132 and $ 2,173,652,076 as of June 30, 2005 and 2004, respectively. Net income produced from securities lending activities was $ 5,077,335 and $ 4,254,284 for fiscal years 2005 and 2004, respectively.

The Retirement System's international investment managers utilize forward contracts to hedge the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns and/or to control volatility. The Retirement System also contracts with a currency overlay manager to manage the currency exposure to the System's passive international equity portfolio. Currency risk arises due to foreign exchange rate fluctuations. Forward foreign exchange contracts are negotiated between two counterparties. The Retirement System could incur a loss if its counterparties failed to perform pursuant to terms of their contractual obligations. Controls are established by the investment managers to monitor the creditworthiness of the counterparties.

2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

All forward foreign currency contracts are carried at fair value by the Retirement System. As of June 30, 2005, the System had sold forward currency contracts with a fair value of $ 871,474,871 and had bought forward currency contracts with a fair value of $ 838,073,360. Purchases of forward currency contracts are liabilities reported in securities purchased, and sales of forward currency contracts are receivables included in sale of investment securities in the statement of plan net assets.

The Retirement System also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time. Options strategies used by the Retirement System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency fluctuations.

The Retirement System internally manages a Treasury Inflation Protected Securities (TIPS) portfolio. TIPS are fixed income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2005, the Retirement System had invested in TIPS with a fair value of approximately $ 1,050,500,000.

Custodial credit risk. Custodial credit risk is the risk that when, in the event a financial institution or counterparty fails, the Retirement System would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. One hundred percent of the Retirement System's investments are held in the System's name and are not subject to creditors of the custodial bank.

Concentration risk. The Retirement System has investments in Federal National Mortgage Association issued securities that represent 5.6% of the total net asset value. No other single issuer represents 5% or more of System assets other than the U.S. Government.

2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Currency risk. Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Retirement System's investments at June 30, 2005 were distributed among the following currencies:

Currency	USD Equivalent	Percent
Australian Dollar	$ 111,842,897	0.81%
Brazil Real	17,207,862	0.12%
British Pound Sterling	565,313,573	4.11%
Canadian Dollar	104,269,418	0.76%
Danish Krone	10,476,670	0.08%
Egyptian Pound	2,590,823	0.02%
Euro Currency Unit	870,304,201	6.32%
Hong Kong Dollar	47,515,537	0.35%
Hungarian Forint	1,237,601	0.01%
Indonesian Rupian	4,482,375	0.03%
Japanese Yen	572,565,481	4.16%
Malaysian Ringgit	13,916,284	0.10%
Mexican New Peso	19,456,163	0.14%
New Taiwan Dollar	5,406,637	0.04%
New Turkish Lira	2,102,664	0.02%
New Zealand Dollar	12,725,462	0.09%
Norwegian Krone	19,564,374	0.14%
Philippines Peso	849,256	0.01%
Polish Zloty	4,704,271	0.03%
S African Comm Rand	12,387,234	0.09%
Singapore Dollar	25,077,036	0.18%
South Korean Won	36,336,225	0.26%
Swedish Krona	52,979,057	0.38%
Swiss Franc	196,930,196	1.43%
Thailand Baht	8,970,803	0.07%
U.S. Dollar *	11,051,606,141	80.25%
	$ 13,770,818,241	100.00%

* Includes securities lending collateral of $2,225,521,793.

2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

The Retirement System's asset allocation and investment policies include active and passive investments in international securities as shown on the previous page. The System's target allocation is to have 18% of assets invested in dedicated international equities (excluding securities lending collateral). The System also has 8% of assets targeted to global equities which are expected to be between 40 and 60% international. Core Plus bond managers are allowed to invest up to 20% of their portfolio in non-dollar securities. The System utilizes a currency overlay manager to reduce risk by hedging up to 50% of the foreign currency for selected international equity portfolios. At June 30, 2005, the System's total foreign currency exposure was 15.3% hedged.

Credit risk. Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Retirement System's investment policies require Core and Core Plus managers to have at least 70% of holdings in investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark. System assets (in thousands), as of June 30, 2005, subject to credit risk are shown with current credit ratings below:

Quality Rating	Commercial Paper	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
NR	$ -	$ 9,083	$ -	$ -	$ 578,245	$ 587,328
AAA	200,958	146,360	629,490	1,753,654	164,522	2,894,984
AA	96,794	162,290	273,521	110,366	1,270,892	1,913,863
A	17,000	129,730	-	-	211,863	358,593
BAA	-	195,394	-	-	-	195,394
BA	2,693	201,684	-	-	-	204,377
B	-	57,836	-	-	-	57,836
CAA	-	39,839	-	-	-	39,839
	$ 317,445	$ 942,216	$ 903,011	$ 1,864,020	$ 2,225,522	$ 6,252,214

2 - Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Commercial paper also includes repurchase agreements and other short-term securities. Agency securities are those implicitly guaranteed by the U.S. Government. U.S. Government securities are treasury securities and agencies explicitly guaranteed. Securities Lending Collateral are securities invested using cash collateral from the securities lending program, not pooled with any other institution's funds. Securities rated A1/P1 are included in AA on the table above. The Securities Lending Collateral class has the following policy requirements: to be rated A3/A- or better; Commercial paper must be A1/P1; Asset-backed securities must be AA3/AA- or better; Repurchase agreements must be 102% collateralized with A3/A- or A1/P1 or better securities and held by the custodial bank or third-party custodian. Securities Lending Collateral NR (Not Rated) securities are 100% repurchase agreements.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Retirement system's investment policies requires Core and Core Plus managers to be within 20% of their benchmark duration, and all fixed portfolios shall maintain a reasonable risk level relative to their benchmarks. The same System assets as above are also subject to interest rate risk. These are shown below (in thousands) grouped by effective duration ranges:

Effective Duration	Commercial Paper	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
0-1 year	$ 317,273	$ 244,713	$ 317,101	$ 211,877	$ 2,225,522	$ 3,316,486
1-3 years	-	140,207	502,934	247,870	-	891,011
3-5 years	-	210,227	52,178	133,000	-	395,405
5-10 years	172	279,776	29,445	85,869	-	395,262
10-22 years	-	67,293	1,353	1,185,404	-	1,254,050
	$ 317,445	$ 942,216	$ 903,011	$ 1,864,020	$ 2,225,522	$ 6,252,214

Treasury Inflation Protected Securities (TIPS) comprise 92% of the U.S. Government 10-22 years group above. Total TIPS for all duration ranges were valued at $ 1,118,968,333 at June 30, 2005. Securities Lending Collateral policy limits the maximum average portfolio maturity to 90 days, and only floating rate securities and fixed rate asset-backed securities may mature individually beyond 13 months.

2 - Summary of Significant Accounting Policies (Continued)

Capital Assets and Supplies Inventory

Furniture, fixtures, and equipment are reported at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures, and equipment as of June 30, 2005, was $ 2,440,669. Office supplies inventory in the amount of $ 37,256 is included, assuming the first-in, first-out method.

In fiscal year 1999, the Retirement System purchased an office building and parking garage in Topeka, Kansas. Fifty percent of the floor space of the office building is used as the System's administrative headquarters and the remaining fifty percent is a real estate investment. The administrative portion of the building and parking garage are reported as a capital asset and are being depreciated. Accumulated depreciation on the administrative portion of the building and garage as of June 30, 2005 was $ 1,881,707. The office building and garage are being depreciated over a period of 33 years using an accelerated method. The carrying value of the System's administrative headquarters was $ 1,937,997 and $ 2,118,308 as of June 30, 2005 and 2004, respectively.

Compensated Accrued Absences

Expenses for accumulated vacation and sick leave earned by Retirement System personnel are recorded when earned by the employee. In the event of termination of employment with the State of Kansas, an employee is compensated for vacation benefits accrued in varying amounts ranging from one to 30 days. Compensation for accumulated sick leave requires three conditions to occur: (1) accumulation of 800 hours; (2) minimum of eight years of credited service; and (3) termination with the State of Kansas on or after reaching retirement age. If all conditions are met, the employee will be compensated in accordance with applicable personnel regulations. The minimum amount of sick leave to be compensated is 30 days; the maximum amount is 60 days.

Reserves

K.S.A. 74-4922, K.S.A. 74-4927 and K.S.A. 74-49,110 define the title and use of the required Retirement System reserves. The law governing the Retirement System requires the actuary to make an annual valuation of the Retirement System's liabilities and reserves, to make a determination of the contributions required to discharge the Retirement System's liabilities and to recommend to the Board of Trustees employer contribution rates required to maintain the System on an actuarial reserve basis. The various reserves are:

2 - Summary of Significant Accounting Policies (Continued)

Reserves (Continued)

The Members Accumulated Contribution Reserve represents the accumulation of member contributions plus interest credited to individual member accounts of non-retired members. At the date of retirement the individual member's account is transferred to the Retirement Benefit Payment Reserve. After ending employment and applying for withdrawal, employee contributions plus accumulated interest are charged to this reserve. Interest is credited to active member accounts on June 30 each year, based on the balance in the account as of the previous December 31. The interest crediting rate, defined by statute as the actuarial interest assumption rate, was 8% for those who became members prior to July 1, 1993. For those who first became members after June 30, 1993, interest on employee contributions is credited at the rate of 4% per year. The balance at June 30, 2005 was $ 4,113,529,625 and was fully funded.

The Retirement Benefit Accumulation Reserve represents the accumulation of employer contributions, net investment income not credited to any other reserve, and the actuarially computed prior service liability not yet funded. The balance at June 30, 2005 was $ 5,930,019,647 and the unfunded liability was $ 4,742,665,899.

The Retirement Benefit Payment Reserve represents the actuarially computed present value of future benefits for retired members plus interest credited for the current fiscal year based upon information as of the preceding January 1. The balance at June 30, 2005 was $ 5,994,869,531 and was fully funded.

The Group Insurance Reserve represents employer contributions, which pay 100% of the cost of group life insurance and long-term disability coverage. Insurance premiums and benefits consist of: (1) claims paid under the insurance contract; and (2) deposits made by the Retirement System to pay disability benefits to eligible participants. An actuarial valuation of this fund was last completed for June 30, 2004. The balance at June 30, 2005 was $ 13,931,707 and remains less than fully funded.

The Expense Reserve represents investment income which is sufficient to maintain a year-end account balance at two times the most recent fiscal year's administrative expense amount. The System's administrative expenses are financed from this reserve. The balance at June 30, 2005 was $ 14,680,293 and was fully funded.

The Optional Term Life Insurance Reserve accumulates employee contributions to pay premiums for optional life insurance coverage and is charged annually with the cost of administering the program.

2 - Summary of Significant Accounting Policies (Continued)

Budget

The Retirement System's annual operating budget is developed by the staff and approved by the Board of Trustees. It is sent to the State Budget Division for analysis and policy decisions and is included in the Governor's budget message to the Legislature. The Legislature adopts appropriation and expenditure limitations. When that process is complete, the System has an approved budget.

Retirement System Employees' Pension Plan

As an employer, the Retirement System participates in KPERS, a cost sharing, multi-employer defined benefit pension plan. KPERS provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by Kansas law. Funding is accomplished through member and employer contributions and investment earnings, according to Kansas law. Upon the completion of a year of service, plan members contribute 4% of their annual salary. In fiscal year 2005, the regular employer retirement rate was 4.87% of covered payroll. In addition, KPERS contributed an additional 0.6% of covered payroll to the group insurance fund. Total payroll was $ 3,553,265 and $ 3,234,839 for 2005 and 2004, respectively. KPERS contributed $ 183,489 and $ 140,689 for 2005 and 2004, respectively, to the employees' pension plan. All contributions required by law were made in fiscal years 2003, 2004 and 2005.

Non-Retirement Funds

The 2000 legislative session assigned to the Retirement System the investment responsibilities of non-retirement money. The Treasurer's Unclaimed Property Fund was established to provide investment earnings available for periodic transfer to the State Treasury for the credit of the State General Fund. Legislation was also provided to defray the reasonable expenses of administrating these funds. Investments under management for the Treasurer's Unclaimed Property Fund were $ 147,918,492 at June 30, 2005.

3 - Funding Policy

Funding

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves and determine the contribution required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the Retirement System on the actuarial reserve basis.

Every three years, the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement, and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 2003. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality, and termination rates.

Pension Obligation Bonds

In September 2003, the State of Kansas issued $ 40,250,000 of Series 2003 H State pension funding bonds. Of the total amount of the bond issue, $ 15,350,000 of the bond proceeds were used for the purpose of financing the unfunded actuarial liability of the TIAA group of members. In addition, the State of Kansas contributed an additional $ 2,000,000 cash payment. The remaining bond proceeds of $ 24,900,000 were used for the purpose of financing the unfunded actuarial liability of those members who retired prior to July 2, 1987, and are entitled to a Retirement Dividend payment pursuant to K.S.A. 74-49,109. Beginning in fiscal year 2005, the State's employer contribution rates for the State KPERS, School, State KPF and Judges groups included an additional amount to finance the debt service payments for this portion of the bonds. In fiscal year 2005, KPERS collected $ 3,269,389 additional contributions for the debt service payments and transferred these funds to the State of Kansas.

In February 2004, the State of Kansas issued $ 500 million in pension obligation bonds, and KPERS received net proceeds of $ 440.2 million in March 2004. The proceeds of these are used to assist with the financing of the unfunded actuarial liability for the State and School group. The debt service on the bonds will be paid by the State of Kansas in addition to the State's regular employer contributions.

The proceeds of the above-mentioned bond issuances are included in employer contributions on the statement of changes in plan net assets for the year ended June 30, 2004.

3 - Funding Policy (Continued)

Changes in Unfunded Actuarial Liability

The actuary has estimated the change in the unfunded actuarial liability between December 31, 2003 and December 31, 2004 can be attributed to the following (in millions):

Unfunded Actuarial Liability, December 31, 2003	$	3,586
Effect of contribution cap/time lag		179
Expected increase due to amortization method		68
Loss from investment return		456
Demographic experience		20
All other experience		(4)
Change in actuarial assumptions		437
Change in benefit provisions		1
Unfunded Actuarial Liability, December 31, 2004	$	4,743

3 - Funding Policy (Continued)

Contributions Required and Contributions Made

KPERS - The actuarially determined contribution rates are computed as a level percentage of payroll by the Retirement System's actuary. For the State/School, Correctional and TIAA members, the results of December 31, 2000 and December 31, 2001 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2004 and 2005, respectively. As explained in Note 1, legislation has limited the amounts that employers are required to contribute for State, School and Local employees, which has resulted in lower employer contribution rates, as compared to the actuarial determined rates. The actuarially determined employer contribution rates (not including the 0.6% contribution rate for the Death and Disability Program), and the statutory contribution rates for fiscal years 2004 and 2005 are as follows:

	State and School		Correction Employees	
Fiscal Year	Actuarial Rate	Statutory Rate	Actuarial Rate	Statutory Rate
2004	7.05%	4.58%	7.08/7.57%	4.61/5.10%
2005	7.69%	4.87%	7.82/8.23%	5.00/5.41%

Included in the fiscal year 2005 rates is the bond debt service rate of 0.09% collected by KPERS to transfer to the State general fund for the debt service payments of the 13th Check Pension Obligation Bonds.

The results of December 31, 2001 and December 31, 2002 actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2004 and 2005, respectively. The actuarially determined employer contribution rates and statutory contribution rates for fiscal years 2004 and 2005 are as follows:

	Local	
Fiscal Year	Actuarial Rate	Statutory Rate
2004	4.64%	3.22%
2005	5.44%	3.41%

3 - Funding Policy (Continued)

Contributions Required and Contributions Made (Continued)

KP&F - The uniform participating service rate for all KP&F employers was 9.47% for the fiscal year beginning in 2004 and 11.69% for the fiscal year beginning in 2005. KP&F employers also make contributions to amortize the liability for past service costs, if any, which are determined separately for each participating employer.

Judges - The total actuarially determined employer contribution rate is 16.67% of payroll for the fiscal year ended 2004 and 19.22% of payroll for the fiscal year ended in 2005.

The law specifies employee contributions as: each participating employer, beginning with the first payroll for services performed after the entry date, shall deduct from the compensation of each member an amount equal to 4% for KPERS members, 7% for KP&F members, and 6% for Judges members as the member's employee contributions. All required contributions have been made as follows:

	(Expressed in Thousands)		
	Employer Contributions	Member Contributions[1]	Contributions as a Percent of Covered Payroll
KPERS - State	$ 50,367	$ 37,507	10.3%
KPERS - School	136,326	111,811	10.0%
KPERS - Local	48,324	52,247	8.4%
KP&F	54,698	24,311	26.5%
Judges	4,238	1,281	25.0%
Subtotal	$ 293,953	$ 227,157	10.7%

(1) Member Contributions do not include Optional Life Insurance contributions of approximately $ 6.0 million.

An estimated $ 451 million of employer and employee contributions were made to cover normal cost, and an estimated $ 38 million was made for the amortization of the unfunded actuarial accrued liability.

3 - Funding Policy (Continued)

Historical Trend Information

Historical trend information, showing the Retirement System's progress in accumulating sufficient assets to pay benefits when due, is presented on page 38, and is titled "Schedule of Funding Progress."

4 - Commitments and Contingencies

As of June 30, 2005, the Retirement System was committed to additional funding of $ 13,126,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, $ 166,303,000 for commitments on venture capital investments and $ 142,212,000 for capital calls on real estate property trusts investments.

The Retirement System is a defendant in legal proceedings and claims arising out of the ordinary course of business. The Retirement System believes that it has adequate legal defenses and that the ultimate outcome of these actions will not have a material adverse effect on the Retirement System's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30, 2005

Year Ended June 30,		Annual Required Contribution	Percentage Contributed
1996	$	173,927,737	82.5%
1997		199,521,423	74.7%
1998		216,270,482	77.3%
1999		256,813,541	79.0%
2000		234,941,116	80.6%
2001		277,096,692	77.6%
2002		289,519,647	79.7%
2003		311,365,296	78.9%
2004		317,900,432	74.0%
2005		361,792,855	72.4%

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended June 30, 2005

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/1996	$ 6,158,755	$ 7,603,111	$ 1,444,356	81%	$ 3,945,207	37%
6/30/1997	6,875,918	8,251,986	1,376,068	83%	4,108,320	33%
6/30/1998	7,749,203	9,340,685	1,591,482	83%	4,273,627	37%
6/30/1999	8,601,876	9,999,246	1,397,370	86%	4,480,717	31%
6/30/2000	9,568,275	10,801,397	1,233,122	89%	4,684,768	26%
12/31/2000 (1)	9,835,182	11,140,014	1,304,832	88%	4,876,555	27%
12/31/2001	9,962,918	11,743,052	1,780,134	85%	5,116,384	35%
12/31/2002	9,784,862	12,613,599	2,828,736	78%	4,865,903 (2)	58%
12/31/2003	10,853,462	14,439,546 (3)	3,586,084	75%	4,978,132	72%
12/31/2004	10,971,427	15,714,092	4,742,666	70%	5,102,016	93%

(1) The actuarial valuation date was changed to a calendar year basis.

(2) Beginning with the 12/31/2002 actuarial valuation, the unfunded actuarial liability of the TIAA group was eliminated. Therefore, covered payroll no longer includes the salaries of non-KPERS unclassified employees of the Board of Regents institutions previously included.

(3) Beginning with the 12/31/2003 actuarial valuation, the actuarial cost method was changed to the Entry Age Normal (EAN) method.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

ACTUARIAL VALUATION

June 30, 2005

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

	KPERS	KP&F	Judges
Valuation date	12/31/2004	12/31/2004	12/31/2004
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent closed	Level Percent closed	Level Percent closed
Remaining amortization period	28 years	28 years	28 years
Asset valuation method	Difference between actual return and expected return on market value of assets calculated yearly and recognized evenly over 5-year period	Difference between actual return and expected return on market value of assets calculated yearly and recognized evenly over 5-year period	Difference between actual return and expected return on market value of assets calculated yearly and recognized evenly over 5-year period
Actuarial assumptions:			
Investment rate of return (1)	8%	8%	8%
Projected salary increases (1)	4.0% - 9.8%	4.0% - 12.5%	5.5%
Cost of living adjustments	none	none	none

(1) Salary increases and investment rate of return include an inflation component of 3.5%.

SUPPLEMENTARY INFORMATION

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ended June 30, 2005

Kansas Public Employees Retirement System			
State/school contributions:			
Members	$ 149,318,255		
Employers	186,692,772		
Total state/school contributions		$ 336,011,027	
Local contributions:			
Members	52,247,238		
Employers	48,323,915		
Total local contributions		100,571,153	
Total contributions - Kansas Public Employees Retirement System			$ 436,582,180
Kansas Police and Firemen's System			
State contributions:			
Members	2,644,816		
Employers	4,103,765		
Total state contributions		6,748,581	
Local contributions:			
Members	21,665,833		
Employers	50,594,342		
Total local contributions		72,260,175	
Total contributions - Kansas Police and Firemen's System			79,008,756
Kansas Retirement System for Judges			
State contributions:			
Members	1,281,368		
Employers	4,237,627		
Total state contributions		5,518,995	
Total contributions - Kansas Retirement System for Judges			5,518,995
Optional Life Insurance			
Member contributions:			
State employees	3,145,187		
Local employees	2,923,337		
Total contributions		6,068,524	
Total contributions - Optional life insurance			6,068,524
Grand total - all contributions			$ 527,178,455

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF ADMINISTRATIVE EXPENSES

Fiscal Year Ended June 30, 2005

Salaries and wages		$ 4,536,607
Professional services:		
Actuarial	$ 250,132	
Audit	32,500	
Data processing	407,169	
Legal	43,449	
Other professional services	89,368	
Total professional services		822,618
Communication:		
Advertising	7,060	
Postage	225,381	
Printing	105,548	
Telephone	82,334	
Total communication		420,323
Building administration:		
Building management	71,197	
Janitorial service	46,729	
Office and equipment rent	20,409	
Real estate taxes	89,019	
Utilities	62,473	
Total building administration		289,827
Miscellaneous:		
Dues and subscriptions	23,301	
Repair and service agreements	129,085	
Supplies	148,558	
Temporary services	104,521	
Travel	114,927	
Other miscellaneous	178,511	
Depreciation	571,869	
Total miscellaneous		1,270,772
Total administrative expenses		$ 7,340,147

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF INVESTMENT INCOME BY ASSET CLASS

Fiscal Year Ended June 30, 2005

Asset Classification	Interest, Dividends and Other Transactions	Gains and (Losses)	Total
Marketable equity securities:			
Domestic equities	$ 48,500,421	$ 272,507,741	$ 321,008,162
International equities	54,964,367	241,354,541	296,318,908
Subtotal marketable equities	103,464,788	513,862,282	617,327,070
Marketable fixed income securities:			
Government	55,456,333	173,572,769	229,029,102
Corporate	68,768,902	68,645,918	137,414,820
Subtotal marketable fixed income	124,225,235	242,218,687	366,443,922
Temporary investments	8,559,647	(423,198)	8,136,449
Total marketable securities	236,249,670	755,657,771	991,907,441
Real estate	43,821,311	136,991,170	180,812,481
Alternative investments	26,723,895	40,232,771	66,956,666
Total real estate and alternative investments	70,545,206	177,223,941	247,769,147
Other investment income:			
Securities lending	5,077,335	-	5,077,335
Recaptured broker commissions	161,979	-	161,979
Miscellaneous income	250,232	-	250,232
Total other investment income	5,489,546	-	5,489,546
Total investment income	$ 312,284,422	$ 932,881,712	1,245,166,134
Manager and custodian fees and expenses:			
Investment manager fees			(20,741,568)
Custodian fees and expenses			(640,944)
Other investment expenses			(687,501)
Total investment fees and expenses			(22,070,013)
Net investment income			$ 1,223,096,121

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF INVESTMENT FEES AND EXPENSES

Fiscal Year Ended June 30, 2005

Domestic equity managers:		
Barclays Global Investors	$ 3,387,512	
Capital Guardian Trust Co.	304,011	
Wellington Management Co.	1,319,531	
Subtotal domestic equity managers		$ 5,011,054
Global equity managers:		
Capital Guardian Trust Co.	511,096	
Wellington Management Co.	362,871	
Subtotal global equity managers		873,967
International equity managers:		
Alliance Capital Management	1,081,407	
Barclays Global Investors	1,255,205	
Lazard Freres Asset Management	1,734,013	
Morgan Stanley Asset Management	1,778,915	
Nomura Capital Management	693,638	
Subtotal international equity managers		6,543,178
Fixed income managers:		
Loomis, Sayles & Co.	1,021,500	
Pacific Investment Management Co.	1,242,536	
Payden & Rygel Investment Counsel	715,914	
Western Asset Management Co.	1,104,027	
Subtotal fixed income managers		4,083,977
Foreign currency overlay manager:		
Pareto Partners	1,111,357	
Subtotal foreign currency overlay manager		1,111,357
Real estate and alternative investment managers:		
AEW Capital Management	1,940,215	
Portfolio Advisors	358,769	
Morgan Stanley Prime Property Fund	600,625	
Subtotal real estate and alternative investment managers		2,899,609
Cash equivalent manager:		
Payden & Rygel Investment Counsel	218,426	
Subtotal cash equivalent manager		218,426
Total investment management fees		20,741,568
Other fees and expenses:		
Mellon Trust - custodian fees and expenses	640,944	
Consultant fees	653,082	
Legal expenses	34,419	
Subtotal other fees and expenses		1,328,445
Total investment fees and expenses		$ 22,070,013

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

INVESTMENT SUMMARY
(In Thousands)[1]

Fiscal Year Ended June 30, 2005

	June 30, 2004 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 2005 Fair Value	Asset Mix Fair Value
Marketable securities:					
Domestic equities	$ 3,513,446	$ 1,427,851	$ (1,408,001)	$ 3,533,296	30.60%
International equities	2,136,914	1,328,533	(854,402)	2,611,045	22.62%
Total fixed income	3,681,472	10,854,762	(11,020,181)	3,516,053	30.46%
Temporary investments [2]	182,507	20,847,516	(20,502,635)	527,388	4.57%
Total marketable securities	9,514,339	34,458,662	(33,785,219)	10,187,782	88.25%
Real estate and alternative investments:					
Real estate	706,895	203,692	(68,419)	842,168	7.29%
Direct placements and limited partnerships	537,928	172,225	(194,807)	515,346	4.46%
Total real estate and alternative investments	1,244,823	375,917	(263,226)	1,357,514	11.75%
Total investments	$ 10,759,162	$ 34,834,579	$ (34,048,445)	$ 11,545,296	100.00%

(1) Amounts include changes in unrealized appreciation and excludes interest and dividend accruals. Amounts exclude security lending cash collateral of $ 2,225,521,793 and $ 2,078,302,191 at June 30, 2005 and 2004, respectively.

(2) Temporary investments include foreign currencies and securities maturing within 90 days of purchase date.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

EXPENSES BY TYPE

Fiscal Year Ended June 30, 2005

Fiscal Year	Benefits	Withdrawals	Insurance	Administration	Total
1996	$ 364,102,629	$ 30,687,458	$ 34,108,251	$ 4,493,293	$ 433,391,631
1997	396,660,948	36,761,626	36,048,625	4,659,099	474,130,298
1998	428,997,161	41,510,908	37,639,743	4,702,566	512,850,378
1999	472,571,948	40,860,950	41,892,190	5,442,410	560,767,498
2000	505,941,764	43,631,850	42,199,878	5,689,571	597,463,063
2001	558,901,552	43,967,623	46,456,603	6,843,434	656,169,212
2002	636,398,865	39,066,937	47,625,764	6,776,044	729,867,610
2003	653,542,143	39,608,946	53,829,235	7,215,024	754,195,348
2004	685,603,796	41,179,470	50,396,392	7,231,295	784,410,953
2005	745,413,160	46,773,933	53,703,109	7,340,147	853,230,349

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

CASH RECEIPTS AND DISBURSEMENTS

Fiscal Year Ended June 30, 2005

Opening cash balance		$ 54,643
Member contributions	$ 227,275,086	
Employer contributions	296,214,991	
System recoveries	126,076	
Refund of advancements	698,476,972	
Optional life insurance	6,050,629	
Total cash receipts		1,228,143,754
Withdrawal of contributions	40,500,243	
Payment to beneficiaries	13,602,143	
Retirement benefits	731,203,078	
Retirant dividend payments	6,173,436	
Group life insurance premiums	11,986,852	
Optional life insurance premiums	5,937,325	
Electronic funds transfer	29,085	
Administrative expenses	8,710,471	
Deposited with insurance carrier	32,373,942	
Advanced to investment custodian	356,792,172	
Investment manager fees and expenses	20,723,849	
Total disbursements made		1,228,032,596
Ending cash balance		$ 165,801

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

Legislative Post Audit Committee
Kansas State Legislature:

We have audited the financial statements of the Kansas Public Employees Retirement System, a component unit of the State of Kansas, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kansas Public Employees Retirement System'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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of Legislative Post Audit, the Board of Trustees and management. This restriction is not intended to limit the distribution of this report, which upon acceptance by Legislative Post Audit, is a matter of public record.

Berberich Trahan & Co., P.A.

October 18, 2005