



**TEACHERS'
RETIREMENT
SYSTEM
OF THE STATE OF KENTUCKY**

**Comprehensive Annual Report
Fiscal Year Ended June 30, 1986**

TEACHERS' RETIREMENT SYSTEM
of the state of Kentucky

46th

Comprehensive

Annual

Report

Fiscal Year Ended June 30, 1986

**Kentucky
Teachers'
Retirement
System**

**216 West Main Street
Frankfort, Kentucky 40601**

**Pat N. Miller
Executive Secretary**

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INTRODUCTORY

SECTION

Kentucky Teachers' Retirement System

Letter of Transmittal

BOARD OF TRUSTEES

W. D. BRUCE, JR.
CHAIRPERSON, LOUISVILLE

FRANCES MILLER
VICE CHAIRPERSON, RUSSELL

MARTHA BAKER, PADUCAH
DENVER C. KNUCKLES, MIDDLESBORO
EARLE V. POWELL, FRANKFORT
ARLENE ROMINE, MT. WASHINGTON
T.K. STONE, ELIZABETHTOWN



PAT N. MILLER
EXECUTIVE SECRETARY

EX OFFICIO
FRANCES JONES MILLS
STATE TREASURER

ALICE McDONALD
SUPT OF PUBLIC INSTRUCTION

COMMONWEALTH OF KENTUCKY
TEACHERS' RETIREMENT SYSTEM
216 WEST MAIN STREET
FRANKFORT, KENTUCKY
40601

December 1, 1986

Honorable Martha Layne Collins, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601

Dear Governor Collins:

The 46th Annual Report of the Teachers' Retirement System of the State of Kentucky (the System) for the fiscal year ended June 30, 1986, is hereby submitted. The legal requirement for publication of this report is contained in Section 320 of Chapter 161 of the Kentucky Revised Statutes (KRS). In addition, KRS 161.370(2) requires an annual audit of the System. The auditor's opinion letter is in the Financial Section of this report.

The annual report consists of four sections: the Introductory Section containing this Letter of Transmittal and the identification of the trustees, staff, and consultants of the System; the Financial Section containing the auditor's opinion letter, the financial statements, and supporting schedules; the Statistical Section consisting of significant data pertaining to the System; and the Investment Section containing a detailed list of investments and charts reporting the investment performance and allocation.

Accounting System and Reports

The report has been prepared to conform with the principles of governmental accounting and reporting as established by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

The annual report has been changed to a format that we believe will be more informative and will give its readers a better understanding of the System's activities. Revenue and expenditure classifications in the financial statements have been changed to achieve

Letter of Transmittal

the desired results. To ascertain the changes in account classifications, refer to Note 3 of the financial statements.

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.

Revenues

The reserves needed to finance retirement and other member benefits are accumulated through the collection of member and employer or state contributions and through income derived from investment of reserve funds. For fiscal year 1986, the revenues to the System included \$100,004,860 from member contributions, \$143,735,360 from employer or state contributions, and \$331,088,699 from investment income.

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 premiums for retired teachers, and the cost of administering the System, comprise the total expense. Expenses by type for 1986 and 1985 are shown for comparative purposes.

Expenses	1986 (Millions)	1985 (Millions)	Increase/<Decrease> (Millions)	%
Retiree Benefits	\$131.1	\$121.3	\$ 9.8	8.08
Disabilities	6.8	6.5	.3	4.62
Survivor/Death Benefits	5.4	5.2	.2	3.85
Refunds	7.4	6.7	.7	10.45
Medical Insurance	14.5	12.4	2.1	16.94
Administration	1.9	1.7	.2	11.76
	\$167.1	\$153.8	\$13.3	8.65

Investments

The investment portfolio must be regarded as a major contributor to the System. It is estimated that income from investments will provide more than one half of the funds that are paid out to the average retired member. The investment portfolio experienced substantial growth during the year. The par value of the portfolio increased from \$1,890,279,915 to \$2,418,030,705 during fiscal year

Letter of Transmittal

1986. The growth of the portfolio can be attributed to higher teachers' salaries and the corresponding effect on contributions, as well as increases in investment income. The value of the portfolio was positively affected by appreciations in bond and stock securities during 1985-86. While the System experienced a significant increase in income from investments, the falling rates of interest are a cause for concern to the System. At the close of fiscal year 1985, the indicated yield on the total portfolio was 8.96%, and this rate dropped to 7.25% for June 30, 1986. While "indicated yields" only reflect projections based on market rates for a given day and do not consider capital gains that may occur, it is clear that current market rates are presently significantly below the rates of recent years.

Funding

The bottom line for a retirement system is the level of funding it receives. The better the level of funding, the larger the ratio of assets accumulated and the greater the level of investment income potential. Also, a better level of funding gives the participants a higher degree of assurance that their pension benefits are secure. The advantage of a well-funded plan is that the participants can look at assets that are irrevocably committed to the payment of benefits.

KRS 161.550(1) establishes the state's funding level at an amount equal to that contributed by all members. In addition to the matching requirement, the state is required to provide an overmatch of 3.25% of total members' salaries. In the event annual appropriations are not sufficient to meet these statutory requirements, the statute requires the state to make up the deficit in the next biennial budget.

The last actuarial evaluation was conducted at June 30, 1984. The actuarial accrued liability of the System was \$2.9 billion. The reserve balance from participant contributions from employers and employees was \$1.569 billion. The amount by which the accrued liability exceeds the reserves, or the unfunded liability, totaled \$1.338 billion on June 30, 1984.

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 Kentucky Teachers' Retirement System (KTRS). A certification from the certified public accountant and actuary are enclosed in this report. All of the consultants appointed by the Board are listed on page 9 of this report.

Letter of Transmittal

Acknowledgements

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 as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a method for determining responsible stewardship for the assets contributed by the members and their employers.

This report is being mailed to all employer members of the System. They form the link between KTRS and its membership. 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.

Respectfully submitted,



Pat N. Miller
Executive Secretary

Chairperson's Report

BOARD OF TRUSTEES

W. D. BRUCE, JR.
CHAIRPERSON, LOUISVILLE

FRANCES MILLER
VICE CHAIRPERSON, RUSSELL

MARTHA BAKER, PADUCAH
DENVER C. KNUCKLES, MIDDLESBORO
EARLE V. POWELL, FRANKFORT
ARLENE ROMINE, MT. WASHINGTON
Y.K. STONE, ELIZABETHTOWN

EX OFFICIO
FRANCES JONES MILLS
STATE TREASURER

ALICE McDONALD
SUPT. OF PUBLIC INSTRUCTION



COMMONWEALTH OF KENTUCKY
TEACHERS' RETIREMENT SYSTEM
216 WEST MAIN STREET
FRANKFORT, KENTUCKY
40601

PAT N. MILLER
EXECUTIVE SECRETARY

December 1, 1986

Honorable Martha Layne Collins
Governor of the Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601

Dear Governor Collins:

This Forty-Sixth Annual Report of the Teachers' Retirement System of the State of Kentucky emphasizes the importance of a fiscally sound retirement system.

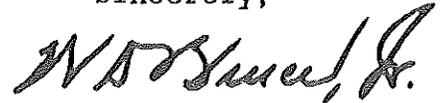
Local school districts, the Department of Education, state universities, and other participating employers are keenly aware of the importance of a growing, sound retirement system, particularly in attracting and retaining competent employees. The employees recognize the importance of their contributions and the commonwealth's matching and overmatching of their contributions in providing a sound retirement system. In this manner, each member's future benefits are being protected and guaranteed.

The Board of Trustees is aware of the cooperation you and the members of the General Assembly have provided the System in maintaining its fiscal soundness. The retirement system is certainly grateful for this support in the past, and we look forward to the future confident that it will continue as members retire and new active members begin their careers.

Chairperson's Report

On behalf of the Board of Trustees, I want to express our appreciation to you and the members of the General Assembly. We ask for your continued support so that through all of our combined efforts, the System may continue to provide a financially secure retirement future for its participants.

Sincerely,



W. D. Bruce, Jr.

Chairperson

Board of Trustees

Board of Trustees

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Chairperson
Louisville
Teacher Trustee

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Vice-Chairperson
Paducah
Teacher Trustee

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Middlesboro
Lay Trustee

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Russell
Teacher Trustee

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Mt. Washington
Teacher Trustee

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Elizabethtown
Retired Teacher Trustee

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Princeton
Lay Trustee

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Superintendent of
Public Instruction,
Ex-Officio
Trustee

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State
Treasurer,
Ex-Officio
Trustee

Administrative Staff

**Teachers' Retirement System
216 West Main Street
Frankfort, Kentucky 40601**

Pat N. Miller
Executive Secretary
(502) 564-3266

Billy F. Hunt
Deputy Executive Secretary for Administration
(502) 564-3266

Stuart A. Reagan, CFA
Deputy Executive Secretary for Investments
(502) 564-2057

Professional Consultants

Investment Advisors

Fixed Income and Equity Manager
Todd Investment Advisors, Inc.
3150 First National Tower
Louisville, Kentucky 40202

Fixed Income Manager
First Kentucky Company
First National Tower
Louisville, Kentucky 40233

Equity Manager
Invesco Capital Management, Inc.
400 Colony Square, Suite 1000
1201 Peachtree Street, N. E.
Atlanta, Georgia 30361

Investment Custodian

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

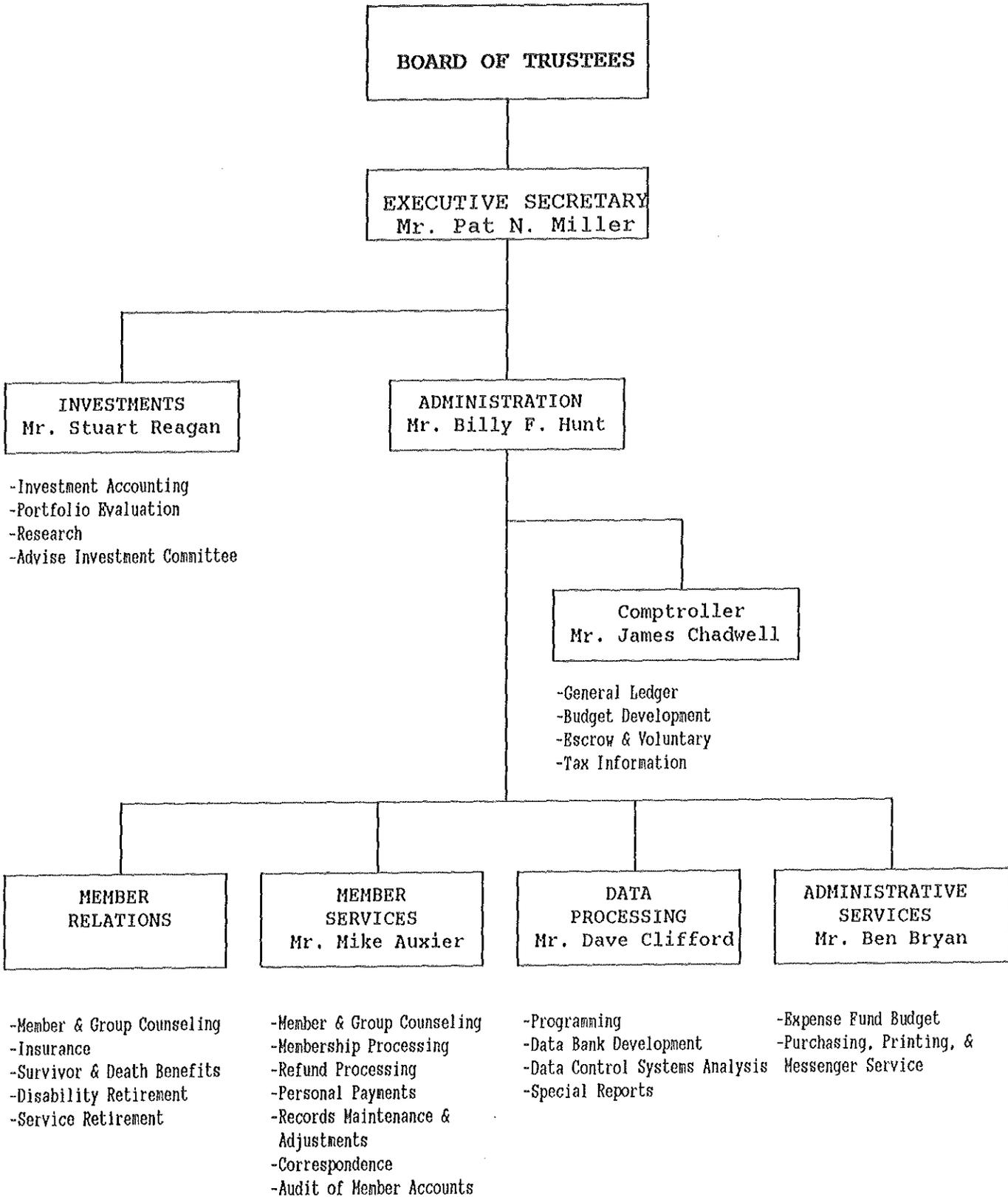
Actuary

George B. Buck Consulting Actuaries, Inc.
340 Interstate North
Atlanta, Georgia 30339

Auditor

Charles T. Mitchell and Company
Box 698
Frankfort, Kentucky 40602

Organizational Chart



FINANCIAL

SECTION

Kentucky Teachers' Retirement System

Independent Auditor's Report

Charles T. Mitchell Company
Certified Public Accountants

201 WEST MAIN
P.O. BOX 698
FRANKFORT, KENTUCKY 40602
(502) 227-7395



CHARLES T. MITCHELL, C.P.A.
DON C. GILES, C.P.A.
WILLIAM G. JOHNSON, JR., C.P.A.
GARY L. HARBIN, C.P.A.
LARRY T. WILLIAMS, C.P.A.

October 9, 1986

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

We have examined the balance sheets of the Teachers' Retirement System of the State of Kentucky as of June 30, 1986 and 1985 and the related statements of revenues, expenses, and changes in fund balances, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Teachers' Retirement System of the State of Kentucky at June 30, 1986 and 1985, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principals applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Supporting Schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements.

Respectfully Submitted,

Charles T. Mitchell Co

Charles T. Mitchell Company

Balance Sheets

June 30, 1986 and June 30, 1985

	<u>Year Ended June 30, 1986</u>	<u>Year Ended June 30, 1985</u>
ASSETS		
Cash	\$ 11,592,380	\$ 10,480,267
Deposit with Insurance Carrier (See Note 4)	4,282,771	4,487,820
Prepaid Expenses	43,065	54,243
Receivables:		
Contributions	8,351,213	12,320,240
Accounts	62,167	44,802
State of Kentucky	13,802,902	4,853,444
Investment Income	26,470,206	30,894,402
Total Receivables	<u>48,686,488</u>	<u>48,112,888</u>
Investments, at Cost (See Note 2):		
Short Term Investments (Market Value \$264,070,000 in 1986 and \$303,305,000 in 1985)	264,070,000	303,305,000
Bonds and Mortgages (Market Value \$1,371,867,612 in 1986 and \$1,197,034,766 in 1985)	1,305,978,215	1,196,716,708
Common Stock (Market Value \$659,185,332 in 1986 and \$294,616,308 in 1985)	574,406,641	238,530,028
Real Estate (Market Value Not Readily Available)	35,336,214	34,882,785
Total Investments	<u>2,179,791,070</u>	<u>1,773,434,521</u>
Fixed Assets (Net of Accumulated Depreciation of \$113,282 in 1986 and \$81,591 in 1985)	95,260	92,150
Total Assets	<u>\$2,244,491,034</u>	<u>\$1,836,661,889</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 214,541	\$ 60,187
Treasurer's Unredeemed Checks	17,157	41,219
Maintenance Reserve - Rental Property	30,388	22,006
Total Liabilities	<u>262,086</u>	<u>123,412</u>
Fund Balance		
Member Reserve	719,133,946	646,868,997
Employer Reserve	741,449,946	666,019,380
Benefit Reserve	80,455,616	81,993,134
Survivor, Death, Medical Reserve	28,821,200	20,127,560
403(b) Program Reserve	8,242,601	7,233,532
Unallocated Reserve	665,981,314	414,146,481
Administrative Expense Reserve (See Note 7)	144,325	149,393
Total Fund Balance	<u>2,244,228,948</u>	<u>1,836,538,477</u>
Total Liabilities and Fund Balance	<u>\$2,244,491,034</u>	<u>\$1,836,661,889</u>

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

Statement of Revenues, Expenses, Year Ended

RESERVES

	Member	Employer	Benefit	Survivor, Death, Medical
Operating Revenues				
Member Contributions	\$ 86,170,527	\$ 158,477	\$	\$ 12,837,986
Employer Contributions		89,831,964		6,521,710
Investment Income				770,716
Total Operating Revenues	86,170,527	89,990,441		20,130,412
Operating Expenses				
Benefits			137,820,324	5,384,651
Refunds	6,828,855	4,806		
Insurance Premium (See Note 4)				14,515,566
Administrative Expenses				
Total Operating Expenses	6,828,855	4,806	137,820,324	19,900,217
Net Operating Income (Expense)	79,341,672	89,985,635	(137,820,324)	230,195
Reserve Transfers				
Retirements by Members	(25,608,091)	(26,283,500)	50,941,822	949,769
Reimbursements			96,321,525	3,218,825
Members Who Left System		(7,387,812)	(231,848)	(37,659)
Prior Year Reclassification (See Note 8)			(12,308,687)	(251,198)
Interest Allocations	18,447,716	18,866,153	1,948,390	1,443,250
Unmatched Member Contributions				2,836,100
Administrative Expenses				
Other Reclassifications	83,652	250,090	(388,396)	304,358
Total Reserve Transfers	(7,076,723)	(14,555,069)	136,282,806	8,463,445
Net Fund Balance Additions (Reductions)	72,264,949	75,430,566	(1,537,518)	8,693,640
Beginning Fund Balance (See Note 7)	646,868,997	666,019,380	81,993,134	20,127,560
Ending Fund Balance	\$719,133,946	\$741,449,946	\$ 80,455,616	\$ 28,821,200

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

**and Changes in Fund Balances
June 30, 1986**

<u>403(b) Program</u>	<u>Unallocated</u>	<u>Administrative Expense</u>	<u>1985-86 Total</u>	<u>1984-85 Total</u>
\$ 837,870	\$ 47,381,686	\$	\$ 100,004,860	\$ 94,125,506
	330,317,983		143,735,360	136,480,324
<u>837,870</u>	<u>377,699,669</u>		<u>574,828,919</u>	<u>411,042,995</u>
121,951			143,326,926	132,990,989
549,498			7,383,159	6,702,136
			14,515,566	12,378,427
	323,167	1,589,630	1,912,797	1,691,011
<u>671,449</u>	<u>323,167</u>	<u>1,589,630</u>	<u>167,138,448</u>	<u>153,762,563</u>
<u>166,421</u>	<u>377,376,502</u>	<u>(1,589,630)</u>	<u>407,690,471</u>	<u>257,280,432</u>
40,548	(99,580,898)			
	7,657,319			
	12,559,885			
803,056	(41,508,565)			
	(2,836,100)			
	(1,584,562)	1,584,562		
(956)	(248,748)			
<u>842,648</u>	<u>(125,541,669)</u>	<u>1,584,562</u>		
1,009,069	251,834,833	(5,068)	407,690,471	257,280,432
<u>7,233,532</u>	<u>414,146,481</u>	<u>149,393</u>	<u>1,836,538,477</u>	<u>1,579,258,045</u>
<u>\$ 8,242,601</u>	<u>\$ 665,981,314</u>	<u>\$ 144,325</u>	<u>\$2,244,228,948</u>	<u>\$1,836,538,477</u>

**Statement of Changes
in Financial Position
Years Ended June 30, 1986 and 1985**

	<u>Year Ended June 30, 1986</u>	<u>Year Ended June 30, 1985</u>
Sources of Working Capital:		
Excess of Revenues Over Expenses	\$ 407,690,471	\$ 257,280,432
Item Not Requiring Resources Currently - Depreciation	31,690	29,077
Total Sources of Working Capital	<u>\$ 407,722,161</u>	<u>\$ 257,309,509</u>
Uses of Working Capital:		
Net Increase in Long Term Investments	\$ 445,591,549	\$ 130,403,293
Net Increase (Decrease) in Working Capital	(37,904,188)	126,663,712
Acquisition of Equipment	34,800	36,134
Adjustment to Unallocated Reserve		206,370
Total Uses of Working Capital	<u>\$ 407,722,161</u>	<u>\$ 257,309,509</u>

**Elements of Net Increase (Decrease)
in Working Capital
Years Ended June 30, 1986 and 1985**

	<u>Year Ended June 30, 1986</u>	<u>Year Ended June 30, 1985</u>
Current Assets:		
Cash	\$ 1,112,113	\$ 1,891,250
Deposit with Insurance Carrier	(205,049)	736,189
Prepaid Expenses	(11,178)	8,016
Receivables		
Contributions	(3,969,027)	8,877,278
Accounts	17,365	44,600
State of Kentucky	8,949,458	4,853,444
Investment Income	(4,424,196)	2,161,316
Short Term Investments	<u>(39,235,000)</u>	<u>106,785,000</u>
Net Increase (Decrease) in Current Assets	<u>(37,765,514)</u>	<u>125,357,093</u>
Current Liabilities:		
Accounts Payable	154,354	56,792
Treasurer's Unredeemed Checks	(24,062)	5,095
Maintenance Reserve - Rental Property	8,382	8,242
Payable - State of Kentucky		<u>(1,376,748)</u>
Net Increase (Decrease) in Current Liabilities	<u>138,674</u>	<u>(1,306,619)</u>
Increase (Decrease) in Working Capital	<u>\$ (37,904,188)</u>	<u>\$ 126,663,712</u>

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

Notes to Financial Statements
Years Ended June 30, 1986 and 1985

Note 1: Description of Plan

The Teachers' Retirement System of the State of Kentucky (KTRS) was created by the 1938 General Assembly. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes.

1. **Reporting Entity.** The Teachers' Retirement System of the State of Kentucky (KTRS) is a multiple-employer public employee retirement system established and administered by the Commonwealth of Kentucky to provide benefit pension plan coverage for local school districts and other public educational agencies within the state. The System is considered part of the State's reporting entity and is included in the Commonwealth of Kentucky's financial statements as a pension trust fund.
2. **Employers.** Chapter 161 Section 220 of the Kentucky Revised Statutes (KRS) stipulates who may become a member of the Teachers' Retirement System. Generally, eligible persons are employed by local boards of education, the state department of education, some state universities, and some non state-supported organizations. The following illustrates the participating employers at June 30, 1986 and 1985.

	<u>1986</u>	<u>1985</u>
Local School Districts	180	180
State Universities	5	5
Department of Education/Other Organizations	21	21
	206	206

The covered payroll of all participating employers totaled \$1,006,751,275 for the year ended June 30, 1986 and \$961,020,734 for the year ended June 30, 1985.

3. **Participants.** According to KRS 161.220 ". . . Any regular or special teacher, supervisor or administrator occupying a position requiring certification by the state department of education or a professional level of training . . ." are eligible to participate in the System. The following illustrates the participants at June 30, 1986 and 1985.

	<u>1986</u>	<u>1985</u>
Retirees and beneficiaries of deceased		
retirees currently receiving benefits:		
Local School Districts	14,895	14,445
Universities	715	648
Department of Education/Other Organizations	648	595
	16,258	15,688

Notes to Financial Statements

Note 1: Description of Plan (continued)

	<u>1986</u>	<u>1985</u>
Disabilities currently receiving benefits:		
Local School Districts	867	857
Universities	23	24
Department of Education/Other Organizations	56	49
	<u>946</u>	<u>930</u>
Survivors currently receiving benefits:		
Local School Districts	544	557
Universities	28	39
Department of Education/Other Organizations	56	59
	<u>628</u>	<u>655</u>
Terminated employees entitled to benefits but not yet receiving them (no current contributions in the last fiscal year):		
Local School Districts	1,802	1,780
Universities	158	150
Department of Education/Other Organizations	139	143
	<u>2,099</u>	<u>2,073</u>
Current employees:		
Vested:		
Local School Districts	33,260	31,540
Universities	2,134	2,013
Department of Education/Other Organizations	1,824	1,690
Non-Vested:		
Local School Districts	8,258	6,627
Universities	1,090	924
Department of Education/Other Organizations	734	581
	<u>47,300</u>	<u>43,375</u>

4. **Benefit Provisions.** Employees are entitled to an annual retirement benefit, payable monthly for life, if they either attain the age of fifty-five (55) and complete five (5) years of Kentucky service or complete thirty (30) years of Kentucky service. Non-university employees receive monthly payments equal to either two (2) percent (service prior to January 1, 1984) or two and one half (2 1/2) percent (service after January 1, 1984) of their final average salaries for each year of credited service. University

Notes to Financial Statements

Note 1: Description of Plan (continued)

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 average of the employee's five (5) highest annual salaries. Employees with less than thirty (30) years of service may retire and receive reduced retirement benefits. The System also provides death, survivor, and disability benefits. Members' retirement benefits become vested when they complete five (5) years of credited service.

5. **Contributions.** Members are required by statute to contribute 9.6% of their salaries to the System. University members are required to contribute 5.905% of their salaries. The state of Kentucky contributes the remaining amounts necessary to finance the participation of employees in the System. Employer contributions are determined as a level percentage of payroll. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee contributions plus interest earned are refunded to the employee upon his or her request.

Note 2: Summary of Significant Accounting Policies

- A. **Basis of Accounting.** The financial statements are prepared on the accrual basis of accounting.
- B. **Investments.** Investments in United States Government obligations, corporate bonds, and other fixed income investments are stated at amortized cost. Investments in stocks, repurchase agreements, and real estate are stated at cost. Realized gains or losses on all investments are recorded at the time of sale. Premiums and discounts are amortized using the straight-line method over the period the bonds and notes are to be held. Any unamortized premium or discount is recognized at the time of sale for bonds or notes sold prior to maturity.

The following represents the book values of the investments of the Retirement System at June 30, 1986 and June 30, 1985.

	<u>June 30, 1986</u>	<u>June 30, 1985</u>
SHORT TERM INVESTMENTS		
Repurchase Agreements	\$ 264,070,000	\$ 303,305,000
BONDS AND MORTGAGES		
U.S. Government Obligations		
Treasury Notes and Bonds	530,052,162	493,626,020
Agencies	94,816,436	129,162,018
Ship Bonds (Title XI)	83,409,331	91,187,107
GNMA (Single Family)	92,618,573	101,164,206
Other Miscellaneous	104,080,167	37,980,882
Total U.S. Government Obligations	<u>904,976,669</u>	<u>853,120,233</u>

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (continued)

	<u>June 30, 1986</u>	<u>June 30, 1985</u>
BONDS AND MORTGAGES (continued)		
Corporate Bonds		
Industrials	\$ 116,064,379	\$ 102,042,785
Finance	64,896,842	30,364,261
Utility Bonds (Except Telephone)	33,889,483	49,361,091
Telephone Bonds	72,146,146	44,956,184
Railroad Obligations	11,151,494	11,321,403
Total Corporate Bonds	298,148,344	238,045,724
Other Fixed Income Investments		
FHA and VA Single Family Mortgages	17,413,417	19,293,015
Fixed Income Securities	85,366,451	1,065,072
Project Mortgages	- 0 -	85,034,330
State and Local Government Obligations	73,334	158,334
Total Other Investments	102,853,202	105,550,751
TOTAL BONDS AND MORTGAGES	1,305,978,215	1,196,716,708
STOCKS	574,406,641	238,530,028
REAL ESTATE	35,336,214	34,882,785
TOTAL INVESTMENTS	\$ 2,179,791,070	\$ 1,773,434,521

The System operates a securities lending program whereby the System lends U.S. Government bonds to a primary U.S. Government bond dealer. In return, the System receives similar U.S. Government bonds that serve as collateral and a fee for providing the service. The exchanges of securities are temporary, and the value of collateral exceeds the value of the lent bonds.

On June 30, 1986 and June 30, 1985, the following values of U.S. Government bonds were on loan. They are included among the investments and assets of the System.

<u>Securities Loaned</u>	<u>1986</u>	<u>1985</u>
Book Value	\$92,889,789	\$37,346,127
Market Value	94,797,618	38,724,778

- C. **Furniture, Fixtures, and Equipment.** Furniture, fixtures, and equipment are reported on the balance sheet at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of five (5) to ten (10) years with ten (10) percent of cost as a salvage value. This accounting treatment is new for the 1985-86 fiscal year. (See Note 7.)

Notes to Financial Statements

Note 3: Description of Funds

MEMBER RESERVE: This fund was established by KRS 161.420 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 as the State Accumulation Fund and receives state appropriations to the Retirement System. The state contributes an amount equal to members' contributions with the exception of the .28% medical insurance contribution. In addition, the state provides an annual overmatch of 3.25% to discharge the System's unfunded obligations. Actual state appropriations for fiscal year 1985-1986 were based on estimates of members' salaries. For the fiscal year ended June 30, 1986, actual appropriations fell short of required appropriations by \$8,949,458. This increased the amount due from the state to \$13,802,902. \$11,711,344 of the \$13,802,902 was received July 1, 1986. The remaining \$2,091,558 will be received once the state appropriation is made.

BENEFIT RESERVE: This fund was established by KRS 161.420 as the Allowance Reserve Fund, the source for retirement and disability 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 the member's contributions and the state matching contributions have been exhausted, retirement benefits are paid from monies transferred from Unallocated Reserves.

UNALLOCATED RESERVE: This fund was established by KRS 161.420 as the Guarantee Fund to collect income from investments, state matching contributions of members withdrawn from the System, and state overmatching contributions. In addition, it receives money whose disposition is not otherwise provided for. 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.

403(b) PROGRAM RESERVE: This fund was established as the Voluntary Contribution Fund, operating under the rules and regulations of Section 403(b) of the Internal Revenue Code. The primary purpose of the program is to enable members to defer payment of taxes on income until after retirement. KRS 161.705 allows members to voluntarily contribute four (4) percent or more of their annual compensation to separate member accounts. Upon retirement, these accounts may be used to increase monthly benefits, or they may be refunded to the members. Active voluntary accounts earn interest at rates approved by the Board of Trustees.

SURVIVOR, DEATH, MEDICAL RESERVE: This fund was established by KRS 161.420 as the Survivor, Death, and Medical Insurance Fund. It consists of members'

Notes to Financial Statements

Note 3: Description of Funds (continued)

contributions and state matching contributions and provides survivor benefits, death benefits of \$2,000 for active members and \$2,500 for retired members, and health insurance premiums for retired members and eligible spouses.

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

Note 4: Premium Stabilization and Reserve Accounts, Aetna Life Insurance Company

The Aetna Life Insurance Company is the administrator of the health insurance plan provided to retired members. During the year, estimated premiums are paid to Aetna to maintain a premium stabilization and reserve account covering fluctuations in medical claims paid. Aetna annually compares estimated premiums to actual claims incurred with the resulting difference either increasing or decreasing the premium stabilization and reserve account. The following schedule reflects insurance premiums for 1985-86 and 1984-85.

	YEAR ENDED JUNE 30, 1986	YEAR ENDED JUNE 30, 1985
Estimated Premiums Paid	\$ 16,722,772	\$ 12,289,088
Less: Experience Increase (Decrease)	2,207,206	(89,339)
Actual Premiums Incurred	\$ 14,515,566	\$ 12,378,427

The premium stabilization and reserve account was affected in the following manner.

	YEAR ENDED JUNE 30, 1986	YEAR ENDED JUNE 30, 1985
Beginning Balance	\$ 4,487,820	\$ 3,751,631
Plus: Experience Increase (Decrease)	2,207,206	(89,339)
Plus: Interest Earned	770,716	825,528
Less: Withdrawals	3,182,971	
Ending Balance	\$ 4,282,771	\$ 4,487,820

Note 5: Actuarial Valuation

Actuarial valuations are conducted by statute on a biennial basis. The actuarial valuation as of June 30, 1986 is in process and therefore was not available at the time this report was prepared. The most recent valuation was conducted by George B. Buck Consulting Actuaries, Inc., to determine the accumulated plan benefits of the System at June 30, 1984.

Notes to Financial Statements

Note 5: Actuarial Valuation (continued)

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, attributable under the Retirement System's provisions to the services rendered by the members through the valuation date. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated members or their beneficiaries, (b) beneficiaries of members who have died, and (c) present members or their beneficiaries. Benefits under the Retirement System's plan are based on members' average compensation during their five (5) highest paid years. The accumulated plan benefits for active members are based on their current compensation as of June 30, 1984. Benefits payable under all circumstances (retirement, death, disability, and termination of employment) are included to the extent that they are deemed attributable to member services rendered to the valuation date.

The significant actuarial assumptions in determination of this accrued liability were (a) unit credit actuarial cost method with projected benefits, (b) investment return of 7.5% compounded annually, and (c) future annual salary increases of 5%.

The following reflects the accumulated plan benefit information and the unfunded actuarial liability for the years ended June 30, 1984 and 1982.

	<u>1984</u>	<u>1982</u>
Present value of prospective benefits payable in respect of:		
Present active members	\$1,806,601,000	\$1,498,972,000
Present annuitants and beneficiaries	1,062,190,000	906,883,000
Present inactive members	<u>39,007,000</u>	<u>34,860,000</u>
Accumulated plan benefits	2,907,798,000	2,440,715,000
Present assets for valuation purposes	<u>1,569,089,000</u>	<u>1,163,671,000</u>
Unfunded actuarial accrued liability	\$1,338,709,000	\$1,277,044,000

Note 6: Compensated Accrued Absences

Expenses for accumulated vacation and compensatory time earned by the System's employees are recorded when paid or taken by the employees, not when earned. KTRS maintains records that document the cost of annual, sick, and compensatory leave earned by its members. Annual leave is accumulated at amounts ranging from 7.5 to 13.13 hours per month (determined by length of service) with maximum accumulations ranging from 30 to 60 days. Compensatory leave is granted to authorized employees on an hour-for-hour basis. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or death in the family, there was no liability for sick leave at June 30, 1986. For retiring state employees who qualify, a maximum of six (6) months of their accumulated sick

Notes to Financial Statements

Note 6: Compensated Accrued Absences

leave balances (expressed in months) shall be added to their service credit for the purpose of determining their annual retirement allowances. The accumulated vacation and compensatory leave payable as of June 30, 1986 follows.

	<u>Balance</u> <u>June 30, 1985</u>	<u>Earned</u> <u>1985 - 1986</u>	<u>Used or Paid</u> <u>1985 - 1986</u>	<u>Balance</u> <u>June 30, 1986</u>
Vacation and Compensatory Leave	\$140,967	\$70,393	\$51,975	\$159,385

Note 7: Adjustment of the Administrative Expense Reserve Beginning Balance

The July 1, 1985 Administrative Expense Reserve beginning balance has been changed to \$149,393. Previously, there was no beginning balance in the Administrative Expense Reserve. The reasons for adjusting the balance follow.

A \$3,000 petty cash fund on hand at July 1, 1985 has been added to the financial statements. The petty cash fund had not been recognized in the 1984-85 financial statements.

Due to a change in accounting policy, fixed assets are now reported on the balance sheet (net of accumulated depreciation). On July 1, 1985, fixed assets totaled \$92,150 (net of accumulated depreciation of \$81,591). Depreciation expense for 1985-86 totaled \$31,690.

Due to a change in accounting policy, prepaid expenses are now reported on the balance sheet. Postage costing \$54,243 was on hand July 1, 1985. Postage for 1985-86 totaled \$107,842.

The July 1, 1984 Administrative Expense Reserve beginning balance was also adjusted to reflect these changes.

Note 8: Prior Year Reclassification

A transfer of \$12,559,885 was made from Benefit Reserves and Survivor, Death, Medical Reserves to Unallocated Reserves to reclassify a prior year appropriation. The appropriation was made in the 1976-78 biennium for retroactive retirement increases for the period July 1, 1971 to July 1, 1976.

SUPPORTING SCHEDULES

Member Reserves
Schedule of Revenues, Expenses, and
Changes in Fund Balances
Years Ended June 30, 1986 and 1985

	<u>Year Ended</u> <u>June 30, 1986</u>	<u>Year Ended</u> <u>June 30, 1985</u>
Operating Revenues		
Member Contributions	\$ 84,554,041	\$ 79,629,389
Reinstated Accounts	247,244	186,040
Personal Check Contributions	1,368,987	1,108,884
Other Revenues	255	6,181
Total Operating Revenues	<u>86,170,527</u>	<u>80,930,494</u>
Operating Expenses		
Refunds of Member Contributions	<u>6,828,855</u>	<u>6,352,470</u>
Net Operating Income (Expense)	<u>79,341,672</u>	<u>74,578,024</u>
Reserve Transfers		
Transfer from Employer Reserves		
Inactive Accounts per KRS 161.570(5)(d)	39,289	
Transfer from Benefits Reserves		
Disability Recoveries	42,135	
Transfer from Unallocated Reserves		
Interest Credited to Member Accounts	18,447,716	16,514,257
Balance Member Reserves and Employer Reserves	2,228	
Transfer to Employer Reserves		
Inactive Accounts per KRS 161.470(5)(d)		(2,011,949)
Transfer to Benefits Reserves		
Retirements	(25,135,924)	(22,599,513)
Transfer to Survivor, Death, Medical Reserves		
Survivor Benefits	<u>(472,167)</u>	<u>(405,664)</u>
Total Reserve Transfers	<u>(7,076,723)</u>	<u>(8,502,869)</u>
Net Fund Balance Additions (Reductions)	72,264,949	66,075,155
Beginning Fund Balance	<u>646,868,997</u>	<u>580,793,842</u>
Ending Fund Balance	<u>\$ 719,133,946</u>	<u>\$ 646,868,997</u>

**Employer Reserves
Schedule of Revenues, Expenses and
Changes in Fund Balances
Years Ended June 30, 1986 and 1985**

	<u>Year Ended June 30, 1986</u>	<u>Year Ended June 30, 1985</u>
Operating Revenues		
SAF Penalties	\$ 158,477	\$ 123,948
State Contributions - Matching	82,975,870	77,687,366
State Contributions - University Personnel	1,834,782	1,776,902
Employer Paid Matching	4,783,732	4,703,715
Employer Sick Leave Payments	237,350	138,940
Other Revenues	230	5,768
Total Operating Revenues	<u>89,990,441</u>	<u>84,436,639</u>
Operating Expenses		
Refund SAF Penalties	<u>4,806</u>	
Net Operating Income (Expense)	89,985,635	84,436,639
Reserve Transfers		
Transfer from Unallocated Reserves		
Match Interest Credited to Member Accounts	18,866,153	16,681,942
Reinstated Accounts	247,244	186,040
Balance Member Reserves and Employer Reserves		14,241
Transfer from Member Reserves		
Inactive Accounts per KRS 161.470(5)(d)		2,011,949
Transfer from Benefit Reserves		
Disability Recoveries	42,135	
Transfer to Member Reserves		
Inactive Accounts per KRS 161.470(5)(d)	(39,289)	
Transfer to Benefits Reserves		
Retirements	(25,805,898)	(23,023,209)
Transfer to Survivor, Death, Medical Reserves		
Survivor Benefits	(477,602)	(427,523)
Transfer to Unallocated Reserves		
Refund of Member Contributions	<u>(7,387,812)</u>	<u>(6,801,018)</u>
Total Reserve Transfers	<u>(14,555,069)</u>	<u>(11,357,578)</u>
Net Fund Balance Additions (Reductions)	75,430,566	73,079,061
Beginning Fund Balance	<u>666,019,380</u>	<u>592,940,319</u>
Ending Fund Balance	<u>\$ 741,449,946</u>	<u>\$ 666,019,380</u>

Benefit Reserves
Schedule of Revenues, Expenses and
Changes in Fund Balances
Years Ended June 30, 1986 and 1985

	<u>Year Ended</u> <u>June 30, 1986</u>	<u>Year Ended</u> <u>June 30, 1985</u>
Operating Revenues		
None		
Operating Expenses		
Benefits for Service Retirements	\$ 131,064,709	\$ 121,101,873
Benefits for Disability Retirements	6,755,615	6,510,561
Other Expenses		14,761
Total Operating Expenses	<u>137,820,324</u>	<u>127,627,195</u>
Net Operating Income (Expense)	<u>(137,820,324)</u>	<u>(127,627,195)</u>
Reserve Transfers		
Transfer from Member Reserves		
Retirements	25,135,924	22,599,513
Transfer from Employer Reserves		
Retirements	25,805,898	23,023,209
Transfer from Unallocated Reserves		
Benefits Paid in Excess of Member Contributions		
and Employer Matching	96,321,525	89,697,289
Interest on Fund Balance	1,948,390	2,144,320
Transfer to Unallocated Reserves		
Refund of Member Contributions	(231,848)	
Prior Year Reclassification	(12,308,687)	
Transfer to Member Reserves		
Disability Recoveries	(42,135)	
Transfer to Employer Reserves		
Disability Recoveries	(42,135)	
Transfer to Survivor, Death, Medical Reserves		
Survivors of Disability Retirements	<u>(304,126)</u>	<u>(247,651)</u>
Total Reserve Transfers	<u>136,282,806</u>	<u>137,216,680</u>
Net Fund Balance Additions (Reductions)	(1,537,518)	9,589,485
Beginning Fund Balance	<u>81,993,134</u>	<u>72,403,649</u>
Ending Fund Balance	<u>\$ 80,455,616</u>	<u>\$ 81,993,134</u>

**Survivor, Death, Medical Reserves
Schedule of Revenues, Expenses and
Changes in Fund Balances
Years Ended June 30, 1986 and 1985**

	Year Ended June 30, 1986	Year Ended June 30, 1985
Operating Revenues		
Member Contributions	\$ 9,205,263	\$ 8,632,940
Insurance Premiums Paid by Members	3,632,679	3,542,128
State Contributions - Matching	6,022,003	5,668,172
State Contributions - Handicapped Child		125,000
Employer Paid Matching	499,707	491,266
Aetna Life Insurance Company - Interest	770,716	825,528
Other Revenues	44	
Total Operating Revenues	<u>20,130,412</u>	<u>19,285,034</u>
Operating Expenses		
Survivor Benefits	4,130,298	4,010,515
Death Benefits	1,254,353	1,226,455
Comprehensive Medical Insurance Premiums	14,515,566	12,378,427
Other Expenses		443
Total Operating Expenses	<u>19,900,217</u>	<u>17,615,840</u>
Net Operating Income (Expense)	<u>230,195</u>	<u>1,669,194</u>
Reserve Transfers		
Transfer from Member Reserves		
Survivor Benefits	472,167	405,664
Transfer from Employer Reserves		
Survivor Benefits	477,602	427,523
Transfer from Benefit Reserves		
Survivors of Disability Retirements	304,126	247,651
Transfer from Unallocated Reserves		
Benefits Paid in Excess of Member Contributions and Employer Matching	3,218,825	2,976,841
Interest on Fund Balance	1,443,250	6,356,744
Unmatched Member Contributions	2,836,100	2,511,294
Balance Member Reserves and Employer Reserves	232	1,024
Transfer to Unallocated Reserves		
Refund of Member Contributions	(37,659)	
Prior Year Reclassification	(251,198)	
Total Reserve Transfers	<u>8,463,445</u>	<u>12,926,741</u>
Net Fund Balance Additions (Reductions)	8,693,640	14,595,935
Beginning Fund Balance	<u>20,127,560</u>	<u>5,531,625</u>
Ending Fund Balance	<u>\$ 28,821,200</u>	<u>\$ 20,127,560</u>

**403(b) Program Reserves
Schedule of Revenues, Expenses and
Changes in Fund Balances
Years Ended June 30, 1986 and 1985**

	<u>Year Ended June 30, 1986</u>	<u>Year Ended June 30, 1985</u>
Operating Revenues		
Voluntary Contributions by Members	\$ 837,870	\$ 895,996
Operating Expenses		
Benefits Increased by Voluntary Contributions	81,403	89,687
Benefits Continued after Voluntary Contributions		
Expired	40,548	36,513
Refund of Member Contributions	549,498	349,666
Other Expenses		181
Total Operating Expenses	<u>671,449</u>	<u>476,047</u>
Net Operating Income (Expense)	<u>166,421</u>	<u>419,949</u>
Reserve Transfers		
Transfer from Unallocated Reserves		
Benefits Continued after Voluntary Contributions		
Expired	40,548	36,513
Interest Credited to Member Accounts	803,056	684,526
Transfer to Unallocated Reserves		
Penalty on Early Withdrawal	<u>(956)</u>	
Total Reserve Transfers	<u>842,648</u>	<u>721,039</u>
Net Fund Balance Additions (Reductions)	1,009,069	1,140,988
Beginning Fund Balance	<u>7,233,532</u>	<u>6,092,544</u>
Ending Fund Balance	<u>\$ 8,242,601</u>	<u>\$ 7,233,532</u>

**Unallocated Reserves
Schedule of Revenues, Expenses and
Changes in Fund Balances
Years Ended June 30, 1986 and 1985**

	<u>Year Ended June 30, 1986</u>	<u>Year Ended June 30, 1985</u>
Operating Revenues		
Interest Earned on Investments	\$ 160,714,155	\$ 146,875,686
Dividend Income	15,780,518	13,637,358
Rental Income	2,093,136	1,925,162
Gain on Sale of Investments	151,309,814	16,832,009
Leased Security Income	420,360	341,422
State Contributions - Sick Leave	2,037,928	2,790,200
State Contributions - Benefit Improvement	11,944,000	11,846,800
State Contributions - Overmatch	33,241,174	31,233,174
State Contributions - Handicapped Children	125,000	
Escrow Late Remittance Penalty	11,762	9,428
Other Revenues	21,822	3,593
Total Operating Revenues	<u>377,699,669</u>	<u>225,494,832</u>
Operating Expenses		
Investment Counsel Fees	261,167	327,490
Investment Processing Fees	62,000	58,000
Total Operating Expenses	<u>323,167</u>	<u>385,490</u>
Net Operating Income (Expense)	<u>377,376,502</u>	<u>225,109,342</u>
Reserve Transfers		
Transfer from Various Funds		
Prior Year Reclassification	12,559,885	
Refund of Member Contributions	7,657,319	6,801,018
Transfer from 403(b) Program Reserves		
Penalty on Early Withdrawal	956	
Transfer to Various Funds		
Benefits Paid in Excess of Member Contributions and Employer Matching	(99,580,898)	(92,710,643)
Interest	(41,508,565)	(42,381,789)
Balance Member Reserves and Employer Reserves	(2,460)	(15,265)
Transfer to Employer Reserves		
Reinstated Accounts	(247,244)	(186,040)
Transfer to Survivor, Death, Medical Reserves		
Unmatched Member Contributions	(2,836,100)	(2,511,294)
Transfer to Administrative Expense Reserves		
Allotment	(1,581,562)	(1,320,594)
Increase Petty Cash	(3,000)	
Total Reserve Transfers	<u>(125,541,669)</u>	<u>(132,324,607)</u>
Net Fund Balance Additions (Reductions)	251,834,833	92,784,735
Beginning Fund Balance	<u>414,146,481</u>	<u>321,361,746</u>
Ending Fund Balance	<u>\$ 665,981,314</u>	<u>\$ 414,146,481</u>

**Administrative Expense Reserves
Schedule of Revenues, Expenses and
Changes in Fund Balances
Years Ended June 30, 1986 and 1985**

	<u>Year Ended June 30, 1986</u>	<u>Year Ended June 30, 1985</u>
Operating Revenues		
None		
Operating Expenses		
Salaries, Wages, and Fringe Benefits	\$ 1,070,485	\$ 876,395
Other Personnel Costs	7,561	3,917
Professional Contracts	63,189	54,698
Other Personal Services		379
Utilities and Heating Fuels	17,779	16,679
Rentals	61,043	41,783
Maintenance and Repairs	21,960	20,669
Postage and Related Services	107,842	101,632
Miscellaneous Services	96,004	54,121
Telecommunications	19,095	22,515
Computer Services	40,956	36,078
Supplies	19,588	22,056
Depreciation	31,690	29,077
Travel	20,338	18,536
Miscellaneous Commodities	10,480	5,605
Furniture, Fixtures, and Equipment Not Capitalized	1,620	1,381
Total Operating Expenses	<u>1,589,630</u>	<u>1,305,521</u>
Net Operating Income (Expense)	<u>(1,589,630)</u>	<u>(1,305,521)</u>
Reserve Transfers		
Transfer from Unallocated Reserves		
Allotment	1,581,562	1,320,594
Increase Petty Cash	3,000	
Total Reserve Transfers	<u>1,584,562</u>	<u>1,320,594</u>
Net Fund Balance Additions (Reductions)	<u>(5,068)</u>	15,073
Beginning Fund Balance	<u>149,393</u>	<u>134,320</u>
Ending Fund Balance	<u>\$ 144,325</u>	<u>\$ 149,393</u>

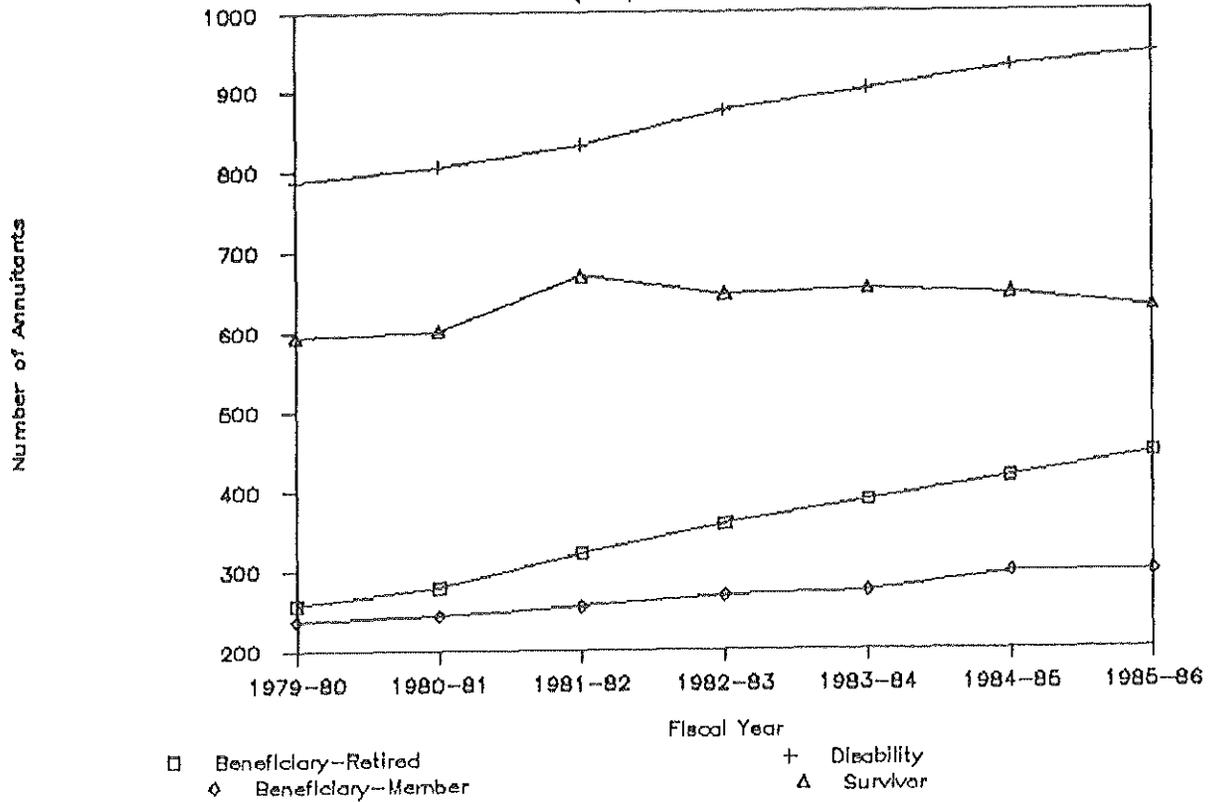
STATISTICAL

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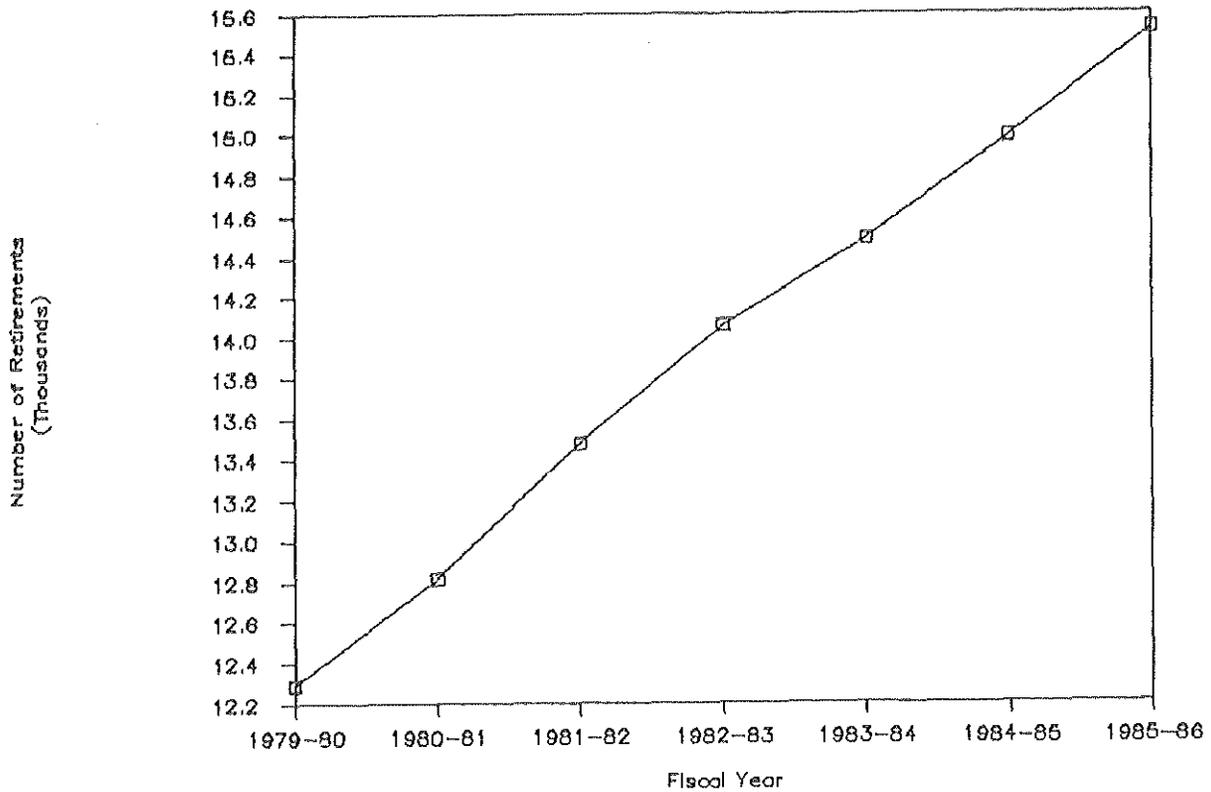
Kentucky Teachers' Retirement System

Growth in Annuitants

(except service retirements)

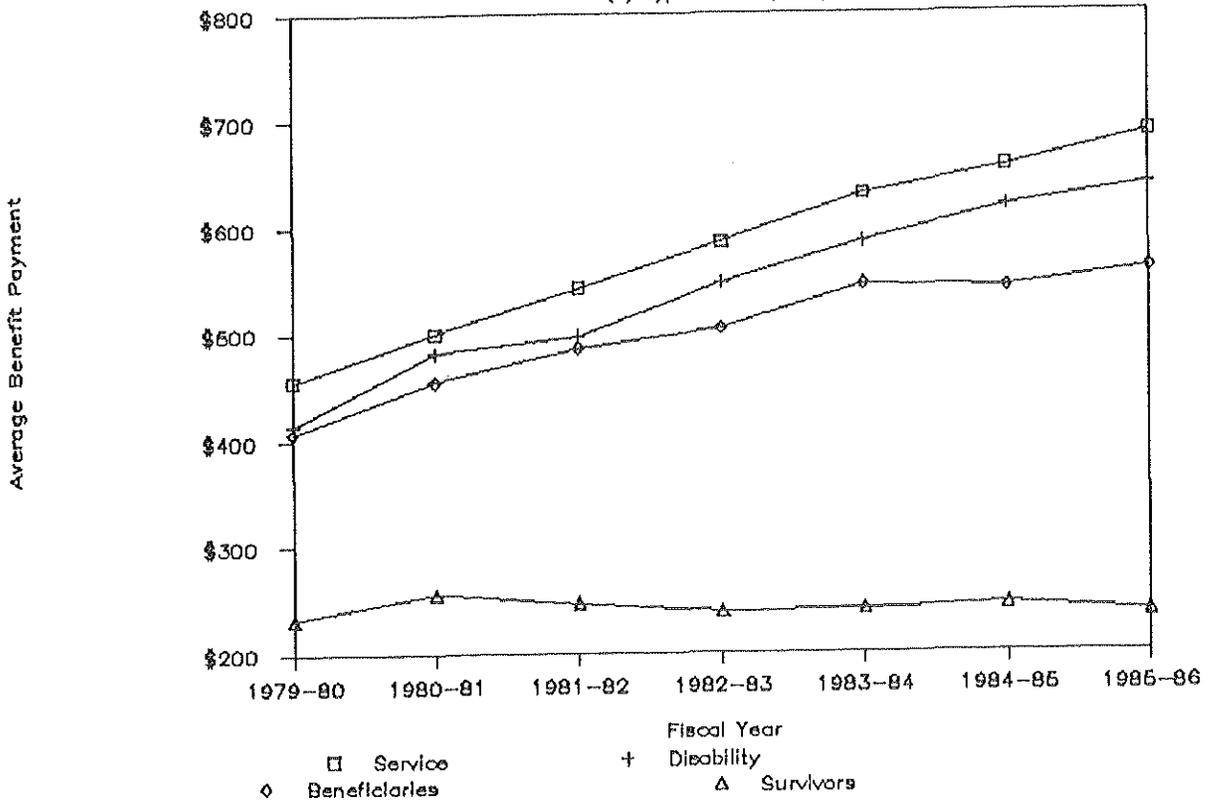


Growth in Service Retirements



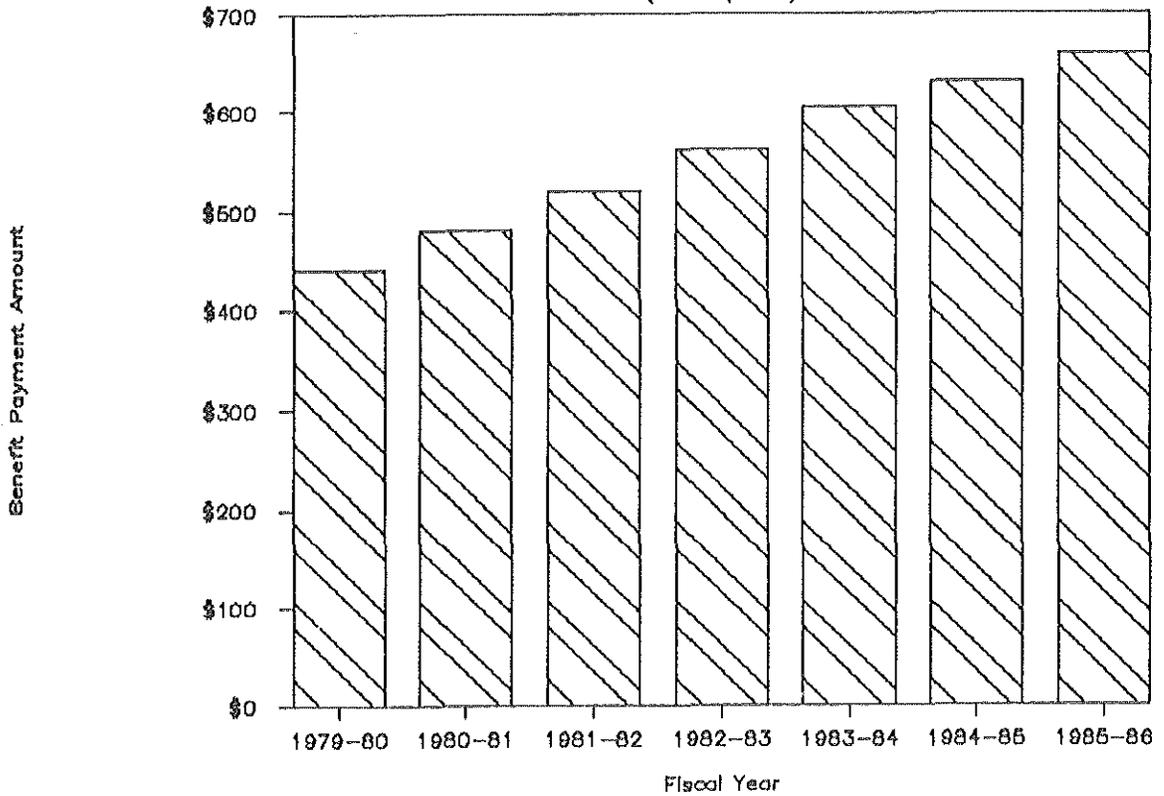
Average Benefit Payments

(by type of recipient)



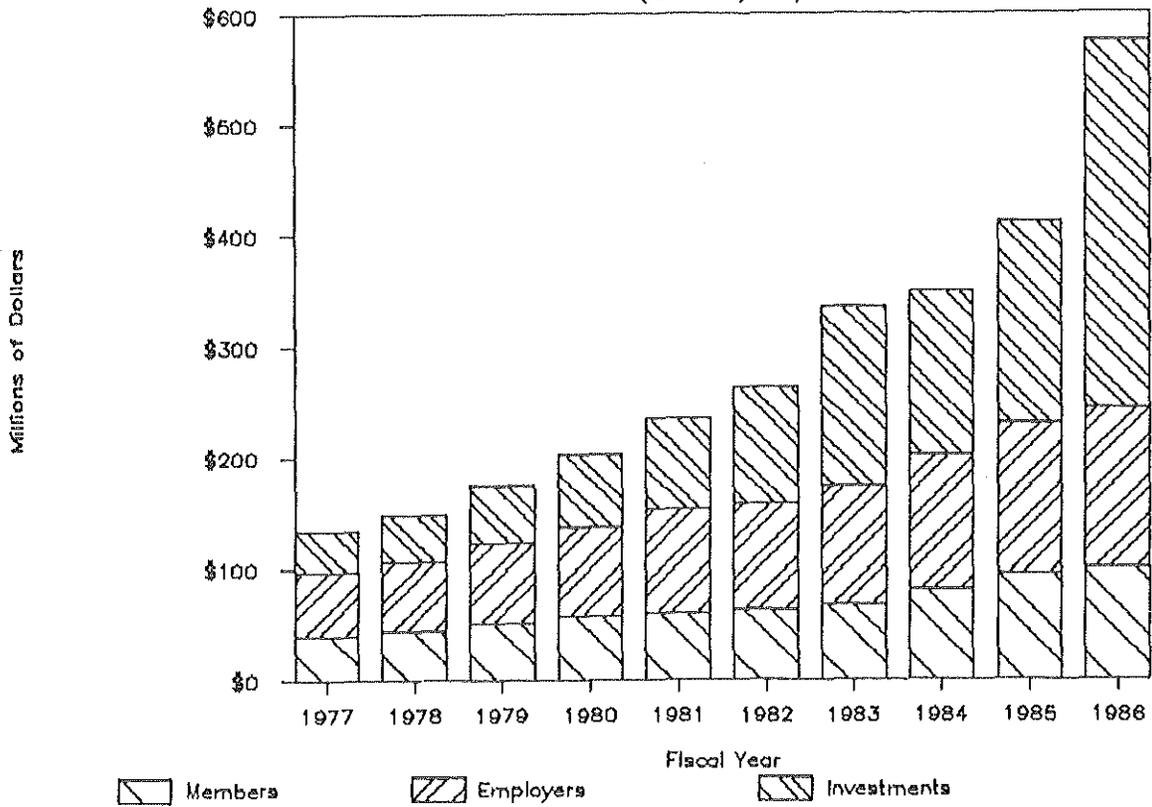
Average Benefit Payment Graph

(all recipients)



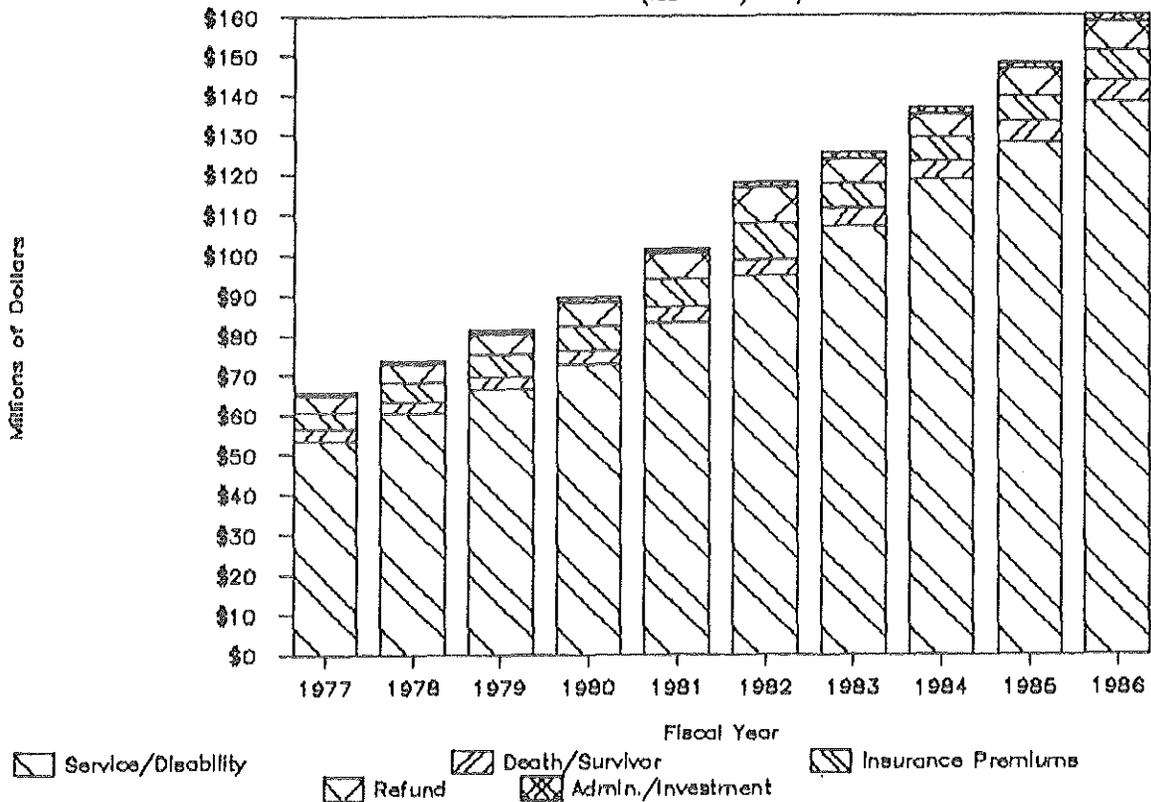
Summary of Revenue by Source

(last ten years)



Summary of Expenses by Type

(last ten years)

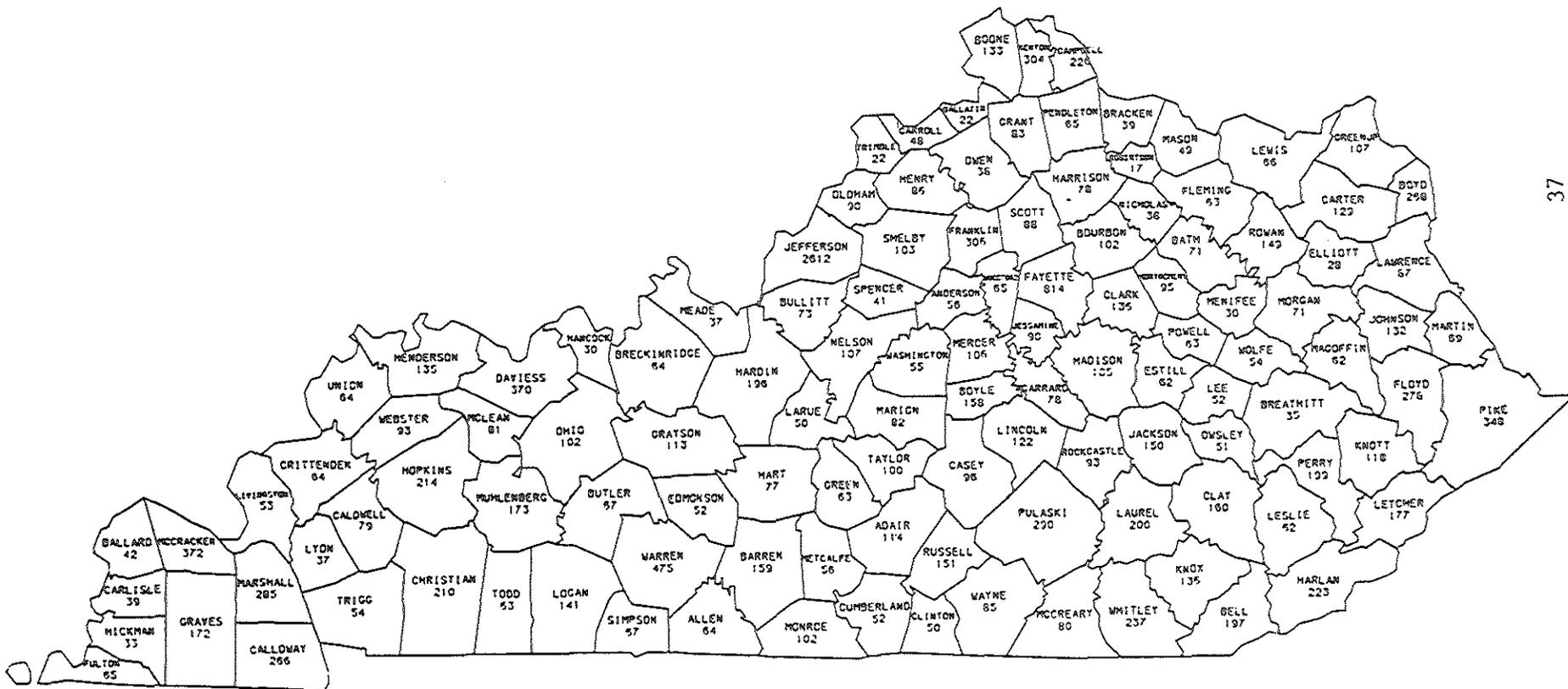


Geographical Distribution of All Recipients

Fiscal Year Ended 1985 - 1986

Recipients Living in Kentucky	16,856
Recipients Living Out of State	1,735
Total Recipients	18,591

Kentucky Teachers' Retirement System



**Summary of State Budget
Appropriation to
Teachers' Retirement System
for 1985 - 1986**

Expense Item	1985-86 State Budget Appropriations	1985-86 State Actual Budget Requirements
Match of Member Contributions	\$ 87,921,194	\$ 94,060,169
Overmatch	31,081,106	33,218,460
Federal Payments	(4,740,000)	(5,039,582)
Higher Education Contribution Reduction	1,700,000	1,834,783
Sick Leave (KRS 161.550)	1,200,000	2,037,928
Retiree Cost of Living Adjustment	11,180,000	11,180,000
Prior Service Increase	640,000	640,000
\$75 Minimum Benefit	50,000	50,000
Handicapped Child Benefit	125,000	125,000
Miscellaneous	74,000	74,000
TOTALS	129,231,300	138,180,758
State Underappropriation for 1985-86	<u>\$ 8,949,458</u>	

The 1986 General Assembly appropriated \$6,857,900 to cover the projected deficit in 1985-86 State Appropriations. The \$6,857,900 was received July 1, 1986. This left a deficit remaining of \$2,091,558. KRS 161.550 requires that in the event an annual appropriation is less than the amount of the statutory requirements, the state shall make up the deficit in the next biennial budget appropriation to the Retirement System.

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

Date	Total Member Contributions	Federal Payments	Required State Match Contribution	Required State Overmatch	State Appropriation	(Deficit) Surplus		Running Total	
						State	Funding	(Deficit) Surplus	State Funding
1940-44	\$ 2,063,716.64	\$	\$ 2,063,716.64	\$	\$ 2,063,636.92	\$	(79.72)	\$	(79.72)
1944-48	3,184,177.52		3,184,177.52		3,039,017.44		(145,160.08)		(145,239.80)
1948-52	4,951,457.55		4,951,457.55		5,090,847.83		139,390.28		(5,849.52)
1952-56	7,267,163.31		7,267,163.31		6,494,101.79		(773,061.52)		(778,911.04)
1956-60	14,970,960.84		14,970,960.84		14,963,272.06		(7,688.78)		(786,599.82)
1960-64	25,945,897.28		25,945,897.28		25,938,763.39		(7,133.89)		(793,733.71)
1964-68	49,957,298.50	2,042,013.63	47,915,284.87		45,317,694.37		(2,597,590.50)		(3,391,324.21)
1968-72	82,922,869.43	6,044,864.81	76,878,004.62		80,091,950.94		3,213,946.32		(177,377.89)
1972-76	120,349,349.69	8,019,215.64	112,330,134.05		111,665,685.06		(664,448.99)		(841,826.88)
1976-80	189,072,371.12	12,044,186.00	177,028,185.12	75,010,028.00	256,784,030.00		4,745,816.88		3,903,990.00
1980-81	60,087,342.00	4,109,090.00	55,978,252.00	24,908,848.00	83,449,550.00		2,562,450.00		6,466,440.00
1981-82	63,859,388.30	4,012,766.76	59,846,621.54	26,472,322.96	89,301,425.00		2,982,480.50		-0-
1982-83	68,077,792.47	3,902,923.29	64,174,869.18	28,221,023.67	95,601,936.00		3,206,043.15		-0-
1983-84	80,720,250.13	4,310,157.00	76,410,093.13	30,019,915.87	110,314,100.00		3,884,091.00		206,370.00
1984-85	90,156,759.21	5,024,318.99	85,132,440.22	31,233,173.87	112,896,000.00		(3,469,614.09)		(3,263,244.09)
1985-86	95,894,952.10	5,039,581.99	90,855,370.11	33,218,459.68	115,962,300.00		(8,111,529.79)		(11,374,773.88)

The state underappropriation at June 30, 1986 is \$13,802,901.89. This amount includes the 1984-85 and 1985-86 unfunded sick leave liability. The 1986 General Assembly appropriated \$11,711,344.00 to reduce the deficit in this funding. The money was received July 1, 1986. This left a remaining deficit of \$2,091,557.89. KRS 161.550 requires that in the event an annual appropriation is less than the amount of the statutory requirements, the state shall make up the deficit in the next biennial budget appropriation to the Retirement System.

Summary of July 1, 1986 Retiree Sick Leave Payments

Total members retiring	1,028
Total members receiving sick leave payments	464
Total amount of sick leave payments (at 9.6% contribution rate)	\$1,599,352.87
Average payment per retiree	\$3,446.88
Total increase in final average salary base (FASB)	\$319,870.76
Average increase in FASB	\$689.38
Total service credit of 464 retirees	13,917.54
Average service credit of 464 retirees	29.99

Average Yearly Increase	Service Credit	Retirement Factor	Average Yearly Annuity
\$689.38	X 26.99	X 2%	= 372.13
\$689.38	X 1.00	X 2.25%	= 15.51
\$689.38	X 2.00	X 2.50%	= 34.47
AVERAGE YEARLY ANNUITY			\$422.11

Average Yearly Annuity	Number of Months	=
\$422.11	÷ 12 months	=
AVERAGE MONTHLY ANNUITY		\$35.18

Average Monthly Annuity	Expected Number of Payments Based on Age 60	Number of Members with Sick Leave Payments	=
\$35.18	X 146.568	X 464	=
ANTICIPATED LIFETIME PAYOUT OF ADDITIONAL ANNUITY			\$2,392,504.64

FUNDING OF ADDITIONAL PAYOUT

Member Contributions	9.60%	X	1,599,352.87	=	\$153,537.88
State Contributions	12.57%	X	1,599,352.87	=	\$201,038.66
Total Member-State Contributions					\$354,576.54

UNFUNDED DEBT TO KTRS

Anticipated additional payout	\$2,392,504.64
Less total Member and State contributions	\$354,576.54
Subtotal unfunded debt	\$2,037,928.10
Less current year appropriation	\$1,200,000.00
Total unfunded debt	\$837,928.10 ⁽¹⁾

(1) This amount has been included in the Teachers' Retirement System budget for the 1986-88 biennium as required by KRS 161.550.

**School Districts that Have Elected
to Pay for Sick Leave under
KRS 161.155(5) Fiscal Year 1986**

<u>SCHOOL DISTRICT</u>	<u>NUMBER OF MEMBERS</u>	<u>TOTAL ADDITIONAL COMPENSATION</u>	<u>SCHOOL DISTRICT</u>	<u>NUMBER OF MEMBERS</u>	<u>TOTAL ADDITIONAL COMPENSATION</u>
Adair	7	\$ 14,686.04	Kenton	7	\$ 28,076.05
Allen	1	1,189.06	Knott	3	8,582.29
Anderson	4	21,188.85	Knox	5	8,734.38
Barren	3	12,823.85	Larue	4	21,791.57
Bell	4	6,577.70	Laurel	5	8,591.69
Boone	6	23,134.99	Letcher	3	5,565.21
Bourbon	1	4,208.96	Lewis	6	23,444.37
Boyd	1	3,792.50	Lincoln	1	1,215.94
Boyle	3	9,798.12	Livingston	1	826.04
Breathitt	2	6,203.75	Logan	1	1,037.60
Breckinridge	2	6,430.00	Madison	3	9,828.54
Bullitt	3	2,358.64	Magoffin	3	6,009.27
Caldwell	2	6,110.21	Marshall	4	20,293.65
Campbell	1	6,241.15	Mason	1	4,395.00
Carlisle	2	1,895.83	McCracken	4	10,264.07
Carter	4	4,975.83	Metcalfe	2	4,513.02
Casey	1	295.21	Monroe	2	8,530.63
Christian	12	44,420.73	Montgomery	8	26,284.16
Clark	4	14,702.19	Muhlenberg	2	4,294.59
Clay	3	7,800.94	Nelson	2	12,331.04
Clinton	1	459.48	Ohio	3	5,859.07
Cumberland	3	13,319.17	Owen	1	3,499.69
Daviess	1	3,205.42	Pendleton	3	6,560.32
Edmonson	2	6,944.58	Perry	5	9,479.90
Elliott	3	7,329.48	Pike	17	54,529.91
Estill	4	14,920.63	Powell	1	4,316.98
Fayette	21	116,849.91	Pulaski	5	12,529.59
Floyd	10	32,042.19	Russell	3	3,481.76
Franklin	5	11,124.38	Shelby	2	1,615.94
Fulton	2	4,621.77	Simpson	3	7,910.73
Garrard	4	16,153.65	Todd	3	9,169.79
Graves	1	5,033.23	Trigg	3	9,147.39
Grayson	2	4,845.94	Union	1	3,548.75
Green	2	8,688.86	Warren	3	9,905.10
Greenup	8	26,302.81	Washington	2	6,351.04
Hancock	2	8,140.52	Wayne	5	17,411.88
Hardin	7	24,202.30	Webster	1	825.83
Harlan	11	41,447.29	Whitley	5	16,827.29
Harrison	1	3,297.40	Woodford	3	8,613.55
Hart	4	15,943.85	Ashland	9	27,981.35
Henderson	4	20,433.96	Bowling Green	5	14,870.73
Hickman	1	6,925.42	Caverna	1	1,668.33
Hopkins	4	12,378.65	Central	1	3,385.73
Jackson	3	6,186.67	Corbin	2	8,753.23
Jefferson	86	345,144.51	Covington	8	21,890.84
Jessamine	4	12,029.18	Danville	5	14,099.58
Johnson	4	17,841.14	Erlanger	3	10,647.29

School Districts that Have Elected
to Pay for Sick Leave under
KRS 161.155(5) Fiscal Year 1986

SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
Glasgow	2	\$ 3,711.46
Harrodsburg	2	7,087.08
Maysville	1	5,639.17
Middlesboro	5	8,500.94
Monticello	3	15,215.83
Owensboro	6	32,644.18
Paintsville	1	\$ 4,526.56
Paris	2	6,903.34
Providence	1	4,351.56
Richmond	1	1,990.42
Russell	1	911.67
Somerset	3	13,733.02
TOTAL	464	1,599,352.87

INVESTMENT

SECTION

Kentucky Teachers' Retirement System

Investments

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. Investment of the funds of the Teachers' Retirement System of the State of Kentucky shall be made 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.

During the 1980 session of the Kentucky General Assembly, the Board of Trustees worked with the General Assembly and modernized the section of the Teachers' Retirement Law that governs the investment process. The law is now patterned after the "Prudent Man" concept with a limited number of restrictions regarding asset allocation and permissible types of investments.

The Kentucky Revised Statutes require the Board of Trustees to employ an experienced investment counselor to advise it on investment related matters. Todd Investment Advisors of Louisville was retained during 1985-86 as the principal investment counselor. The First Kentucky Company and Invesco Capital Management also were employed to provide investment counseling services during the fiscal year. The First Kentucky Company assisted in the management of approximately \$200 million in bonds, while Invesco Capital Management was involved with managing approximately \$100 million in equity investments. All of the investment firms are required to work within the same set of portfolio objectives, portfolio constraints, and administrative guidelines. Three investment counselors provide the Board of Trustees with a diversification of management that is appropriate for a two billion dollar fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 1985-86 as the Custodian of Securities.

The investment portfolio experienced substantial growth during the year. The par value of the portfolio increased \$528 million, or 27.9%, to a total of \$2.42 billion at year-end. The book value of the fund correspondingly increased 22.9% during the year. Investment income (dividends, interest, gains, and rental income) experienced

Investments

growth of more than 80% over the previous year for a total of \$330 million in 1985-86. The unusually high level of growth in the portfolio is the result of a record level of profit-taking. The System was able to sell a large number of securities after they appreciated in value. Growth of the portfolio also can be attributed to higher teachers' salaries and the corresponding effect on retirement contributions as well as the reinvestment of portfolio income. The value of the portfolio was positively affected by appreciations in bond and stock securities during 1985-86. At the year-end, the "net indicated yield" on fixed income investments was 8.24%. The "indicated dividend yield" on common stocks was 3.96%.

The financial markets exhibited considerable strength during the 1985-86 fiscal year. The System earned a record level of interest income in 1985-86, and it also was able to take advantage of appreciated securities by selling them. The System realized \$151.3 million in net gains from security sales. The combination of income and gains in the 1985-86 fiscal year provided the System with its greatest annual total income.

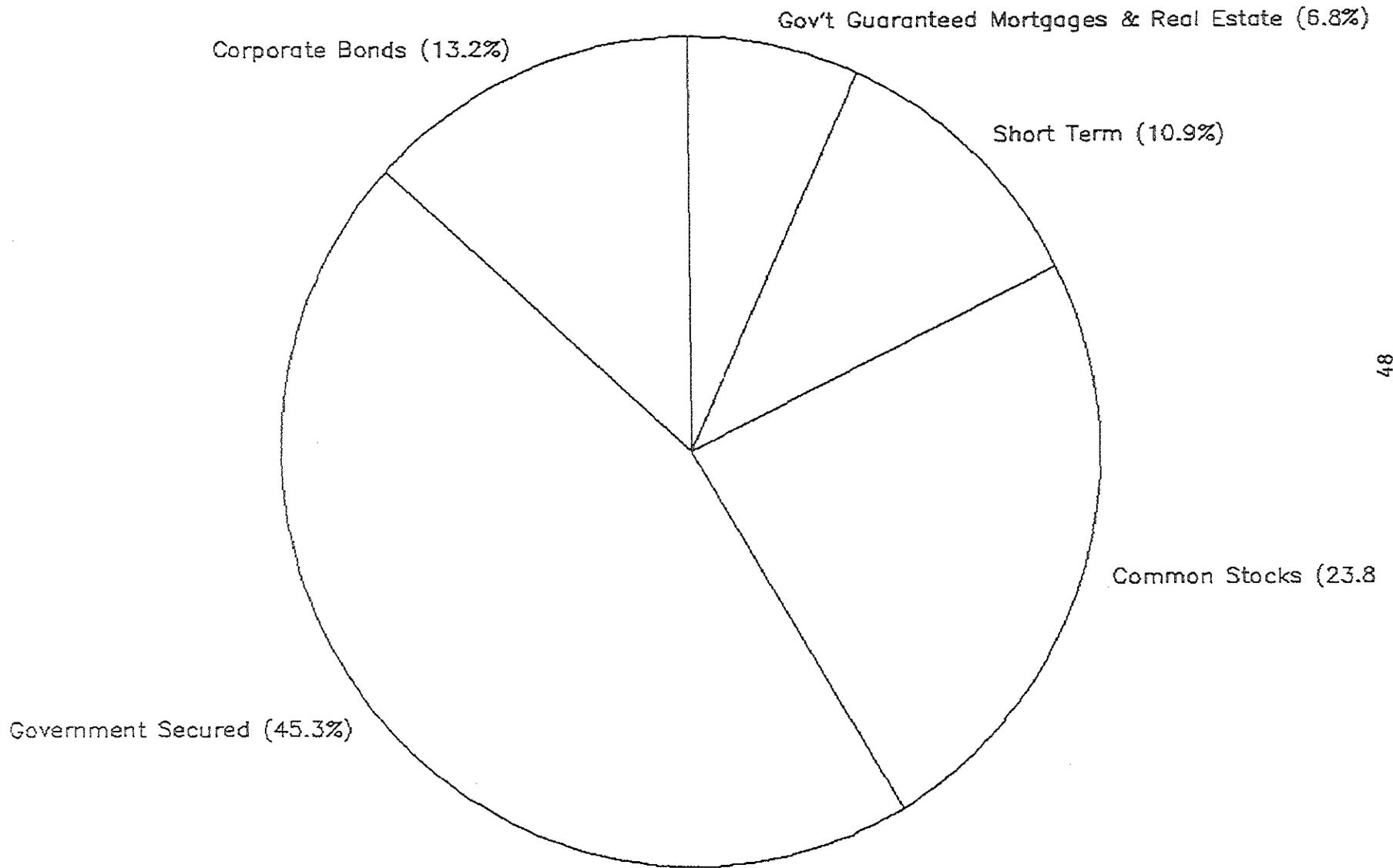
The asset allocation of investments was similar at the beginning of the fiscal year to what it was on June 30, 1986. During the 1985-86 fiscal year, the most significant change was in the stock position which increased from about 12.6% of assets to 23.8%. The portion of the portfolio in government funds decreased from 48.7% to 45.3%. The cash position decreased during the year by going from 16.1% of assets to 10.9%. The cash position decreased significantly as Invesco Capital Management, a newly hired investment counselor, began identifying stock selections for the System. The stock position attributed to a previously hired advisor was liquidated prior to the beginning of the 1985-86 fiscal year. Consumer staple, health, and utility stocks were the best performing stocks in the 1985-86 fiscal year.

During the last four fiscal years, the System acquired its first real estate equity investments. The System has purchased ten retail stores for approximately \$20 million. Each store is leased on a long term basis by a major retailer who generates a credit rating of at least "A" by a major credit rating service. The System will realize rental income from these properties that approximates high quality bond yields. In addition to the rental income, the System will participate in sales growth over prescribed levels. The System may also experience gains from the investment, if the property appreciates. While the real estate position is a relatively small portion of the System's portfolio at 1%, it should benefit the fund, particularly during inflationary periods.

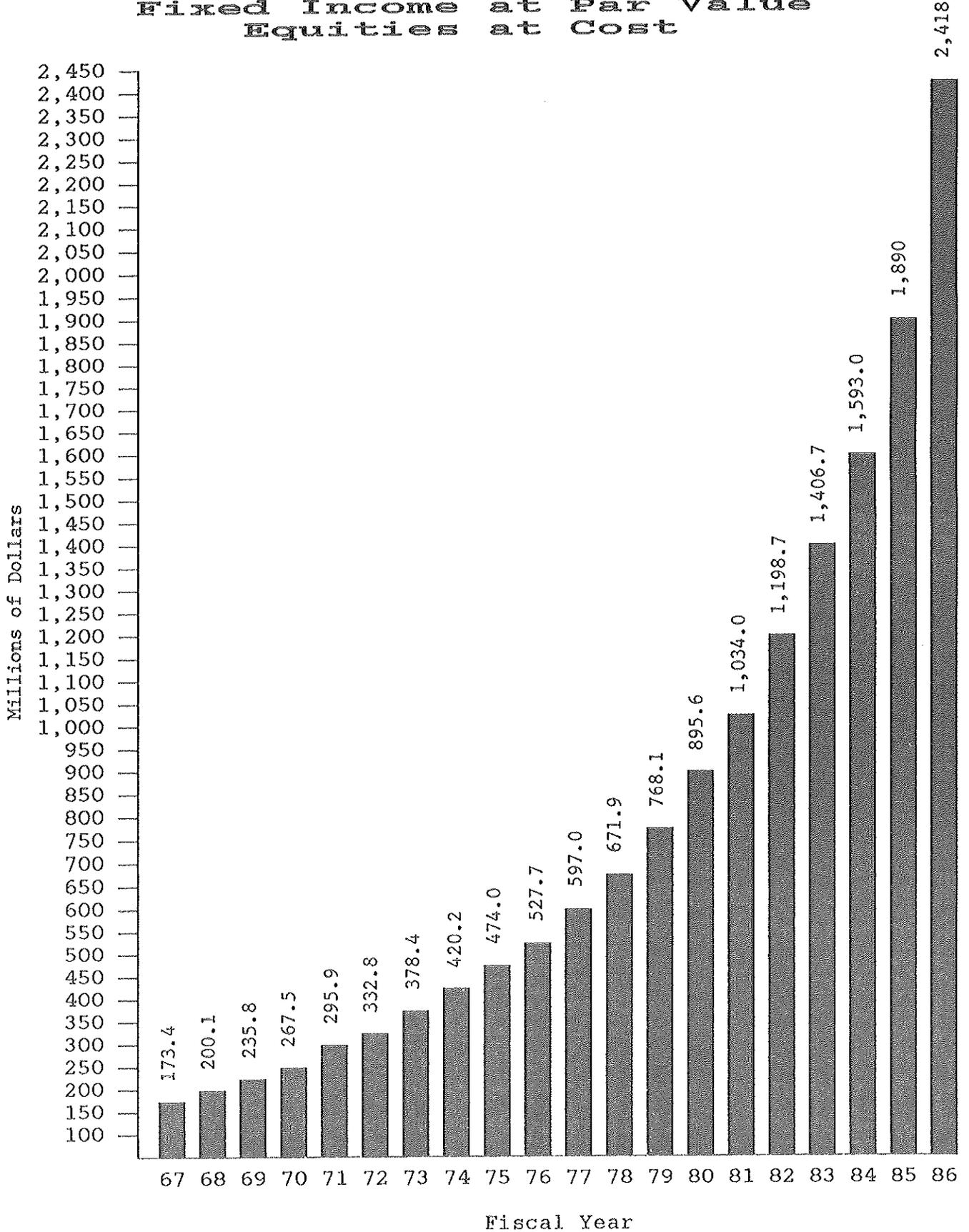
The charts on the following pages display graphically the growth that is discussed in the preceding paragraphs and also depict the growth of the System over the last twenty years. Following the charts is a summary description of investments held at June 30, 1986. The pages thereafter provide a detailed listing of all investments held at June 30, 1986.

Distribution of Investments

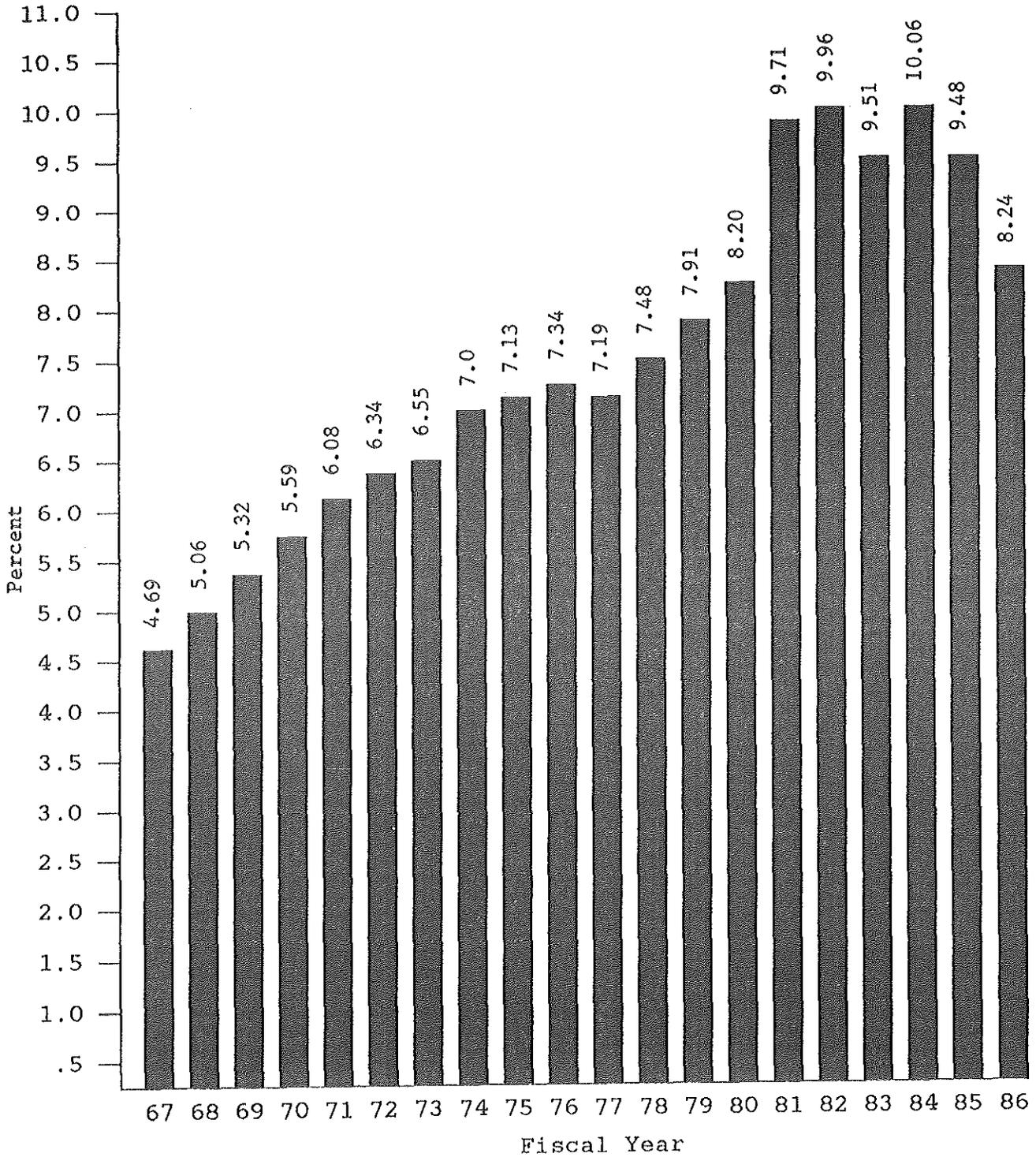
June 30, 1986



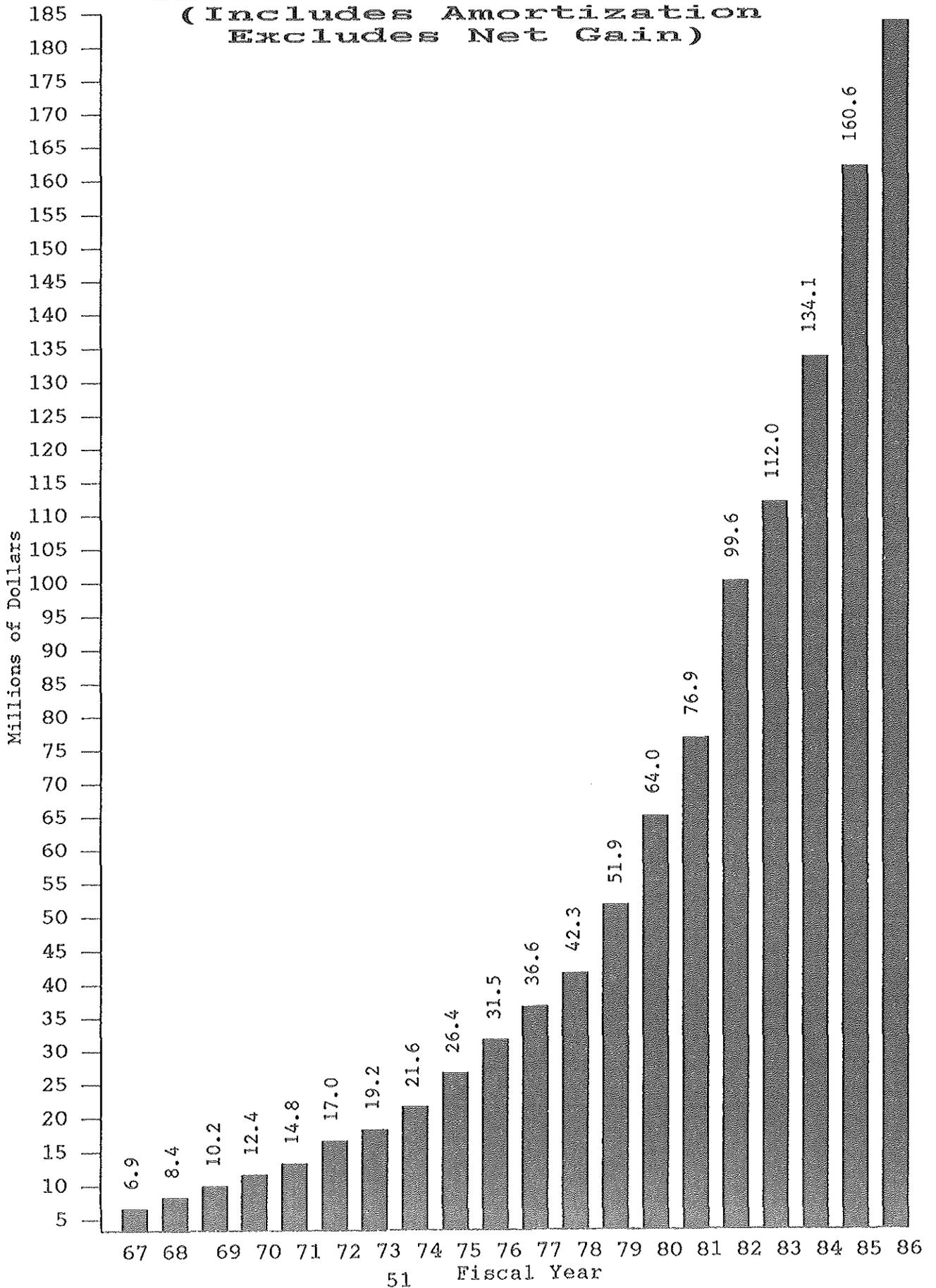
Investment Portfolio Growth
 Fixed Income at Par Value
 Equities at Cost



Net Indicated Yield on Fixed Dollar Assets (Par Value)



Investment Income Growth (Includes Amortization Excludes Net Gain)



**Kentucky Teachers' Retirement
Analysis of Investments Held
as of 06-30-86**

	Percentage of Total	Par Value*	Net Annual Interest/ Indicated Dividend Income	Annual Yield
Repurchase Agreements	10.92%	264,070,000.00	18,582,794.00	7.04%
Total Short Term	10.92%	264,070,000.00	18,582,794.00	7.04%
Treasury Notes & Bonds	20.68%	500,150,000.00	48,558,946.72	9.71%
Agencies	3.91%	94,450,073.46	8,285,557.80	8.77%
Ship Bonds (Title XI)	3.48%	84,046,015.21	8,292,330.10	9.87%
GNMA (Single Family)	3.96%	95,872,833.65	9,527,290.69	9.94%
Other Miscellaneous	13.26%	320,596,737.12	16,794,302.99	5.24%
Total U. S. Government Obligations	45.29%	1,095,115,659.44	91,458,428.30	8.35%
Industrials	5.36%	129,655,109.14	12,310,959.64	9.50%
Finance	2.71%	65,619,805.70	5,072,443.15	7.73%
Utility Bonds (Except Telephone)	1.40%	33,850,000.00	2,363,059.06	6.98%
Telephone Bonds	3.29%	79,440,000.00	6,722,231.64	8.46%
Railroad Obligations	0.45%	10,979,000.00	923,292.22	8.41%
Total Corporate Bonds	13.22%	319,543,914.84	27,391,985.71	8.57%
FHA & VA Single Family Mortgages	0.72%	17,435,331.37	1,128,707.61	6.47%
Project Mortgages (FHA & GNMA)	4.63%	112,049,610.94	10,464,663.85	9.34%
State & Local Government Obligations	0.00%	73,333.80	3,783.35	5.16%
Total Other Fixed Income Investments	5.36%	129,558,276.11	11,597,154.81	8.95%
SUBTOTAL (FIXED INCOME)	74.78%	1,808,287,850.39	149,030,362.82	8.24%
Real Estate Equity	1.46%	35,336,214.03	3,402,576.96	9.63%
Total Real Estate Equity	1.46%	35,336,214.03	3,402,576.96	9.63%
Common Stocks 10,877,970.9051 Shares	23.76%	574,406,641.37	22,763,512.21	3.96%
Total Stocks 10,877,970.9051 Shares	23.76%	574,406,641.37	22,763,512.21	3.96%
SUBTOTAL (EQUITY)	25.22%	609,742,855.40	26,166,089.17	4.29%
TOTAL INVESTMENTS, INCOME AND YIELD	100.00%	2,418,030,705.79	175,196,451.99	7.25%

*These figures represent the par value for fixed income investments and the cost of stocks. The total book value and market value of KTRS investments are understandably different from the par value. The book value of fixed income investments as of 6-30-86 was \$1,570,048,215; the market value was \$1,635,937,612. The par and book values of stocks, which are the same, were \$574,406,641 for 6-30-86; the market value of stocks was \$659,185,332. Market value can be a highly volatile measure that changes daily and is particularly important when trading securities. Detailed information concerning the book values and market values of KTRS securities is available on request.

Short Term Investments

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
<u>Repurchase Agreements:</u>			
Repurchase Agreement	6.860	07/86	921,700.00
Repurchase Agreement	6.860	07/86	10,378,300.00
Repurchase Agreement	6.860	07/86	1,000,000.00
Repurchase Agreement	6.870	07/86	1,985,700.00
Repurchase Agreement	6.870	07/86	6,414,300.00
Repurchase Agreement	6.870	07/86	20,678,400.00
Repurchase Agreement	6.870	07/86	671,600.00
Repurchase Agreement	6.880	07/86	36,349,160.00
Repurchase Agreement	6.880	07/86	310,840.00
Repurchase Agreement	6.890	07/86	15,740,000.00
Repurchase Agreement	6.920	07/86	27,536,200.00
Repurchase Agreement	6.920	07/86	803,800.00
Repurchase Agreement	6.920	07/86	8,000,000.00
Repurchase Agreement	6.920	07/86	9,900,000.00
Repurchase Agreement	6.970	07/86	2,893,200.00
Repurchase Agreement	6.970	07/86	7,106,800.00
Repurchase Agreement	6.970	07/86	13,690,000.00
Repurchase Agreement	7.260	07/86	14,227,100.00
Repurchase Agreement	7.260	07/86	72,738,753.00
Repurchase Agreement	7.260	07/86	12,724,147.00
			<u>264,070,000.00</u>
Total Short Term Investments			<u><u>264,070,000.00</u></u>

U. S. Government Obligations

Treasury Bonds & Notes:

U S Treasury Bonds	8.750	11/08	3,000,000.00
U S Treasury Bonds	9.125	05/09	15,000,000.00
U S Treasury Bonds	10.375	11/09	11,000,000.00
U S Treasury Bonds	11.625	11/02	16,700,000.00
U S Treasury Bonds	11.625	11/04	5,000,000.00
U S Treasury Bonds	13.125	05/01	8,000,000.00
U S Treasury Notes	7.375	04/93	65,000,000.00
U S Treasury Notes	8.000	02/89	45,000,000.00
U S Treasury Notes	9.500	11/95	10,000,000.00
U S Treasury Notes	9.500	11/95	20,000,000.00
U S Treasury Notes	10.250	03/87	10,000,000.00
U S Treasury Notes	10.500	04/90	5,000,000.00
U S Treasury Notes	10.750	07/90	5,000,000.00

**U. S. Government Obligations
(continued)**

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
<u>Treasury Bonds & Notes:</u>			
U S Treasury Notes	11.625	01/92	5,000,000.00
U S Treasury Notes	11.750	01/91	60,000,000.00
U S Treasury Notes	11.750	11/93	10,000,000.00
U S Treasury Notes	11.750	11/93	15,450,000.00
U S Treasury Notes	11.875	10/89	17,000,000.00
U S Treasury Notes	12.375	04/91	3,000,000.00
U S Treasury Notes	12.625	07/86	10,000,000.00
U S Treasury Notes	12.750	11/89	76,000,000.00
U S Treasury Notes	12.750	11/89	10,000,000.00
U S Treasury Notes	12.750	11/89	10,000,000.00
U S Treasury Notes	13.000	11/90	10,000,000.00
U S Treasury Notes	14.000	05/87	10,000,000.00
U S Treasury Notes	14.000	05/87	10,000,000.00
U S Treasury Notes	14.875	08/91	10,000,000.00
U S Treasury Notes	15.375	10/88	15,000,000.00
U S Treasury Notes	15.375	10/88	10,000,000.00
			500,150,000.00
<u>Federal Agencies:</u>			
Farmers Home Insured Notes FHA	7.500	05/88	1,490,900.47
Federal Farm Credit Banks	7.750	09/89	5,000,000.00
Federal Farm Credit Banks	11.500	01/92	10,000,000.00
Federal Farm Credit Banks	11.500	01/92	5,000,000.00
Federal Farm Credit Banks	13.650	12/91	10,000,000.00
Federal Home Loan Banks	7.650	05/87	12,000,000.00
Federal Home Loan Banks	7.600	08/87	10,000,000.00
Federal Intermediate Credit Banks	6.950	01/87	15,000,000.00
Federal Land Bank	7.850	01/88	10,000,000.00
FHLMC Freddie Mac Group 14-0527	8.000	10/08	13,959,172.99
Tennessee Valley Auth Pr Ser B	7.350	05/97	2,000,000.00
			94,450,073.46
<u>Ship Bonds (Title XI):</u>			
American Commercial Lines Ser F	10.950	07/04	8,082,000.00
American Export Freedom	7.300	07/97	1,198,000.00
American Export Lines SF Ser I	7.950	06/04	3,548,000.00
Atlas Marine American Hertge	7.700	12/96	2,975,554.20
Broughton Offshore	8.500	03/95	4,750,000.00
Cntrl Gulf Lns Lash Lighters	8.250	01/95	2,733,007.99
Crowley Maritime	8.125	09/99	3,468,828.70
Diamond M Drilling New Era	7.750	09/89	1,693,165.73

U. S. Government Obligations (continued)

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
<u>Ship Bonds (Title XI):</u>			
Flowers Transportation SF	8.400	05/00	1,519,123.70
Goodyear Steamship SF	11.550	05/06	11,704,265.70
Marine Ship Leasing A Antarctic	7.875	09/95	1,059,241.35
Marine Vessel Leasing Ind Ocean	7.875	10/95	873,158.36
Shipco 668 Series A SF	8.500	05/02	4,621,000.00
Stuyvesant Issue	7.950	09/97	7,496,919.40
Stuyvesant Issue	8.000	05/95	2,303,000.00
Tideland Limited	12.250	12/95	6,309,000.00
Union Mechling Corp SF	8.000	01/02	3,320,750.08
Wabash Transportation	5.400	06/89	1,266,000.00
Waterways Barge SF	13.500	09/05	10,631,000.00
Zapata Marine US Inc SF	7.700	09/94	4,494,000.00
			84,046,015.21
<u>GNMA Single Family Mortgages:</u>			
117 Mortgage Pools	various		95,872,833.65
			95,872,833.65
<u>Other - Miscellaneous:</u>			
B/E TINT (Treasury Securities)	0.000	02/91	30,000,000.00
B/E TINT (Treasury Securities)	0.000	02/96	5,000,000.00
B/E TINT (Treasury Securities)	0.000	02/96	15,000,000.00
Call Treasury Receipts	0.000	11/06	2,520,000.00
CATS (Treasury Securities)	0.000	05/94	8,000,000.00
CATS (Treasury Securities) G	0.000	05/03	1,800,000.00
CATS (Treasury Securities) K	0.000	11/03	3,300,000.00
CATS (Treasury Securities) M	0.000	05/04	1,500,000.00
CATS (Treasury Securities) M	0.000	05/02	2,500,000.00
CATS (Treasury Securities) N	0.000	05/04	2,800,000.00
CATS (Treasury Securities) Q	0.000	05/03	6,100,000.00
CATS (Treasury Securities) Q	0.000	05/02	1,200,000.00
CATS (Treasury Securities) R	0.000	02/03	1,200,000.00
CATS (Treasury Securities) R	0.000	02/02	9,650,000.00
CATS (Treasury Securities) U	0.000	02/04	4,600,000.00
CATS (Treasury Securities) U	0.000	02/01	1,100,000.00
CATS (Treasury Securities) U	0.000	02/03	5,000,000.00
CATS (Treasury Securities) U	0.000	08/02	5,500,000.00
CATS (Treasury Securities) U	0.000	02/02	10,800,000.00
CATS (Treasury Securities) UR	0.000	02/02	3,300,000.00
CATS (Treasury Securities) VGLQT	0.000	11/03	10,600,000.00
CATS (Treasury Securities) Z	0.000	05/03	5,000,000.00

U. S. Government Obligations (continued)

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
Other - Miscellaneous:			
Coupon Treasury Receipts	0.000	08/06	10,020,000.00
Coupon Treasury Receipts	0.000	02/06	10,020,000.00
Coupon Treasury Receipts	0.000	08/95	3,660,000.00
Coupon Treasury Receipts	0.000	05/95	4,970,000.00
Coupon Treasury Receipts	0.000	08/94	5,880,000.00
Coupon Treasury Receipts	0.000	11/94	8,314,375.00
Coupon Treasury Receipts	0.000	02/94	3,000,000.00
Coupon Treasury Receipts	0.000	11/93	1,662,500.00
FHA Certificate of Claim	3.000		4,516.76
FHA Certificate of Claim	3.000		32,887.02
GNMA Mtg Pool 02333 (Mtg in KY)	8.200	10/11	1,841,767.35
Missouri Kansas TX RR Nts	9.250	12/87	154,000.00
Principal CATS Series R	0.000	08/04	45,000,000.00
Principal CATS U	0.000	08/04	22,800,000.00
Principal Treasury Receipts	0.000	08/04	10,000,000.00
Seatrains Ship Bldg US Gtd (EDA) A	9.875	10/00	4,250,690.99
TIGR'S (Treasury Securities) 7	0.000	02/04	5,004,000.00
TIGR'S (Treasury Securities) 1	0.000	11/05	5,012,000.00
TIGR'S (Treasury Securities) 18	0.000	02/02	2,500,000.00
U S Treasury Bond Federal Strip	0.000	02/96	10,000,000.00
U S Treasury Bond Federal Strip	0.000	02/95	15,000,000.00
U S Treasury Strip Bonds	0.000	05/04	15,000,000.00
			320,596,737.12
Total U. S. Government Obligations			1,095,115,659.44

Corporate Bonds

Industrials:

Aluminum Co America SF Debs	9.450	05/00	1,250,000.00
Aluminum Co America SF Debs	7.000	04/11	4,000,000.00
Ariel Properties Inc Mtg Nt	7.000	07/98	412,969.30
Armco Steel SF Debs	9.200	07/00	3,000,000.00
Borden Inc SF Debs	8.375	04/16	20,000,000.00
British Petroleum of North America	9.250	04/16	3,000,000.00
Capital Cities Comm Inc Sub SF Debs	11.750	06/13	3,000,000.00
Caterpillar Tractor Debs	6.000	05/07	4,300,000.00
Chevron London 1st Prfd Ship Mtg	7.700	09/97	744,969.94
Chevron Stations Inc Note	5.100	04/91	62,000.00

**Corporate Bonds
(continued)**

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
<u>Industrials:</u>			
Corning Glass Works Debs	8.875	03/16	5,000,000.00
Countrywide Stations Secrd Nts C	7.500	09/02	11,057,000.00
Cummins Engine Co Inc Notes	5.000	07/90	75,000.00
Dayton-Hudson Corp SF Debs	10.750	05/13	3,000,000.00
Dayton-Hudson Corp SF Debs	10.875	05/05	4,000,000.00
Dow Chemical Debs	8.500	02/05	2,200,000.00
Dow Chemical Debs	8.625	02/08	3,000,000.00
Dow Chemical Notes	5.000	04/91	493,200.00
Dupont (E I) deNemours Debs	6.000	12/01	8,000,000.00
Dupont (E I) deNemours Debs	6.000	12/01	8,000,000.00
Fahrney Paul L 1st Prfd Ship Mtg	7.700	09/97	744,969.90
Federated Dept Stores SF Debs	10.250	06/10	4,000,000.00
General Motors Corp Debs	8.125	04/16	3,500,000.00
Halliburton Company SF Debs	10.200	06/05	2,000,000.00
Intl Minerals and Chemicals SF Debs	11.875	05/05	3,000,000.00
ITT Corp Variable Duration Nts	10.450	09/95	5,261,000.00
Leased Tankers Secured Notes A	7.450	12/92	2,154,000.00
Liggett Myers SF Debs	8.625	04/01	2,000,000.00
North American Rockwell SF Debs	8.300	04/96	1,200,000.00
Pembroke Capital Co SF Debs C	11.500	08/05	5,000,000.00
Philip Morris SF Debs	9.125	07/03	1,600,000.00
Pitney Bowes Inc SF Debs	9.000	10/95	600,000.00
Quaker Oats SF Debs	7.700	06/01	2,000,000.00
Reynolds R J Industries SF Debs	7.375	02/01	1,000,000.00
Reynolds R J Industries SF Debs	13.350	10/12	3,000,000.00
Tenneco Inc Debs	13.625	10/07	2,000,000.00
Tenneco Inc Debs	13.625	10/07	3,000,000.00
Union Pacific Corp SF Debs	11.875	09/10	3,000,000.00
			129,655,109.14

Finance:

Associates Investment Sr Debs	7.375	12/88	800,000.00
Beneficial Corp Notes	4.625	06/87	1,000,000.00
Beneficial Finance Debs	4.500	03/92	495,000.00
Beneficial Finance Debs	5.000	11/90	1,675,000.00
Beneficial Finance Sr Notes	4.600	03/89	2,625,000.00
Capital Cities ABC Fin Inc Gtd Debs	8.750	03/16	20,000,000.00
Citicorp Notes	10.875	06/10	3,400,000.00
Commercial Credit Sr Notes	4.875	09/87	1,000,000.00
General Motors Accept Corp Debs	7.750	10/94	4,877,000.00
General Motors Accept Corp Debs	8.000	01/02	3,500,000.00
Household Finance Corp Debs	4.750	01/89	3,500,000.00
Marathon Finance Guaranteed Nts	5.500	05/87	50,000.00

Corporate Bonds (continued)

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
Finance:			
Montgomery Ward Credit Debs	6.500	09/87	300,000.00
Morgan Guaranty Tr Co NY C/D Nt	7.550	05/89	20,000,000.00
Penney J C Financial Corp Debs	7.875	09/91	2,000,000.00
Roxbury Properties Corp Secrd Nt	4.750	01/89	87,877.01
United California Bk Cap Notes	4.500	01/90	200,000.00
Villiers Realty Corp Secrd Nts	4.750	10/89	109,928.69
			65,619,805.70
Utility Bonds (Except Telephone):			
Alabama Gas Corp 1st Mtg F	8.000	02/94	300,000.00
Brooklyn Union Gas 1st Mtg	4.375	05/88	161,000.00
Cambridge Electric Light Nts C	6.250	06/97	592,000.00
Commonwealth Electric Company	6.125	06/97	99,000.00
Con Edison 1st Ref Mtg EE	6.250	08/97	500,000.00
Con Edison 1st Ref Mtg FF	6.850	10/98	250,000.00
Con Edison 1st Ref Mtg R	4.750	06/90	575,000.00
Con Edison 1st Ref Mtg S	5.000	12/90	700,000.00
Con Edison 1st Ref Mtg V	4.375	06/92	1,150,000.00
Continental Oil Company Notes	5.875	12/89	217,000.00
Continental PL Guarntd Notes	7.500	05/94	120,000.00
Elizabethtown Water Co Debs NJ	4.875	02/92	818,000.00
Florida Power Corp 1st Mtg	7.375	06/02	2,000,000.00
Florida Power Light 1st Mtg	4.625	03/95	100,000.00
Florida Power Light 1st Mtg	5.000	12/95	700,000.00
Houston Lighting Power 1st Mtg	12.375	03/13	207,000.00
InterNorth Inc Notes	11.000	03/95	4,500,000.00
Interstate Power 1st Mtg	4.625	05/95	400,000.00
Interstate Power 1st Mtg	5.000	05/87	325,000.00
Interstate Power 1st Mtg	6.125	05/97	555,000.00
Iowa Electric Lt Pr 1st Mtg J	6.250	09/96	250,000.00
Kentucky Utilities 1st Mtg I	8.750	04/00	300,000.00
Kentucky Utilities 1st Mtg J	7.625	09/01	2,000,000.00
Louisville Gas Electric 1st Mtg	8.250	08/01	2,000,000.00
Milwaukee Gas Light 1st Mtg	4.625	05/87	794,000.00
New York St Elec Gas 1st Mtg	6.500	09/98	250,000.00
Nor Indiana Pub Ser 1st Mtg O	6.375	09/97	650,000.00
Otter Tail Power 1st Mtg	4.875	02/91	500,000.00
Pacific Gas Elec 1st Ref Mtg QQ	6.625	06/00	1,000,000.00
Pacific Gas Elec 1st Ref Mtg XX	7.500	12/03	1,300,000.00
Pacific Power Light 1st Mtg	4.500	12/92	1,361,000.00
Pacific Power Light 1st Mtg	4.625	10/94	385,000.00
Pacific Power Light 1st Mtg	4.750	04/92	283,000.00
Pacific Power Light 1st Mtg	5.000	10/95	270,000.00

**Corporate Bonds
(continued)**

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
<u>Utility Bonds (Except Telephone):</u>			
Pennsylvania Electric Debs	7.000	11/92	98,000.00
Pennsylvania Electric 1st Mtg	4.625	10/94	100,000.00
Pennsylvania Gas Water 1st Mtg	6.875	10/92	250,000.00
Pub Ser Elec Gas Debs	6.000	07/98	255,000.00
Pub Ser Elec Gas Debs	9.000	11/95	1,069,000.00
Pub Ser Elec Gas 1st Ref Mtg	6.250	06/97	790,000.00
Sierra Pacific Power 1st Mtg	4.750	06/94	200,000.00
Sierra Pacific Power 1st Mtg	4.875	06/92	750,000.00
Sou Carolina Elec Gas 1st Ref	8.000	03/01	250,000.00
Sou Elec Gen 1st Mtg 1959	5.250	06/92	570,000.00
Tucson Gas Electric 1st Mtg	4.550	02/95	300,000.00
United Gas Inc 1st Mtg	6.500	12/89	1,491,000.00
Virginia Elec Power 1st Ref Mtg	9.250	03/06	1,000,000.00
Washington Natural Gas 1st Mtg	6.875	09/93	190,000.00
Western Mass Elec 1st Mtg	5.750	03/97	200,000.00
Western Mass Elec 1st Mtg G	6.750	03/98	100,000.00
Wisconsin Gas 1st Mtg	6.625	10/91	625,000.00
			33,850,000.00

Telephone Bonds:

American Tel Tel Debs	5.125	04/01	4,000,000.00
American Tel Tel Debs	5.500	01/97	2,100,000.00
American Tel Tel Debs	6.000	08/00	1,000,000.00
Chesapeake Potomac Tel W Va Debs	9.250	07/19	2,000,000.00
Gen Telephone Florida 1st Mtg	8.000	03/01	250,000.00
Gen Telephone Midwest 1st Mtg F	7.500	02/01	200,000.00
Gen Telephone (S.E.) 1st Mtg T	8.000	12/01	5,000,000.00
Hawaiian Telephone 1st Mtg S	6.750	04/98	100,000.00
Hawaiian Telephone 1st Mtg T	8.750	09/00	200,000.00
Michigan Bell Tel Debs	7.000	11/12	2,000,000.00
New York Tel Ref Mtg W	8.300	08/12	2,500,000.00
New York Tel Tel Debs	8.250	10/15	3,750,000.00
New York Telephone Co Debs	8.750	04/23	20,000,000.00
New York Telephone Co Debs	8.750	04/23	5,000,000.00
Ohio Bell Telephone Debs	9.000	11/18	2,500,000.00
Pacific Tel Tel Debs	7.800	03/07	250,000.00
South Central Bell Tel Debs	8.250	08/13	4,000,000.00
South Central Bell Tel Debs	8.250	11/15	7,500,000.00
Southern Bell Tel Tel Debs	8.625	09/18	2,500,000.00
Southwestern Bell Tel Debs	4.625	08/95	1,590,000.00
Southwestern Bell Tel Debs	6.750	06/08	1,000,000.00
Southwestern Bell Tel Debs	7.625	10/13	3,000,000.00
Southwestern Bell Tel Debs	7.750	09/09	2,000,000.00

**Corporate Bonds
(continued)**

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
<u>Telephone Bonds:</u>			
Southwestern Bell Tel Debs	8.500	03/16	5,000,000.00
Southwestern Bell Tel Debs	9.625	03/19	2,000,000.00
			<hr/>
			79,440,000.00
<u>Railroad Obligations:</u>			
Burlington Northern Con Mtg Ser G	12.875	08/05	2,500,000.00
Burlington Northern Con Mtg Ser G	12.875	08/05	2,500,000.00
Chesapeake Ohio Ry Gen Mtg	4.500	03/92	656,000.00
Kentucky Central Ry 1st Mtg	4.000	07/87	137,000.00
Louisville Nashville RR Col Tr	4.875	12/87	1,290,000.00
Louisville Nashville RR Col Tr	7.375	12/93	300,000.00
Sou Railway Memphis Div 1st Mtg	5.000	07/96	539,000.00
Southern Railway 1st Con Mtg	5.000	07/94	2,950,000.00
Virginia Southwestern Ry 1st Mtg	5.000	01/03	107,000.00
			<hr/>
			10,979,000.00
 Total Corporate Bonds			 <hr/> 319,543,914.84 <hr/>

Other Fixed Income Investments

Single Family Mortgages:

FHA	various	8,995,469.32
VA	various	8,439,862.05
		<hr/>
		17,435,331.37

Project Mortgages (FHA & GNMA):

Americana Apts KY 221D4	7.500	10/18	4,536,677.60
Bedford Commons KY 221D4	8.000	11/23	1,280,061.90
Bedford House KY 221D4	7.500	01/20	1,257,396.51
Beech Creek Apts KY 221D4	7.500	08/21	2,108,807.30
Belleville Mnr Apts KY 221D4	7.500	11/19	647,164.11
Berrytown Apts KY 221D4	8.000	02/24	1,389,682.06
CA Guidance Care Center 232	8.500	02/92	312,327.52
Cambridge Sq Apts KY 221D4	7.500	11/19	1,209,409.22
Carnaby Sq Apts KY 221D4	7.500	06/19	1,245,081.74

**Other Fixed Income Investments
(continued)**

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
Project Mortgages (FHA & GNMA):			
Carrollton Vlg Apts KY 221D4	7.500	09/20	1,989,658.18
Carter Court Apts KY 221D4	7.500	09/20	1,313,611.30
Coolavin Apts KY 221D4	7.500	04/22	3,214,598.47
Cottage Bell Apts CA 221D4	7.500	11/10	773,319.01
Cottage Bell Apts II CA 221D4	8.500	11/11	436,574.79
Denver Ed Sr Citzns 231	5.250	11/03	792,923.84
Dixie Apts KY 221D4	7.500	05/18	1,147,292.81
Ferndale Apts KY 221D4	7.500	08/23	3,788,997.76
Gainesway Vlg Apts KY 221D4	7.500	02/19	1,653,493.83
Glenbrook Park KY 221D4	7.500	12/21	2,540,439.65
Greater Corbin Mnr KY 221D4	7.500	03/21	3,588,874.51
Jackson Vly Apts KY 221D4	7.500	08/20	2,004,307.62
Jamestown Manor Ltd KY 221D4	7.500	02/22	1,620,161.75
Lakeview Estates KY 221D4	7.500	01/20	1,131,542.35
Lebanon Apts KY 221D4	7.500	02/20	1,212,458.22
Lin Meadows Homes KY 221D4	7.500	11/22	274,331.99
Locust Ridge KY 221D4	7.500	10/21	1,918,947.49
Madison Ave Apts KY 221D4	7.500	09/20	1,977,594.73
Manchester Hts Apts KY 221D4	7.500	06/19	1,242,904.65
Middletown Apts KY 221D4	7.500	02/18	1,063,225.01
Montgomery Sq Apts KY 221D4	7.500	05/19	1,241,942.86
Mt Lebanon Cedars KY 221D3	7.500	03/23	2,673,317.14
Oak Tree Villa Apts Ky 221D4	7.500	05/23	3,524,476.23
Pine Ridge Apts KY 221D4	7.500	09/18	845,704.74
Pinecreek Apts KY 221D4	7.500	10/17	580,953.77
Regency Park Apts KY 221D4	7.500	05/18	981,245.31
Regency Pk Apts BG KY 221D4	7.500	02/23	3,802,575.47
Ridgeway Apts KY 221D4	7.500	02/19	1,059,415.44
Rucker Vlg Apts KY 221D4	7.500	03/20	1,100,969.49
Salem Vlg I 232 ILL	7.750	03/16	1,022,643.72
Salem Vlg II 231 ILL	7.750	10/16	3,492,070.75
Sandefur Mnr KY 221D4	7.500	01/20	957,555.39
Shepherdsvle Vlg Apt KY 221D4	7.500	05/20	1,389,896.48
Shively Apts KY 221D4	7.500	10/21	2,453,339.41
Southside Mnr KY 221D4	7.500	02/19	1,439,921.39
Town Branch Apts KY 221D4	7.500	11/23	762,011.03
Tree Top Apts KY 221D4	7.500	11/20	1,148,721.67
Vernon Manor Ltd KY 221D4	7.500	11/22	922,375.65
Walnut Hill Apts KY 221D4	7.500	05/19	1,671,382.90
Wesley Manor KY 232	8.000	12/11	979,004.87
Wessington Hse Apts TN 221D4	7.500	02/22	1,903,368.54
Westchester Circle KY 221D4	7.500	04/19	4,282,295.79
Westwood Apts KY 221D4	7.500	10/23	1,218,604.56
Wilderness Trail Mnr KY 221D4	7.500	03/23	5,769,784.93
Wildwood Apts KY 221D4	7.500	08/20	1,916,850.73

**Other Fixed Income Investments
(continued)**

<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value or Remaining Principal Balance</u>
Project Mortgages (FHA & GNMA):			
Willow Creek Apts KY 221D4	7.500	08/23	1,408,281.92
Woodsvlew Apts KY 221D4	7.500	01/19	1,448,576.04
Panorama West KY 236	8.500	12/12	460,657.78
Hallmark Plaza KY 223F	8.500	06/11	1,158,744.94
Knights Inn FmHA Loan	13.750	12/90	1,017,224.85
Christ Hosp GNMA 21191PL	8.000	09/06	3,671,326.24
Cortland Hosp GNMA 13089PL	8.750	10/04	1,428,376.99
Bethany Cir Kings Daughters IN	8.375	03/02	1,750,910.91
Congregational Home KAN 231	5.250	07/04	1,389,274.88
Ephraim McDowell Hosp KY	9.000	01/01	2,957,652.39
Gladman Nursing Home 232	5.250	04/87	46,713.06
Longmont Christian Hsg 231	5.250	03/03	499,576.76
			<u>112,049,610.94</u>
State and Local Government Obligations:			
Ky Indstrl Dev Finance Auth Nt	5.000	07/86	3,333.43
Ky Indstrl Dev Finance Auth Nt	5.000	01/87	46,666.76
Ky Indstrl Dev Finance Auth Nt	5.500	01/87	13,333.52
Ky Indstrl Dev Finance Auth Nt	5.500	07/87	10,000.09
			<u>73,333.80</u>
Total Other Fixed Income Investments			<u><u>129,558,276.11</u></u>
TOTAL FIXED INCOME INVESTMENTS			<u><u>1,808,287,850.39</u></u>

Real Estate Equity

<u>Security</u>	<u>Cost</u>
Real Estate Equity:	
F. I. A. Profile Fund I - 1,500 Units	15,000,000.00
K Mart Store Winchester KY	2,711,917.53
Kroger Georgetown KY L-357	2,186,000.00
Kroger Richmond KY L-308	2,305,000.00
Kroger Super-X Bowling Green KY	2,792,467.00
Kroger Super-X Owensboro KY	2,232,400.00
Office Bldg Lot Frankfort KY	453,429.50
Wal-Mart Store Hardinsburg KY	965,000.00
Wal-Mart Store Paducah KY	2,800,000.00
Wal-Mart Store Paris KY	1,200,000.00
Wal-Mart Store Shelbyville KY	1,600,000.00
Wal-Mart Store Williamstown KY	1,090,000.00
	<u>35,336,214.03</u>
Total Real Estate Equity	<u>35,336,214.03</u>

Common Stocks

	<u>No. of Shares</u>	<u>Cost</u>
Abbott Laboratories	20,000.0000	987,950.00
Aetna Life & Casualty Co	120,000.0000	7,224,000.00
American Can Co	110,000.0000	6,427,162.50
American General Corp	60,000.0000	2,422,212.50
American Home Products	131,300.0000	7,368,376.03
American Information Technologies	43,100.0000	5,691,835.00
American Standard Inc	50,000.0000	2,125,250.00
Amoco Corp	35,000.0000	2,043,875.00
Armstrong World Industries Inc	200,000.0000	12,235,150.00
Atlantic Richfield Co	40,000.0000	2,105,012.50
Baker International Corp	70,000.0000	983,500.00
Bankers Trust N Y Corp	150,000.0000	7,230,000.00
Bell Atlantic Corp	200,000.0000	11,151,607.14
Boeing Co	300,000.0000	16,642,687.50
Bristol Myers Co	170,000.0000	10,246,212.50
Burroughs Corp	152,000.0000	9,710,997.50
Capital Holding Corporation	350,000.0000	7,242,105.99
Chevron Corp	100,000.0000	3,708,779.93
Citicorp	150,000.0000	9,273,750.00
Commonwealth Edison Co	70,000.0000	2,331,625.00

**Common Stocks
(continued)**

	<u>No. of Shares</u>	<u>Cost</u>
Consolidated Edison Co N Y	330,000.0000	14,249,025.00
Cooper Industries Inc	55,000.0000	2,364,925.00
CPC International	126,400.0000	8,488,090.00
Dart & Kraft Inc	100,000.0000	6,126,250.00
Dayton-Hudson Corp	49,000.0000	1,802,002.56
Delta Air Lines Inc	100,000.0000	4,396,350.00
Digital Equipment Corp	120,000.0000	5,973,325.00
Dover Corp	58,000.0000	2,601,475.00
Dow Chemical Co	150,000.0000	8,430,000.00
Dow Jones & Co Inc	20,000.0000	1,085,275.00
Duke Power Co	350,000.0000	12,742,687.50
Dun & Bradstreet Corp	20,000.0000	1,971,137.50
Exxon Corp	215,000.0000	11,358,525.00
Federated Dept Stores	30,000.0000	2,162,500.00
First Interstate Bancorp	40,000.0000	2,286,000.00
First Wachovia Corp	205,712.5331	7,387,838.52
Fort Howard Paper Co	100,000.0000	4,835,062.50
General Electric Co	105,000.0000	7,857,025.00
General Motors Corp	144,000.0000	10,487,660.61
General Signal Corp	1,200.0000	58,683.00
Genuine Parts Co	45,000.0000	1,730,762.50
Halliburton Co	70,000.0000	1,522,125.00
Heinz (H J) Co	250,000.0000	10,419,775.00
Hewlett Packard Co	55,000.0000	2,412,387.50
International Business Machines	227,000.0000	31,973,743.15
International Minerals & Chem	30,000.0000	1,018,350.00
Joy Manufacturing Co	60,000.0000	1,545,925.00
K Mart Corp	300,000.0000	14,772,562.50
Kroger Co	140,000.0000	5,224,150.00
Louisville Gas & Electric Co	165,985.0000	3,912,447.85
Marsh & McLennan Companies Inc	220,000.0000	11,852,825.00
May Dept Stores Co	100,000.0000	8,568,575.00
Maytag Co	140,000.0000	3,512,931.89
McDonalds Corp	33,000.0000	1,918,075.00
Merck & Co Inc	100,000.0000	10,296,612.50
Minnesota Mining & Manufacturing	98,000.0000	10,310,462.50
Motorola Inc	50,000.0000	1,843,183.33
Nalco Chemical Co	80,000.0000	2,318,895.00
Norfolk Southern Corp	27,000.0000	2,403,887.50
NYNEX Corp	220,000.0000	24,127,350.00
Pepsico Inc	600,000.0000	18,365,687.50
Pfizer Inc	100,000.0000	6,070,000.00
PHH Group Inc	70,000.0000	2,379,112.50
Philip Morris Cos Inc	290,000.0000	16,825,937.50
Pioneer Hi-Bred International Inc	55,000.0000	2,193,562.50
Potomac Electric Power Co	250,000.0000	9,312,500.00
Procter & Gamble Co	181,000.0000	13,388,600.00
Raytheon Co	40,000.0000	2,379,550.00

**Common Stocks
(continued)**

	<u>No. of Shares</u>	<u>Cost</u>
Roadway Services Inc	55,000.0000	2,173,875.00
Salomon Inc	135,000.0000	7,114,500.00
Schering-Plough Corp	150,000.0000	11,271,250.00
Smithkline Beckman Corp	186,000.0000	13,658,500.00
Squibb Corp	100,000.0000	9,670,000.00
Standard Oil Co (Ohio)	125,000.0000	5,738,512.50
Sundstrand Corp	33,000.0000	1,973,150.00
Transco Energy Co	100,000.0000	4,901,412.50
Travelers Corp	350,873.3720	16,966,925.00
TRW Inc	23,000.0000	2,226,675.00
Union Camp Corp	264,400.0000	11,059,282.50
United Technologies Corp	221,000.0000	9,380,411.37
US West Inc	44,000.0000	2,145,200.00
V F Corp	12,000.0000	378,570.00
Woolworth (FW) Co	241,000.0000	9,332,475.00
Total Common Stocks	<u>10,877,970.9051</u>	<u>574,406,641.37</u>

TOTAL EQUITY INVESTMENTS

609,742,855.40

**Par Value
or Remaining
Principal Balance/
Cost**

TOTAL INVESTMENTS

2,418,030,705.79

**TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY**
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