

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

**COMPREHENSIVE  
ANNUAL REPORT  
FISCAL YEAR ENDED  
JUNE 30, 1987**

**TEACHERS' RETIREMENT SYSTEM  
of the State of Kentucky**

**47th  
Comprehensive  
Annual  
Report**

**Fiscal Year Ended June 30, 1987**

**Kentucky  
Teachers'  
Retirement  
System**

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

**Pat N. Miller  
Executive Secretary**

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	<h1><b>INTRODUCTORY SECTION</b></h1>
	<h2><b>Kentucky Teachers' Retirement System</b></h2>

## 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

### 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, 1987

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

Dear Governor Collins:

The 47th Annual Report of the Teachers' Retirement System of the State of Kentucky (the System) for the fiscal year ended June 30, 1987, 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 five 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 Actuarial Section containing the independent consulting actuary's opinion and results of their most recent actuarial valuation; 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.

Your support and assistance as well as that of the General Assembly is certainly appreciated in providing the financial assistance to insure the operation of the System in an actuarially sound manner.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Pat N. Miller".

Pat N. Miller  
Executive Secretary

## Chairperson's Letter

### 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

**EX OFFICIO**  
**FRANCES JONES MILLS**  
STATE TREASURER  
**ALICE McDONALD**  
SUPT. OF PUBLIC INSTRUCTION



**PAT N. MILLER**  
EXECUTIVE SECRETARY

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

December 1, 1987

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

Dear Governor Collins:

This Forty-Seventh 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.

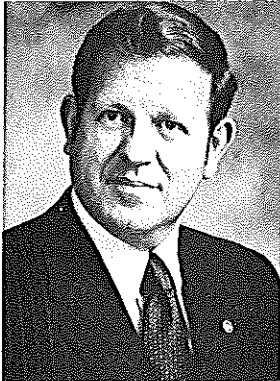
On behalf of the Board of Trustees, I want to express our appreciation to you and the members of the General Assembly. We ask for your continued support so that through all of our combined efforts, the System may continue to provide a financially secure retirement future for its participants.

Sincerely,

W. D. Bruce, Jr.  
Chairperson  
Board of Trustees



## Board of Trustees



**Mr. W. D. Bruce, Jr.**  
Chairperson  
Louisville  
Teacher Trustee



**Mrs. Frances Miller**  
Vice-Chairperson  
Russell  
Teacher Trustee



**Mr. Denver Knuckles**  
Middlesboro  
Lay Trustee



**Mrs. Martha Baker**  
Paducah  
Teacher Trustee



**Mrs. Arlene Romine**  
Mt. Washington  
Teacher Trustee



**Mr. T. K. Stone**  
Elizabethtown  
Retired Teacher Trustee



**Mr. Earle V. Powell**  
Frankfort  
Lay Trustee



**Mrs. Alice McDonald**  
Superintendent of  
Public Instruction  
Ex-Officio Trustee



**Mrs. Frances Jones Mills**  
State Treasurer  
Ex-Officio Trustee

## **Administrative Staff**

### **Teachers' Retirement System 216 West Main Street**

**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.**  
3160 First National Tower  
Louisville, Kentucky 40202

#### **Fixed Income Manager**

**First Kentucky Company**  
First National Tower  
Louisville, Kentucky 40233

#### **Equity Manager**

**Invesco Capital Management, Inc.**  
1315 Peachtree Street, N.E., Suite 300  
Atlanta, Georgia 30309

### **Investment Custodian**

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

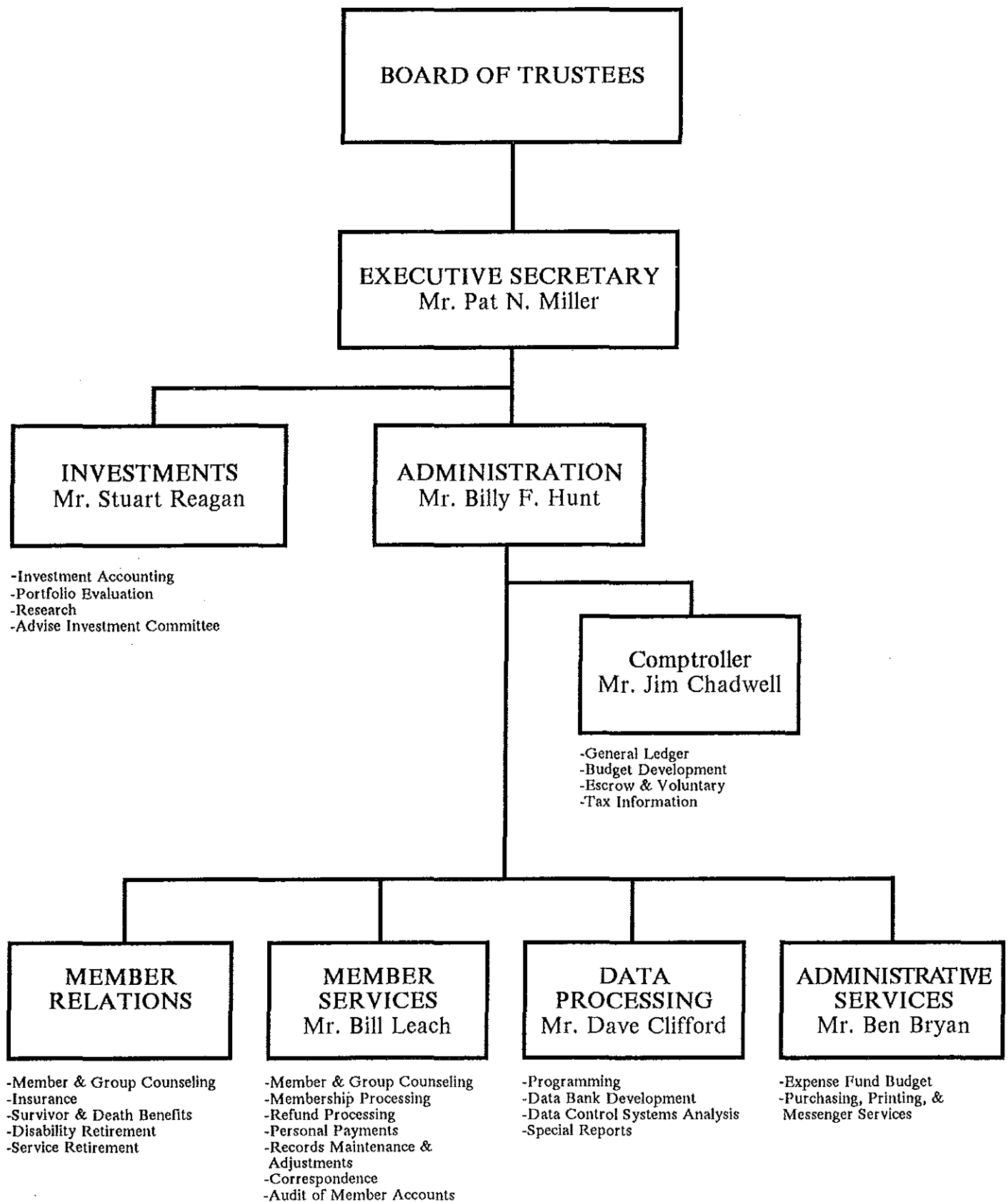
### **Actuary**

**George B. Buck Consulting Actuaries, Inc.**  
200 Galleria Parkway, N. W., Suite 1060  
Atlanta, Georgia 30339

### **Auditor**

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

## Organizational Chart



## System Highlights

### 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 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 1987, the revenues to the System included \$107,820,175 from member contributions, \$162,585,387 from employer or state contributions, and \$266,136,794 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 1987 and 1986 are shown for comparative purposes.

Expenses	1987	1986	Increase/(Decrease)	
	(Millions)	(Millions)	(Millions)	%
Retiree Benefits	\$144.2	\$131.1	\$13.1	9.99
Disabilities	7.5	6.8	.7	10.29
Survivor/Death Benefits	5.8	5.4	.4	7.41
Refunds	6.7	7.4	(.7)	(9.46)
Medical Insurance	17.6	14.5	3.1	21.38
Administration	2.4	1.9	.5	26.32
	<u>\$184.2</u>	<u>\$167.1</u>	<u>\$17.1</u>	<u>10.23</u>

### Investments

The investment portfolio is a substantial contributor to the System. It is estimated that income from investments will provide more than one half of the funds that are paid to the average retired member. The investment portfolio experienced significant growth during the year. The par value of the portfolio increased from \$2,418,030,705 to \$2,838,586,725 during fiscal year 1986-87. The growth of the portfolio is due to higher teachers' salaries and the corresponding effect on contributions, as well as investment income. While investment income realized by the System for 1986-87 certainly was impressive at \$266.1 million, it was not as large as the preceding year's total of \$331.1 million. Interest rates were higher in the 1985-86 fiscal year, and the System realized more gains. However, interest rates are likely to rise in fiscal year 1987-88, and this should positively affect the yield on the total portfolio.

### 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 valuation was conducted at June 30, 1986. The actuarial accrued liability of the System was \$3.356 billion. The reserve balance from participant contributions from employers, employees, and investment income was \$2.214 billion. The amount by which the accrued liability exceeds the reserves, or the unfunded liability, totaled \$1.142 billion on June 30, 1986.

### 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 5 of this report.

### 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.

	<b>FINANCIAL SECTION</b>
	<b>Kentucky Teachers' Retirement System</b>

## 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.  
GARÝ L. HARBIN, C.P.A.  
LARRY T. WILLIAMS, C.P.A.

October 6, 1987

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, 1987 and 1986 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 accounting records and such other auditing procedures 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, 1987 and 1986, 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, 1987 and June 30, 1986

	Year Ended June 30, 1987	Year Ended June 30, 1986
<b>ASSETS</b>		
Cash	\$ 1,089,772	\$ 11,592,380
Deposit with Insurance Carrier (See Note 4)	4,649,228	4,282,771
Prepaid Expenses	93,218	43,065
Receivables:		
Contributions	10,767,851	8,351,213
Accounts	2,449	62,167
State of Kentucky	7,901,823	13,802,902
Investment Income	30,106,529	26,470,206
Total Receivables	48,778,652	48,686,488
Investments, at Cost (See Note 2):		
Short Term Investments (Market Value \$603,090,000 in 1987 and \$264,070,000 in 1986)	603,090,000	264,070,000
Bonds and Mortgages (Market Value \$1,346,813,483 in 1987 and \$1,371,867,612 in 1986)	1,360,044,217	1,305,978,215
Common Stock (Market Value \$668,741,605 in 1987 and \$659,185,332 in 1986)	542,799,785	574,406,641
Real Estate (Market Value Not Readily Available)	36,126,758	35,336,214
Total Investments	2,542,060,760	2,179,791,070
Fixed Assets (Net of Accumulated Depreciation of \$177,435 in 1987 and \$113,282 in 1986)	310,964	95,260
Total Assets	\$2,596,982,594	\$2,244,491,034
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accounts Payable	\$ 320,135	\$ 214,541
Treasurer's Unredeemed Checks	23,753	17,157
Total Liabilities	343,888	231,698
Fund Balance		
Member Reserve	805,407,264	719,133,946
Employer Reserve	826,796,030	741,449,946
Benefit Reserve	81,272,693	80,455,616
Survivor, Death, Medical Reserve	33,012,462	28,004,873
403(b) Program Reserve	9,350,178	8,242,601
Unallocated Reserve	840,610,940	666,828,029
Administrative Expense Reserve	189,139	144,325
Total Fund Balance	2,596,638,706	2,244,259,336
Total Liabilities and Fund Balance	\$2,596,982,594	\$2,244,491,034

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



## Statement of Revenues, Expenses, Year Ended

### RESERVES

	<u>Member</u>	<u>Employer</u>	<u>Benefit</u>	<u>Survivor, Death, Medical</u>
Operating Revenues				
Member Contributions	\$ 94,808,218	\$ 217,020	\$	\$11,768,294
Employer Contributions		98,576,100		10,063,109
Investment Income				
Total Operating Revenues	<u>94,808,218</u>	<u>98,793,120</u>		<u>21,831,403</u>
Operating Expenses				
Benefits			151,593,600	5,752,810
Refunds	6,108,515	1,584		
Insurance Premium (See Note 4)				17,559,850
Administrative Expenses				
Total Operating Expenses	<u>6,108,515</u>	<u>1,584</u>	<u>151,593,600</u>	<u>23,312,660</u>
Net Operating Income (Expense)	<u>88,699,703</u>	<u>98,791,536</u>	<u>(151,593,600)</u>	<u>(1,481,257)</u>
Reserve Transfers				
Retirements by Members	(23,131,353)	(24,228,393)	45,965,041	1,394,705
Reimbursements			107,943,797	3,463,174
Members Who Left System		(6,674,412)	(3,185,479)	(442,046)
Interest Allocations	20,704,132	21,200,182	1,917,836	1,855,232
Administrative Expenses				
Other Reclassifications	836	(3,742,829)	(230,518)	217,781
Total Reserve Transfers	<u>(2,426,385)</u>	<u>(13,445,452)</u>	<u>152,410,677</u>	<u>6,488,846</u>
Net Fund Balance Additions (Reductions)	<u>86,273,318</u>	<u>85,346,084</u>	<u>817,077</u>	<u>5,007,589</u>
Beginning Fund Balance	<u>719,133,946</u>	<u>741,449,946</u>	<u>80,455,616</u>	<u>28,004,873</u>
Ending Fund Balance	<u>\$805,407,264</u>	<u>\$826,796,030</u>	<u>\$ 81,272,693</u>	<u>\$33,012,462</u>

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

# and Changes in Fund Balances June 30, 1987

<u>403(b) Program</u>	<u>Unallocated</u>	<u>Administrative Expense</u>	<u>1986-87 Total</u>	<u>1985-86 Total</u>
\$1,026,643	\$ 53,946,178	\$	\$ 107,820,175	\$ 100,004,860
	266,136,794		162,585,387	143,735,360
			266,136,794	331,119,087
<u>1,026,643</u>	<u>320,082,972</u>		<u>536,542,356</u>	<u>574,859,307</u>
118,004			157,464,414	143,326,926
601,388			6,711,487	7,383,159
			17,559,850	14,515,566
	551,000	1,876,235	2,427,235	1,912,797
<u>719,392</u>	<u>551,000</u>	<u>1,876,235</u>	<u>184,162,986</u>	<u>167,138,448</u>
<u>307,251</u>	<u>319,531,972</u>	<u>(1,876,235)</u>	<u>352,379,370</u>	<u>407,720,859</u>
43,057	(111,450,028)			
	10,301,937			
758,611	(46,435,993)			
	(1,921,049)	1,921,049		
(1,342)	3,756,072			
<u>800,326</u>	<u>(145,749,061)</u>	<u>1,921,049</u>		
<u>1,107,577</u>	<u>173,782,911</u>	<u>44,814</u>	<u>352,379,370</u>	<u>407,720,859</u>
8,242,601	666,828,029	144,325	2,244,259,336	1,836,538,477
<u>\$9,350,178</u>	<u>\$ 840,610,940</u>	<u>\$ 189,139</u>	<u>\$2,596,638,706</u>	<u>\$2,244,259,336</u>

## Statement of Changes in Financial Position Year Ended June 30, 1987

	Year Ended June 30, 1987
<b>Sources of Working Capital:</b>	
Excess of Revenues over Expenses	\$352,379,370
Items Not Requiring Resources Currently - Depreciation	65,278
Total Sources of Working Capital	<u>\$352,444,648</u>
<b>Uses of Working Capital:</b>	
Net Increase (Decrease) in Long Term Investments	\$ 23,249,690
Net Increase (Decrease) in Working Capital	328,913,976
Acquisition of Equipment	280,982
Total Uses of Working Capital	<u>\$352,444,648</u>

## Elements of Net Increase (Decrease) in Working Capital Years Ended June 30, 1987 and June 30, 1986

	Year Ended June 30, 1987	Year Ended June 30, 1986	Increase (Decrease)
<b>Current Assets:</b>			
Cash	\$ 1,089,772	\$ 11,592,380	
Deposit with Insurance Carrier	4,649,228	4,282,771	
Prepaid Expenses	93,218	43,065	
Receivables			
Contributions	10,767,851	8,351,213	
Accounts	2,449	62,167	
State of Kentucky	7,901,823	13,802,902	
Investment Income	30,106,529	26,470,206	
Short Term Investments	603,090,000	264,070,000	
Total Current Assets	<u>657,700,870</u>	<u>328,674,704</u>	
<b>Current Liabilities:</b>			
Accounts Payable	320,135	214,541	
Treasurer's Unredeemed Checks	23,753	17,157	
Total Current Liabilities	<u>343,888</u>	<u>231,698</u>	
Working Capital	<u>\$657,356,982</u>	<u>\$328,443,006</u>	<u>\$328,913,976</u>

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

## Notes to Financial Statements

### Years Ended June 30, 1987 and 1986

#### 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 (KRS).

1. **Reporting Entity.** 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 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, 1987 and 1986.

	<u>1987</u>	<u>1986</u>
Local School Districts	178	180
State Universities	5	5
Department of Education/Other Organizations	20	21
	<u>203</u>	<u>206</u>

The covered payroll of all participating employers totaled \$1,104,968,563 for the year ended June 30, 1987 and \$1,006,751,275 for the year ended June 30, 1986.

3. **Participants.** According to KRS 161.220 "... Any regular or special teacher, or professional employee occupying a position requiring certification by the state department of education or graduation from a four (4) year college or university . . ." is eligible to participate in the System. The following illustrates the participants at June 30, 1987 and 1986.

	<u>1987</u>	<u>1986</u>
Retirees and beneficiaries of deceased retirees currently receiving benefits:		
Local School Districts	15,163	14,895
Universities	806	715
Department of Education/Other Organizations	685	648
	<u>16,654</u>	<u>16,258</u>

Disabilities currently receiving benefits:		
Local School Districts	889	867
Universities	23	23
Department of Education/Other Organizations	60	56
	<u>972</u>	<u>946</u>

Survivors currently receiving benefits:		
Local School Districts	532	544
Universities	31	28
Department of Education/Other Organizations	65	56
	<u>628</u>	<u>628</u>

## Note 1: Description of Plan (continued)

	<u>1987</u>	<u>1986</u>
Terminated employees entitled to benefits but not yet receiving them (no current contributions in the last fiscal year):		
Local School Districts	1,792	1,802
Universities	161	158
Department of Education/Other Organizations	127	139
	<u>2,080</u>	<u>2,099</u>
Current employees:		
Vested:		
Local School Districts	32,877	33,260
Universities	2,032	2,134
Department of Education/Other Organizations	1,797	1,824
Non-Vested:		
Local School Districts	9,112	8,258
Universities	1,103	1,090
Department of Education/Other Organizations	798	734
	<u>47,719</u>	<u>47,300</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 (2½) percent (service after January 1, 1984) of their final average salaries for each year of credited service. University employees receive monthly benefits equal to two (2) percent of their final average salary for each year of credited service. The final average salary is the 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. 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 reported at amortized cost subject to adjustment for market declines judged to be other than temporary. Investments in stocks, repurchase agreements, and real estate are reported at cost subject to adjustment for market declines judged to be other than temporary. Gains and losses on sales and exchanges of investments are recognized on the transaction date. Discounts on zero-coupon bonds and notes are amortized using the effective interest rate method. Premiums and discounts for all other bonds and notes are amortized using the straight-line method. 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, 1987 and June 30, 1986.

**Note 2: Summary of Significant Accounting Policies (continued)**

	<u>June 30, 1987</u>	<u>June 30, 1986</u>
<b>Short Term Investments</b>		
Repurchase Agreements	\$ 603,090,000	\$ 264,070,000
<b>Bonds and Mortgages</b>		
U.S. Government Obligations		
Treasury Notes and Bonds	508,572,793	530,052,162
Agencies	73,786,160	94,816,436
Ship Bonds (Title XI)	66,686,061	83,409,331
GNMA (Single Family)	113,468,044	92,618,573
Other Miscellaneous	136,010,050	104,080,167
Total U.S. Government Obligations	<u>898,523,108</u>	<u>904,976,669</u>
Corporate Bonds		
Industrials	111,579,751	116,064,379
Finance	105,280,384	64,896,842
Utility Bonds (Except Telephone)	43,020,450	33,889,483
Telephone Bonds	61,997,225	72,146,146
Railroad Obligations	16,140,503	11,151,494
Miscellaneous	20,858,534	
Total Corporate Bonds	<u>358,876,847</u>	<u>298,148,344</u>
Other Fixed Income Investments		
FHA and VA Single Family Mortgages	15,268,701	17,413,417
Project Mortgages	87,372,228	85,366,451
State and Local Government Obligations	3,333	73,334
Total Other Investments	<u>102,644,262</u>	<u>102,853,202</u>
<b>Total Bonds and Mortgages</b>	<u>1,360,044,217</u>	<u>1,305,978,215</u>
<b>Stocks</b>	542,799,785	574,406,641
<b>Real Estate</b>	36,126,758	35,336,214
<b>Total Investments</b>	<u>\$2,542,060,760</u>	<u>\$2,179,791,070</u>

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, 1987 and June 30, 1986, 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>1987</u>	<u>1986</u>
Book Value	\$56,344,088	\$92,889,789
Market Value	57,599,689	94,797,618

- 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.

**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

**Note 3: Description of Funds (continued)**

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. In addition, the state provides an annual overmatch of 3.25% to discharge the System's unfunded obligations. Actual state appropriations for the fiscal year 1986-87 were based on estimates of members' salaries. For the fiscal year ended June 30, 1987, actual appropriations fell short of required appropriations by \$5,810,265. This increased the amount due from the state to \$7,901,823.

**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 RESERVES:** 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 part 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' 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. At June 30, 1987, the fund's balance was \$33,012,462. Of this amount, \$1,762,236 was restricted for survivor benefits.

**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 Account, 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 1986-87 and 1985-86.

	Year Ended June 30, 1987	Year Ended June 30, 1986
Estimated Premiums Paid	\$16,983,844	\$16,722,772
Less: Experience Increase (Decrease)	(576,006)	2,207,206
Actual Premiums Incurred	\$17,559,850	\$14,515,566

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

**Note 4: Premium Stabilization and Reserve Account, Aetna Life Insurance Company (continued)**

	Year Ended June 30, 1987	Year Ended June 30, 1986
Beginning Balance	\$4,282,771	\$4,487,820
Plus: Experience Increase (Decrease)	(576,006)	2,207,206
Plus: Interest Earned	942,463	770,716
Less: Withdrawals		3,182,971
Ending Balance	\$4,649,228	\$4,282,771

**Note 5: Funding Status of KTRS**

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess KTRS funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1986. The June 30, 1987 actuarial valuation is in process and, therefore, not yet available. Significant actuarial assumptions used in the June 30, 1986 actuarial valuation include a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, and b) future annual salary increases of 5%.

At June 30, 1986, the unfunded pension benefit obligation was \$1,141,960,000 as follows:

**Pension Benefit Obligation:**

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$1,320,145,000
Current employees:	
Accumulated employee contributions including allocated investment income	698,018,000
Employer-financed vested	681,377,000
Employer-financed nonvested	656,646,000
Total pension benefit obligation	3,356,186,000
Net assets available for benefits, at cost per Note 2 (market value \$2,362,880,000)	2,214,226,000*
Unfunded pension benefit obligation	\$1,141,960,000

Ten-year historical trend information designed to provide information about the progress made in accumulating sufficient assets to pay benefits when due is presented on pages 22, 23, and 24.

\*In order to compute the net assets available for benefits, the actuary took the KTRS fund balance at June 30, 1986 of \$2,244,259,336 and made the following adjustments.

June 30, 1986 KTRS Fund Balance	\$2,244,259,336
Less portion of Survivor, Death, Medical Reserves Not Available for Benefits	21,616,022
Less 403(b) Program Reserves	8,242,601
Less Administrative Expense Reserves	144,325
Less Prior Period Adjustment (See Note 9)	30,388
Net Assets Available for Benefits	\$2,214,226,000

**Note 6: State Contributions Required and State Contributions Made**

The amount that the Commonwealth of Kentucky contributes to KTRS is specified in KRS 161.550. That statute states that the state shall contribute annually to the retirement system an amount equal to that contributed by all



**Note 6: State Contributions Required and State Contributions Made (continued)**

members. The statute also says that the state shall, in addition to the above amount, contribute an annual overmatch of 3.25% of total member salaries in order to discharge the unfunded pension benefit obligation. Contribution requirements are, therefore, set by law and are not actuarially determined.

The actuary for KTRS has determined that given the present level of state funding and member contributions, it will take 28 years to fund the unfunded pension benefit obligation.

For the fiscal year ended June 30, 1987, actual contributions made by the state fell short of required contributions by \$5,810,265. State budget appropriations for 1986-87 totaled \$151,000,056 while the actual budget requirements for 1986-87 totaled \$156,810,321. 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 KTRS.

**Note 7: 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, 1987. For retiring state employees who qualify, a maximum of six (6) months of their accumulated sick 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, 1987 follows:

	<u>Balance June 30, 1986</u>	<u>Earned 1986 - 1987</u>	<u>Used or Paid 1986 - 1987</u>	<u>Balance June 30, 1987</u>
Vacation and Compensatory Leave	\$159,385	\$91,317	\$68,620	\$182,082

**Note 8: Deposits With Financial Institutions and Investments (including Repurchase Agreements)**

The following disclosures are meant to help the users of KTRS's financial statements assess the risks KTRS takes in investing public funds. The types of investments that KTRS may invest in are enumerated in KRS 161.430. That statute sets the following asset allocation parameters.

- Not more than 25% of any one issue may be purchased as an investment and not more than 7% of the invested funds of the System may be invested in the securities of any issuer except in the case of obligations of the United States government.
- There shall be no limit on investments guaranteed by the United States government.
- Except for investments guaranteed by the United States government, no more than 75% of the assets of the System may be invested in fixed debt obligations. Such obligations must be rated at the time of purchase within the three highest classifications established by one or more major rating services.
- No more than 40% of the assets of the System may be invested in common stocks, preferred stocks, and stock index funds.
- No more than 10% of the assets of the System may be invested in real estate.

At June 30, 1987, the amount of cash deposited in the State's General Depository Account was \$1,089,772. This account is under the control of the Kentucky State Treasurer.

The following chart categorizes KTRS's investments, which gives an indication of the level of risk assumed by KTRS at June 30, 1987. Category 1 includes investments that are insured or registered or for which the securities are held by KTRS's custodial agent in KTRS's name. Category 2 includes uninsured and unregistered investments for which

**Note 8: Deposits With Financial Institutions and Investments (including Repurchase Agreements)**  
(continued)

the securities are held by the counterparty or by its trust department or agent, but not in KTRS's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in KTRS's name. KTRS does not have any Category 2 or Category 3 investments.

	Category			Carrying Amount	Market Value
	1	2	3		
Repurchase Agreements	\$ 603,090,000	\$	\$	\$ 603,090,000	\$ 603,090,000
U.S. Government Securities	898,523,108			898,523,108	895,451,206
Corporate Bonds	358,876,847			358,876,847	338,767,318
Other Fixed Income Investments	102,644,262			102,644,262	112,594,959
Real Estate	36,126,758			36,126,758	36,126,758
Common Stocks	542,799,785			542,799,785	668,741,605
Total Investments	\$2,542,060,760	\$	\$	\$2,542,060,760	\$2,654,771,846

Included in Category 1 are individual repurchase agreements which are ordered under the terms of master repurchase agreements with various qualified brokers. The terms of these master agreements are dictated by KTRS. The custodial agent transmits the purchase orders for KTRS. The repurchase agreements and their supporting collateral are held by the custodial agent's correspondent bank in an account identified by the custodian's name and KTRS's nominee.

**Note 9: Prior Period Adjustments**

The following changes were made to the June 30, 1986 financial statements.

- The liability "Maintenance Reserve-Rental Property" of \$30,388 was deleted and the \$30,388 was included in Unallocated Reserves. This money is not a liability, but is instead a part of the Unallocated Reserves of the system.
- The interest earned on the Aetna Premium Stabilization and Reserve Account of \$770,716 was included in Unallocated Reserves rather than Survivor, Death, Medical Reserves. KRS 161.420(6) states that "All income, interest and dividends derived from the authorized deposits and investments (of KTRS) shall be paid into Unallocated Reserves."
- KRS 161.440 states "At the end of each fiscal year the board of trustees shall assign from Unallocated Reserves interest at . . . a rate of interest not to exceed the average yield on fixed income security investments for the immediate past year to survivor, death, medical insurance fund." For 1985-86, the amount of interest that should have been transferred to Survivor, Death, Medical Reserves was \$1,397,639, not \$1,443,250. The difference of \$45,611 was returned to Unallocated Reserves.

**Required Supplementary Information**  
**Analysis of Funding Progress**  
(in millions of dollars)

	(1)	(2)	(3)	(4)	(5)	(6)
Fiscal Year	Net Assets Available for Benefits (at cost)	Pension Benefit Obligation	Percentage Funded (1)÷(2)	Unfunded Pension Benefit Obligation (2)-(1)	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll (4)÷(5)
1980	\$ 872.5	\$1,902.8	45.85%	\$1,030.3	\$ 704.1	146.33%
1982	1,163.7	2,440.7	47.68	1,277.0	807.2	158.20
1984	1,569.1	2,907.8	53.96	1,338.7	916.6	146.05
1986	2,214.2	3,356.2	65.97	1,142.0	1,006.7	113.44

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of KTRS's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the retirement system. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of KTRS' progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

Actuarial valuations performed prior to 1980 are not presented since the valuations were conducted using a different actuarial method. As a result, comparison of data derived from actuarial valuations conducted in earlier years is meaningless.

# **Required Supplementary Information** **Revenues by Source and Expenses by Type**

## **Revenues by Source**

<b>Fiscal Year</b>	<b>Employee Contributions</b>	<b>Employer Contributions</b>	<b>Investment Income</b>	<b>Total</b>
1978	\$ 44,430,840	\$ 62,299,145	\$ 41,525,387	\$148,255,372
1979	52,643,464	71,128,393	50,976,213	174,748,070
1980	57,684,276	79,484,927	65,976,682	203,145,885
1981	61,158,728	92,673,515	81,696,516	235,528,759
1982	63,611,934	94,517,462	104,297,054	262,426,450
1983	66,294,640	105,894,280	161,755,677	333,944,597
1984	83,100,057	122,020,981	147,734,304	352,855,342
1985	94,125,506	136,480,324	180,437,165	411,042,995
1986	100,004,860	143,735,360	331,088,699	574,828,919
1987	107,820,175	162,585,387	266,136,794	536,542,356

## **Expenses by Type**

<b>Fiscal Year</b>	<b>Benefits</b>	<b>Refunds</b>	<b>Insurance Premium</b>	<b>Administrative Expenses</b>	<b>Total</b>
1978	\$ 63,215,916	\$4,898,180	\$ 4,055,971	\$ 763,185	\$ 72,933,252
1979	69,646,813	5,391,832	5,333,972	909,262	81,281,879
1980	76,086,175	6,162,643	6,951,208	972,370	90,172,396
1981	87,330,148	6,492,338	7,930,573	1,087,851	102,840,910
1982	98,941,327	8,873,768	9,314,622	1,259,689	118,389,406
1983	111,414,985	6,162,472	11,702,523	1,385,894	130,665,874
1984	123,068,880	5,936,368	15,208,756	1,615,331	145,829,335
1985	132,990,989	6,702,136	12,378,427	1,691,011	153,762,563
1986	143,326,926	7,383,159	14,515,566	1,912,797	167,138,448
1987	157,464,414	6,711,487	17,559,850	2,427,235	184,162,986

**Required Supplementary Information**  
**Analysis of Employer Contributions**  
(in millions of dollars)

Fiscal Year	(1) Employer Contributions	(2) Annual Covered Payroll	(3) Employer Contributions as a Percentage of Annual Covered Payroll (1)÷(2)
1978	\$ 62.3	\$ 557.0	11.2%
1979	71.1	633.5	11.2
1980	79.5	704.1	11.3
1981	92.7	761.0	12.2
1982	94.5	807.2	11.7
1983	105.9	849.8	12.5
1984	122.0	916.6	13.3
1985	136.5	950.1	14.4
1986	143.7	1,006.7	14.3
1987	162.6	1,105.0	14.7

	<b>SUPPORTING SCHEDULES</b>
	<b>Kentucky Teachers' Retirement System</b>

**Member Reserves**  
**Schedule of Revenues, Expenses, and Changes in Fund Balances**  
**Years Ended June 30, 1987 and 1986**

	<u>Year Ended June 30, 1987</u>	<u>Year Ended June 30, 1986</u>
Operating Revenues		
Member Contributions	\$ 92,731,036	\$ 84,554,041
Reinstated Accounts	327,823	247,244
Personal Check Contributions	1,749,359	1,368,987
Other Revenues		255
Total Operating Revenues	<u>94,808,218</u>	<u>86,170,527</u>
Operating Expenses		
Refund of Member Contributions	6,097,824	6,828,855
Other Expenses	10,691	
Total Operating Expenses	<u>6,108,515</u>	<u>6,828,855</u>
Net Operating Income (Expense)	<u>88,699,703</u>	<u>79,341,672</u>
Reserve Transfers		
Transfer from Employer Reserves		
Inactive Accounts per KRS 161.470(5)(d)		39,289
Transfer from Benefit Reserves		
Disability Recoveries	6,668	42,135
Transfer from Unallocated Reserves		
Interest Credited to Member Accounts	20,704,132	18,447,716
Balance Member Reserves and Employer Reserves	5,754	2,228
Transfer to Benefit Reserves		
Retirements	(22,452,097)	(25,135,924)
Transfer to Survivor, Death, Medical Reserves		
Survivor Benefits	(679,256)	(472,167)
Transfer to Unallocated Reserves		
Inactive Accounts per KRS 161.470(5)(d)	(11,586)	
Total Reserve Transfers	<u>(2,426,385)</u>	<u>(7,076,723)</u>
Net Fund Balance Additions (Reductions)	<u>86,273,318</u>	<u>72,264,949</u>
Beginning Fund Balance	719,133,946	646,868,997
Ending Fund Balance	<u><u>\$805,407,264</u></u>	<u><u>\$719,133,946</u></u>

**Employer Reserves**  
**Schedule of Revenues, Expenses, and Changes in Fund Balances**  
**Years Ended June 30, 1987 and 1986**

	<u>Year Ended June 30, 1987</u>	<u>Year Ended June 30, 1986</u>
Operating Revenues		
SAF Penalties	\$ 217,020	\$ 158,477
State Contributions - Matching	91,460,315	82,975,870
State Contributions - University Personnel	1,933,878	1,834,782
Employer Paid Matching	4,952,413	4,783,732
Employer Sick Leave Payments	229,494	237,350
Other Revenues		230
Total Operating Revenues	<u>98,793,120</u>	<u>89,990,441</u>
Operating Expenses		
Other Expenses	<u>1,584</u>	<u>4,806</u>
Net Operating Income (Expense)	<u>98,791,536</u>	<u>89,985,635</u>
Reserve Transfers		
Transfer from Unallocated Reserves		
Match Interest Credited to Member Accounts	21,200,182	18,866,153
Reinstated Accounts	327,810	247,244
Transfer from Benefit Reserves		
Disability Recoveries	6,668	42,135
Transfer to Member Reserves		
Inactive Accounts per KRS 161.470(5)(d)		(39,289)
Transfer to Benefit Reserves		
Retirements	(23,512,944)	(25,805,898)
Transfer to Survivor, Death, Medical Reserves		
Survivor Benefits	(715,449)	(477,602)
Transfer to Unallocated Reserves		
Refund of Member Contributions	(6,674,412)	(7,387,812)
Inactive Accounts per KRS 161.470(5)(d)	(4,077,307)	
Total Reserve Transfers	<u>(13,445,452)</u>	<u>(14,555,069)</u>
Net Fund Balance Additions (Reductions)	<u>85,346,084</u>	<u>75,430,566</u>
Beginning Fund Balance	<u>741,449,946</u>	<u>666,019,380</u>
Ending Fund Balance	<u><u>\$826,796,030</u></u>	<u><u>\$741,449,946</u></u>



**Benefit Reserves**  
**Schedule of Revenues, Expenses, and Changes in Fund Balances**  
**Years Ended June 30, 1987 and 1986**

	<u>Year Ended June 30, 1987</u>	<u>Year Ended June 30, 1986</u>
Operating Revenues		
None		
Operating Expenses		
Benefits for Service Retirements	\$ 144,083,327	\$ 131,064,709
Benefits for Disability Retirements	7,473,805	6,755,615
Other Expenses	36,468	
Total Operating Expenses	<u>151,593,600</u>	<u>137,820,324</u>
Net Operating Income (Expense)	<u>(151,593,600)</u>	<u>(137,820,324)</u>
Reserve Transfers		
Transfer from Member Reserves		
Retirements	22,452,097	25,135,924
Transfer from Employer Reserves		
Retirements	23,512,944	25,805,898
Transfer from Unallocated Reserves		
Benefits Paid in Excess of Member Contributions		
and Employer Matching	107,943,797	96,321,525
Interest on Fund Balance	1,917,836	1,948,390
Transfer to Unallocated Reserves		
Refund of Member Contributions	(3,185,479)	(231,848)
Prior Year Reclassification		(12,308,687)
Transfer to Member Reserves		
Disability Recoveries	(6,668)	(42,135)
Transfer to Employer Reserves		
Disability Recoveries	(6,668)	(42,135)
Transfer to Survivor, Death, Medical Reserves		
Survivors of Disability Retirements	(217,182)	(304,126)
Total Reserve Transfers	<u>152,410,677</u>	<u>136,282,806</u>
Net Fund Balance Additions (Reductions)	<u>817,077</u>	<u>(1,537,518)</u>
Beginning Fund Balance	80,455,616	81,993,134
Ending Fund Balance	<u>\$ 81,272,693</u>	<u>\$ 80,455,616</u>

**Survivor, Death, Medical Reserves**  
**Schedule of Revenues, Expenses, and Changes in Fund Balances**  
**Years Ended June 30, 1987 and 1986**

	Year Ended June 30, 1987	Year Ended June 30, 1986
Operating Revenues		
Member Contributions	\$10,063,632	\$ 9,205,263
Insurance Premiums Paid by Members	1,703,220	3,632,679
State Contributions - Matching	9,545,193	6,022,003
Employer Paid Matching	517,916	499,707
Other Revenues	1,442	44
Total Operating Revenues	21,831,403	19,359,696
Operating Expenses		
Survivor Benefits	4,462,253	4,130,298
Death Benefits	1,287,603	1,254,353
Comprehensive Medical Insurance Premiums	17,559,850	14,515,566
Other Expenses	2,954	
Total Operating Expenses	23,312,660	19,900,217
Net Operating Income (Expense)	(1,481,257)	(540,521)
Reserve Transfers		
Transfer from Member Reserves		
Survivor Benefits	679,256	472,167
Transfer from Employer Reserves		
Survivor Benefits	715,449	477,602
Transfer from Benefit Reserves		
Survivors of Disability Retirements	217,182	304,126
Transfer from Unallocated Reserves		
Benefits Paid in Excess of Member Contributions		
and Employer Matching	3,463,174	3,218,825
Interest on Fund Balance	1,855,232	1,397,639
Unmatched Member Contributions		2,836,100
Balance Member Reserves and Employer Reserves	599	232
Transfer to Unallocated Reserves		
Refund of Member Contributions	(442,046)	(37,659)
Prior Year Reclassification		(251,198)
Total Reserve Transfers	6,488,846	8,417,834
Net Fund Balance Additions (Reductions)	5,007,589	7,877,313
Beginning Fund Balance	28,004,873	20,127,560
Ending Fund Balance	\$33,012,462	\$28,004,873

**403(b) Program Reserves**  
**Schedule of Revenues, Expenses, and Changes in Fund Balances**  
**Years Ended June 30, 1987 and 1986**

	<u>Year Ended June 30, 1987</u>	<u>Year Ended June 30, 1986</u>
Operating Revenues		
Voluntary Contributions by Members	\$1,026,643	\$ 837,870
Operating Expenses		
Benefits Increased by Voluntary Contributions	74,946	81,403
Benefits Continued after Voluntary Contributions Expired	43,058	40,548
Refund of Member Contributions	601,388	549,498
Total Operating Expenses	<u>719,392</u>	<u>671,449</u>
Net Operating Income (Expense)	<u>307,251</u>	<u>166,421</u>
Reserve Transfers		
Transfer from Unallocated Reserves		
Benefits Continued after Voluntary Contributions Expired	43,057	40,548
Interest Credited to Member Accounts	758,611	803,056
Transfer to Unallocated Reserves		
Penalty on Early Withdrawal	(1,342)	(956)
Total Reserve Transfers	<u>800,326</u>	<u>842,648</u>
Net Fund Balance Additions (Reductions)	<u>1,107,577</u>	<u>1,009,069</u>
Beginning Fund Balance	8,242,601	7,233,532
Ending Fund Balance	<u><u>\$9,350,178</u></u>	<u><u>\$8,242,601</u></u>

**Unallocated Reserves**  
**Schedule of Revenues, Expenses, and Changes in Fund Balances**  
**Years Ended June 30, 1987 and 1986**

	<u>Year Ended June 30, 1987</u>	<u>Year Ended June 30, 1986</u>
<b>Operating Revenues</b>		
Interest Earned on Investments	\$ 145,988,562	\$ 161,484,871
Dividend Income	22,935,418	15,780,518
Rental Income	2,082,068	2,093,136
Gain on Sale of Investments	94,776,484	151,309,814
Leased Security Income	344,712	420,360
Maintenance Reserve - Rental property	9,550	30,388
State Contributions - Sick Leave	2,444,613	2,037,928
State Contributions - Benefit Improvement	14,765,900	11,944,000
State Contributions - Overmatch	36,520,422	33,241,174
State Contributions - Handicapped Children	140,000	125,000
Escrow Late Remittance Penalty	27,840	11,762
Other Revenues	47,403	21,822
<b>Total Operating Revenues</b>	<u>320,082,972</u>	<u>378,500,773</u>
<b>Operating Expenses</b>		
Actuarial Services	\$30,000	\$12,000
Investment Counsel Fees	455,000	249,167
Investment Processing Fees	66,000	62,000
<b>Total Operating Expenses</b>	<u>551,000</u>	<u>323,167</u>
<b>Net Operating Income (Expense)</b>	<u>319,531,972</u>	<u>378,177,606</u>
<b>Reserve Transfers</b>		
Transfer from Various Funds		
Prior Year Reclassification		12,559,885
Refund of Member Contributions	10,301,937	7,657,319
Inactive Accounts per KRS 161.470(5)(d)	4,088,893	
Transfer from 403(b) Program Reserves		
Penalty on Early Withdrawal	1,342	956
Transfer to Various Funds		
Benefits Paid in Excess of Member Contributions and Employer Matching	(111,450,028)	(99,580,898)
Interest	(46,435,993)	(41,462,954)
Balance Member Reserves and Employer Reserves	(6,353)	(2,460)
Transfer to Employer Reserves		
Reinstated Accounts	(327,810)	(247,244)
Transfer to Survivor, Death, Medical Reserves		
Unmatched Member Contributions		(2,836,100)
Transfer to Administrative Expense Reserves		
Allotment	(1,921,049)	(1,581,562)
Increase Petty Cash		(3,000)
<b>Total Reserve Transfers</b>	<u>(145,749,061)</u>	<u>(125,496,058)</u>
<b>Net Fund Balance Additions (Reductions)</b>	<u>173,782,911</u>	<u>252,681,548</u>
<b>Beginning Fund Balance</b>	666,828,029	414,146,481
<b>Ending Fund Balance</b>	<u><u>\$840,610,940</u></u>	<u><u>\$666,828,029</u></u>

**Administrative Expense Reserves**  
**Schedule of Revenues, Expenses, and Changes in Fund Balances**  
**Years Ended June 30, 1987 and 1986**

	<u>Year Ended June 30, 1987</u>	<u>Year Ended June 30, 1986</u>
Operating Revenues		
None		
Operating Expenses		
Salaries, Wages, and Fringe Benefits	\$ 1,179,360	\$ 1,070,485
Other Personnel Costs	5,495	7,561
Professional Contracts	43,994	63,189
Interest	10,839	
Utilities and Heating Fuels	18,029	17,779
Rentals	60,806	61,043
Maintenance and Repairs	34,968	21,960
Postage and Related Services	94,723	107,842
Printing	64,019	42,518
Insurance	71,127	53,029
Miscellaneous Services	265	457
Telecommunications	18,437	19,095
Computer Services	51,633	40,956
Supplies	42,559	19,588
Depreciation	65,278	31,690
Travel	31,255	20,338
Miscellaneous Commodities	19,990	10,480
Furniture, Fixtures, and Equipment Not Capitalized	63,458	1,620
Total Operating Expenses	<u>1,876,235</u>	<u>1,589,630</u>
Net Operating Income (Expense)	<u>(1,876,235)</u>	<u>(1,589,630)</u>
Reserve Transfers		
Transfer from Unallocated Reserves		
Allotment	1,921,049	1,581,562
Increase Petty Cash		3,000
Total Reserve Transfers	<u>1,921,049</u>	<u>1,584,562</u>
Net Fund Balance Additions (Reductions)	<u>44,814</u>	<u>(5,068)</u>
Beginning Fund Balance	144,325	149,393
Ending Fund Balance	<u>\$ 189,139</u>	<u>\$ 144,325</u>

	<b>ACTUARIAL SECTION</b>
	<b>Kentucky Teachers' Retirement System</b>

## Actuary's Certification Letter

### BUCK CONSULTANTS

200 Galleria Parkway, N. W. Suite 1060  
Atlanta, Georgia 30339 404 | 955-2488

May 4, 1987

Board of Trustees  
Teachers' Retirement System of the  
State of Kentucky  
216 West Main Street  
Frankfort, Kentucky 40601

Ladies and Gentlemen:

Section 161.400 of the law governing the operation of the Teachers' Retirement System of the State of Kentucky Provides that at least once in each two-year period the actuary shall make an actuarial valuation of the System. We are pleased to submit the results of the actuarial valuation prepared as of June 30, 1986.

The valuation indicates that combined member and State contributions at the rate of 18.15% of university members' salaries and of 21.11% of non-university members' salaries are just sufficient to support the benefits of the System. Additional contributions will be required for other benefits.

The Table of Contents, which immediately follows, outlines the material contained in this report.

Respectfully submitted,

(Signed) DONALD M. OVERHOLSER

Donald M. Overholser  
Consulting Actuary

## Report of Actuary on the Valuation Prepared as of June 30, 1986

### SECTION I - SUMMARY OF PRINCIPAL RESULTS

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

Valuation Date	June 30, 1986		June 30, 1984	
Number of active members	44,375		42,846	
Annual salaries	\$1,003,886		\$ 910,394	
Number of annuitants and beneficiaries	18,330		16,856	
Annual allowances	\$ 144,233		\$ 122,359	
Assets for valuation purposes	\$2,214,226		\$1,569,089	
Unfunded actuarial accrued liability	\$1,141,960		\$1,338,709	
Statutory contribution rates:	Univ.	Non-Univ.	Univ.	Non-Univ.
Member	7.45%	8.93%	7.45%	8.93%
State matching	7.45	8.93	7.45	8.93
State overmatch	3.25	3.25	3.25	3.25
Total	18.15%	21.11%	18.15%	21.11%
Actuarially determined contribution rates:				
Normal	12.69%	15.46%	12.54%	15.12%
Accrued liability (balancing item)	5.46	5.65	5.61	5.99
Total	18.15%	21.11%	18.15%	21.11%
Accrued liability funding period	28 years		36 years	

2. The valuation indicates that combined member and State contributions at the current rate of 18.15% of salaries for university members and at 21.11% for non-university members are just sufficient to support the benefits of the System. Comments on the valuation results as of June 30, 1986 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.
3. Schedule C of this report outlines the full set of actuarial assumptions and methods employed in the current valuation.
4. The valuation takes into account the effect of amendments to the System enacted through the 1986 Session of the Legislature and effective on the valuation date. The annual 1% increases for retired members and beneficiaries have been reflected. Provisions of the System which were taken into account in the current valuation are summarized in Schedule D (not shown in this annual report).

### SECTION II - MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuations were furnished by the Retirement System office. The following table shows the number of active members and their annual salaries as of June 30, 1986 on the basis of which the valuation was prepared.



GROUP	NUMBER	ANNUAL SALARIES (\$1,000's)
Men	14,135	\$ 366,927
Women	30,240	636,959
Total	44,375	\$1,003,886

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

2. The following table shows the number and annual retirement allowances payable to annuitants and beneficiaries on the roll of the Retirement System as of the valuation date. The allowance amounts do not include any post-retirement supplements granted after June 30, 1986.

GROUP	NUMBER	ANNUAL SALARIES (\$1,000's)
Service Retirements	15,975	\$130,042
Disability Retirements	1,052	8,078
Beneficiaries of Deceased Members	1,082	5,192
Total	18,109	\$143,312

In addition, there are 221 beneficiaries entitled to term-certain only annuities totaling \$920,811 annually.

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

### SECTION III - ASSETS

1. The retirement law provides for the maintenance of seven funds for the purpose of recording the financial transactions of the system, namely, the Teachers' Savings Fund, the State Accumulation Fund, the Allowance Reserve Fund, the Guarantee Fund, the Survivor, Death and Medical Insurance Fund, the Expense Fund, and the Voluntary Contribution Fund.

(a) Teachers' Savings Fund

The Teachers' Savings Fund is the fund to which are credited all contributions made by members together with regular interest thereon. When a member retires by reason of service or disability, the amount of the member's accumulated contributions are transferred from the Teachers' Savings Fund to the Allowance Reserve Fund. If a survivor's benefit becomes payable, the member's accumulated contributions are transferred from the Teachers' Savings Fund to the Survivor, Death and Medical Insurance Fund. Refunds of accumulated member contributions upon withdrawal or death are also made from this fund. The assets credited to the Teachers' Savings Fund on June 30, 1986 amounted to \$719,133,946.

(b) State Accumulation Fund

The State Accumulation Fund consists of funds appropriated by the State for the purpose of providing annuities. When a member retires by reason of service or disability, the amount, which together with the amount transferred from the Teachers' Savings Fund will provide the member's annuity, is

transferred from the State Accumulation Fund to the Allowance Reserve Fund. Transfers are also made from this Fund to the Survivor, Death and Medical Insurance Fund when the death of a member results in an obligation on that Fund. The assets credited to the State Accumulation Fund on June 30, 1986 amounted to \$741,449,946.

(c) Allowance Reserve Fund

The Allowance Reserve Fund is the Fund from which all retirement allowances are paid. When a member retires, his accumulated contributions are transferred from the Teachers' Savings Fund to the Allowance Reserve Fund. The balance of the amount necessary to provide the allowance is transferred from the State Accumulation Fund to the Allowance Reserve Fund. Transfers are also made from this Fund to the Survivor, Death and Medical Insurance Fund when the death of a member results in an obligation on that Fund. The assets credited to the Allowance Reserve Fund as of June 30, 1986 amounted to \$80,455,616.

(d) Guarantee Fund

The Guarantee Fund is the Fund to which all investment earnings are credited and from which interest is paid to the other Funds as allowed by the Board of Trustees. The Guarantee Fund also serves to meet special requirements of the other Funds. On June 30, 1986 the assets credited to this Fund amounted to \$665,981,314.

(e) Survivor, Death and Medical Insurance Fund

Death and medical benefits are payable from this Fund, which is supported by the joint contributions of members and the State. Amounts held for a member in the Teachers' Savings Fund, State Accumulation Fund and Allowance Reserve Fund are transferred to the Survivor, Death and Medical Insurance Fund when the death of a member results in an obligation on the Fund. The assets credited to this Fund as of June 30, 1986 amounted to \$28,821,200. On the basis of past experience, it is assumed that 25 per cent of this amount, or \$7,205,300 is on account of survivor and death benefits and applicable for valuation purposes.

(f) Expense Fund

The assets credited to this Fund as of June 30, 1986 amounted to \$144,325. This amount was not included in the assets used for valuation purposes.

(g) Voluntary Contribution Fund

The assets credited to this Fund as of June 30, 1986 amounted to \$8,242,601. This amount was not included in the assets used for valuation purposes.

2. As of June 30, 1986 the total assets held by the System amounted to \$2,244,228,948. Of this amount, \$2,214,226,122 was used for valuation purposes, as shown in the following table.

ASSETS AS OF JUNE 30, 1986

FUND	ASSETS FOR VALUATION PURPOSES	OTHER ASSETS	TOTAL ASSETS
Teachers' Savings	\$ 719,133,946		\$ 719,133,946
State Accumulation	741,449,946		741,449,946
Allowance Reserve	80,455,616		80,455,616
Guarantee	665,981,314		665,981,314
Survivor, Death and Medical Insurance	7,205,300	\$21,615,900	28,821,200
Expense		144,325	144,325
Voluntary Member Contribution		8,242,601	8,242,601
Total	\$2,214,226,122	\$30,002,826	\$2,244,228,948

3. Schedule B shows the receipts and disbursements of the System for the year preceding the valuation date and a reconciliation of the asset balances.

## SECTION IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation (amounts are \$1,000's). The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method which are described in Schedule C.
2. The valuation shows that the System has an actuarial accrued liability of \$2,036,041 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of benefits payable to annuitants and beneficiaries amounts to \$1,277,913 after adjustment for special appropriations remaining to be made toward funding the 1980 and 1982 ad hoc increases, and the liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is \$42,232. The total actuarial accrued liability of the System amounts to \$3,356,186. Against these liabilities, the System has present assets for valuation purposes of \$2,214,226. When this amount is deducted from the actuarial accrued liability of \$3,356,186, there remains \$1,141,960 as the unfunded actuarial accrued liability.
3. The normal contribution rate is equal to the actuarial present value of benefits accruing during the current year divided by the annual active members' payroll. The normal contribution rate is determined to be 12.69% of payroll for university members and 15.46% for non-university members.

## SECTION V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

1. Section 161.540 of the retirement law provides that each university member will contribute 8.12% of his annual salary to the System and each non-university member will contribute 9.60% of salary. Of this amount, 0.67% is paid to the Survivor, Death and Medical Insurance Fund for medical benefits leaving 7.45% for university members and 8.93% for non-university members applicable for the retirement and death benefits taken into account in the valuation.
2. Section 161.550 provides that the State will match the member contributions and contribute an overmatch of 3.25% of members' salaries.
3. The total net statutory contribution rate is 18.15% of active university members' salaries and 21.11% for active non-university members.

### NET STATUTORY CONTRIBUTION RATES

SOURCE	UNIVERSITY	NON-UNIVERSITY
Member	7.45%	8.93%
State matching	7.45	8.93
State overmatch	3.25	3.25
Total	18.15%	21.11%

4. The valuation indicates that normal contributions at the rate of 12.69% of active university members' salaries are required to meet the cost of benefits currently accruing. The rate for non-university members is 15.46%. The difference between the total contribution rate and the normal rate remains to be applied toward the liquidation of the unfunded actuarial accrued liability. This accrued liability rate is 5.46% for university members and 5.65% for non-university members. These rates are shown in the following table.

### ACTUARIALLY DETERMINED CONTRIBUTION RATES

RATE	PERCENTAGE OF ACTIVE MEMBERS' SALARIES	
	UNIVERSITY	NON-UNIVERSITY
Normal Accrued liability (balancing)	12.69%	15.46%
	5.46	5.65
Total	18.15%	21.11%

5. The unfunded actuarial accrued liability amounts to \$1,141,960,000 as of the valuation date. Accrued liability contributions at the rate of 5.46% of active university members' payroll and 5.65% for non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over the 28 year period commencing June 30, 1986, based on the assumption that the payroll will increase by 5% annually.

## SECTION VI - COMMENTS ON LEVEL OF FUNDING

1. The benefit percentage for non-university members is 2% for service accrued through January 1, 1984 and 2½ % for service accrued after that date. The total net contribution rate is 21.11% of payroll for these members. For university members the benefit percentage is 2% for all service and the contribution rate is 18.15%. Our calculations indicate that these contribution rates will be sufficient to cover the basic benefits of the System and the annual 1% increases in the allowances of retired members and beneficiaries. Special appropriations are being made toward the ad hoc increases granted in 1980 and 1982.
2. The valuation indicates that the present statutory contribution rates are sufficient to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a reasonable period of time. The effect of the System experience, particularly the favorable return on assets, has produced an decrease in the funding period for the unfunded actuarial accrued liability from 36 to 28 years.
3. A useful indicator of the funded status of a retirement System is the relation between the assets and the sum of active and inactive member contributions and the reserves required for present annuitants and beneficiaries. This so-called quick liability comparison under the System is shown in the following table.

### QUICK LIABILITY COMPARISON

	June 30, 1986	June 30, 1984
Active and inactive member accumulated contributions	\$ 719,133,946	\$ 580,793,842
Reserves for present annuitants and beneficiaries	1,277,912,551	1,062,190,340
(A) Total	\$1,997,046,497	\$1,642,984,182
(B) Total assets for valuation purposes	\$2,214,226,122	\$1,569,088,832
Ratio = (B) divided by (A)	110.88%	95.50%

It is considered desirable for this indicator to be at least 100%.

4. Although the valuation shows that the System is operating on an actuarially sound basis, there are no excess assets or contributions available to provide additional benefits. Any further benefit improvements, including the ad hoc increases previously noted, should be accompanied by the additional contributions necessary to support the benefits.

## SCHEDULE A

### RESULTS OF THE VALUATION PREPARED AS OF JUNE 30, 1986 (\$1,000's)

#### 1. ACTUARIAL ACCRUED LIABILITY

Present value of prospective benefits

(a) Present active members:

- Service retirement benefits	\$1,781,586	
- Disability retirement benefits	115,809	
- Death and survivor benefits	61,118	
- Refunds of member contributions	77,528	
Total		\$2,036,041

(b) Present inactive members and members entitled to deferred vested benefits:

42,232

(c) Present annuitants and beneficiaries:

- Service retirement benefits	\$1,151,093	
- Disability retirement benefits	58,614	
- Death and survivor benefits	68,206	
Total		1,277,913

(d) Total actuarial accrued liability

\$3,356,186

#### 2. PRESENT ASSETS FOR VALUATION PURPOSES

2,214,226

#### 3. UNFUNDED ACTUARIAL ACCRUED LIABILITY [(1) minus (2)]

\$1,141,960

#### 4. NORMAL CONTRIBUTION RATE

	<u>UNIVERSITY</u>	<u>NON- UNIVERSITY</u>
(a) Actuarial present value of benefits accruing annually	\$10,280	\$142,603
(b) Annual payroll of active members under age 70	81,002	922,497
(c) Normal contribution rate [4(a) divided by 4(b)]	12.69%	15.46%

## SCHEDULE B

### SUMMARY OF RECEIPTS AND DISBURSEMENTS

	For the Year Ending	
	<u>June 30, 1986</u>	<u>June 30, 1985</u>
<u>Receipts for the Year</u>		
Contributions:		
Members	\$ 99,846,084	\$ 93,995,377
Employers	143,860,023	136,585,483
Total	<u>\$ 243,706,107</u>	<u>\$ 230,580,860</u>
Net Investment Income	331,088,699	180,437,165
Miscellaneous, including expense appropriations	34,113	24,970
<b>TOTAL</b>	<u>\$ 574,828,919</u>	<u>\$ 411,042,995</u>
<u>Disbursements for the Year</u>		
Benefit Payments	\$ 143,326,926	\$ 132,975,604
Refunds to Members	7,378,353	6,702,136
Medical Insurance Premium	14,515,566	12,378,427
Miscellaneous, including expenses	1,917,603	1,706,396
<b>TOTAL</b>	<u>\$ 167,138,448</u>	<u>\$ 153,762,563</u>
<u>Excess of Receipts Over Disbursements</u>	<u>\$ 407,690,471</u>	<u>\$ 257,280,432</u>
<u>Reconciliation of Asset Balances</u>		
Asset Balance as of the Beginning of the Year	\$1,836,538,477	\$1,579,258,045*
Excess of Receipts Over Disbursements	407,690,471	257,280,432
<b>Asset Balances as of the End of the Year</b>	<u><u>\$2,244,228,948</u></u>	<u><u>\$1,836,538,477</u></u>

\*Due to a revision, the June 30, 1985 Asset Balance as of the beginning of the year increased \$72,050 from the prior year.

## SCHEDULE C

### OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

**INTEREST RATE:** 7.5% per annum, compounded annually.

**SALARY INCREASES:** Representative values of the assumed annual rates of future salary increases are as follows:

<u>Age</u>	<u>Annual Rate</u>
20	9.30%
25	8.40
30	7.40
35	6.70
40	6.20
45	5.90
50	5.70
55	5.50
60	5.40
65	5.20

**SEPARATIONS FROM SERVICE:** Representative values of the assumed annual rates of death, disability, withdrawal and service retirement are as follows:

<u>Age</u>	<u>Men</u> Annual Rate of				
	<u>Death</u>	<u>Disability</u>	<u>Withdrawal</u>	<u>Service Retirement*</u>	<u>Early Retirement</u>
20	.008%	.01%	9.00%		
25	.023	.01	8.00		
30	.038	.01	6.75		
35	.076	.05	5.50		
40	.113	.07	4.25		
45	.151	.10	3.20		
50	.249	.29	2.30		
55	.514	1.20		9.30%	2.00%
60	.892	.05		12.00	
62	1.043	.03		16.50	
65	1.346			47.30	
70				100.00	

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

<u>Age</u>	<u>Women</u> Annual Rate of				
	<u>Death</u>	<u>Disability</u>	<u>Withdrawal</u>	<u>Service Retirement*</u>	<u>Early Retirement</u>
20	.007%	.01%	8.50%		
25	.014	.01	8.00		
30	.036	.01	7.40		
35	.058	.04	6.40		
40	.094	.09	4.60		
45	.109	.18	2.80		
50	.130	.29	1.80		
55	.167	.60		9.20%	2.50%
60	.239	.25		15.00	
62	.268	.06		20.00	
65	.312			51.00	
70				100.00	

\*It is also assumed that an additional 25% of women will retire in their first year of eligibility if before age 60.

**DEATHS AFTER RETIREMENT:** Representative values of the assumed annual rates of death after service and disability retirement are as follows:

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

**ACTUARIAL METHOD:** Unit Credit Actuarial Cost Method with projected benefits.

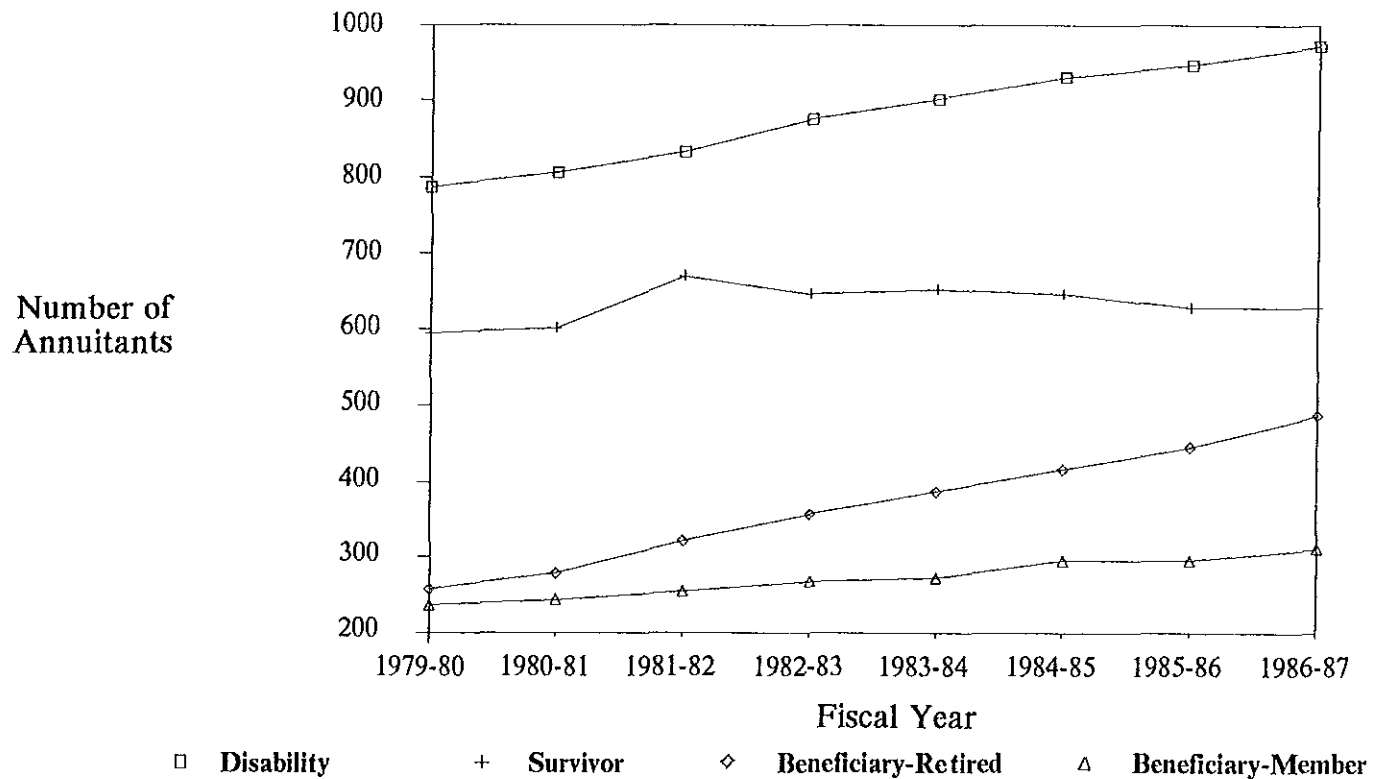
**ASSETS:** Book value, as reported by the System.



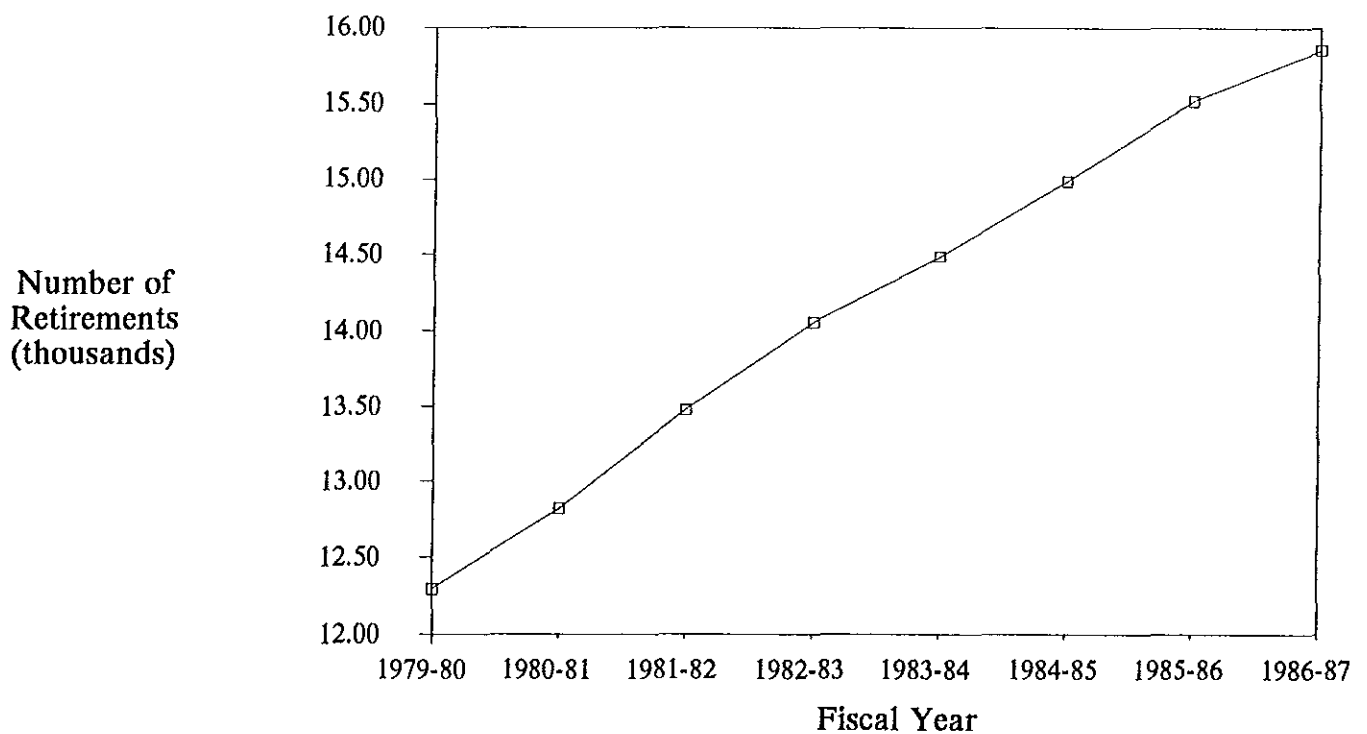
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	<b>STATISTICAL SECTION</b>
	<b>Kentucky Teachers' Retirement System</b>

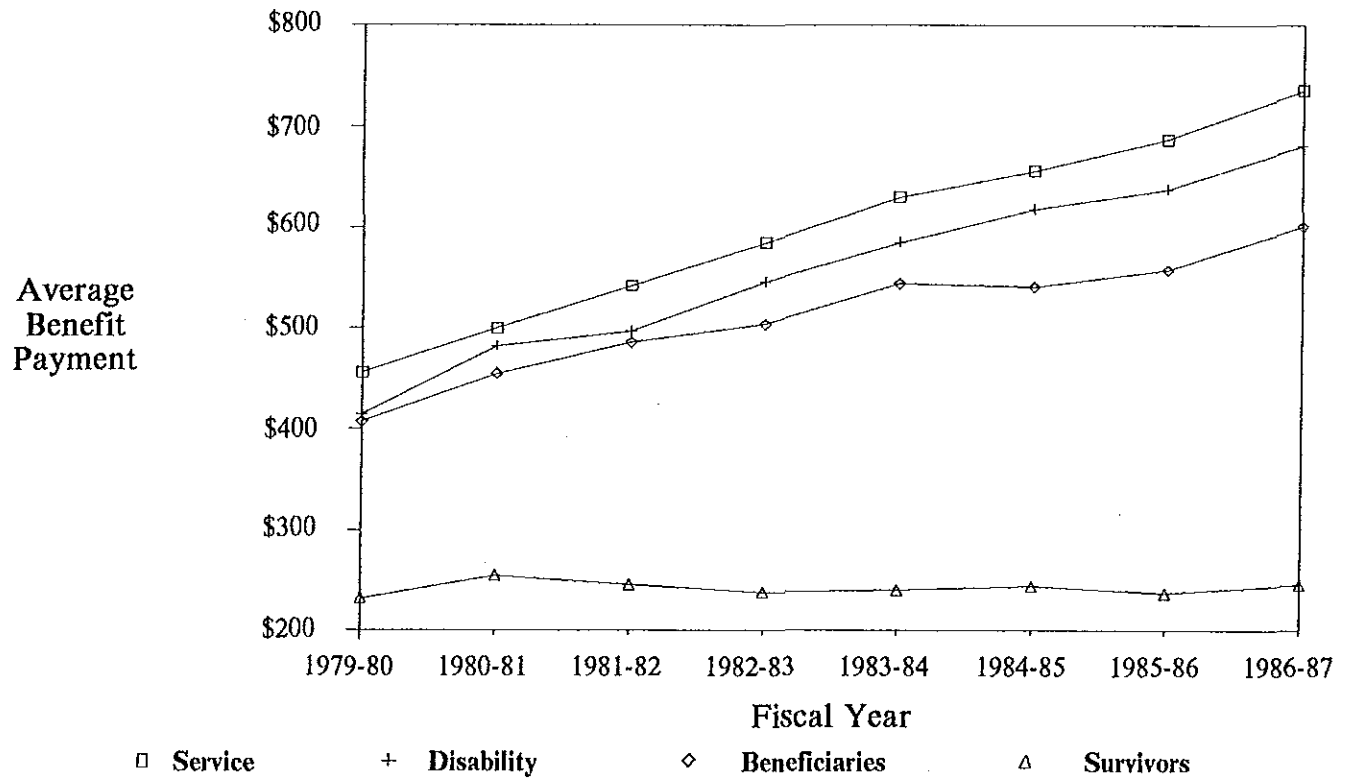
### Growth In Annuitants (except service retirements)



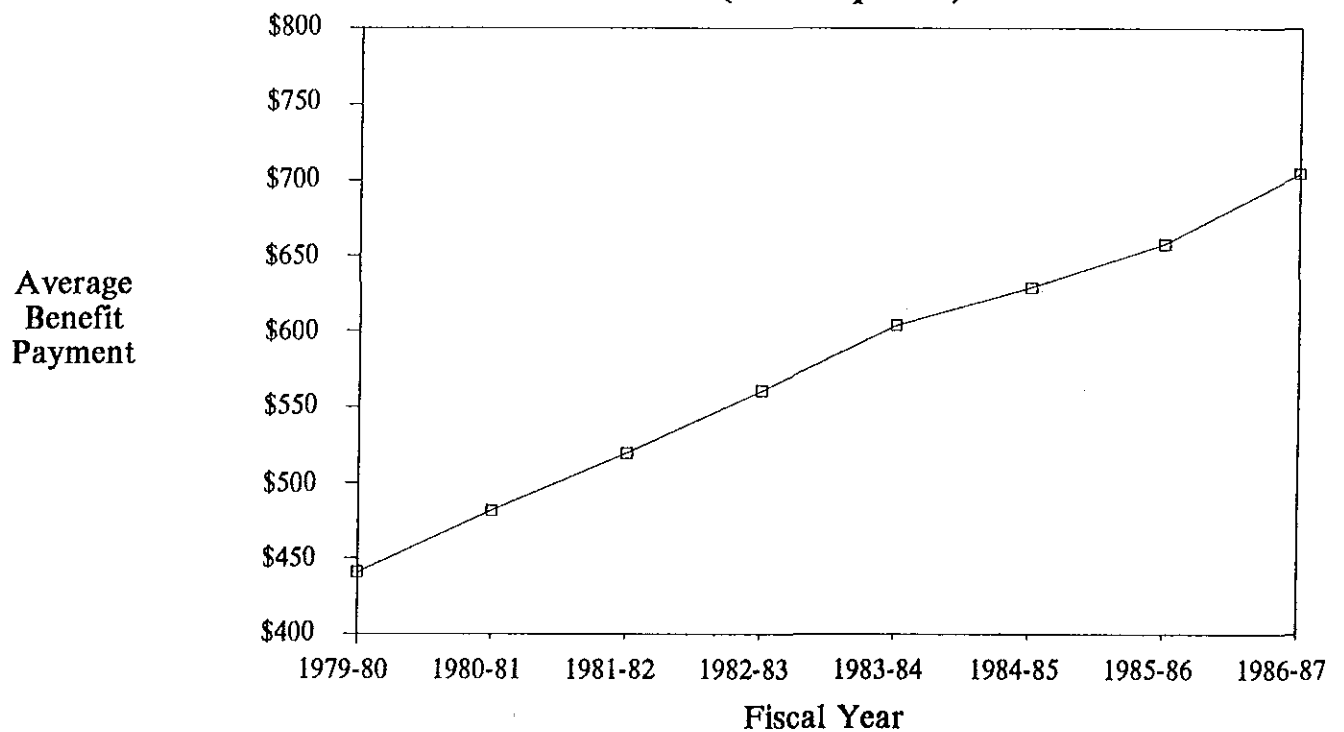
### Growth In Service Retirements



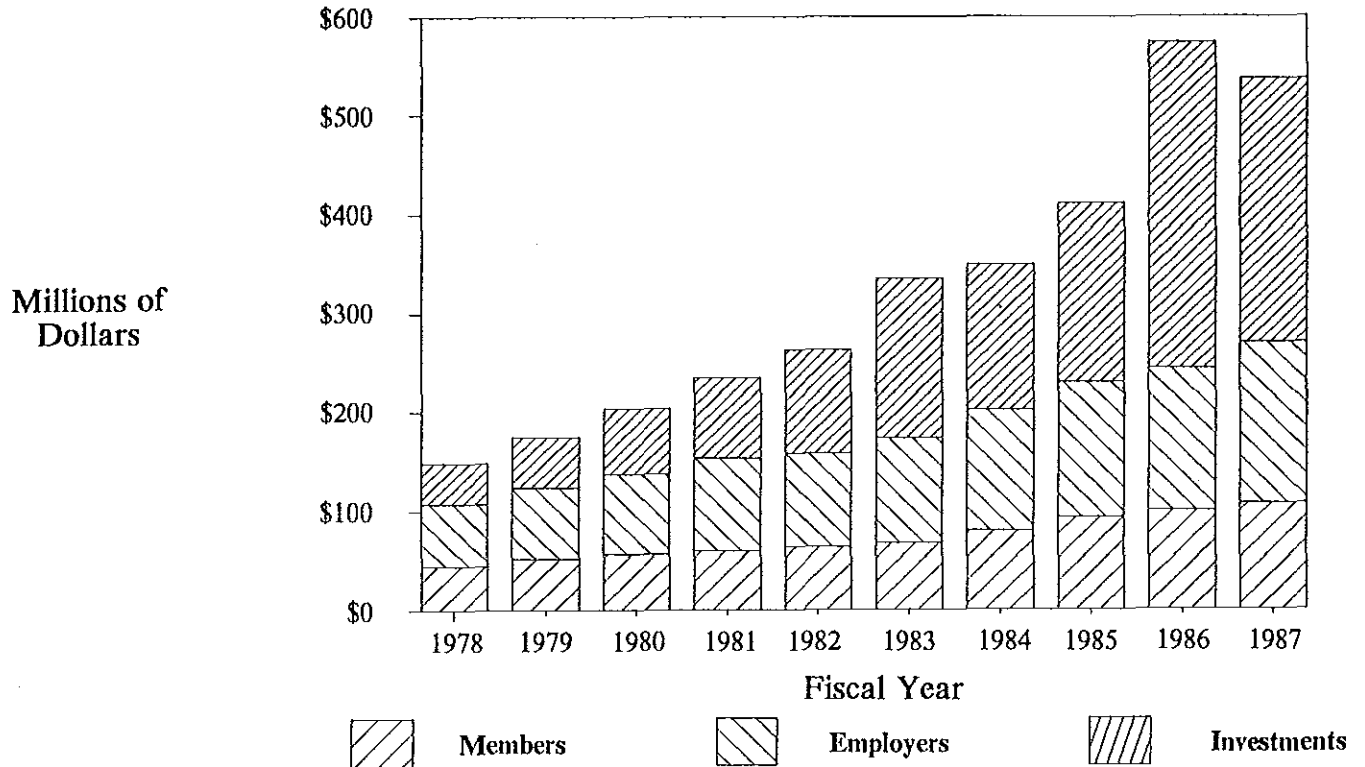
## Average Benefit Payments



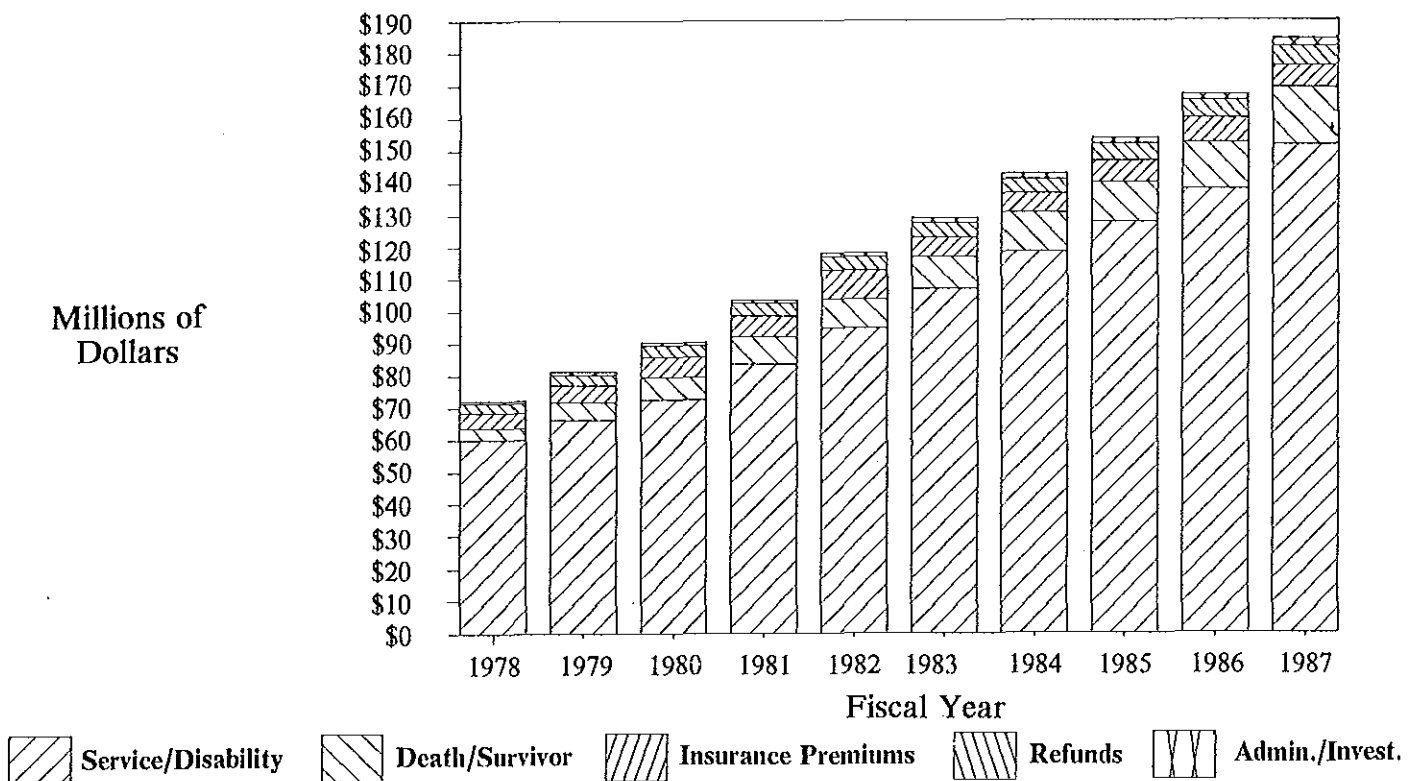
## Average Benefit Payments (all recipients)



### Summary of Revenue by Source (last ten years)



### Summary of Expenses by Type (last ten years)



## FISCAL YEAR 1986-1987



## FISCAL YEAR 1986-1987



## Summary of State Budget Appropriation to Teachers' Retirement System for 1986 - 1987

Expense Item	1986-87 State Budget Appropriation	1986-87 State Actual Budget Requirement
Match of Member Contributions	\$101,616,133	\$106,401,643
Overmatch	34,838,828	36,494,008
Federal Payments	(5,595,045)	(5,369,721)
Higher Education Contribution Reduction	1,934,240	1,933,878
Sick Leave (KRS 161.550)	3,300,000	2,444,613
Retiree Cost of Living Adjustment	13,777,737	13,777,737
Prior Service Increase	640,000	640,000
\$75 Minimum Benefit	25,000	25,000
Handicapped Child Benefit	140,000	140,000
Minimum Benefit Adjustment	323,163	323,163
<b>TOTALS</b>	<b>\$151,000,056</b>	<b>\$156,810,321</b>
State Underappropriation for 1986-87	<b>\$5,810,265</b>	

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 State Funding	Running Total (Deficit) Surplus
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)
1986-87	108,335,520.70	5,369,721.33	102,965,799.37	36,494,008.27	132,794,156.00	(6,665,651.64)	(8,757,209.86)

The state underappropriation at June 30, 1987 is \$7,901,823.22. The state funding deficit of \$8,757,209.86 was reduced by the 1986-87 surplus in sick leave liability appropriation of \$855,386.64. The state underappropriation of \$7,901,823.22 includes the state funding deficit remaining in 1985-86 of \$2,091,558.22. 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, 1987 RETIREE SICK LEAVE PAYMENTS

Total members retiring .....	908
Total members receiving sick leave payments .....	410
Total amount of sick leave payments (at 9.6% contribution rate) .....	\$1,594,069.39
Average payment per retiree .....	\$3,887.97
Total increase in final average salary base (FASB) .....	\$318,813.88
Average increase in FASB .....	\$777.59
Total service credit of 410 retirees .....	12,159.11
Average service credit of 410 retirees .....	29.66

<u>Average Yearly Increase</u>		<u>Service Credit</u>		<u>Retirement Factor</u>		<u>Average Yearly Annuity</u>
\$777.59	X	25.66	X	2%	=	\$399.06
\$777.59	X	1.00	X	2.25%	=	\$17.50
\$777.59	X	3.00	X	2.50%	=	\$58.32
Average yearly annuity .....						\$474.88
Average monthly annuity ( $\$474.88 \div 12$ ) .....						\$39.57
<u>Average Monthly Annuity</u>		<u>Present Value Factor Based on Average Age of 59</u>				<u>Number of Members with Sick Leave Payments</u>
\$39.57	X	172.74		X		410
Anticipated lifetime payout of additional annuity .....						<u>\$2,802,481.94</u>

### Funding of Additional Payout

Member Contributions	9.60% X \$1,594,069.39 =	\$153,030.66
State Contributions	12.85% X \$1,594,069.39 =	204,837.92
Total Member-State Contributions		\$357,868.58

### Surplus

Anticipated additional payout	\$2,802,481.94
Less total Member and State contributions	357,868.58
Subtotal unfunded debt	\$2,444,613.36
Less current year appropriation	3,300,000.00
Total Surplus	\$ 855,386.64 (1)

(1) This amount has been applied against the 1986-87 shortfall.

## School Districts That Have Elected to Pay for Sick Leave Under KRS 161.155(5) Fiscal Year 1987

<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	1	\$ 190.21	Lyon	3	7,755.84
Allen	1	1,795.10	Madison	2	9,195.42
Anderson	1	6,147.40	Magoffin	4	5,896.04
Barren	4	11,695.84	Marshall	1	6,246.25
Bath	1	1,941.04	Mason	3	10,810.94
Bell	2	4,125.21	McCracken	1	14,005.00
Boone	10	59,652.29	Mead	1	5,972.60
Boyd	1	2,430.10	Mercer	1	1,780.10
Boyle	1	5,643.02	Metcalf	3	9,907.09
Bracken	2	8,394.06	Montgomery	4	14,619.17
Breckinridge	1	4,665.00	Morgan	1	4,076.98
Bullitt	8	24,903.54	Muhlenberg	2	10,724.59
Butler	1	3,594.27	Nelson	5	18,846.46
Calloway	1	5,177.19	Ohio	2	10,161.15
Campbell	4	24,270.20	Oldham	3	9,453.23
Carroll	2	2,276.66	Owen	2	7,974.06
Casey	1	2,850.94	Pendleton	2	3,299.06
Christian	4	16,050.51	Perry	4	12,920.84
Clark	5	21,728.11	Pike	15	46,463.86
Clay	6	23,945.62	Pulaski	4	8,721.98
Cumberland	2	12,218.02	Rockcastle	5	11,251.15
Daviess	4	19,980.73	Russell	1	1,504.17
Edmonson	1	217.50	Scott	2	4,114.17
Elliott	4	22,292.92	Shelby	2	6,781.36
Estill	3	12,539.38	Simpson	1	36.46
Fayette	30	195,308.35	Spencer	1	3,944.79
Fleming	3	2,775.53	Taylor	2	6,766.88
Floyd	5	13,813.96	Todd	1	4,193.02
Franklin	6	11,009.69	Union	2	9,397.09
Garrard	1	3,914.38	Warren	4	6,164.16
Grant	1	3,980.00	Wayne	6	42,960.83
Grayson	4	18,745.00	Webster	1	4,415.31
Green	1	5,691.25	Whitley	4	3,741.67
Greenup	6	14,668.96	Wolfe	1	4,543.96
Hardin	7	25,453.13	Woodford	1	3,892.92
Harlan	7	21,628.66	Anchorage	1	4,707.71
Harrison	5	14,031.78	Ashland	7	32,535.93
Henderson	6	21,543.44	Barbourville	1	3,423.23
Henry	1	1,050.00	Bowling Green	2	5,190.31
Hopkins	10	38,094.69	Campbellsville	1	2,113.44
Jackson	1	32.60	Caverna	2	7,205.41
Jefferson	66	251,637.65	Corbin	1	5,429.79
Jessamine	2	5,313.33	Covington	5	29,156.36
Johnson	1	1,891.88	Danville	2	9,610.21
Kenton	8	29,673.44	Elizabethtown	3	11,064.06
Knott	1	391.46	Erlanger	2	6,930.31
Knox	2	9,883.96	Fairview	1	3,917.19
Laurel	5	14,036.56	Glasgow	1	2,943.33
Leslie	1	1,413.54	Hazard	1	2,528.02
Letcher	4	5,484.58	Maysville	1	5,939.38
Lewis	2	9,466.56	Owensboro	2	11,129.17
Lincoln	3	9,565.10	Paducah	1	108.02
Livingston	2	3,893.43	Paris	2	6,101.57
Logan	1	4,795.10	Providence	1	3,701.77

<u>School District</u>	<u>Number of Members</u>	<u>Total Additional Compensation</u>
Richmond	1	\$ 5,880.63
Russell	2	18,400.83
Russellville	1	5,897.81
Somerset	4	16,263.96
Walton Verona	2	17,693.23
Williamsburg	3	5,746.25
Total	410	\$1,594,069.39

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	<b>INVESTMENT SECTION</b>
	<b>Kentucky Teachers' Retirement System</b>

## 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 1986-87 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 \$250 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 2.5 billion dollar fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 1986-87 as the Custodian of Securities.

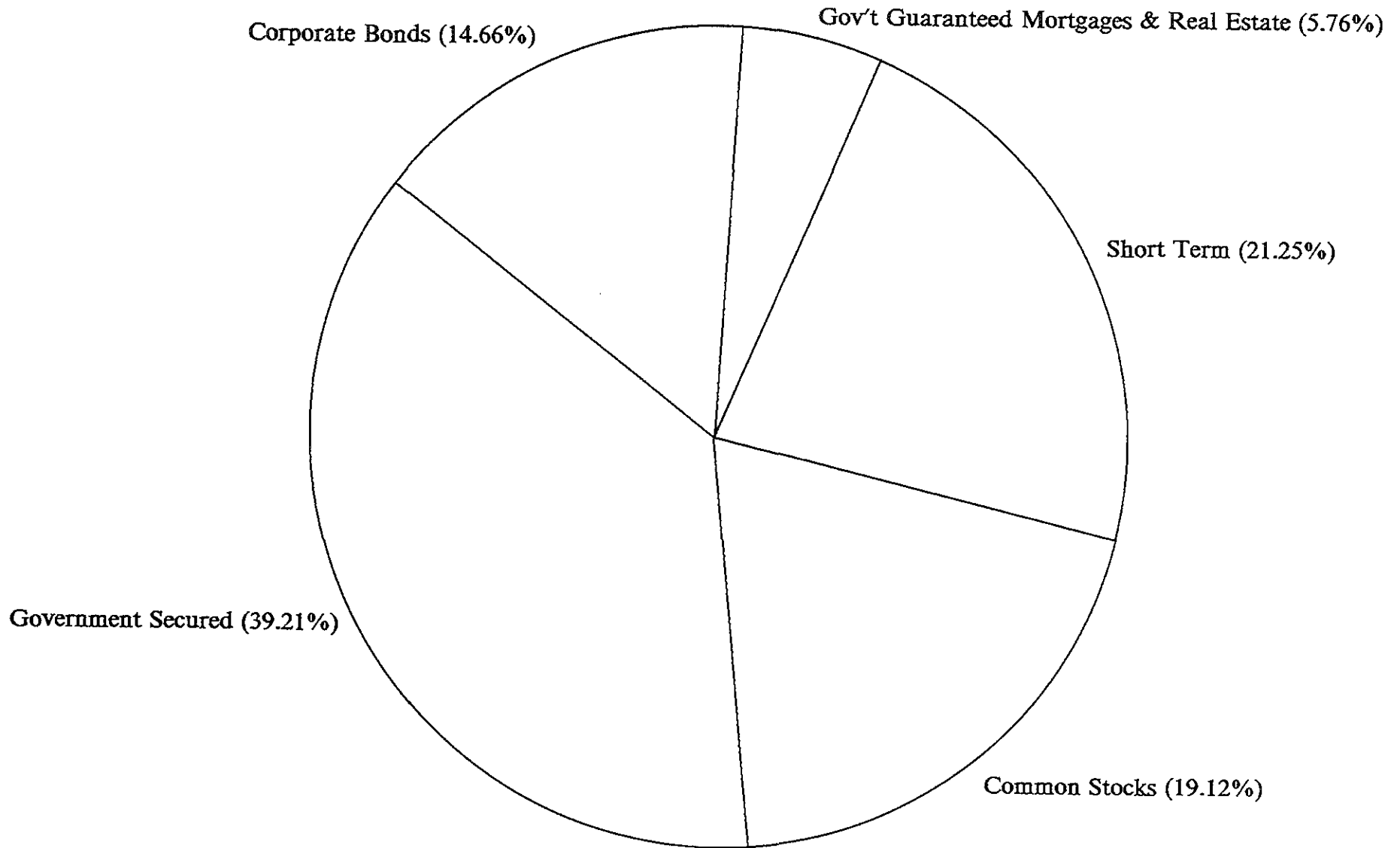
The investment portfolio experienced considerable growth in both par and book value during the year. The par value of the portfolio increased \$421 million, or 17.4%, to a total of \$2.8 billion at year-end. The book value of the Fund correspondingly increased 16.6% during the year. However, investment income (dividends, interest, gains, and rental income) declined by more than 20% from the previous year to a total of greater than \$260 million in 1986-87. This decline was due to a general weakening of the securities markets from the prior year when the System realized a record level of income. Also, interest rates, generally, were lower during the 1986-87 fiscal year than the preceding year. A continuing source of growth to the portfolio is higher teachers' salaries and the corresponding effect this has on retirement contributions. The value of the portfolio was positively affected by appreciations in bond and stock securities during 1986-87. At the year-end, the "net indicated yield" on fixed income investments was 7.14%. The "indicated dividend yield" on common stocks was 3.91%.

The asset allocation of investments was similar at the beginning of the fiscal year to what it was on June 30, 1987. During the 1986-87 fiscal year, the most significant change was in the cash position which increased from 10.9% of assets to 21.3%. This increase was due to the investment counselors reluctance to make investments in a peaking stock rally and weakening bond market. The portion of the portfolio in government funds decreased from 45.3% to 39.2%. The stock position decreased during the year by going from 23.8% to 19.1% of assets.

During the last five 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 approximately 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, 1987. The pages thereafter provide a detailed listing of all investments held at June 30, 1987.

**Distribution of Investments  
June 30, 1987**

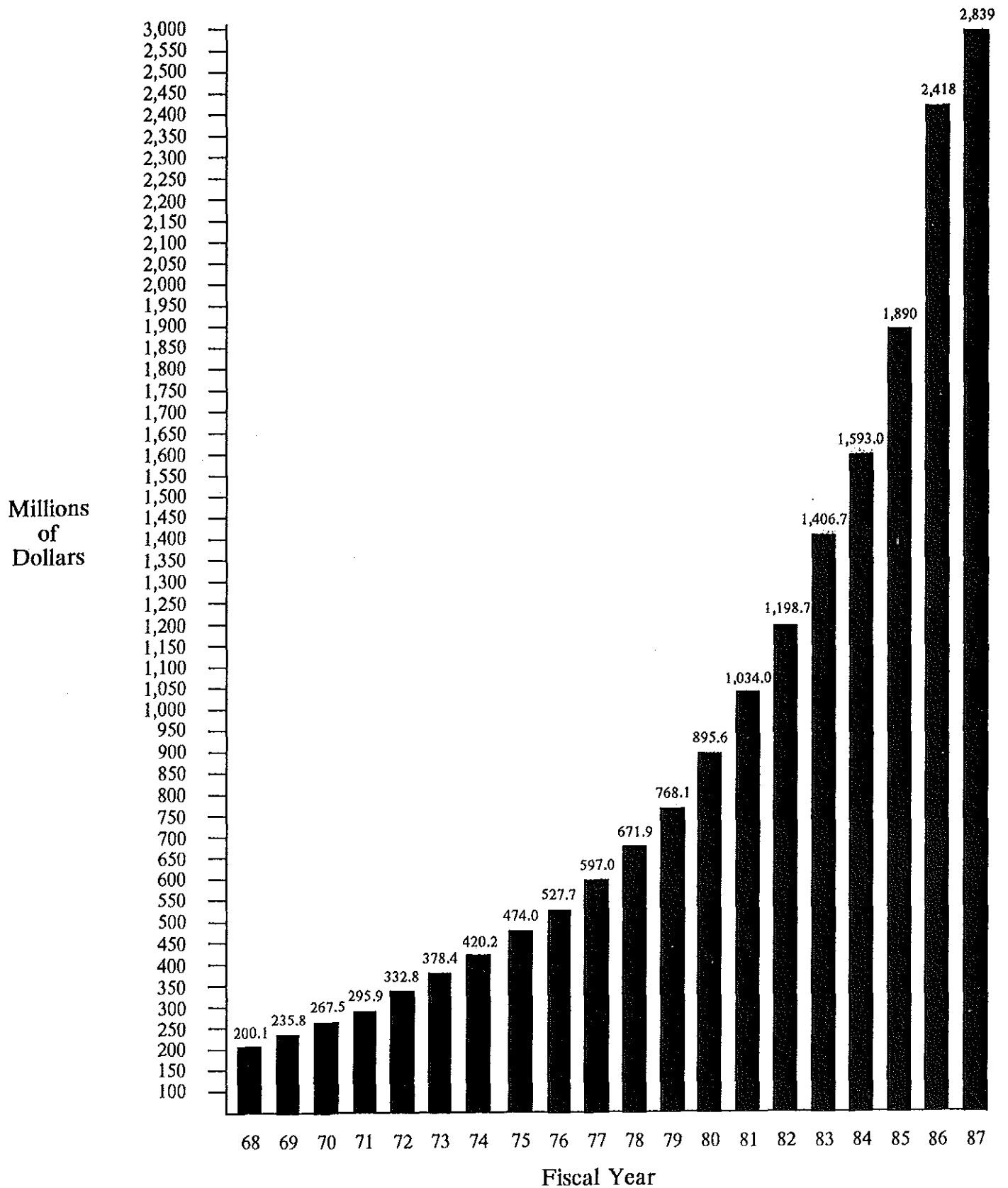




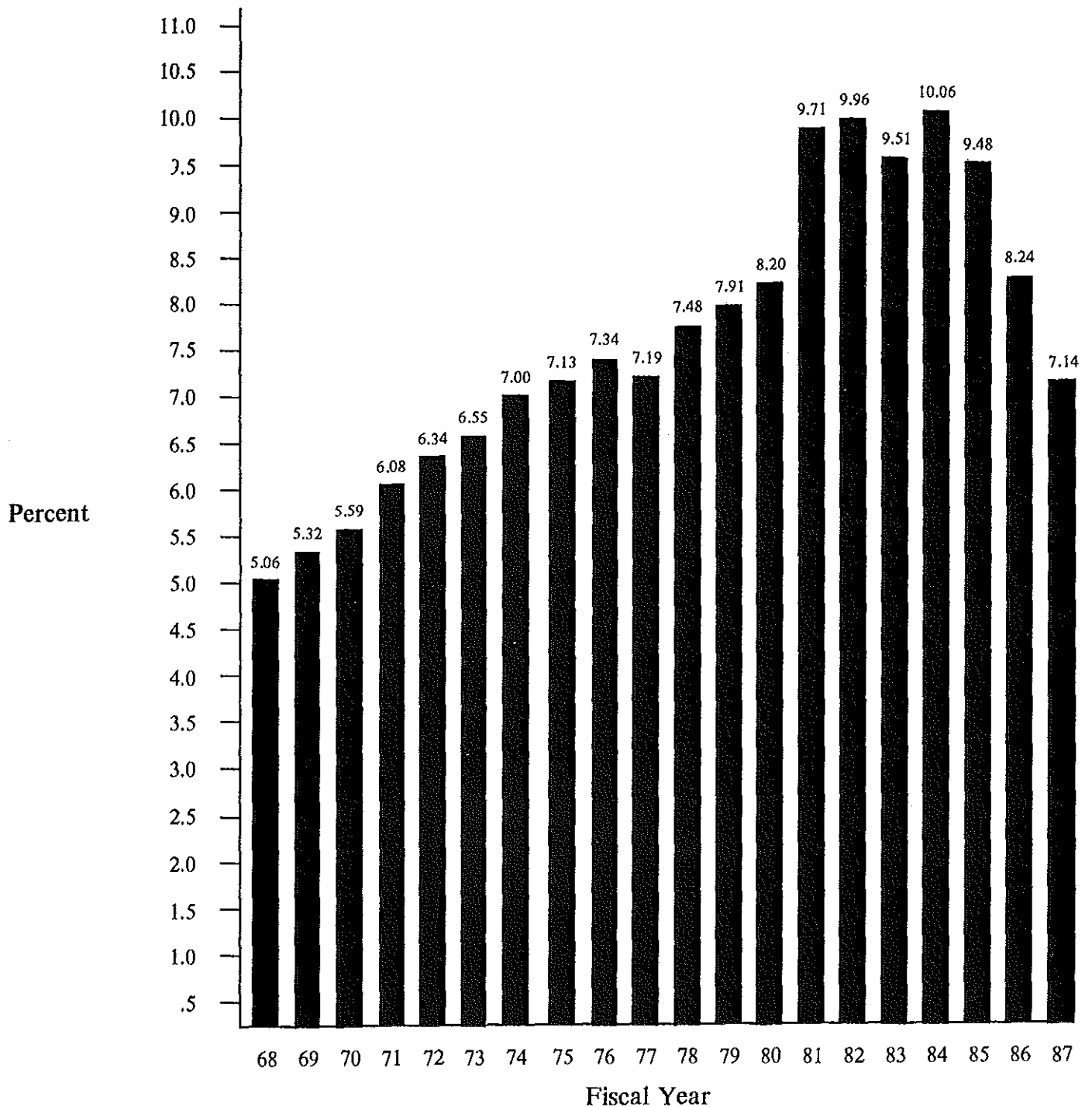
## Investment Portfolio Growth

Fixed Income at Par Value

Equities at Cost

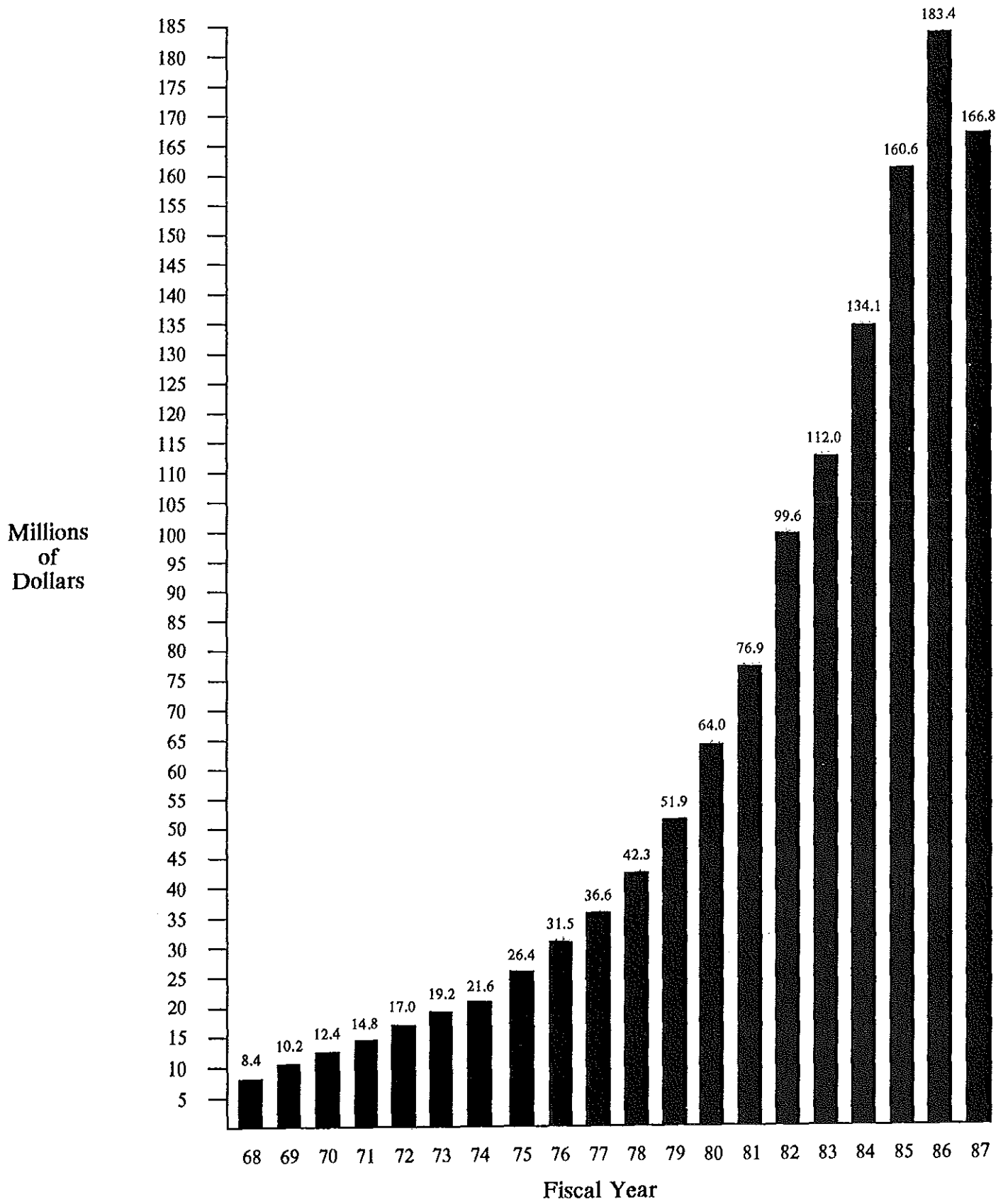


**Net Indicated Yield on  
Fixed Dollar Assets  
(Par Value)**



## Investment Income Growth

(Includes Amortization  
Excludes Net Gain)



## ANALYSIS OF INVESTMENTS HELD AS OF JUNE 30, 1987

	Percentage of Total	Par Value*	Net Annual Interest/Indicated Dividend Income	Annual Yield
Repurchase Agreements	21.25%	\$ 603,090,000.00	\$ 42,339,652.00	7.02%
<b>Total Short Term</b>	<b>21.25%</b>	<b>\$ 603,090,000.00</b>	<b>\$ 42,339,652.00</b>	<b>7.02%</b>
Treasury Notes and Bonds	17.00%	482,623,000.00	40,050,683.02	8.30%
Agencies	2.52%	71,593,250.79	6,791,611.58	9.49%
Ship Bonds (Title XI)	2.35%	66,778,222.85	6,551,158.23	9.81%
GNMA (Single Family)	4.11%	116,628,247.48	11,081,348.82	9.50%
Miscellaneous	13.23%	375,418,362.25	12,311,973.77	3.28%
<b>Total U. S. Government Obligations</b>	<b>39.21%</b>	<b>\$1,113,041,083.37</b>	<b>\$ 76,786,775.42</b>	<b>6.90%</b>
Industrials	4.99%	141,530,272.34	10,872,345.82	7.68%
Finance	4.52%	128,204,368.70	8,300,624.61	6.47%
Utility Bonds (Except Telephone)	1.52%	43,166,000.00	3,422,404.07	7.93%
Telephone Bonds	2.33%	66,240,000.00	5,550,171.76	8.38%
Railroad Obligations	0.56%	15,979,000.00	1,179,041.22	7.38%
Corporate Bonds NOC	0.74%	20,935,478.34	1,451,178.94	6.93%
<b>Total Corporate Bonds</b>	<b>14.66%</b>	<b>\$ 416,055,119.38</b>	<b>\$ 30,775,766.42</b>	<b>7.40%</b>
FHA & VA Single Family Mortgages	0.54%	15,283,701.08	995,687.33	6.51%
Project Mortgages (FHA & GNMA)	3.95%	112,186,945.07	10,420,462.77	9.29%
State and Local Government Obligations	0.00%	3,333.43	183.34	5.50%
<b>Total Other Fixed Income Investments</b>	<b>4.49%</b>	<b>\$ 127,473,979.58</b>	<b>\$ 11,416,333.44</b>	<b>8.96%</b>
<b>Subtotal (Fixed Income)</b>	<b>79.61%</b>	<b>\$2,259,660,182.33</b>	<b>\$161,318,527.28</b>	<b>7.14%</b>
Real Estate Equity	1.27%	36,126,757.73	2,541,573.92	7.04%
<b>Total Real Estate Equity</b>	<b>1.27%</b>	<b>\$ 36,126,757.73</b>	<b>\$2,541,573.92</b>	<b>7.04%</b>
Common Stocks 11,461,392.0155 Shares	19.12%	542,799,785.35	21,219,777.85	3.91%
<b>Total Stocks 11,461,392.0155 Shares</b>	<b>19.12%</b>	<b>\$ 542,799,785.35</b>	<b>\$ 21,219,777.85</b>	<b>3.91%</b>
<b>Subtotal (Equity)</b>	<b>20.39%</b>	<b>\$ 578,926,543.08</b>	<b>\$ 23,761,351.77</b>	<b>4.10%</b>
<b>TOTAL INVESTMENTS, INCOME AND YIELD</b>	<b>100.00%</b>	<b>\$2,838,586,725.41</b>	<b>\$185,079,879.05</b>	<b>6.52%</b>

\*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 6-30-87 was \$1,963,134,217; the market value was \$1,949,903,483. The par and book values of stocks, which are the same, were \$542,799,785 for 6-30-87; the market value of stocks was \$668,741,605. 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

Security	Coupon	Maturity	Par Value or Remaining Principal Balance
<b>Repurchase Agreements:</b>			
Repurchase Agreement	6.830	07/87	\$ 78,900.00
Repurchase Agreement	6.830	07/87	8,751,500.00
Repurchase Agreement	6.830	07/87	14,355,700.00
Repurchase Agreement	6.830	07/87	2,813,900.00
Repurchase Agreement	6.870	07/87	4,654,700.00
Repurchase Agreement	6.870	07/87	15,345,300.00
Repurchase Agreement	6.910	07/87	26,810,000.00
Repurchase Agreement	6.930	08/87	12,470,000.00
Repurchase Agreement	6.930	08/87	16,000,000.00
Repurchase Agreement	6.960	07/87	13,145,500.00
Repurchase Agreement	6.960	08/87	39,660,000.00
Repurchase Agreement	6.960	07/87	6,534,500.00
Repurchase Agreement	6.970	07/87	25,000,000.00
Repurchase Agreement	6.970	08/87	26,770,000.00
Repurchase Agreement	6.970	08/87	22,000,000.00
Repurchase Agreement	6.980	08/87	13,110,000.00
Repurchase Agreement	6.990	08/87	25,000,000.00
Repurchase Agreement	6.990	08/87	18,140,000.00
Repurchase Agreement	7.010	07/87	25,000,000.00
Repurchase Agreement	7.020	07/87	20,450,000.00
Repurchase Agreement	7.050	07/87	24,000,000.00
Repurchase Agreement	7.050	07/87	19,160,000.00
Repurchase Agreement	7.050	07/87	12,000,000.00
Repurchase Agreement	7.050	07/87	26,920,000.00
Repurchase Agreement	7.070	07/87	18,000,000.00
Repurchase Agreement	7.070	07/87	25,240,000.00
Repurchase Agreement	7.110	07/87	36,270,000.00
Repurchase Agreement	7.120	07/87	15,000,000.00
Repurchase Agreement	7.120	07/87	11,160,000.00
Repurchase Agreement	7.120	07/87	20,000,000.00
Repurchase Agreement	7.130	07/87	17,360,000.00
Repurchase Agreement	7.220	07/87	16,890,000.00
Repurchase Agreement	7.230	07/87	25,000,000.00
Total Short Term Investments			\$603,090,000.00

## 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	10.750	08/05	1,625,000.00
U S Treasury Bonds	12.375	05/04	9,223,000.00
U S Treasury Bonds	13.125	05/01	8,000,000.00
U S Treasury Bonds	13.250	05/14	2,100,000.00
U S Treasury Bonds	14.250	02/02	13,625,000.00
U S Treasury Notes	6.250	12/88	29,600,000.00
U S Treasury Notes	6.750	09/90	7,000,000.00
U S Treasury Notes	7.000	04/94	10,000,000.00
U S Treasury Notes	7.375	05/96	11,400,000.00

## U. S. GOVERNMENT OBLIGATIONS (continued)

Security	Coupon	Maturity	Par Value or Remaining Principal Balance
<b>Treasury Bonds &amp; Notes:</b>			
U S Treasury Notes	7.375	05/96	\$ 25,000,000.00
U S Treasury Notes	7.375	05/96	22,600,000.00
U S Treasury Notes	7.375	04/93	65,000,000.00
U S Treasury Notes	7.500	08/91	10,000,000.00
U S Treasury Notes	7.875	05/90	7,000,000.00
U S Treasury Notes	8.000	02/89	45,000,000.00
U S Treasury Notes	8.500	05/97	8,000,000.00
U S Treasury Notes	9.125	02/91	66,000,000.00
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 Treasury Notes	10.875	02/93	5,000,000.00
U S Treasury Notes	11.625	01/92	5,000,000.00
U S Treasury Notes	11.750	11/93	2,000,000.00
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	12.750	11/89	56,000,000.00
U S Treasury Notes	13.000	11/90	10,000,000.00
			<u>\$482,623,000.00</u>
<b>Federal Agencies:</b>			
Farmers Home Insured Notes FHA	7.500	05/88	\$ 1,488,689.00
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 Farm Credit Banks	14.700	07/91	10,000,000.00
Federal Home Loan Banks	7.600	08/87	10,000,000.00
Federal Home Loan Banks J	8.400	06/92	5,000,000.00
FHLMC Freddie Mac Group 14-0527	8.000	10/08	13,104,561.79
Tennessee Valley Auth Pr Ser B	7.350	05/97	2,000,000.00
			<u>\$ 71,593,250.79</u>
<b>Ship Bonds (Title XI):</b>			
American Commercial Lines Ser F	10.950	07/04	\$ 7,646,000.00
American Export Freedom	7.300	07/97	1,098,000.00
American Export Lines SF Ser I	7.950	06/04	3,448,000.00
Atlas Marine American Hertge	7.700	12/96	2,868,000.00
Cntrl Gulf Lns Lash Lighters	8.250	01/95	1,782,320.36
Crowley Maritime	8.125	09/99	3,319,870.30
Diamond M Drilling New ERA	7.750	09/89	1,254,455.14
Flowers Transportation SF	8.400	05/00	1,407,883.75
Goodyear Steamship SF	11.550	05/06	11,539,425.12
Marine Ship Leasing A Antarctic	7.875	09/95	980,696.93
Marine Vessel Leasing Ind Ocean	7.875	10/95	808,412.27
Shipco 668 Series A SF	8.500	05/02	4,600,000.00
Stuyvesant Issue	7.950	09/97	7,291,565.14
Union Mechling Corp SF	8.000	01/02	3,113,593.84

## U. S. GOVERNMENT OBLIGATIONS (continued)

Security	Coupon	Maturity	Par Value or Remaining Principal Balance
<b>Ship Bonds (Title XI):</b>			
Wabash Transportation	5.400	06/89	\$ 776,000.00
Waterways Barge SF	13.500	09/05	10,631,000.00
Zapata Marine US Inc SF	7.700	09/94	4,213,000.00
			<u>\$ 66,778,222.85</u>
<b>GNMA Single Family Mortgages:</b>			
175 Mortgage Pools	various		\$116,628,247.48
<b>Other - Miscellaneous:</b>			
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
B/E TINT (Treasury Securities)	0.000	02/91	30,000,000.00
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) A	0.000	11/04	1,500,000.00
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	05/02	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) RU	0.000	02/04	4,600,000.00
CATS (Treasury Securities) T	0.000	11/06	25,000,000.00
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) U	0.000	02/01	1,100,000.00
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
CMO E F H Trust I Ser 87 CL E	9.750	07/17	10,000,000.00
CMO Trust II 4C Bonds	9.650	07/06	5,000,000.00
CMO 15-A F/R	6.500	03/18	9,763,783.63
CMO-Lomas Nettleton Mtg II 2	9.000	12/08	5,000,000.00
CMO-United Saving Assoc TX 3B	8.950	12/05	3,240,000.00
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	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	1,815,578.59
Missouri Kansas TX RR Nts	9.250	12/87	55,000.00
Principal CATS Series R	0.000	08/04	45,000,000.00
Principal CATS U	0.000	08/04	22,800,000.00
Principal CATS U	0.000	08/04	5,004,000.00
Principal Treasury Receipts	0.000	08/04	10,000,000.00
Principal Treasury Receipts	0.000	05/03	20,785,000.00

## U. S. GOVERNMENT OBLIGATIONS (continued)

Security	Coupon	Maturity	Par Value or Remaining Principal Balance
<b>Other - Miscellaneous:</b>			
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
Treasury Receipts	0.000	05/04	2,170,080.00
Treasury Receipts	0.000	02/03	4,063,016.25
U S Treasury Bond Federal Strip	0.000	02/96	10,000,000.00
U S Treasury Strip Bonds	0.000	11/11	15,000,000.00
U S Treasury Strip Bonds	0.000	05/04	15,000,000.00
			<u>\$ 375,418,362.25</u>
Total U. S. Government Obligations			<u>\$1,113,041,083.37</u>

## CORPORATE BONDS

### Industrials:

Aluminum Co America SF Debs	9.450	05/00	\$ 1,250,000.00
Ariel Properties Inc Mtg Nt	7.000	07/98	391,407.82
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
Chevron London 1st Prfd Ship Mtg	7.700	09/97	702,732.26
Chevron Stations Inc Note	5.100	04/91	50,000.00
Conoco Inc	5.875	12/89	165,000.00
Conoco Pipe Line Guaranteed Nts	7.500	05/94	105,000.00
Corning Glass Works Debs	8.875	03/16	5,000,000.00
Countrywide Stations Secrd Nts C	7.500	09/02	10,700,000.00
Cummins Engine Co Inc Notes	5.000	07/90	60,000.00
Dayton-Hudson Corp SF Debs	9.500	10/16	1,000,000.00
Dow Chemical Co Debs	7.875	07/07	1,000,000.00
Dow Chemical Debs	8.625	02/08	2,200,000.00
Dow Chemical Notes	5.000	04/91	438,400.00
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
Exxon Shipping Co	0.000	09/12	25,000,000.00
Fahrney Paul L 1st Prfd Ship Mtg	7.700	09/97	702,732.26
Ford Motor Co Nts	8.875	04/06	3,045,000.00
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	5,824,000.00
Leased Tankers Secured Notes A	7.450	12/92	1,846,000.00
Liggett Myers SF Debs	8.625	04/01	2,000,000.00
Loews Corp Nts	8.875	04/11	4,900,000.00
May Department Stores Debs	9.125	12/16	3,000,000.00
Mobil Corp Debs	14.400	06/04	1,500,000.00
Pembroke Capital Co SF Debs C	11.500	08/05	5,000,000.00
Pitney Bowes Inc SF Debs	9.000	10/95	550,000.00
Quaker Oats SF Debs	7.700	06/01	2,000,000.00
RJR Nabisco Inc	7.375	02/01	1,000,000.00
RJR Nabisco SF Debs	8.625	03/17	1,600,000.00
Time Inc SF Debs	8.750	04/17	5,000,000.00



## CORPORATE BONDS (continued)

Security	Coupon	Maturity	Par Value or Remaining Principal Balance
<b>Industrials:</b>			
Union Pacific Corp SF Debs	11.875	09/10	\$ 3,000,000.00
United Tech Corp SF Debs	8.875	12/16	1,000,000.00
Westvaco Corp SF Debs	12.300	01/15	1,000,000.00
			<u>\$141,530,272.34</u>
<b>Finance:</b>			
American Express Cr Co Sr Nts	7.750	03/97	\$ 10,000,000.00
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
Citicorp Sub Cap Nts	9.000	04/99	2,000,000.00
Commercial Credit Sr Notes	4.875	09/87	1,000,000.00
Ford Motor Credit Notes	7.875	01/97	4,000,000.00
Ford Motor Credit Notes	6.875	03/90	10,000,000.00
Ford Motor Credit Notes	7.500	03/94	10,000,000.00
Franklin Savings Assoc A	12.250	04/92	1,500,000.00
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
GMAC Deb Deferred Interest	0.000	12/12	25,000,000.00
Hartford Natl Corp Sub Cap Nts	9.850	06/99	1,000,000.00
Household Finance Corp Debs	4.750	01/89	3,500,000.00
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	52,017.51
Sovran Financial Corp Sub Cap Nts	9.750	06/99	1,000,000.00
United California Bk Cap Notes	4.500	01/90	200,000.00
Villiers Realty Corp Secrd Nts	4.750	10/89	80,351.19
			<u>\$128,204,368.70</u>
<b>Utility Bonds (Except Telephone):</b>			
Brooklyn Union Gas 1st Mtg	4.375	05/88	\$ 155,000.00
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
Elizabethtown Water Co Debs NJ	4.875	02/92	818,000.00
Florida Power & Light	12.875	09/13	3,740,000.00
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
Florida Power Light 1st Mtg	9.000	10/16	1,000,000.00
Houston Lighting Power 1st Mtg	9.000	03/17	207,000.00
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

## CORPORATE BONDS (continued)

Security	Coupon	Maturity	Par Value or Remaining Principal Balance
<b>Utility Bonds (Except Telephone):</b>			
Louisville Gas Electric 1st Mtg	8.250	08/01	\$ 2,000,000.00
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 Gas Elec 1st Ref Mtg 86F	9.125	10/19	1,000,000.00
Pacific Power Light 1st Mtg	4.500	12/92	1,361,000.00
Pennsylvania Electric Debs	7.000	11/92	98,000.00
Pub Ser Elec Gas Debs	6.000	07/98	255,000.00
Pub Ser Elec Gas 1st Ref Mtg U	7.500	04/96	10,000,000.00
Sou Elec Gen 1st Mtg 1959	5.250	06/92	570,000.00
Southern Calif Edison 1st & Ref	9.250	03/16	1,000,000.00
United Gas Inc 1st Mtg	6.500	12/89	1,387,000.00
Virginia Elec Power 1st Ref Mtg	9.250	03/06	1,000,000.00
Wisconsin Electric Power 1st Mtg	8.500	12/16	7,500,000.00
			<u>\$43,166,000.00</u>
<b>Telephone Bonds:</b>			
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 Va Debs	9.500	04/19	4,300,000.00
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
Hawaiian Telephone 1st Mtg S	6.750	04/98	100,000.00
Hawaiian Telephone 1st Mtg T	8.750	09/00	200,000.00
Illinois Bell Tel Debs	8.000	12/04	5,000,000.00
Michigan Bell Tel Debs	7.000	11/12	2,000,000.00
New York Telephone Co Debs	8.625	05/24	3,750,000.00
New York Telephone Co Debs	8.750	04/23	20,000,000.00
Ohio Bell Telephone Debs	9.000	11/18	2,500,000.00
Pacific Tel Tel Debs	7.800	03/07	250,000.00
Pacific Tel Tel Debs	8.375	02/17	2,500,000.00
South Central Bell Tel Debs	8.250	08/13	4,000,000.00
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
Southwestern Bell Tel Debs	9.625	03/19	2,000,000.00
			<u>\$66,240,000.00</u>
<b>Railroad Obligations:</b>			
Chesapeake Ohio Ry Gen Mtg	4.500	03/92	\$ 656,000.00
CSX Corp Nts	9.000	08/06	10,000,000.00
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

## CORPORATE BONDS (CONTINUED)

Security	Coupon	Maturity	Par Value or Remaining Principal Balance
<b>Railroad Obligations:</b>			
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
			<u>\$ 15,979,000.00</u>
<b>Corporate Bonds NOC:</b>			
GMAC Grantor 1986-G	6.850	12/91	\$4,187,095.67
GMAC Grantor 1986-G	6.850	12/91	16,748,382.67
			<u>\$ 20,935,478.34</u>
Total Corporate Bonds			<u>\$416,055,119.38</u>

## OTHER FIXED INCOME INVESTMENTS

### Single Family Mortgages:

FHA	various	\$ 7,814,081.05
VA	various	7,469,620.03
		<u>\$ 15,283,701.08</u>

### Project Mortgages (FHA & GNMA):

Americana Apts KY 221D4	7.500	10/18	\$ 4,502,206.81
Bedford Commons KY 221D4	8.000	11/23	1,274,195.07
Bedford House KY 221D4	7.500	01/20	1,248,770.19
Beech Creek Apts KY 221D4	7.500	08/21	2,094,856.74
Belleville Mnr Apts KY 221D4	7.500	11/19	642,663.47
Berrytown Apts KY 221D4	8.000	02/24	1,383,659.76
CA Guidance Care Center 232	8.500	02/92	264,493.72
Cambridge Sq Apts KY 221D4	7.500	11/19	1,200,943.39
Carnaby Sq Apts KY 221D4	7.500	06/19	1,236,123.81
Carrollton Vlg Apts KY 221D4	7.500	09/20	1,976,462.67
Carter Court Apts KY 221D4	7.500	09/20	1,304,840.19
Coolavin Apts KY 221D4	7.500	04/22	3,194,535.38
Cottage Bell Apts CA 221D4	7.500	11/10	737,319.51
Cottage Bell Apts II CA 221D4	8.500	11/11	431,253.18
Denver Ed Sr Citizns 231	5.250	11/03	764,307.92
Dixie Apts KY 221D4	7.500	05/18	1,138,271.65
Ferndale Apts KY 221D4	7.500	08/23	3,767,325.24
Gainesway Vlg Apts KY 221D4	7.500	02/19	1,640,930.21
Glenbrook Park KY 221D4	7.500	12/21	2,522,773.29
Grand Central Apts Ky 221D4	7.500	03/25	2,310,696.88
Greater Corbin Mnr KY 221D4	7.500	03/21	3,565,073.17
Jackson Vly Apts KY 221D4	7.500	08/20	1,990,369.43
Jamestown Manor Ltd KY 221D4	7.500	02/22	1,606,514.43
Lakeview Estates KY 221D4	7.500	01/20	1,123,619.84
Lebanon Apts KY 221D4	7.500	02/20	1,204,196.41
Lin Meadows Homes KY 221D4	7.500	11/22	272,749.84

## OTHER FIXED INCOME INVESTMENTS (continued)

Security	Coupon	Maturity	Par Value or Remaining Principal Balance
<b>Project Mortgages (FHA &amp; GNMA):</b>			
Locust Ridge KY 221D4	7.500	10/21	\$ 1,907,521.10
Madison Ave Apts KY 221D4	7.500	09/20	1,963,708.02
Manchester Hts Apts KY 221D4	7.500	06/19	1,233,777.71
Middletown Apts KY 221D4	7.500	02/18	1,054,690.74
Montgomery Sq Apts KY 221D4	7.500	05/19	1,232,822.99
Mt Lebanon Cedars KY 221D3	7.500	03/23	2,659,108.28
Oak Tree Villa Apts Ky 221D4	7.500	05/23	3,505,991.20
Pine Ridge Apts KY 221D4	7.500	09/18	838,838.83
Pinecreek Apts KY 221D4	7.500	10/17	576,160.30
Regency Park Apts KY 221D4	7.500	05/18	973,204.74
Regency Pk Apts BG KY 221D4	7.500	02/23	3,777,356.89
Ridgeway Apts KY 221D4	7.500	02/19	1,051,582.59
Rucker Vlg Apts KY 221D4	7.500	03/20	1,093,518.12
Salem Vlg I 232 ILL	7.750	03/16	1,013,473.28
Salem Vlg II 231 ILL	7.750	10/16	3,462,282.82
Sandefur Mnr KY 221D4	7.500	01/20	950,986.33
Shepherdsve Vlg Apt KY 221D4	7.500	05/20	1,380,165.12
Shively Apts KY 221D4	7.500	10/21	2,438,433.96
Southside Mnr KY 221D4	7.500	02/19	1,429,275.40
Town Branch Apts KY 221D4	7.500	11/23	758,170.53
Tree Top Apts KY 221D4	7.500	11/20	1,141,356.28
Vernon Manor Ltd KY 221D4	7.500	11/22	917,064.33
Walnut Hill Apts KY 221D4	7.500	05/19	1,658,941.10
Wesley Manor KY 232	8.000	12/11	966,308.05
Wessington Hse Apts TN 221D4	7.500	02/22	1,890,904.38
Westchester Circle KY 221D4	7.500	04/19	4,251,064.12
Westwood Apts KY 221D4	7.500	10/23	1,212,422.02
Wilderness Trail Mnr KY 221D4	7.500	03/23	5,739,118.27
Wildwood Apts KY 221D4	7.500	08/20	1,903,700.35
Willow Creek Apts KY 221D4	7.500	08/23	1,401,089.57
Woodsvew Apts KY 221D4	7.500	01/19	1,437,792.68
Panorama West KY 236	8.500	12/12	455,754.30
Hallmark Plaza KY 223F	8.500	06/11	1,145,947.81
Christ Hosp GNMA 21191PL	8.000	09/06	3,597,909.73
Cortland Hosp GNMA 13089PL	8.750	10/04	1,396,283.34
Bethany Cir Kings Daughters IN	8.375	03/02	1,694,939.26
Congregational Home KAN 231	5.250	07/04	1,341,947.53
Ephraim McDowell Hosp KY	9.000	01/01	2,853,730.51
Longmont Christian Hsg 231	5.250	03/03	480,450.29
			<u>\$ 112,186,945.07</u>
<b>State and Local Government Obligations:</b>			
Ky Indstrl Dev Finance Auth Nt	5.500	07/87	\$ 3,333.43
			<u>\$ 3,333.43</u>
Total Other Fixed Income Investments			<u>\$ 127,473,979.58</u>
<b>TOTAL FIXED INCOME INVESTMENTS</b>			<u><u>\$2,259,660,182.33</u></u>

## REAL ESTATE EQUITY

Security	Par Value or Remaining Principal Balance
<b>Real Estate Equity:</b>	
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 Frankfort KY	1,243,973.20
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>\$36,126,757.73</u>
Total Real Estate Equity	<u>\$36,126,757.73</u>

## COMMON STOCKS

	No. of Shares	Cost
Abbott Laboratories	34,000.0000	\$ 1,672,925.00
Aetna Life & Casualty Co	120,000.0000	7,224,000.00
American General Corp	60,000.0000	2,422,212.50
American Home Products	30,000.0000	2,126,962.50
American Information Technologies	212,500.0000	19,544,576.19
American Standard Inc	40,000.0000	1,700,200.00
Amoco Corp	265,000.0000	18,085,612.50
Armstrong World Industries Inc	250,000.0000	7,646,968.75
Atlantic Richfield Co	175,000.0000	12,073,107.81
Baltimore Gas & Electric	100,000.0000	3,614,182.15
Bankers Trust N Y Corp	155,417.7226	7,469,004.51
Boeing Co	230,000.0000	12,617,625.00
Bristol Myers Co	260,000.0000	7,892,080.36
Capital Holding Corporation	150,000.0000	3,103,799.71
Chevron Corp	300,000.0000	14,146,317.43
Commonwealth Edison Co	76,815.9080	2,549,437.99
Consolidated Edison Co N Y	150,000.0000	6,476,829.55
CPC International	175,000.0000	5,875,853.45
Delta Air Lines Inc	100,000.0000	4,396,350.00
Digital Equipment Corp	100,000.0000	8,382,486.12
Dover Corp	48,000.0000	2,152,944.83
Dow Chemical Co	250,000.0000	15,150,500.00
Dow Jones & Co Inc	45,000.0000	1,632,600.00
DuPont (EI) De Nemours	150,000.0000	14,629,040.62
Duke Power Co	150,000.0000	5,461,151.78
Dun & Bradstreet Corp	40,000.0000	1,971,137.50
E G & G Inc	35,000.0000	1,192,875.00

## COMMON STOCKS (continued)

	No. of Shares	Cost
Exxon Corp	310,000.0000	\$18,784,062.50
Federated Dept Stores	50,000.0000	1,802,083.33
First Interstate Bancorp	40,000.0000	2,286,000.00
First Wachovia Corp	160,201.4629	5,763,179.18
Fort Howard Corp	140,000.0000	7,108,625.00
General Electric Co	460,000.0000	19,818,025.00
General Motors Corp	35,000.0000	2,810,775.00
General Signal Corp	45,000.0000	2,163,325.00
Genuine Parts Co	67,500.0000	1,730,762.50
Grainger (WW) Co	25,000.0000	1,297,500.00
Halliburton Co	70,000.0000	1,522,125.00
Heinz (H J) Co	250,000.0000	10,419,775.00
Hewlett Packard Co	45,000.0000	1,973,771.59
International Business Machines	143,000.0000	20,220,654.26
International Minerals & Chem	50,000.0000	1,594,025.00
K Mart Corp	375,000.0000	12,310,468.75
Kraft Inc	100,000.0000	5,614,481.45
Louisville Gas & Electric Co	140,985.0000	3,323,170.53
Marsh & McLennan Companies Inc	170,000.0000	9,159,001.14
May Dept Stores Co	225,000.0000	9,316,226.25
Maytag Corp	100,000.0000	2,509,237.06
McDonalds Corp	49,500.0000	1,918,075.00
Melville Corp	26,000.0000	1,698,100.00
Merck & Co Inc	75,000.0000	7,722,459.37
Minnesota Mining & Manufacturing	296,000.0000	16,809,662.50
Nalco Chemical Co	80,000.0000	2,318,895.00
Norfolk Southern Corp	81,000.0000	2,403,887.50
NYNEX Corp	200,000.0000	12,063,675.00
Pepsico Inc.	300,000.0000	9,182,843.75
Pfizer Inc	100,000.0000	6,070,000.00
PHH Group Inc	70,000.0000	2,379,112.50
Philip Morris Cos Inc	100,000.0000	5,802,047.41
Pioneer Hi-Bred International Inc	80,000.0000	3,040,312.50
Pitney Bowes Inc	54,000.0000	1,649,625.00
Primerica Corp	180,000.0000	5,258,587.50
Procter & Gamble Co	181,000.0000	13,388,600.00
Raytheon Co	35,000.0000	2,082,106.25
RJR Nabisco Inc	350,000.0000	20,054,004.69
Roadway Services Inc	61,000.0000	2,376,375.00
Salomon Inc	165,000.0000	7,939,687.50
Schering-Plough Corp	300,000.0000	11,271,250.00
Southland Corp	35,000.0000	1,682,975.00
Sundstrand Corp	33,000.0000	1,973,150.00
Super Valu Stores	40,000.0000	1,071,150.00
Texas Utilities Co	70,000.0000	2,217,487.50
Torchmark Corp	45,000.0000	1,230,612.50
Transco Energy Co	100,000.0000	4,901,412.50
Travelers Corp	212,871.9220	10,337,283.77
TRW Inc	46,000.0000	2,226,675.00
Union Camp Corp	396,600.0000	11,701,766.68
Union Carbide	350,000.0000	9,016,554.17
Unisys Corp	100,000.0000	6,388,814.14

## COMMON STOCKS (continued)

	No. of Shares	Cost
United Technologies Corp	175,000.0000	\$ 7,565,268.84
US West Inc	55,000.0000	2,718,300.00
V F Corp	57,000.0000	1,822,057.50
Whirlpool Corp	58,000.0000	1,995,400.00
Woolworth (FW) Co	201,000.0000	7,783,516.49
Total Common Stocks	11,461,392.0155	\$542,799,785.35

TOTAL EQUITY INVESTMENTS	\$578,926,543.08
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	Par Value or Remaining Principal Balance/ Cost
TOTAL INVESTMENTS	<u>\$2,838,586,725.41</u>

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