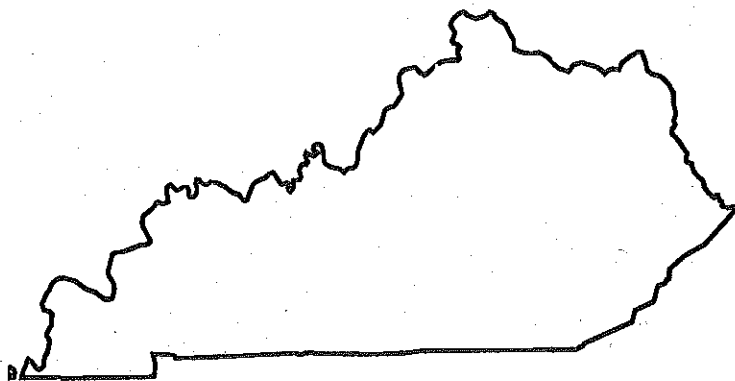




TEACHERS'
RETIREMENT
SYSTEM
OF THE STATE OF
KENTUCKY

COMPREHENSIVE
ANNUAL REPORT
FISCAL YEAR ENDED
JUNE 30, 1993

**53RD COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY
FOR THE FISCAL YEAR
ENDED JUNE 30, 1993**



**KENTUCKY TEACHERS' RETIREMENT SYSTEM
479 VERSAILLES ROAD
FRANKFORT, KENTUCKY 40601-3868**

**PAT N. MILLER
EXECUTIVE SECRETARY**



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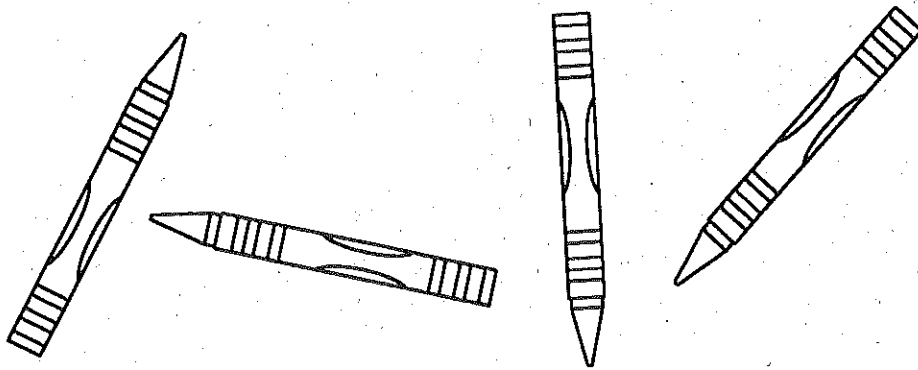
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*"Imagination is more
important than
knowledge."*

-Albert Einstein

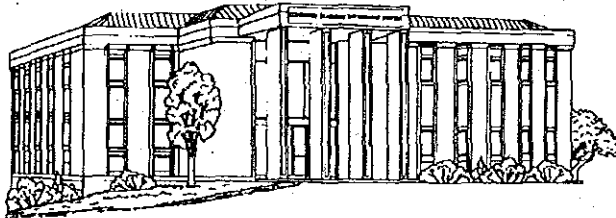
LETTER OF TRANSMITTAL

TEACHERS' RETIREMENT SYSTEM
OF KENTUCKY

BOARD OF TRUSTEES

VIRGINIA MURRELL
CHAIRPERSON, SOMERSETJUDITH R. GAMBILL
VICE CHAIRPERSON, ASHLANDBETTYRUTH BRUINGTON, BRANDENBURG
ROBERT M. CONLEY, PAINTSVILLE
EARLE V. POWELL, FRANKFORT
J. KENNETH SHADOWEN, BENTON
BARBARA G. STERRETT, LEXINGTON

EX OFFICIO

THOMAS BOYSEN
CHIEF STATE SCHOOL OFFICERFRANCES JONES MILLS
STATE TREASURERPAT N. MILLER
EXECUTIVE SECRETARY
(502) 564-3268*Serving Kentucky Teachers
Since 1940*

December 1, 1993

Honorable Brereton C. Jones, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601

Dear Governor Jones:

It is my pleasure to submit the 53rd Annual Report of the Teachers' Retirement System of the State of Kentucky for the fiscal year ending on June 30, 1993.

State law provides the legal requirement for the publication of this report and in addition requires an annual audit of the retirement system. The auditor's opinion letter is in the Financial Section of this report.

The Board of Trustees has produced an annual report that will provide you and the General Assembly, as well as the general public, with information necessary to gain a better understanding of the Teachers' Retirement System.

The auditor's letter, the financial information, the actuary's opinion and supporting data along with the statistical data are all presented from the perspective of not just a statutory requirement but rather from the perspective of providing information that will assist public officials and others not associated with the System on a daily basis to provide the necessary support for the continued financial soundness of the System.

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

Respectfully submitted,

Pat N. Miller
Executive Secretary

CHAIRPERSON'S LETTER

TEACHERS' RETIREMENT SYSTEM OF KENTUCKY

BOARD OF TRUSTEES

VIRGINIA MURRELL
CHAIRPERSON, SOMERSET

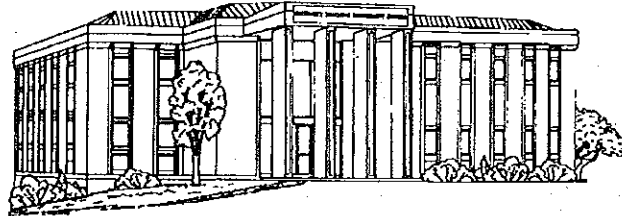
JUDITH R. GAMBILL
VICE CHAIRPERSON, ASHLAND

BETTYRUTH BRUINGTON, BRANDENBURG
ROBERT M. CONLEY, PAINTSVILLE
EARLE V. POWELL, FRANKFORT
J. KENNETH SHADOWEN, BENTON
BARBARA G. STERRETT, LEXINGTON

EX OFFICIO

THOMAS BOYSEN
CHIEF STATE SCHOOL OFFICER

FRANCES JONES MILLS
STATE TREASURER



PAT N. MILLER
EXECUTIVE SECRETARY
(502) 564-3266

*Serving Kentucky Teachers
Since 1940*

December 1, 1993

Honorable Brereton C. Jones, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601

Dear Governor Jones:

On behalf of the Board of Trustees of the Kentucky Teachers' Retirement System, I am pleased to present this 53rd Annual Report for the fiscal year ended June 30, 1993. The report provides an in-depth review of the financial, actuarial and investment status of the Retirement Fund.

The financial integrity and actuarial soundness of the system are attested by the accompanying reports of the independent auditor and the consulting actuary. The retirement system closed the 1992-93 fiscal year with \$5.2 billion in assets. Active membership totaled 52,842 and retired membership was 21,939 with an annual payroll of \$282 million.

The Board of Trustees is dedicated just as in the past to the commitment that the retirement funds are managed in a prudent, professional manner. The retirement system pledges every effort to remain fiscally sound in order that all members can look to the future with confidence. Member contributions, along with those of the Commonwealth, will be utilized to provide the best retirement possible.

The Board of Trustees appreciates the cooperation extended to it by the Governor and the Legislature. This cooperation will help the system to not only meet current challenges but to also make timely provisions for the future.

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

Sincerely,

Virginia Murrell
Chairperson
Board of Trustees

BOARD OF TRUSTEES

Miss Virginia Murrell



Chairperson,
Teacher Trustee
Somerset

Ms. Judith R. Gambill



Vice-Chairperson,
Teacher Trustee
Ashland

Ms. Bettyruth Brulington



Teacher Trustee
Brandenburg

Mr. Robert M. Conley



Lay Trustee
Paintsville

Mr. Earle V. Powell



Lay Trustee
Frankfort

Mr. J. Kenneth Shadowen



Teacher Trustee
Benton

Ms. Barbara G. Sterrett



Teacher Trustee
Lexington

Dr. Thomas C. Boysen



Ex-Officio Trustee
Chief State School Officer

Ms. Frances Jones Mills



Ex-Officio Trustee
State Treasurer

ADMINISTRATIVE STAFF

KENTUCKY TEACHERS' RETIREMENT SYSTEM
479 VERSAILLES ROAD
FRANKFORT, KENTUCKY 40601-3868

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

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

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

PROFESSIONAL CONSULTANTS

Investment Advisors

Fixed Income and Equity Manager

Todd Investment Advisors
 3160 First National Tower
 Louisville, Kentucky 40202

Fixed Income Manager

National Asset Management Corp.
 101 South Fifth Street
 Louisville, Kentucky 40202

Equity Managers

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

Invesco MIM Inc.

Suite 500
 1315 Peachtree Street N.E.
 Atlanta, Georgia 30309

Wellington Management Company
 75 State Street
 Boston, Massachusetts 02109

Investment Consultant

Becker, Burke Associates, Inc.
 Suite 1000
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 Chicago, Illinois 60601

Investment Custodian

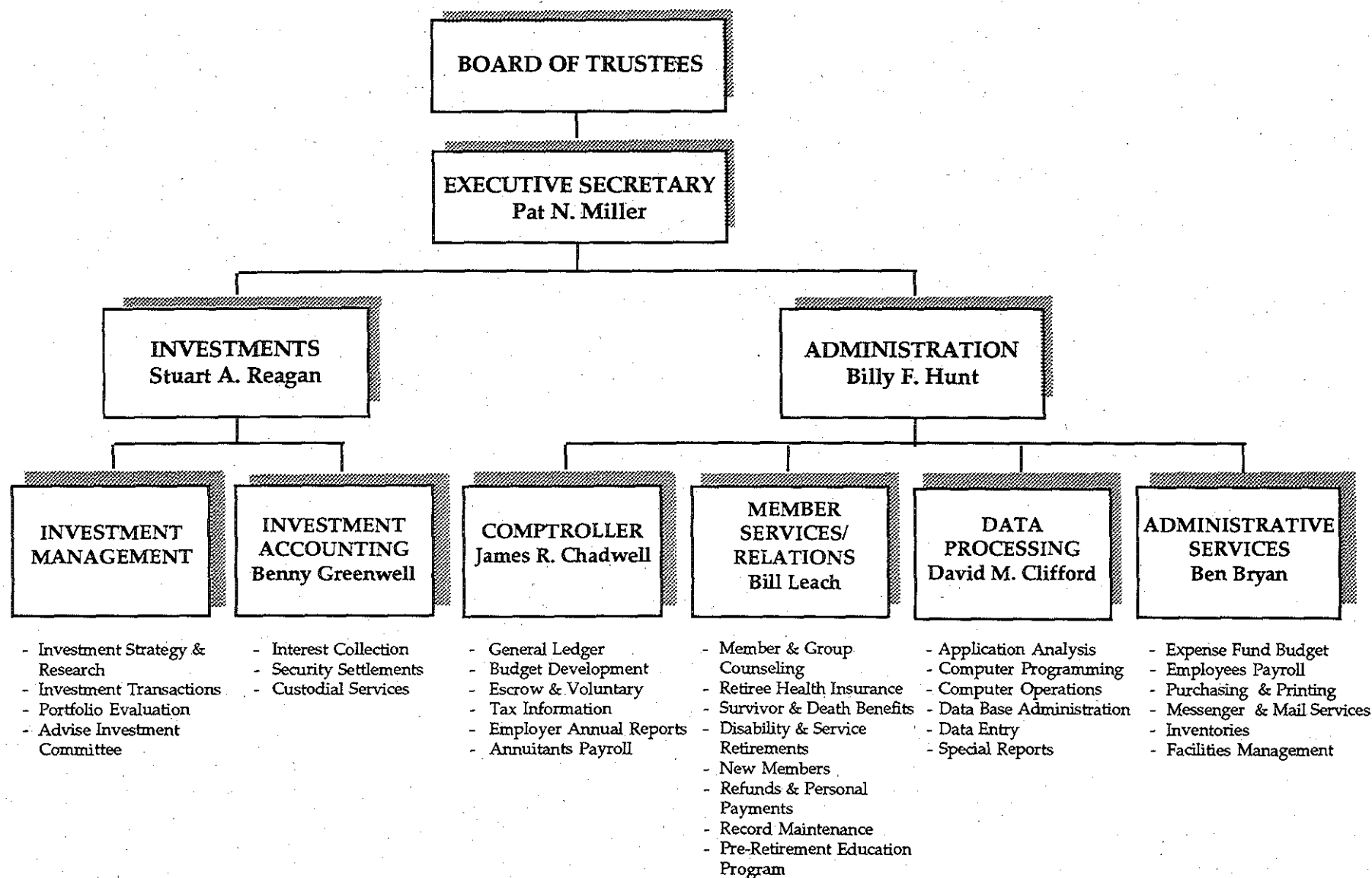
Farmers Bank and Capital Trust Co.
 Farmers Bank Plaza
 Frankfort, Kentucky 40601

Actuary

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

Auditor

Charles T. Mitchell Company
 Box 698
 Frankfort, Kentucky 40602



SYSTEM HIGHLIGHTS

ACCOUNTING SYSTEM AND REPORTS

This 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. This report was prepared by the Kentucky Teachers' Retirement System (KTRS) comptroller's section. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with KTRS. KTRS believes the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of KTRS as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of KTRS's financial affairs have been included.

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

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

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

REVENUES

The reserves needed to finance retirement and other member benefits are accumulated through the collection of member and employer or state contributions and through income derived from investment of reserve funds. Contributions and investment income for the fiscal year 1993 totaled \$864,757,580. This represents an increase of 5.97% over fiscal year 1992 revenue. The rate of increase for member and employer contributions over fiscal year 1992 was 6.3% and 2% respectively. KTRS's overall revenue growth for the 1993 fiscal year was affected by increased employee and employer contributions.

EXPENSES

The primary purpose of a retirement system relates to the purpose for which it was created, the payment of benefits. These payments, along with refunds of contributions to terminated employees, insurance premiums for retired teachers, and the cost of administering the System, comprise the total expense. Expenses by type for 1993 and 1992 are shown for comparative purposes.

| Expenses | 1993 | 1992 | Increase/(Decrease) | |
|-------------------------|-----------------|-----------------|---------------------|--------------|
| | (Millions) | (Millions) | (Millions) | % |
| Retiree Benefits | \$ 260.3 | \$ 232.0 | \$ 28.3 | 12.19 |
| Disabilities | 13.6 | 11.9 | 1.7 | 14.28 |
| Survivor/Death Benefits | 8.2 | 7.4 | .8 | 10.81 |
| Refunds | 6.7 | 6.5 | .2 | 3.08 |
| Medical Insurance | 43.0 | 42.6 | .4 | .93 |
| Administration | 5.3 | 5.1 | .2 | 3.92 |
| | <u>\$ 337.1</u> | <u>\$ 305.5</u> | <u>\$ 31.6</u> | <u>10.34</u> |

The increase in retiree and disability benefits is attributed to an increase in the number of annuitants in these areas and to the fact that more recent retirees and disability recipients are receiving higher benefits than those members leaving the payroll.

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 \$4,810,134,730 to \$5,300,148,283 during the 1992-93 fiscal year. The growth of the portfolio is due to higher teachers' salaries and the corresponding effect on contributions, as well as investment income. Results for the fiscal year show that investment income exceeded \$405 million. This figure is somewhat larger than last year's total of \$372.2 million.

The majority of earnings from the System's investment portfolio can be attributed to interest income of \$225,740,615. The second largest income component of \$122,593,990 was generated by gains on the sale of investments. Other income of \$56,703,679 was earned from dividends, rent and securities lending.

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

FUNDING

The most important consideration 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 a supplemental appropriation 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, 1992. The actuarial accrued liability of the System was \$6.319 billion. The reserve balance from participant contributions from employers, employees, and investment income was \$4.65 billion. The amount by which the accrued liability exceeds the reserves, or the unfunded liability, totaled \$1.668 billion on June 30, 1992.

CURRENT AND FUTURE DEVELOPMENTS

1992 GENERAL ASSEMBLY LEGISLATION

The 1992 General Assembly approved the Governor's budget recommendation of fully funding KTRS. The Governor also recommended that \$20 million of the KTRS appropriation be used to provide much needed relief for the KTRS medical insurance plan. KTRS had requested that the employer matching rate be increased. Due to the unavailability of additional state revenues, however, the Governor and General Assembly decided that a one-time diversion of pension funding was appropriate.

In addition, the General Assembly and KTRS funded an ad hoc 1% cost-of-living adjustment for KTRS retirees as of July 1, 1992 and 1993. The minimum value for a year of service was increased on July 1, 1992 from \$220 to \$240.

KTRS MEDICAL INSURANCE PLAN

During the 1992-93 fiscal year KTRS medical costs continued to increase but at much slower rate than previous fiscal years. KTRS's 1992-94 biennial budget requested additional funding from the Commonwealth, but due to difficult economic times these funds were not available. The General Assembly addressed the problem by transferring \$20 million in each fiscal year of the 1992-94 biennium from the regular pension appropriation to KTRS's medical insurance program.

In addition, the KTRS Board of Trustees established a cost-sharing plan requiring retirees to pay a percentage of the cost of their insurance.

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

PROFESSIONAL SERVICES

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the 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.

BOARD OF TRUSTEES

At the June 21, 1993 meeting of the Board of Trustees of the Teachers' Retirement System, Miss Virginia Murrell of Somerset was re-elected Chairperson for the 1993-94 fiscal year. Miss Murrell is a retired member having spent most of her career as a teacher in the Bellevue Independent School System in northern Kentucky. She has served on the Board since 1988.

Ms. Judith Gambill of Ashland was re-elected Vice Chairperson for the 1993-94 fiscal year. Ms. Gambill is an active teacher member and is employed by the Russell Independent School System and has served on the Board of Trustees since 1989.

The election for two positions on the KTRS Board of Trustees was conducted during May, 1993. Dr. Thomas Boysen, Chief State School Officer, certified the results of the election to the KTRS Board of Trustees.

Miss Virginia Murrell of Somerset in Pulaski County was re-elected to a second four-year term for the retired member position. Miss Murrell has served the Board of Trustees as a member of the Medical Insurance Committee, Vice-Chairperson and currently serves as Chairperson. Her term of office will extend from July 1, 1993 through June 30, 1997.

Ms. Bettyruth Bruington of Brandenburg in Meade County was elected as an active teacher member of the Board. Ms. Bruington is a career teacher in the Meade County Schools. She was elected to the position formerly held by Ms. Arlene Romine of Bullitt County who retired as Chairperson of the Board on July 1, 1992. Ms. Bruington is an active member of many education groups including the Meade County Education Association, KEA and NEA. Ms. Bruington's term of office will be from July 1, 1993 through June 30, 1997.

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky for its component unit financial report for the fiscal year ended June 30, 1992. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently

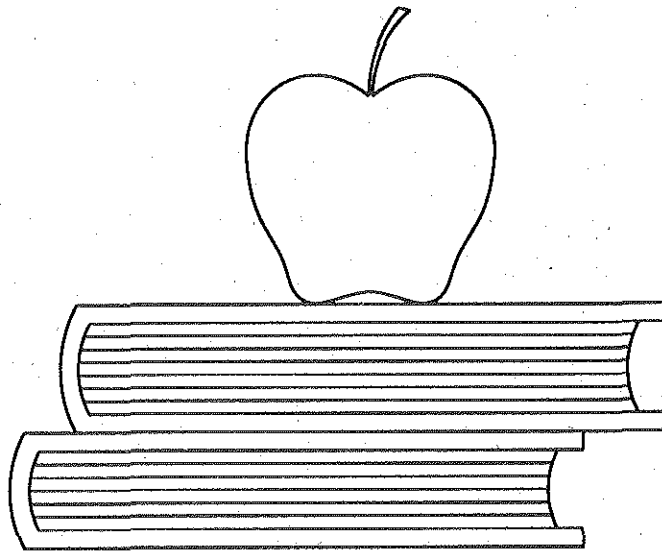
organized component unit financial report, whose contents conform to program standards. Such component unit financial reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Teachers' Retirement System has received a Certificate of Achievement for the last five consecutive years (fiscal years ended 1988-1992). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

ACKNOWLEDGMENTS

The preparation of this report reflects the combined efforts of the KTRS staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information 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.



*"A single conversation
with a wise man
is better than
ten years of study."*

-Chinese Proverb

INDEPENDENT AUDITOR'S REPORT

Charles T. Mitchell Company

Certified Public Accountants

201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40601
TELEPHONE - (502) 227-7393
TELECOPIER - (502) 227-8005

|| C T M

DON C. GILES, C.P.A.
WILLIAM G. JOHNSON, JR., C.P.A.
GARY L. HARBIN, C.P.A.
LARRY T. WILLIAMS, C.P.A.
JAMES CLOUSE, C.P.A.
CHARLES F. WHELAN, C.P.A.CHARLES T. MITCHELL, C.P.A.
CONSULTANTBoard of Trustees
Teachers' Retirement System
of the State of Kentucky
Frankfort, Kentucky 40601

Independent Auditor's Report

We have audited the accompanying balance sheets of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of June 30, 1993 and 1992, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the years then ended. These component unit financial statements are the responsibility of the Teachers' Retirement System's management. Our responsibility is to express an opinion on these component unit financial statements based on our audits.

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

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, at June 30, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purposes of forming an opinion on the basic component unit 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 component unit financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic component unit financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic component unit financial statements.

Charles T. Mitchell Co.

Charles T. Mitchell Company

October 1, 1993

BALANCE SHEETS

JUNE 30, 1993 AND JUNE 30, 1992

| ASSETS | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 |
|---|-----------------------------|-----------------------------|
| Cash (See Note 2) | \$ 339,314 | \$ 90,941 |
| Prepaid Expenses | 132,199 | 236,696 |
| Receivables: | | |
| Contributions | 22,430,211 | 18,664,480 |
| State of Kentucky | 15,210,651 | 10,351,751 |
| Investment Income | 49,394,343 | 52,540,971 |
| Total Receivables | 87,035,205 | 81,557,202 |
| Investments, at Cost (See Note 2): | | |
| Short Term Investments (Market Value \$542,850,000 in 1993 and \$591,820,000 in 1992) | 542,850,000 | 591,820,000 |
| Bonds and Mortgages (Market Value \$3,151,798,089 in 1993 and \$2,808,635,069 in 1992) | 2,931,972,584 | 2,686,262,127 |
| Common Stock (Market Value \$1,920,049,654 in 1993 and \$1,502,950,386 in 1992) | 1,600,836,358 | 1,285,896,090 |
| Real Estate (Market Value \$58,870,387 in 1993 and \$52,415,483 in 1992) | 58,202,178 | 51,528,862 |
| Total Investments | 5,133,861,120 | 4,615,507,079 |
| Fixed Assets [Net of Accumulated Depreciation of \$818,414 in 1993 and \$729,862 in 1992 (See Note 2)] | 2,831,463 | 2,861,957 |
| Total Assets | \$5,224,199,301 | 4,700,253,875 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities | | |
| Disbursements in Excess of Cash Balance | \$ 2,281,475 | \$ 2,276,018 |
| Accounts Payable | 796,824 | 850,928 |
| Treasurer's Unredeemed Checks | 14,650 | 4,143 |
| Insurance Claims Payable | 9,301,109 | 13,022,575 |
| Compensated Absences Payable | 282,487 | 266,053 |
| Unearned Insurance Premium Receipts | 37,282 | |
| Total Liabilities | 12,713,827 | 16,419,717 |
| Fund Balance | | |
| Member Reserve | 1,463,723,642 | 1,345,217,275 |
| Employer Reserve | 1,509,468,801 | 1,386,552,694 |
| Benefit Reserve | 241,329,862 | 195,460,839 |
| Medical Insurance Reserve | 34,633,434 | 13,648,967 |
| 403(b) Program Reserve | 18,691,806 | 16,890,700 |
| Unallocated Reserve | 1,941,036,611 | 1,723,320,797 |
| Administrative Expense Reserve | 2,601,318 | 2,742,886 |
| Unfunded Pension Benefit Obligation (See Note 6) | | |
| Total Fund Balance | 5,211,485,474 | 4,683,834,158 |
| Total Liabilities and Fund Balance | \$5,224,199,301 | \$4,700,253,875 |

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

STATEMENT OF REVENUES, EXPENSES YEARS ENDED JUNE 30,

RESERVES

| | MEMBER | EMPLOYER | BENEFIT | MEDICAL INSURANCE |
|---|------------------|------------------|----------------|----------------------|
| OPERATING REVENUES | | | | |
| Member Contributions | \$ 155,492,916 | \$ 228,221 | \$ | \$21,614,317 |
| Employer Contributions | | 160,802,533 | | 33,132,496 |
| Investment Income | | | | |
| Total Operating Revenues | 155,492,916 | 161,030,754 | | 54,746,813 |
| OPERATING EXPENSES | | | | |
| Benefits | | | 281,956,954 | |
| Refunds | 5,782,459 | 37 | | |
| Insurance Expenses (See Note 8) | | | | 43,026,950 |
| Administrative Expenses | | | | |
| Total Operating Expenses | 5,782,459 | 37 | 281,956,954 | 43,026,950 |
| Net Operating Income (Expense) | 149,710,457 | 161,030,717 | (281,956,954) | 11,719,863 |
| RESERVE TRANSFERS | | | | |
| Retirements by Members | (69,005,153) | (71,370,306) | 140,375,459 | |
| Reimbursements | | | 180,441,759 | |
| Members Who Left System | | (6,378,311) | (581,262) | (760) |
| Interest Allocations | 38,120,794 | 39,277,498 | 7,770,077 | 1,820,549 |
| Administrative Expenses | | | | |
| Other Reclassifications | (319,731) | 356,509 | (180,056) | 7,444,815 |
| Total Reserve Transfers | (31,204,090) | (38,114,610) | 327,825,977 | 9,264,604 |
| Net Fund Balance Additions (Reductions) | 118,506,367 | 122,916,107 | 45,869,023 | 20,984,467 |
| Beginning Fund Balance | \$ 1,345,217,275 | \$ 1,386,552,694 | 195,460,839 | 13,648,967 |
| Change in Unfunded Pension Benefit Obligation (See Note 6) | | | | |
| Ending Fund Balance | \$1,463,723,642 | \$ 1,509,468,801 | \$ 241,329,862 | \$34,633,434 |

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

AND CHANGES IN FUND BALANCES 1993 AND JUNE 30, 1992

| 403(B) PROGRAM | UNALLOCATED | ADMINISTRATIVE EXPENSE | 1992-93 TOTAL | 1991-92 TOTAL |
|-------------------|--|---------------------------|---|---|
| \$ 1,565,499 | \$ 86,883,314 405,038,284 | \$ | \$ 178,900,953 280,818,343 405,038,284 | \$ 168,371,425 275,439,742 372,240,446 |
| 1,565,499 | 491,921,598 | | 864,757,580 | 816,051,613 |
| 95,541 931,518 | | | 282,052,495 6,714,014 43,026,950 5,312,805 | 251,321,192 6,516,430 42,598,475 5,108,069 |
| | 2,338,081 | 2,974,724 | | |
| 1,027,059 | 2,338,081 | 2,974,724 | 337,106,264 | 305,544,166 |
| 538,440 | 489,583,517 | (2,974,724) | 527,651,316 | 510,507,447 |
| 64,790 | (180,506,549) 6,960,333 | | | |
| 1,198,918 | (88,187,836) (2,833,156) (7,300,495) | 2,833,156 | | |
| (1,042) | | | | |
| 1,262,666 | (271,867,703) | 2,833,156 | | |
| 1,801,106 | 217,715,814 | (141,568) | 527,651,316 | 510,507,447 |
| 16,890,700 | 1,723,320,797 | 2,742,886 | 4,683,834,158 | 4,173,326,711 |
| \$18,691,806 | \$1,941,036,611 | \$ 2,601,318 | \$5,211,485,474 | \$4,683,834,158 |

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 1993 AND 1992

| | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 |
|--|-----------------------------|-----------------------------|
| Cash Flows from Operating Activities | | |
| Operating Income | \$527,651,316 | \$ 510,507,447 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | |
| Depreciation | 132,807 | 142,644 |
| Amortization | (5,601,769) | (11,330,109) |
| (Increase) Decrease in prepaid expenses | 104,496 | (57,276) |
| (Increase) Decrease in accounts receivable | (5,478,003) | (9,073,906) |
| Increase (Decrease) in disbursements in excess of cash | 5,457 | (2,076,046) |
| Increase (Decrease) in accounts payable | (54,104) | 718,342 |
| Increase (Decrease) in unredeemed checks | 10,507 | (2,518) |
| Increase (Decrease) in insurance claims payable | (3,721,466) | 13,022,575 |
| Increase (Decrease) in compensated absences payable | 16,434 | 27,071 |
| Increase (Decrease) in unearned insurance premiums | 37,282 | |
| Increase (Decrease) in amount due insurance carrier | | (1,384,441) |
| Total Adjustments | (14,548,359) | (10,013,664) |
| Net cash provided by operating activities | 513,102,957 | 500,493,783 |
| Cash flows from capital activities: | | |
| Payments for capital acquisitions | (102,312) | (103,041) |
| Net cash used for capital activities | (102,312) | (103,041) |
| Cash flows from investing activities: | | |
| Gain on sale of investments | (122,593,990) | (86,470,911) |
| Proceeds from sale of investments | 30,730,476,125 | 33,658,020,395 |
| Payments for investments | (31,120,634,407) | (34,072,012,063) |
| Net cash used for investing activities | (512,752,272) | (500,462,579) |
| Net cash increase (decrease) for the year | 248,373 | (71,837) |
| Cash at beginning of year | 90,941 | 162,778 |
| Cash at end of year | \$ 339,314 | \$ 90,941 |

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1993 AND 1992

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 cost-sharing multiple-employer defined benefit plan 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 a component unit of the Commonwealth of Kentucky and is included in the Commonwealth of Kentucky's financial statements as a pension trust fund. KTRS is considered a component unit of the Commonwealth of Kentucky for the reasons of financial interdependency, ability to significantly influence operations, and accountability for fiscal matters.
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 nonstate-supported organizations. The following illustrates the participating employers at June 30, 1993 and 1992.

| | 1993 | 1992 |
|---|------------|------------|
| Local School Districts | 176 | 176 |
| State Universities | 5 | 5 |
| Department of Education/Other Organizations | 23 | 24 |
| TOTAL | 204 | 205 |

The covered payroll of all participating employers totaled \$1,707,158,968 for the year ended June 30, 1993 and \$1,677,794,446 for the year ended June 30, 1992.

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, 1993 and 1992.

| | 1993 | 1992 |
|--|---------------|---------------|
| Retirees and beneficiaries of deceased retirees currently receiving benefits: | | |
| Local School Districts | 17,763 | 17,165 |
| Universities | 1,147 | 1,074 |
| Department of Education/Other Organizations | 1,070 | 983 |
| | 19,980 | 19,222 |
| Disabilities currently receiving benefits: | | |
| Local School Districts | 1,006 | 959 |
| Universities | 34 | 32 |
| Department of Education/Other Organizations | 83 | 77 |
| | 1,123 | 1,068 |
| Survivors currently receiving benefits: | | |
| Local School Districts | 708 | 710 |
| Universities | 55 | 51 |
| Department of Education/Other Organizations | 73 | 77 |
| | 836 | 838 |

NOTE 1: DESCRIPTION OF PLAN (CONTINUED)

| | <u>1993</u> | <u>1992</u> |
|---|---------------|---------------|
| Terminated employees entitled to benefits but not yet receiving them (no current contributions in the last fiscal year): | | |
| Local School Districts | 1,849 | 1,874 |
| Universities | 257 | 248 |
| Department of Education/Other Organizations | 176 | 167 |
| | <u>2,282</u> | <u>2,289</u> |
| Current employees: | | |
| Vested: | | |
| Local School Districts | 35,708 | 36,061 |
| Universities | 2,313 | 2,305 |
| Department of Education/Other Organizations | 1,803 | 1,860 |
| Non-Vested: | | |
| Local School Districts | 10,916 | 10,517 |
| Universities | 1,328 | 1,379 |
| Department of Education/Other Organizations | 774 | 787 |
| | <u>52,842</u> | <u>52,909</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 twenty-seven (27) years of Kentucky service. Non-university employees receive monthly payments equal to two (2) percent (service prior to January 1, 1984) and two and one half (2.5) 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 twenty-seven (27) 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 to contribute 9.855% of their salaries to the System. University members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 6.16% of their salary to KTRS.

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

The member and employer contributions consist of pension contributions and post-retirement contributions. The post-retirement contribution (.75%) finances KTRS's retiree medical insurance program.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. **Basis of Accounting:** The financial statements are prepared on the accrual basis of accounting.
- B. **Cash:** KTRS has two cash accounts. At June 30, 1993 the pension cash account totaled (\$2,281,475) and the administrative expenses cash account was \$339,314. Therefore, the total carrying value of cash was (\$1,942,161) and the corresponding bank balance was \$5,175,371. The difference is due primarily to outstanding checks and items not yet processed by the bank.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- C. 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 Kentucky Teachers' Retirement System at June 30, 1993 and June 30, 1992.

| | June 30, 1993 | June 30, 1992 |
|------------------------------------|-------------------------|-------------------------|
| Short Term Investments | | |
| Repurchase Agreements | \$ 542,850,000 | \$ 591,820,000 |
| Bonds and Mortgages | | |
| U.S. Government Obligations | | |
| Treasury Notes and Bonds | \$ 1,804,382,110 | \$ 1,504,498,064 |
| Agencies | 147,907,356 | 156,790,733 |
| Ship Bonds (Title XI) | 10,410,310 | 22,092,711 |
| GNMA (Single Family) | 52,815,607 | 92,033,565 |
| Other Miscellaneous | 237,558,963 | 231,774,353 |
| Total U.S. Government Obligations | \$ 2,253,074,346 | \$ 2,007,189,426 |
| Corporate Bonds | | |
| Industrials | \$ 218,287,833 | \$ 195,722,656 |
| Finance | 258,093,105 | 264,152,530 |
| Utility Bonds (Except Telephone) | 44,598,196 | 32,107,650 |
| Telephone Bonds | 38,272,548 | 39,942,676 |
| Railroad Obligations | 13,627,235 | 13,947,702 |
| Other Corporate Bonds | 7,679,592 | 31,788,522 |
| Total Corporate Bonds | \$ 580,558,509 | \$ 577,661,736 |
| Other Fixed Income Investments | | |
| FHA and VA Single Family Mortgages | \$ 4,905,897 | \$ 6,299,834 |
| Project Mortgages (FHA & GNMA) | 93,433,832 | 95,111,130 |
| Total Other Investments | \$ 98,339,729 | \$ 101,410,964 |
| Total Bonds and Mortgages | \$ 2,931,972,584 | \$ 2,686,262,126 |
| Stocks | \$ 1,600,836,358 | \$ 1,285,896,090 |
| Real Estate | \$ 58,202,178 | \$ 51,528,862 |
| Total Investments | \$ 5,133,861,120 | \$ 4,615,507,078 |

The System operates a securities lending program whereby for a fee the System lends U.S. Government bonds to a domestic money center bank. In return, the System receives cash and similar U.S. Government bonds that serve as collateral. The exchanges of securities are temporary, and the market value of collateral as of June 30, 1993 was \$1,001,526,038 which exceeds the market value of the loaned bonds.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On June 30, 1993 and June 30, 1992, 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>1993</u> | <u>1992</u> |
|--------------------------|---------------|---------------|
| Book Value | \$932,440,178 | \$356,676,554 |
| Market Value | 994,399,081 | 362,484,269 |

- D. Fixed Assets:** Included in this classification are furniture, fixtures, equipment, the KTRS office building and land. These items are reported on the balance sheet at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis. Furniture, fixtures and equipment are depreciated over an average useful life of five to ten years using ten percent of cost as the salvage value. The KTRS office building is depreciated over a useful life of forty years.

NOTE 3: DESCRIPTION OF FUNDS

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

EMPLOYER RESERVE: This fund was established by KRS 161.420 as the State Accumulation Fund and receives state appropriations to the Retirement System. The state contributes an amount equal to members' contributions. Actual state appropriations for the fiscal year 1992-93 were based on estimates of members' salaries. For the fiscal year ended June 30, 1993, actual appropriations were under the required appropriations by \$6,361,484.

BENEFIT RESERVE: This fund was established by KRS 161.420 as the Allowance Reserve Fund, the source for retirement, disability, and survivor benefits paid to members of the System. These benefits are paid from the retired members' contributions until they are exhausted, at which time state matching contributions are used to pay the benefits. After an individual member's contributions and the state matching contributions have been exhausted, retirement benefits are paid from monies transferred from Unallocated Reserves. Also, death benefits of \$2,000 for active members and \$2,800 for retired members are paid from this fund.

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

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.

MEDICAL INSURANCE RESERVE: This fund was established by KRS 161.420 as the Medical Insurance Fund. It consists of members' contributions and state matching contributions and provides health insurance premiums for retired members and eligible spouses and dependents. At June 30, 1993, the fund's balance was \$34,633,434.

NOTE 3: DESCRIPTION OF FUNDS (CONTINUED)

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 percent (4%) of income earned from investments.

NOTE 4: ACTUARIALLY DETERMINED CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The funding policy of KTRS is to provide for periodic employer pension contributions at actuarially determined rates that, expressed as percentage of annual covered payroll, are designed to accumulate sufficient assets to pay the pension benefits when due. A level percentage of payroll employer pension contribution rates are determined using the projected unit credit actuarial cost method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years.

Significant actuarial assumptions used to compute pension contribution requirements are the same as those used to calculate the pension benefit obligation shown in Note 6, except that KRS 161.400(2) requires that the system's assets be valued at modified market value instead of cost. Using this assumption, the Unfunded Pension Benefit Obligation at June 30, 1993 was \$1,398,161,667.

A comparison between actuarially established and actual member and employer pension contribution rates for the fiscal year ended June 30, 1993 is as follows:

| | Pension Contributions Required | | Pension Contributions Made | | | |
|---------------|--------------------------------|-------------------|------------------------------|------------------------------|----------------------------------|------------------------------|
| | Unlv. Members | Non-Unlv. Members | Unlv. Members Amount (000's) | % of Current Covered Payroll | Non-Unlv. Members Amount (000's) | % of Current Covered Payroll |
| Member | 5.41% | 9.105% | \$ 6,806 | 5.41% | \$143,981 | 9.105% |
| Employer | 13.09 | 12.355 | 16,468 | 13.09 | 195,375 | 12.355 |
| Total | 18.50% | 21.460% | \$23,274 | 18.50% | \$339,356 | 21.460% |
| Normal Cost | 12.73% | 16.29% | \$16,066 | 12.77% | \$255,387 | 16.15% |
| Unfunded Cost | 5.77 | 5.17 | 7,208 | 5.73 | 83,969 | 5.31 |
| | 18.50% | 21.46% | \$23,274 | 18.50% | \$339,356 | 21.46% |

The employer contributions for the 1992-93 fiscal year were under the required actuarial contributions by \$17.7 million. Of this amount, \$11.3 million represents a required state payment for funding cost-of-living adjustments granted to retirees (\$3 million for the 1986-88 and \$8.3 million 1990-92 bienniums). The 1992 General Assembly enacted KRS 161.553 which requires full funding of the 1986-88 and 1990-92 cost-of-living adjustments beginning July 1, 1994.

In the 1992-93 fiscal year, \$5,281,484 of the \$6,361,484 deficit resulted because actual salaries exceeded the budgeted salaries used in the calculation of the matching appropriation. The remaining \$1,080,000 of the deficit was due to a 2% decrease in appropriations mandated by the Governor.

NOTE 4: ACTUARIALLY DETERMINED CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (CONTINUED)

In addition to the above employer and member pension contributions, the member and employer made contributions for post-retirement benefits. The actuarial cost of retiree cost-of-living adjustments granted by the General Assembly is funded over a twelve year period and is also included in employer contributions.

NOTE 5: COMPENSATED ACCRUED ABSENCES

Expenses for accumulated vacation and compensatory time earned by the System's employees are recorded when earned. KTRS maintains records that document the cost of annual, sick, and compensatory leave earned by its employees. 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, 1993. For retiring employees who qualify, their accumulated sick leave balances (expressed in months) are 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, 1993 follows:

| | Balance June 30, 1992 | Earned 1992-1993 | Used or Paid 1992-1993 | Balance June 30, 1993 |
|---------------------------------|--------------------------|---------------------|---------------------------|--------------------------|
| Vacation and Compensatory Leave | \$266,053 | \$152,538 | \$136,104 | \$282,487 |

NOTE 6: 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. This is the required disclosure measure as prescribed by Governmental Accounting Standards Board Statement 5. This measure is independent of the funding method used to determine contributions to the system.

The pension benefit obligation presented herein is the actuarial update prepared for the fiscal year ended June 30, 1993. Significant actuarial assumptions at June 30, 1993 include, (a) a rate of return on the investment of present and future assets of 8.0% compounded annually, (b) projected salary increases graduated by age from 5.50% to 9.60% per year compounded annually with an inflation component of 5%, (c) life expectancies before and after retirement based on the 1982 George B. Buck Teacher's Mortality Table set forward one year, and (d) annual post-retirement cost of living increases of 1.5%.

At June 30, 1993 and 1992, the unfunded pension benefit obligation was \$1,697,184,000 and \$1,668,421,000 as follows:

NOTE 6: FUNDING STATUS OF KTRS (CONTINUED)**Pension Benefit Obligation:**

| | <u>1993</u> | <u>1992</u> |
|--|-----------------|-----------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | \$2,461,531,000 | \$2,139,269,000 |
| Current employees: | | |
| Accumulated employee contributions including allocated investment income | 1,463,724,000 | 1,345,217,000 |
| Employer-financed vested | 1,685,389,000 | 1,593,182,000 |
| Employer-financed nonvested | 1,242,099,000 | 1,241,305,000 |
| Total pension benefit obligation | 6,852,743,000 | 6,318,973,000 |
| Net assets available for benefits, at cost (Market Value \$5,689,474,115 in 1993 and \$4,988,447,248 in 1992) | 5,155,559,000 | 4,650,552,000 * |
| Unfunded pension benefit obligation | \$1,697,184,000 | \$1,668,421,000 |

The June 30, 1993 unfunded pension benefit obligation represents an increase of \$28,763,000 since June 30, 1992.

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 27 and 28.

*In order to compute the net assets available for benefits, the actuary took the KTRS fund balance at June 30, 1993 and 1992, and made the following adjustments:

| | <u>1993</u> | <u>1992</u> |
|--------------------------------------|-----------------|-----------------|
| KTRS Fund Balance | \$5,211,485,474 | \$4,683,834,158 |
| Less Medical Insurance Reserve | 34,633,434 | 13,648,967 |
| Less 403(b) Program Reserves | 18,691,806 | 16,890,700 |
| Less Administrative Expense Reserves | 2,601,318 | 2,742,886 |
| Net Assets Available for Benefits | \$5,155,558,916 | \$4,650,551,605 |

Effects of Current Year Changes in Actuarial Assumptions and Benefit Provisions: Section 161.400 of the law governing the operation of the Teachers' Retirement 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. Each valuation is affected by changes in actuarial assumptions and benefit provisions since the preceding valuation. The nature of changes in actuarial assumptions and benefit provisions, including the dollar effect on the Systems' pension benefit obligation at June 30, 1993 follows:

Actuarial Assumptions: No changes.

Benefit Provisions: No changes.

NOTE 7: 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 Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The parameters as outlined in Title 102, Chapter 1.175, Section 2 of the Kentucky Administrative Regulations are as follows:

There shall be no limit on the amount of investments owned by the System that are guaranteed by the U.S. government.

Not more than thirty-five percent (35%) of the assets of the System at book value shall be invested in corporate debt obligations.

Not more than forty-five percent (45%) of the assets of the System at book value shall be invested in common stocks or preferred stocks. Not more than twenty-five percent (25%) of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, United States stock index.

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

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

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

The KTRS bank balance consists of an overnight repurchase agreement of \$3,989,598.02 which was fully collateralized by the bank and cash totaling \$846,459 which is fully insured by the Federal Depository Insurance Corporation.

The chart on the following page categorizes KTRS's investments, which gives an indication of the level of risk assumed by KTRS at June 30, 1993. 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 the securities are held by the counterparty's trust department or agent, 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.

Included in Category 1 are individual repurchase agreements which are ordered by KTRS under the terms of master repurchase agreements with various qualified brokers. The terms of these master agreements are dictated by KTRS. The repurchase agreements and their supporting collateral are held by the custodial agent's correspondent bank in an account identified by the custodian's name and KTRS's nominee name. This account is unique to KTRS. The master repurchase agreements require that the supporting collateral have a market value of at least 100% of the value of the repurchase agreements.

NOTE 7: DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (INCLUDING REPURCHASE AGREEMENTS)
(CONTINUED)

| | Category | | | Carrying Amount | Market Value |
|--|------------------------|---------|---------|------------------------|------------------------|
| | 1 | 2 | 3 | | |
| Repurchase Agreements | \$ 542,850,000 | \$ | \$ | \$ 542,850,000 | \$ 542,850,000 |
| U.S. Government Securities | 2,253,074,346 | | | 2,253,074,346 | 2,425,702,601 |
| Corporate Bonds | 580,558,509 | | | 580,558,509 | 614,235,636 |
| Common Stocks | 1,600,836,358 | | | 1,600,836,358 | 1,920,049,654 |
| | <u>\$4,977,319,213</u> | <u></u> | <u></u> | <u>\$4,977,319,213</u> | <u>\$5,502,837,891</u> |
| Other Government Guaranteed Fixed Income Investments and Real Estate | | | | \$ 156,541,907 | \$ 170,730,239 |
| Total Investments | | | | <u>\$5,133,861,120</u> | <u>\$5,673,568,130</u> |

NOTE 8: POSTEMPLOYMENT BENEFITS IN ADDITION TO PENSION BENEFITS

In addition to the pension benefits described in Note 1(4), KTRS provides postretirement health care benefits in accordance with Kentucky Revised Statute 161.675. To be eligible for medical benefits, the member must have retired either for service or disability, attained age 55 with 5 years of Kentucky service or had 27 years Kentucky service. Eligible dependents include unmarried dependent children under the age of 19 and spouses.

Currently, KTRS insurance covers 19,130 retirees and 6,614 dependents. KTRS insurance coverage pays claims for retirees and eligible dependents up to age 65. For members 65 and over, KTRS coverage is based on the assumption that each individual eligible for all or part of Medicare coverage has enrolled and qualified for such coverage. KTRS does not reimburse for expenses that would have been covered by Medicare.

The KTRS health care insurance plan reimburses 80 percent (80%) of the amount of covered claims for medical, dental and hospitalization costs incurred by pre-Medicare retirees and their dependents with certain exceptions applying. The covered claims submitted by Medicare eligible retirees and their dependents are also reimbursed 80 percent (80%) but only after medical expenses covered under Medicare are deducted.

The postretirement health care provided by KTRS are financed on a pay-as-you-go basis. In order to fund the postretirement health care benefits, one and five-tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (½) of this amount is derived from member contributions and one-half (½) from state appropriation. Also, effective September 1, 1992, retirees pay from 10-19% of the single premium cost and spouses pay from 45-100% of the cost. Priority is given to members with 20 or more years of service and members age 65 or older. Any amounts not required to meet current costs shall be maintained as a reserve for future health care benefits. As of June 30, 1993, KTRS had \$34,633,434 of net assets available for future health care benefits.

During the 1992-93 fiscal year, KTRS expensed \$40,425,337 for postretirement health care benefits and \$2,600,853 to administrators of the insurance plans. This represents a \$427,715 increase in health care expenses over the previous fiscal year.

Effective July 1, 1991 KTRS became self-insured assuming all liability for post-retirement health care costs. KTRS now recognizes estimates of liabilities for incurred (both reported and unreported) but unpaid claims using the development method. This method uses past observed patterns of time between claim incurral and payment to estimate incurred claims from available paid claim information. The following schedule shows the change in the claims and liability and the claims activity for the year ended June 30, 1993.

NOTE 8: POSTEMPLOYMENT BENEFITS IN ADDITION TO PENSION BENEFITS (CONTINUED)

| | Fiscal Year 1993 |
|--------------------------------------|---------------------|
| Beginning Unpaid Claims Liability | \$ 13,022,575 |
| Claims Incurred: | |
| Current Year | 43,720,898 |
| Decreases in Prior Years | (3,429,883) |
| Total Incurred Claims | 40,291,015 |
| Claims Paid: | |
| Current Year | 36,241,081 |
| Prior | 7,771,400 |
| Total Payments | 44,012,481 |
| Ending Unpaid Claims Liability | \$ 9,301,109 |

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS
 (IN MILLIONS OF DOLLARS)

| FISCAL YEAR | (1) NET ASSETS AVAILABLE FOR BENEFITS (AT COST) | (2) PENSION BENEFIT OBLIGATION | (3) PERCENTAGE FUNDED (1) ÷ (2) | (4) UNFUNDED PENSION BENEFIT OBLIGATION (2) - (1) | (5) ANNUAL COVERED PAYROLL | (6) UNFUNDED PENSION BENEFIT OBLIGATION AS A PERCENTAGE OF COVERED PAYROLL (4) ÷ (5) |
|-------------|---|---|--|--|-------------------------------------|---|
| 1982 | \$ 1,163.7 | 2,440.7 | 47.7 | 1,277.0 | 803.6 | 158.9 |
| 1984 | 1,569.1 | 2,907.8 | 54.0 | 1,338.7 | 910.3 | 147.1 |
| 1986 | 2,214.2 | 3,356.2 | 66.0 | 1,142.0 | 1,003.9 | 113.8 |
| 1987 | 2,562.3 | 3,799.3 | 67.4 | 1,237.0 | 1,101.7 | 112.3 |
| 1988 | 2,915.7 | 4,287.3 | 68.0 | 1,371.6 | 1,212.6 | 113.1 |
| 1989 | 3,256.7 | 4,680.8 | 69.6 | 1,424.1 | 1,261.4 | 112.9 |
| 1990 | 3,660.9 | 5,072.1 | 72.2 | 1,411.2 | 1,340.3 | 105.3 |
| 1991 | 4,135.1 | 5,716.0 | 72.3 | 1,580.9 | 1,522.5 | 103.8 |
| 1992 | 4,650.6 | 6,319.0 | 73.6 | 1,668.4 | 1,669.2 | 100.0 |
| 1993 | 5,155.6 | 6,852.7 | 75.2 | 1,697.1 | 1,696.9 | 100.0 |

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's 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 not meaningful.

As explained in Note 4, KRS 161.400(2) requires the system to calculate the Net Assets Available for Benefits using a different method from that used to determine the PBO for GASB 5 purposes. Using this method, the schedule above reads as follows:

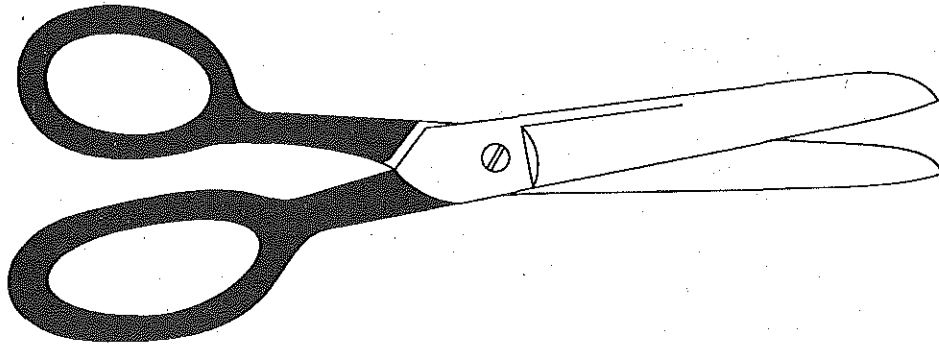
| FISCAL YEAR | (1) NET ASSETS AVAILABLE FOR BENEFITS AS PER KRS 161.400(2) | (2) PENSION BENEFIT OBLIGATION | (3) PERCENTAGE FUNDED (1) ÷ (2) | (4) UNFUNDED PENSION BENEFIT OBLIGATION (2) - (1) | (5) ANNUAL COVERED PAYROLL | (6) UNFUNDED PENSION BENEFIT OBLIGATION AS A PERCENTAGE OF COVERED PAYROLL (4) ÷ (5) |
|-------------|--|---|--|--|-------------------------------------|---|
| 1991 | 4,259.1 | 5,716.0 | 74.5 | 1,456.9 | 1,522.5 | 95.7 |
| 1992 | 4,808.7 | 6,319.0 | 76.1 | 1,510.3 | 1,669.2 | 90.5 |
| 1993 | 5,454.6 | 6,852.7 | 79.6 | 1,398.1 | 1,696.9 | 82.4 |

REQUIRED SUPPLEMENTARY INFORMATION
REVENUES BY SOURCE AND EXPENSES BY TYPE
 (IN MILLIONS OF DOLLARS)

| REVENUES BY SOURCE | | | | | | | |
|--------------------|---------------------------|--|---------------------------|--|----------------------|-------|-------|
| FISCAL YEAR | EMPLOYEE CONTRIBUTIONS | EMPLOYER CONTRIBUTIONS | | | INVESTMENT INCOME | TOTAL | |
| | | EMPLOYER CONTRIBUTIONS (REQUIRED) (ACTUAL) | ANNUAL COVERED PAYROLL | PERCENTAGE OF ANNUAL COVERED PAYROLL | | | |
| 1984 | 83.1 | | 122.0 | 910.3 | 13.4 | 147.7 | 352.8 |
| 1985 | 94.1 | | 136.5 | 950.1 | 14.4 | 180.4 | 411.0 |
| 1986 | 100.0 | | 143.7 | 1,003.9 | 14.3 | 331.1 | 574.8 |
| 1987 | 107.8 | | 162.6 | 1,101.7 | 14.8 | 266.1 | 536.5 |
| 1988 | 119.0 | | 186.8 | 1,212.6 | 15.4 | 251.7 | 557.5 |
| 1989 | 130.0 | 209.5 | 177.9 | 1,261.4 | 14.1 | 258.0 | 565.9 |
| 1990 | 135.0 | 218.4 | 192.1 | 1,340.3 | 14.3 | 323.3 | 650.4 |
| 1991 | 154.2 | 253.9 | 246.8 | 1,522.5 | 16.2 | 343.2 | 744.2 |
| 1992 | 168.4 | 286.7 | 275.4 | 1,669.2 | 16.5 | 372.2 | 816.0 |
| 1993 | 178.9 | 292.1 | 280.8 | 1,696.9 | 16.5 | 405.0 | 864.7 |

The employee and employer contributions include pension and post-retirement contributions for medical insurance. In addition, the employer contributions include the state appropriation for cost-of-living adjustments (COLA's). The employer contribution for the 1992-93 fiscal year was \$11.3 million below actuarial requirements due to a shortage in funding the COLA's. (See Note 4.)

| EXPENSES BY TYPE | | | | | |
|------------------|----------|---------|--------------------|-------------------------|-------|
| FISCAL YEAR | BENEFITS | REFUNDS | INSURANCE EXPENSES | ADMINISTRATIVE EXPENSES | TOTAL |
| 1984 | 123.1 | 5.9 | 15.2 | 1.6 | 145.8 |
| 1985 | 133.0 | 6.7 | 12.4 | 1.7 | 153.8 |
| 1986 | 143.3 | 7.4 | 14.5 | 1.9 | 167.1 |
| 1987 | 157.5 | 6.7 | 17.6 | 2.4 | 184.2 |
| 1988 | 169.9 | 5.9 | 20.6 | 2.6 | 199.0 |
| 1989 | 188.2 | 7.0 | 24.2 | 2.9 | 222.3 |
| 1990 | 206.8 | 7.4 | 29.8 | 3.1 | 247.1 |
| 1991 | 225.7 | 6.8 | 36.5 | 3.8 | 272.8 |
| 1992 | 251.3 | 6.5 | 42.6 | 5.2 | 305.6 |
| 1993 | 282.1 | 6.7 | 43.0 | 5.3 | 337.1 |



*"We are not endeavoring
to get ahead of others,
but to surpass ourselves."*

-Hugh B. Brown

SURPASSING OURSELVES

**SUMMARY OF
YEAR ENDED
(IN**

| TYPE OF INVESTMENT | (BEGINNING OF YEAR) | | PURCHASES | AMORTIZATION |
|-------------------------|---------------------|------------------|-------------------|--------------|
| | BOOK VALUE | MARKET VALUE | | |
| Fixed Income: | | | | |
| Government Bonds | \$ 2,108,600,391 | \$ 2,209,166,501 | \$ 1,491,497,517 | \$ 5,201,146 |
| Corporate Bonds | 577,661,736 | 599,468,568 | 207,370,507 | 316,915 |
| Total | 2,686,262,127 | 2,808,635,069 | 1,698,868,024 | 5,518,061 |
| Equity: | | | | |
| Common Stocks | 1,285,896,090 | 1,502,950,386 | 524,000,771 | |
| Real Estate | 51,528,862 | 52,415,483 | 8,048,320 | |
| Total | 1,337,424,952 | 1,555,365,869 | 532,049,091 | |
| Short Term Investments: | | | | |
| Repurchase Agreements | 591,820,000 | 591,820,000 | 28,864,801,000 | |
| Treasury Bills | | | 24,916,292 | 83,708 |
| Total | \$ 591,820,000 | \$ 591,820,000 | \$ 28,889,717,292 | \$ 83,708 |
| Grand Total | \$ 4,615,507,079 | \$ 4,955,820,938 | \$ 31,120,634,407 | \$ 5,601,769 |

INVESTMENTS
JUNE 30, 1993
100's)

(END OF YEAR)

| SALES AND REDEMPTIONS | BOOK VALUE | MARKET VALUE | % TOTAL MARKET | % YIELD AT MARKET |
|--------------------------|------------------|------------------|-------------------|----------------------|
| \$ 1,253,884,979 | \$ 2,351,414,075 | \$ 2,537,562,453 | 44.73% | 6.44% |
| 204,790,649 | 580,558,509 | 614,235,636 | 10.82 | 7.27 |
| 1,458,675,628 | 2,931,972,584 | 3,151,798,089 | 55.55% | 6.60% |
| 209,060,503 | 1,600,836,358 | 1,920,049,654 | 33.84 | 2.86 |
| 1,375,004 | 58,202,178 | 58,870,387 | 1.04 | 8.96 |
| 210,435,507 | 1,659,038,536 | 1,978,920,041 | 34.88% | 3.04% |
| 28,913,771,000 | 542,850,000 | 542,850,000 | 9.57 | 3.16 |
| 25,000,000 | | | | |
| 28,938,771,000 | 542,850,000 | 542,850,000 | 9.57 | 3.16 |
| \$ 30,607,882,135 | \$ 5,133,861,120 | \$ 5,673,568,130 | 100.00% | 5.03% |

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS YEAR ENDED JUNE 30, 1993

| | | |
|-----------------------------------|----------------|--------------------------|
| Cash Balance at Beginning of Year | | \$ 90,941 |
| Add Receipts: | | |
| Member Contributions | \$ 175,135,222 | |
| Employer Contributions | 275,959,443 | |
| Interest and Dividends | 279,989,153 | |
| Investments Redeemed | 30,730,476,125 | |
| | | <u>31,461,559,943</u> |
| Total Cash Receipts | | |
| Less Disbursements: | | |
| Benefit Payments | 282,006,357 | |
| Insurance Premiums | 46,910,888 | |
| Administrative Expenses | 4,943,592 | |
| Refunds | 6,714,014 | |
| Equipment Purchased | 102,312 | |
| Investments Purchased | 31,120,634,407 | |
| | | <u>31,461,311,570</u> |
| Total Cash Disbursements | | |
| Cash Balance at End of Year: | | <u><u>\$ 339,314</u></u> |

MEMBER RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1993 AND 1992

| | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 |
|--------------------------------------|-----------------------------|-----------------------------|
| Operating Revenues | | |
| Member Contributions | \$ 150,790,504 | \$ 148,009,769 |
| Reinstated Accounts | 676,062 | 585,388 |
| Personal Check Contributions | 4,026,180 | 3,083,368 |
| Other Revenues | 170 | (67) |
| Total Operating Revenues | 155,492,916 | 151,678,458 |
| Operating Expenses | | |
| Refund of Member Contributions | 5,782,459 | 5,804,439 |
| Other Expenses | | |
| Total Operating Expenses | 5,782,459 | 5,804,439 |
| Net Operating Income | 149,710,457 | 145,874,019 |
| Reserve Transfers | | |
| Transfer from Benefit Reserves | | |
| Disability Recoveries | 90,028 | 151,881 |
| Transfer from Unallocated Reserves | | |
| Interest Credited to Member Accounts | 38,120,794 | 34,791,920 |
| Transfer to Benefit Reserves | | |
| Retirements | (69,005,153) | (54,101,341) |
| Transfer to Unallocated Reserves | | |
| Inactive Accounts | (409,759) | (351,443) |
| Total Reserve Transfers | (31,204,090) | (19,508,983) |
| Net Fund Balance Additions | 118,506,367 | 126,365,036 |
| Beginning Fund Balance | \$1,345,217,275 | 1,218,852,239 |
| Ending Fund Balance | \$1,463,723,642 | \$1,345,217,275 |

EMPLOYER RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1993 AND 1992

| | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 |
|---|-----------------------------|-----------------------------|
| Operating Revenues | | |
| SAF Penalties | \$ 228,221 | \$ 238,628 |
| State Contributions - Matching | 134,771,531 | 131,516,156 |
| State Contributions - University Personnel | 2,786,657 | 2,852,000 |
| Employer Paid Matching | 22,603,806 | 22,190,572 |
| Employer Sick Leave Payments | 640,004 | 640,231 |
| Other Revenue | 535 | |
| Total Operating Revenues | 161,030,754 | 157,437,587 |
| Operating Expenses | | |
| Other Expenses | 37 | 3,198 |
| Net Operating Income | 161,030,717 | 157,434,389 |
| Reserve Transfers | | |
| Transfer from Unallocated Reserves | | |
| Match Interest Credited to Member Accounts | 39,277,498 | 35,817,354 |
| Reinstated Accounts | 676,062 | 585,388 |
| Balance Member Reserves and Employer Reserves | 179 | 3,667 |
| Transfer from Benefit Reserves | | |
| Disability Recoveries | 90,028 | 151,881 |
| Transfer to Benefit Reserves | | |
| Retirements | (71,370,306) | (56,206,250) |
| Transfer to Unallocated Reserves | | |
| Refund of Member Contributions | (6,378,311) | (6,274,357) |
| Inactive Accounts | (409,760) | (345,297) |
| Employer Reserves Reclassification | | |
| Total Reserve Transfers | (38,114,610) | (26,267,614) |
| Net Fund Balance Additions | 122,916,107 | 131,166,775 |
| Beginning Fund Balance | 1,386,552,694 | 1,255,385,919 |
| Ending Fund Balance | \$1,509,468,801 | \$1,386,552,694 |

BENEFIT RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1993 AND 1992

| | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 |
|---|-----------------------------|-----------------------------|
| Operating Revenues | | |
| None | | |
| Operating Expenses | | |
| Benefits for Service Retirements | \$ 260,171,765 | \$ 231,928,212 |
| Benefits for Disability Retirements | 13,557,546 | 11,896,196 |
| Survivor Benefits | 6,379,427 | 5,770,289 |
| Death Benefits | 1,848,216 | 1,627,527 |
| Total Operating Expenses | 281,956,954 | 251,222,224 |
| Net Operating Expense | (281,956,954) | (251,222,224) |
| Reserve Transfers | | |
| Transfer from Member Reserves | | |
| Retirements | 69,005,153 | 54,101,341 |
| Transfer from Employer Reserves | | |
| Retirements | 71,370,306 | 56,206,250 |
| Transfer from Unallocated Reserves | | |
| Benefits Paid in Excess of Member | | |
| Contributions and Employer Matching | 180,441,759 | 166,279,528 |
| Interest on Fund Balance | 7,770,077 | 6,065,468 |
| Transfer from Medical Insurance Reserve | | |
| Survivor Balances Remaining | | |
| Transfer to Unallocated Reserves | | |
| Refund of Member Contributions | (581,262) | (614,757) |
| Transfer to Member Reserves | | |
| Disability Recoveries | (90,028) | (151,881) |
| Transfer to Employer Reserves | | |
| Disability Recoveries | (90,028) | (151,881) |
| Total Reserve Transfers | 327,825,977 | 281,734,068 |
| Net Fund Balance Additions | 45,869,023 | 30,511,844 |
| Beginning Fund Balance | 195,460,839 | 164,948,995 |
| Ending Fund Balance | \$ 241,329,862 | \$ 195,460,839 |

MEDICAL INSURANCE RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1993 AND 1992

| | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 |
|---|-----------------------------|-----------------------------|
| Operating Revenues | | |
| Member Contributions | \$ 12,895,978 | \$ 12,672,606 |
| Insurance Premiums Paid by Members | 8,718,339 | 2,013,200 |
| State Contributions - Matching | 30,887,676 | 10,452,947 |
| Employer Paid Matching | 2,244,795 | 2,219,659 |
| Other Revenues | 25 | 168,704 |
| Total Operating Revenues | 54,746,813 | 27,527,116 |
| Operating Expenses | | |
| Comprehensive Medical Insurance Premiums | 40,291,015 | 39,999,459 |
| Reimbursement of Cobra Payment | 134,322 | 90,045 |
| Insurance Processing Charges | 2,600,853 | 2,508,122 |
| Other Expenses | 760 | 849 |
| Total Operating Expenses | 43,026,950 | 42,598,475 |
| Net Operating Expense | 11,719,863 | (15,071,359) |
| Reserve Transfers | | |
| Transfer from Unallocated Reserves | | |
| Additional Funding per KRS 161.420(6) | 7,444,800 | 6,863,684 |
| Interest on Fund Balance | 1,820,549 | 1,199,894 |
| Balance Member Reserves and Employer Reserves | 15 | 302 |
| Transfer to Unallocated Reserves | | |
| Refund of Member Contributions | (760) | (849) |
| Total Reserve Transfers | 9,264,604 | 8,063,031 |
| Net Fund Balance Reductions | 20,984,467 | (7,008,328) |
| Beginning Fund Balance | 13,648,967 | 20,657,295 |
| Ending Fund Balance | \$ 34,633,434 | \$ 13,648,967 |

403(b) PROGRAM RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1993 AND 1992

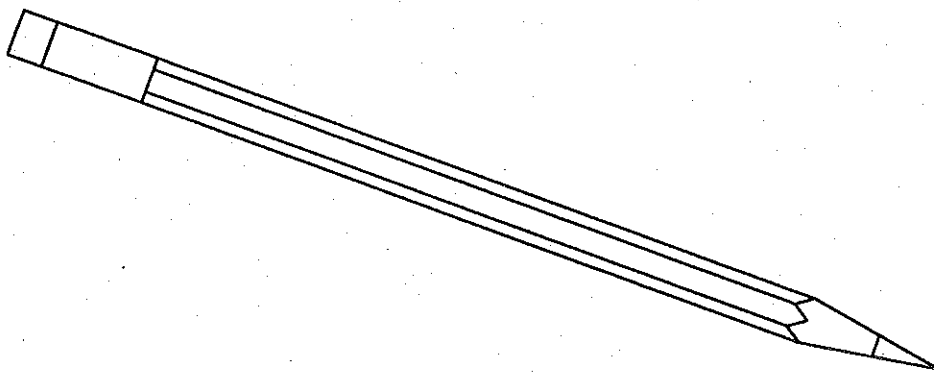
| | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 |
|--|-----------------------------|-----------------------------|
| Operating Revenues | | |
| Voluntary Contributions by Members | \$ 1,565,499 | \$ 1,768,533 |
| Operating Expenses | | |
| Benefits Increased by Voluntary Contributions | 30,751 | 35,064 |
| Benefits Continued after Voluntary Contributions Expired | 64,790 | 63,904 |
| Refund of Member Contributions | 931,518 | 708,793 |
| Total Operating Expenses | 1,027,059 | 807,761 |
| Net Operating Income | 538,440 | 960,772 |
| Reserve Transfers | | |
| Transfer from Unallocated Reserves | | |
| Benefits Continued after Voluntary Contributions Expired | 64,790 | 63,905 |
| Interest Credited to Member Accounts | 1,198,918 | 1,118,198 |
| Transfer to Unallocated Reserves | | |
| Penalty on Early Withdrawal of 403(b) Accounts | (1,042) | (1,218) |
| Total Reserve Transfers | 1,262,666 | 1,180,885 |
| Net Fund Balance Additions | 1,801,106 | 2,141,657 |
| Beginning Fund Balance | 16,890,700 | 14,749,043 |
| Ending Fund Balance | \$ 18,691,806 | \$ 16,890,700 |

UNALLOCATED RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1993 AND 1992

| | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 |
|---|-----------------------------|-----------------------------|
| Operating Revenues | | |
| Interest Earned on Investments | \$ 225,740,615 | \$ 239,566,416 |
| Dividend Income | 51,046,889 | 43,295,600 |
| Rental Income | 3,743,397 | 2,579,380 |
| Gain on Sale of Investments | 122,593,990 | 86,470,911 |
| Leased Security Income | 1,902,108 | 318,774 |
| Maintenance Reserve - Rental Property | 11,285 | 9,365 |
| State Contributions - Sick Leave | 10,780,104 | 10,627,991 |
| State Contributions - Benefit Improvement | 39,054,000 | 38,843,400 |
| State Contributions - Supplemental Appropriation | 30,209,024 | 48,967,842 |
| State Contributions - Handicapped Children | 262,805 | 244,432 |
| Employer Contributions - Supplemental Appropriation | 6,564,342 | 6,695,019 |
| Escrow Late Remittance Penalty | 13,039 | 20,789 |
| Total Operating Revenues | 491,921,598 | 477,639,919 |
| Operating Expenses | | |
| Investment Counsel Fees | 2,101,755 | 1,852,631 |
| Investment Processing Fees | 217,997 | 139,683 |
| Other Expenses | 18,329 | 37,551 |
| Total Operating Expenses | 2,338,081 | 2,029,865 |
| Net Operating Income | 489,583,517 | 475,610,054 |
| Reserve Transfers | | |
| Transfer from Various Funds | | |
| Refund of Member Contributions | 6,960,333 | 6,889,963 |
| Inactive Accounts | 819,519 | 696,740 |
| Penalty on Early Withdrawal of 403(b) Accounts | 1,042 | 1,218 |
| Employer Reserve Reclassification | | |
| Capital Construction | | 1,553 |
| Transfer to Various Funds | | |
| Benefits Paid in Excess of Member Contributions and Employer Matching | (180,506,549) | (166,343,433) |
| Interest | (88,187,836) | (78,992,834) |
| Balance Member Reserves and Employer Reserves | (194) | (3,969) |
| Reinstated Accounts | (676,062) | (585,388) |
| Additional Funding to Medical Insurance Fund | (7,444,800) | (6,863,684) |
| Per KRS 161.420(6) | | |
| Administrative Expense Allotment | (2,833,156) | (2,973,580) |
| Capital Construction | | |
| Total Reserve Transfers | (271,867,703) | (248,173,414) |
| Net Fund Balance Additions | 217,715,814 | 227,436,640 |
| Beginning Fund Balance | 1,723,320,797 | 1,495,884,157 |
| Ending Fund Balance | \$1,941,036,611 | \$1,723,320,797 |

ADMINISTRATIVE EXPENSE RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1993 AND 1992

| | YEAR ENDED JUNE 30, 1993 | YEAR ENDED JUNE 30, 1992 |
|--|-----------------------------|-----------------------------|
| Operating Revenues | | |
| None | | |
| Operating Expenses | | |
| Salaries, Wages, and Fringe Benefits | \$ 2,161,000 | \$ 2,220,130 |
| Other Personnel Costs | 4,811 | 4,679 |
| Professional Contracts | 109,999 | 152,009 |
| Utilities and Heating Fuels | 20,185 | 26,228 |
| Rentals | 12,453 | 11,257 |
| Maintenance and Repairs | 67,339 | 71,560 |
| Postage and Related Services | 190,924 | 198,854 |
| Printing | 50,751 | 30,783 |
| Insurance | 70,196 | 69,412 |
| Miscellaneous Services | 1,895 | 2,094 |
| Telecommunications | 40,741 | 42,486 |
| Computer Services | 10,685 | 5,086 |
| Supplies | 31,764 | 26,360 |
| Depreciation | 132,807 | 142,644 |
| Travel | 18,444 | 24,155 |
| Dues and Subscriptions | 16,589 | 16,785 |
| Furniture, Fixtures, and Equipment Not Capitalized | 6,814 | 1,638 |
| Miscellaneous Commodities | 10,893 | 4,973 |
| Compensated Absences | 16,434 | 27,071 |
| Total Operating Expenses | 2,974,724 | 3,078,204 |
| Net Operating Expense | (2,974,724) | (3,078,204) |
| Reserve Transfers | | |
| Transfer from Unallocated Reserves | | |
| Allotment | 2,833,156 | 2,973,580 |
| Total Reserve Transfers | 2,833,156 | 2,973,580 |
| Net Fund Balance Reductions | (141,568) | (104,624) |
| Beginning Fund Balance | 2,742,886 | 2,847,510 |
| Ending Fund Balance | \$ 2,601,318 | \$ 2,742,886 |



*"We don't need more strength
or more ability or
greater opportunity.
What we need is
to use what we have"*

-Basil S. Wash

ACTUARY'S CERTIFICATION LETTER

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1060
Atlanta, Georgia 30339

September 30, 1993

Board of Trustees
Teachers' Retirement System of the
State of Kentucky
479 Versailles Road
Frankfort, Kentucky 40601-2868

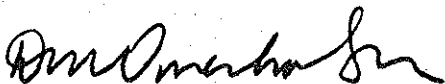
Ladies and Gentlemen:

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 have submitted the results of the actuarial valuation prepared as of June 30, 1992. The valuation indicates that combined member and State contributions at the rate of 18.50% of university members' salaries and 21.46% of non-university members' salaries are sufficient to support the benefits of the System. In preparing the valuation, the actuary relied on data provided by the System. While not verifying the data at source, the actuary performed tests for consistency and reasonability.

The financing objective of the System is that contribution rates will remain relatively level over time as a percentage of payroll. Contribution rates are developed using the unit credit actuarial cost method with projected benefits. (Modified market value of plan assets is used for actuarial valuation purposes - the book value of assets is adjusted to reflect the average ratio of market value to book value during the five years ending on the valuation date. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 5% annually.) The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System.

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

Sincerely,



Donald M. Overholser
Consulting Actuary

Buck Consultants, Inc.
404 | 855-2488 Fax 404 | 933-8336

REPORT OF ACTUARY ON THE VALUATION

PREPARED AS OF JUNE 30, 1992

SECTION I - SUMMARY OF PRINCIPAL RESULTS

- 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, 1992 | | JUNE 30, 1991 | |
|--|---------------|-----------|---------------|-----------|
| Number of active members | 49,027 | | 48,169 | |
| Annual salaries | \$1,669,228 | | \$1,522,497 | |
| Number of annuitants and beneficiaries | 21,161 | | 20,507 | |
| Annual allowances | \$ 252,989 | | \$ 226,363 | |
| Assets for valuation purposes | \$4,808,670 | | \$4,259,123 | |
| Unfunded actuarial accrued liability | \$1,510,303 | | \$1,456,907 | |
| Statutory contribution rates: | UNIV. | Non-UNIV. | UNIV. | Non-UNIV. |
| Member | 7.625% | 9.105% | 7.625% | 9.105% |
| State | 10.875 | 12.355 | 10.875 | 12.355 |
| Total | 18.500% | 21.460% | 18.500% | 21.460% |
| Actuarially determined contribution rates: | | | | |
| Normal | 12.730% | 16.290% | 12.770% | 16.150% |
| Accrued liability (balancing item) | 5.770 | 5.170 | 5.730 | 5.310 |
| Total | 18.500% | 21.460% | 18.500% | 21.460% |
| Accrued liability funding period | 24 years | | 25½ years | |

- The valuation indicates that combined member and State contributions at the current rate of 18.50% of salaries for university members and at 21.46% for non-university members are just sufficient to support the benefits of the System. Comments on the valuation results as of June 30, 1992 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.
- Schedule B of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. There have been no changes in actuarial assumptions since the previous valuation.
- The valuation takes into account the effect of amendments to the System enacted through the 1992 Session of the Legislature and effective on the valuation date. Since the previous valuation, the System has been amended in order to increase the minimum value of a year of service from \$220 to \$240, to increase the minimum monthly annuity for disability retirees from \$300 to \$500, to increase the monthly benefit for surviving spouses and children by approximately 10%, and to increase the death benefit for retired members from \$2,500 to \$2,800. The valuation also reflects the one time cost of living increase of 1.0% of the first \$1,250 of monthly annuity for members and for beneficiaries of members who retired on or before July 1, 1992. Provisions of the System which were taken into account in the current valuation are summarized in Schedule D (not shown in this annual report).

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SECTION II - MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuation were furnished by the Retirement System office. The following table shows the number of active members and their annual salaries as of June 30, 1992 on the basis of which the valuation was prepared.

| GROUP | NUMBER | ANNUAL SALARIES (\$1,000's) |
|-------|--------|--------------------------------|
| Men | 14,279 | \$ 551,875 |
| Women | 34,748 | 1,117,353 |
| Total | 49,027 | \$1,669,228 |

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, 1992.

**THE NUMBER AND ANNUAL RETIREMENT ALLOWANCES OF
ANNUITANTS AND BENEFICIARIES ON THE ROLL AS OF JUNE 30, 1992**

| GROUP | NUMBER | ANNUAL RETIREMENT ALLOWANCES (\$1,000's) |
|-----------------------------------|--------|---|
| Service Retirements | 18,213 | \$ 229,053 |
| Disability Retirements | 1,068 | 11,973 |
| Beneficiaries of Deceased Members | 1,539 | 10,593 |
| Total | 20,820 | \$ 251,619 |

In addition, there are 341 beneficiaries entitled to term-certain only annuities totaling \$1,370,000 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 eight 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 Medical Insurance Fund; the Expense Fund; the Voluntary Contribution Fund; and the Capital Construction 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 Allowance Reserve 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, 1992 amounted to \$1,345,217,275.

(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 Allowance Reserve 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, 1992 amounted to \$1,386,552,694.

(c) Allowance Reserve Fund

The Allowance Reserve Fund is the Fund from which all retirement, survivor and death benefit 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. The assets credited to the Allowance Reserve Fund as of June 30, 1992 amounted to \$195,460,839.

(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, 1992 the assets credited to this Fund amounted to \$1,723,320,797.

(e) Medical Insurance Fund

Medical benefits are payable from this Fund, which is supported by the joint contributions of members and the State. The assets credited to this Fund as of June 30, 1992 amounted to \$13,648,967. This amount was not included in the assets used for valuation purposes.

(f) Expense Fund

The assets credited to this Fund as of June 30, 1992 amounted to \$2,742,886. 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, 1992 amounted to \$16,890,700. This amount was not included in the assets used for valuation purposes.

(h) Capital Construction Fund

There are no assets credited to this Fund as of June 30, 1992.

2. As of June 30, 1992 the total book value of assets held by the System amounted to \$4,683,834,158. Of this amount, \$4,650,551,605 was used for valuation purposes.
3. The book value of assets was adjusted to reflect the average ratio of market value to book value during the five years ending on the valuation date. Application of the adjustment factor of 1.034 to the book value of assets resulted in a modified market value of \$4,808,670,360 to be used for valuation purposes, as shown in the table on the following page.

ASSETS AS OF JUNE 30, 1992

| FUND | ASSETS FOR VALUATION PURPOSES | OTHER ASSETS | TOTAL ASSETS |
|-------------------------------|------------------------------------|---------------|------------------|
| Teachers' Savings | \$ 1,345,217,275 | | \$ 1,345,217,275 |
| State Accumulation | 1,386,552,694 | | 1,386,552,694 |
| Allowance Reserve | 195,460,839 | | 195,460,839 |
| Guarantee | 1,723,320,797 | | 1,723,320,797 |
| Medical Insurance | | \$ 13,648,967 | 13,648,967 |
| Expense | | 2,742,886 | 2,742,886 |
| Voluntary Member Contribution | | 16,890,700 | 16,890,700 |
| Capital Construction | | 0 | 0 |
| Total | \$ 4,650,551,605 | \$ 33,282,553 | \$ 4,683,834,158 |
| Market Value Adjustment | <u> x 1.034 </u> | | |
| Modified Market Value | \$ 4,808,670,360 | | |

SECTION IV - COMMENTS ON VALUATION

- Schedule A of this report outlines the results of the actuarial valuation (amounts are \$1,000's). The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method which are described in Schedule B.
- The valuation shows that the System has an actuarial accrued liability of \$4,179,704 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 \$2,059,426 after adjustment for special appropriations remaining to be made toward funding minimum annuities and the 1982, 1987, 1989, 1990, 1991, and 1992 ad hoc increases, and the liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is \$79,843. The total actuarial accrued liability of the System amounts to \$6,318,973. Against these liabilities, the System has present assets for valuation purposes of \$4,808,670. When this amount is deducted from the actuarial accrued liability of \$6,318,973, there remains \$1,510,303 as the unfunded actuarial accrued liability.
- 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 12.73% of payroll for university members and 16.29% for non-university members.

SECTION V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

- Section 161.540 of the retirement law provides that each university member will contribute 8.375% of his annual salary to the System and each non-university member will contribute 9.855% of salary. Of this amount, 0.75% is paid to the Medical Insurance Fund for medical benefits leaving 7.625% for university members and 9.105% for non-university members applicable for the retirement and death benefits taken into account in the valuation.
- Section 161.550 provides that the State will match the member contributions and contribute an additional 3.25% of members' salaries towards discharging the System's unfunded obligations.
- The total net statutory contribution rate is 18.50% of active university members' salaries and 21.46% for active non-university members.

NET STATUTORY CONTRIBUTION RATES

| SOURCE | UNIVERSITY | NON-UNIVERSITY |
|--------------|------------------|------------------|
| Member State | 7.625% 10.875 | 9.105% 12.355 |
| Total | 18.500% | 21.460% |

- The valuation indicates that normal contributions at the rate of 12.73% of active university members' salaries are required to meet the cost of benefits currently accruing. The rate for non-university members is 16.29%. 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 5.77% for university members and 5.17% for non-university members. These rates are shown in the following table.

ACTUARIALLY DETERMINED CONTRIBUTION RATES

| RATE | PERCENTAGE OF MEMBERS' SALARIES | |
|-------------------------------|---------------------------------|----------------|
| | UNIVERSITY | NON-UNIVERSITY |
| Normal | 12.73% | 16.29% |
| Accrued liability (balancing) | 5.77 | 5.17 |
| Total | 18.50% | 21.46% |

- The unfunded actuarial accrued liability amounts to \$1,510,303,000 as of the valuation date. Accrued liability contributions at the rate of 5.77% of active university members' payroll and 5.17% of non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over the 24 year period commencing June 30, 1992, based on the assumption that the payroll will increase by 5% annually.

SECTION VI - COMMENTS ON LEVEL OF FUNDING

- 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 21.46% of payroll for these members. For university members the benefit percentage is 2% for all service and the contribution rate is 18.50%. Our calculations indicate that these contribution rates will be sufficient to cover the basic benefits of the System and the annual 1½% increases in the allowances of retired members and beneficiaries. Special appropriations are being made toward the minimum annuities and ad hoc increases granted in 1982, 1987, 1989, 1990, 1991, and 1992.
- 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 net effect of the System experience and amendments has produced a decrease in the funding period for the unfunded actuarial accrued liability from 25½ years to 24 years.
- The System has been operating on an actuarially sound basis. However, there are no excess assets or contributions available to provide additional benefits. Any further benefit improvements, including the ad hoc increases previously noted, should be accompanied by the additional contributions necessary to support the benefits.

SECTION VII - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statement No. 5 sets forth certain items of information to be disclosed in the financial statements of the System and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

**NUMBER OF ACTIVE AND RETIRED MEMBERS
As of JUNE 30, 1992**

| GROUP | NUMBER |
|----------------------------|--------|
| Retirees and Beneficiaries | 21,161 |
| Active Members: | |
| Vested | 38,579 |
| Non-vested | 10,448 |
| Total | 70,188 |

2. Another such item is the pension benefit obligation, a standardized measure of the System's liabilities. It is the amount owed for benefits allocated to employee service before the balance sheet date, when total projected benefits (including the effects of projected salary increases) are allocated equally over all years of employee service before and after the balance sheet date. The pension benefit obligation, prepared in accordance with Governmental Accounting Standards Board Statement No. 5, and a comparison with net assets available for benefits as of June 30, 1992, are presented below.

PENSION BENEFIT OBLIGATION
(IN \$1,000's)

| | |
|--|-----------|
| * Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving benefits | 2,139,269 |
| * Current employees: | |
| Accumulated contributions | 1,345,217 |
| Employer-financed vested | 1,593,182 |
| Employer-financed nonvested | 1,241,305 |
| Total Pension Benefit Obligation | 6,318,973 |
| * Net assets available for benefits | 4,650,552 |
| * Unfunded Pension Benefit Obligation | 1,668,421 |

3. The following first six years of the ten-year historical trend information, prepared in accordance with Governmental Accounting Standards Board Statement No. 5, provides information on progress made in accumulating sufficient assets to pay benefits when due. A purpose of the chart is to establish a consistent method for analyzing and making comparisons among different public retirement systems.

REQUIRED SUPPLEMENTARY INFORMATION ANALYSIS OF FUNDING PROGRESS
(IN \$ MILLIONS)

| FISCAL YEAR ENDED | (1) NET ASSETS AVAILABLE FOR BENEFITS | (2) PENSION BENEFIT OBLIGATION | (3) PERCENTAGE FUNDED (1) ÷ (2) | (4) UNFUNDED PENSION BENEFIT OBLIGATION (2) - (1) | (5) ANNUAL COVERED PAYROLL | (6) UNFUNDED PBO AS % OF COVERED PAYROLL (4) ÷ (5) |
|-------------------------|--|---|--|--|-------------------------------------|---|
| 6/30/87 | \$2,562.3 | \$3,799.3 | 67.4% | \$1,237.0 | \$1,101.7 | 112.3% |
| 6/30/88 | 2,915.7 | 4,287.3 | 68.0 | 1,371.6 | 1,212.6 | 113.1 |
| 6/30/89 | 3,256.7 | 4,680.8 | 69.6 | 1,424.1 | 1,261.4 | 112.9 |
| 6/30/90 | 3,660.9 | 5,072.1 | 72.2 | 1,411.2 | 1,340.3 | 105.3 |
| 6/30/91 | 4,135.1 | 5,716.0 | 72.3 | 1,580.9 | 1,522.5 | 103.8 |
| 6/30/92 | 4,650.6 | 6,319.0 | 73.6 | 1,668.4 | 1,669.2 | 100.00 |

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 the Retirement System'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.

SCHEDULE A
RESULTS OF THE VALUATION PREPARED AS OF JUNE 30, 1992
(\$1,000's)

1. Actuarial Accrued Liability

Present value of prospective benefits payable in respect of:

(a) Present active members:

| | |
|-----------------------------------|-------------|
| - Service retirement benefits | \$3,789,908 |
| - Disability retirement benefits | 195,745 |
| - Death and survivor benefits | 110,587 |
| - Refunds of member contributions | 83,464 |
| | <hr/> |

Total

\$4,179,704

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

79,843

(c) Present annuitants and beneficiaries

| | |
|----------------------------------|-------------|
| - Service retirement benefits | \$1,861,564 |
| - Disability retirement benefits | 79,995 |
| - Death and survivor benefits | 117,867 |
| | <hr/> |

Total

2,059,426

(d) Total actuarial accrued liability

\$6,318,973

2. Present Assets for Valuation Purposes

4,808,670

3. Unfunded Actuarial Accrued Liability
[(1) minus (2)]

\$1,510,303

4. Normal Contribution Rate

| | <u>UNIVERSITY</u> | <u>NON-UNIVERSITY</u> |
|---|-------------------|-----------------------|
| (a) Actuarial present value of benefits accruing annually | \$16,438 | \$ 250,905 |
| (b) Annual payroll of active members | 129,090 | 1,540,138 |
| (c) Normal contribution rate [4(a) divided by 4(b)] | 12.73% | 16.29% |

SCHEDULE B **OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS**

INTEREST RATE: 8.0% per annum, compounded annually (Adopted 1989).

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows (Adopted 1989):

| AGE | ANNUAL RATE |
|-----|-------------|
| 20 | 9.60% |
| 25 | 8.70 |
| 30 | 7.70 |
| 35 | 7.00 |
| 40 | 6.50 |
| 45 | 6.20 |
| 50 | 6.00 |
| 55 | 5.80 |
| 60 | 5.70 |
| 65 | 5.50 |

DEATHS AFTER RETIREMENT: Representative values of the assumed annual rates of death after service and disability retirement are as follows (Adopted 1983):

| 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: Modified market value.

SEPARATIONS FROM SERVICE: Representative values of the assumed annual rates of death, disability, withdrawal and service retirement are as follows (Adopted 1983):

| AGE | <u>MEN</u> | | | | |
|-----|----------------|------------|------------|---------------------|------------------|
| | ANNUAL RATE OF | | | | |
| | DEATH | DISABILITY | WITHDRAWAL | SERVICE RETIREMENT* | EARLY RETIREMENT |
| 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 15% of men will retire in their first year of eligibility if before age 60.

| AGE | <u>WOMEN</u> | | | | |
|-----|----------------|------------|------------|---------------------|------------------|
| | ANNUAL RATE OF | | | | |
| | DEATH | DISABILITY | WITHDRAWAL | SERVICE RETIREMENT* | EARLY RETIREMENT |
| 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 20% of women will retire in their first year of eligibility if before age 60.

SOLVENCY TEST

(IN MILLIONS OF DOLLARS)

| FISCAL YEAR | AGGREGATE ACCRUED LIABILITIES FOR | | | VALUATION ASSETS | PORTION OF ACCRUED LIABILITIES COVERED BY ASSETS | | |
|----------------|--|--|---|---------------------|--|-----|-----|
| | (1) ACTIVE MEMBER CONTRIBUTIONS | (2) RETIRANTS AND BENEFICIARIES | (3) ACTIVE MEMBERS (EMPLOYER FINANCED PORTION) | | (1) | (2) | (3) |
| | | | | | | | |
| 1982 | \$ 467.6 | \$ 941.8 | \$1,031.3 | \$1,163.7 | 100% | 74% | 0% |
| 1984 | 580.8 | 1,101.2 | 1,225.8 | 1,569.1 | 100 | 90 | 0 |
| 1986 | 719.1 | 1,320.2 | 1,316.9 | 2,214.2 | 100 | 100 | 13 |
| 1987 | 805.4 | 1,430.0 | 1,563.9 | 2,562.3 | 100 | 100 | 21 |
| 1988 | 906.4 | 1,499.2 | 1,881.7 | 2,915.7 | 100 | 100 | 27 |
| 1989 | 997.8 | 1,690.7 | 1,992.4 | 3,256.7 | 100 | 100 | 29 |
| 1990 | 1,098.3 | 1,862.8 | 2,111.0 | 3,660.9 | 100 | 100 | 33 |
| 1991 | 1,218.8 | 2,037.5 | 2,459.6 | 4,135.0 | 100 | 100 | 36 |
| 1992 | 1,345.2 | 2,139.3 | 2,834.5 | 4,650.6 | 100 | 100 | 41 |
| 1993 | 1,463.7 | 2,461.5 | 2,927.5 | 5,155.6 | 100 | 100 | 42 |

The solvency test is one means of checking a system's progress under its funding program. In a solvency test, the plan's present assets are compared with (1) the active member contributions, (2) the amount necessary to cover the present value of benefits payable to current retirees and beneficiaries and (3) the amount necessary to cover the present value of benefits owed to active members for service already rendered. The total of (1), (2) and (3) is the total actuarial accrued liability of the plan.

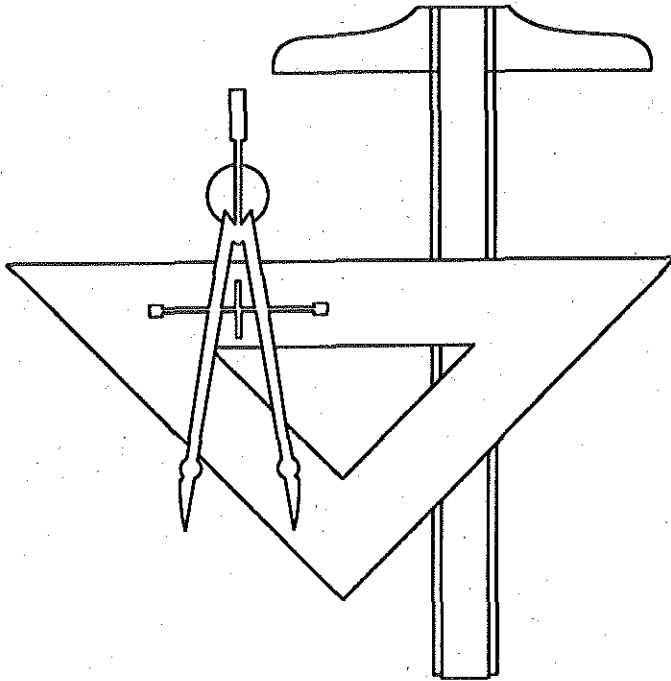
In a system that has been following the discipline of level percent of payroll financing, such as KTRS, the liabilities in columns (1) and (2) should be fully covered by assets and the portion of the liability in column 3 covered by assets should increase over time.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

| FISCAL YEAR | (1) NUMBER OF ACTIVE MEMBERS | (2) TOTAL ANNUAL PAYROLL | (3) AVERAGE ANNUAL PAY (2) ÷ (1) | (4) % INCREASE (DECREASE) IN AVERAGE PAY |
|-------------|------------------------------------|--------------------------------|---|---|
| 1984 | 41,438 | 916,650,063 | 22,121 | 10.8 |
| 1985 | 43,375 | 950,093,444 | 21,904 | (1.0) |
| 1986 | 44,366 | 1,006,751,275 | 22,692 | 3.6 |
| 1987 | 44,556 | 1,104,968,563 | 24,800 | 9.3 |
| 1988 | 46,396 | 1,217,746,805 | 26,247 | 5.8 |
| 1989 | 46,937 | 1,268,680,057 | 27,029 | 3.0 |
| 1990 | 47,284 | 1,346,537,954 | 28,478 | 5.4 |
| 1991 | 48,415 | 1,535,562,959 | 31,717 | 11.4 |
| 1992 | 49,248 | 1,677,794,446 | 34,068 | 7.4 |
| 1993 | 50,019 | 1,707,158,968 | 34,130 | .2 |

SCHEDULE OF RETIRANTS, BENEFICIARIES AND SURVIVORS ADDED TO AND REMOVED FROM ROLLS

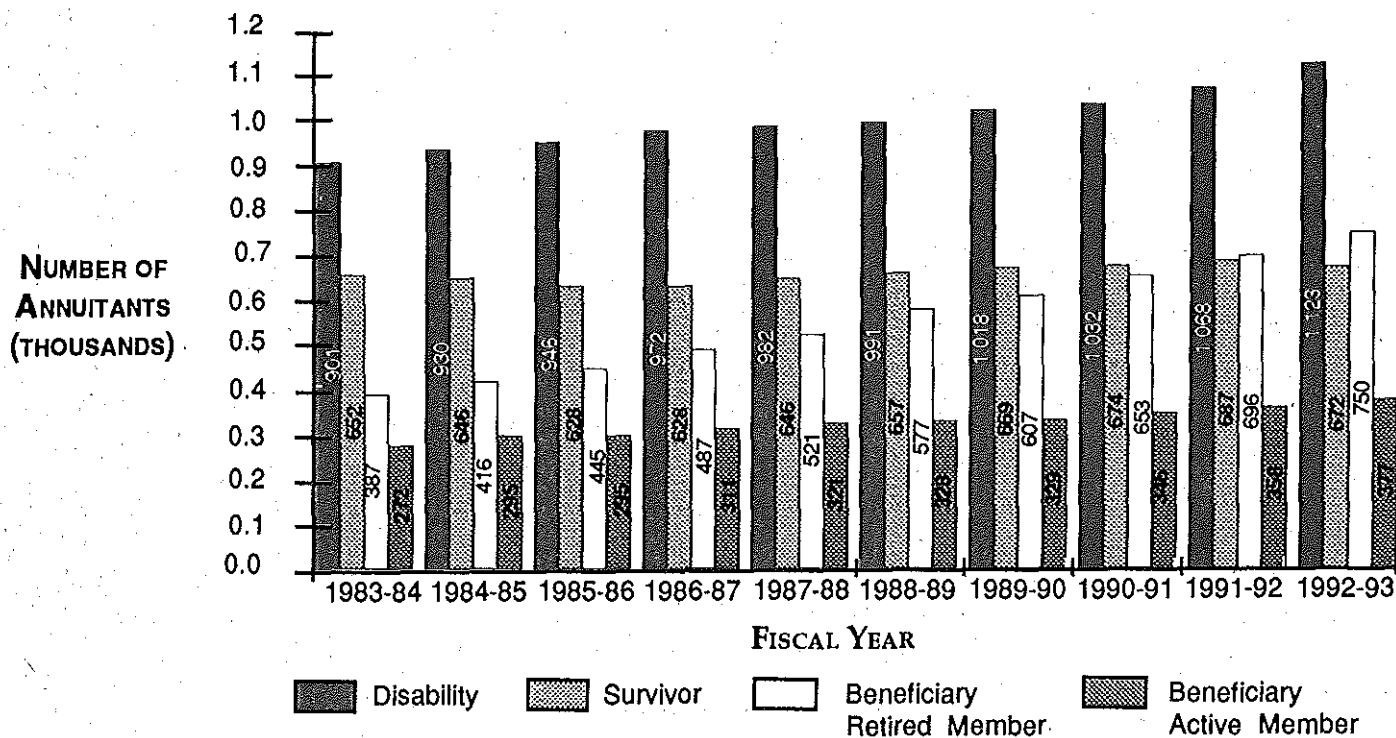
| YEAR ENDED | ADDED TO ROLLS | | REMOVED FROM ROLLS | | ROLLS-END OF YEAR | | % INCREASE IN ANNUAL ALLOWANCES | AVERAGE ANNUAL ALLOWANCES |
|---------------|----------------|------------------------------------|--------------------|------------------------------------|-------------------|------------------------------------|---------------------------------------|---------------------------------|
| | NUMBER | ANNUAL ALLOWANCES (MILLIONS) | NUMBER | ANNUAL ALLOWANCES (MILLIONS) | NUMBER | ANNUAL ALLOWANCES (MILLIONS) | | |
| 1984 | 1,082 | 15.4 | 574 | 3.4 | 16,787 | 121.6 | 10.9 | 7,243 |
| 1985 | 1,209 | 13.5 | 630 | 4.1 | 17,366 | 131.0 | 7.7 | 7,545 |
| 1986 | 1,213 | 14.7 | 647 | 4.1 | 17,932 | 141.6 | 8.1 | 7,896 |
| 1987 | 1,119 | 18.7 | 695 | 4.9 | 18,356 | 155.4 | 9.7 | 8,464 |
| 1988 | 981 | 17.8 | 738 | 5.6 | 18,599 | 167.6 | 7.8 | 9,012 |
| 1989 | 1,565 | 25.4 | 811 | 6.7 | 19,353 | 186.3 | 11.2 | 9,626 |
| 1990 | 1,356 | 24.4 | 757 | 6.6 | 19,952 | 204.1 | 9.6 | 10,231 |
| 1991 | 1,376 | 29.4 | 854 | 7.8 | 20,474 | 225.7 | 10.6 | 11,025 |
| 1992 | 1,459 | 34.5 | 805 | 7.8 | 21,128 | 252.3 | 11.8 | 11,944 |
| 1993 | 1,660 | 37.6 | 849 | 8.3 | 21,939 | 281.6 | 11.6 | 12,836 |



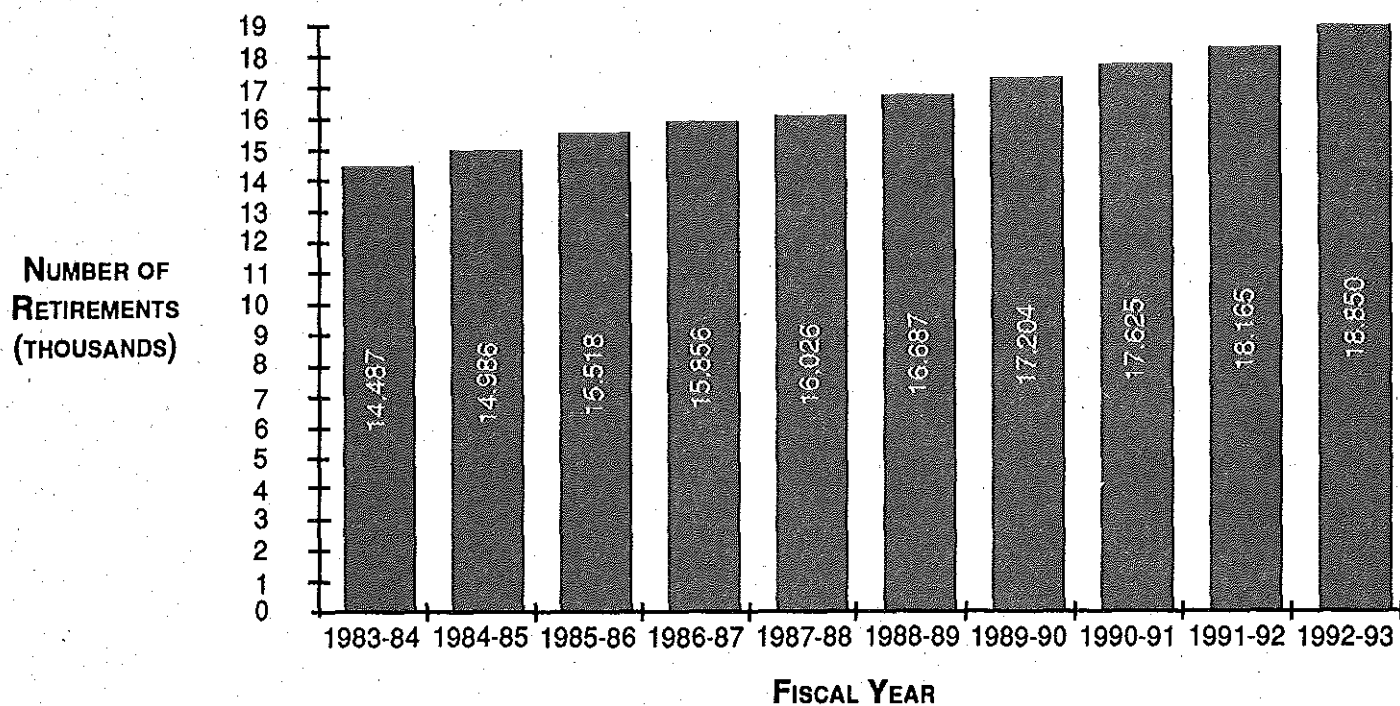
*"If you lose the
power to laugh,
you lose the
power to think."*

-Clarence Darrow

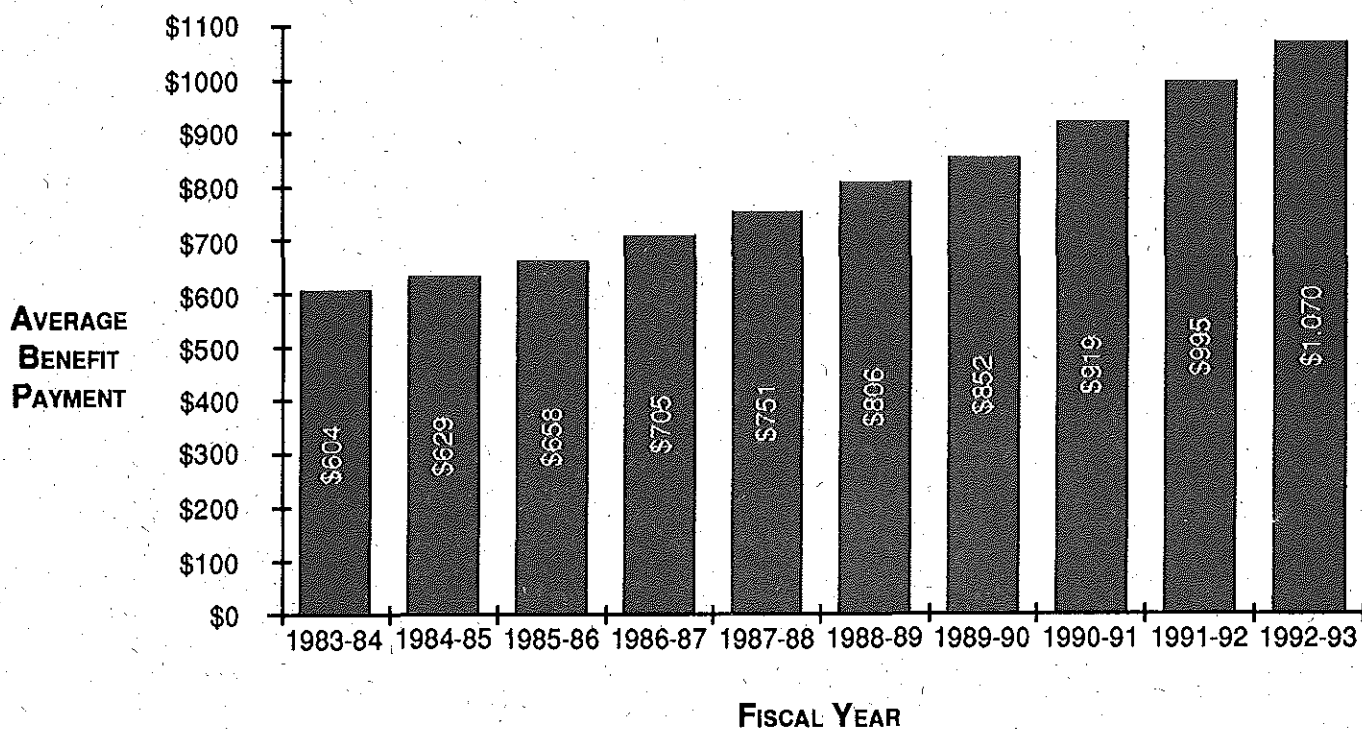
GROWTH IN ANNUITANTS (EXCEPT SERVICE RETIREMENTS)



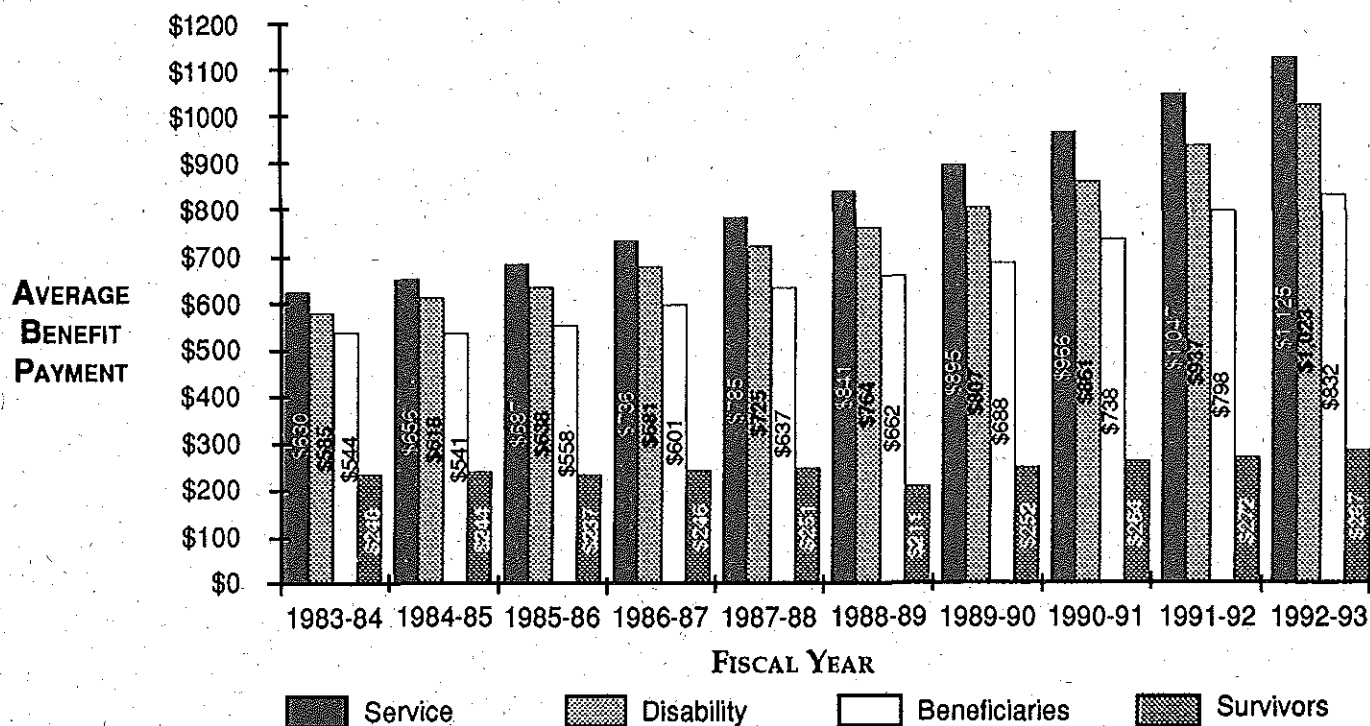
GROWTH IN SERVICE RETIREMENTS



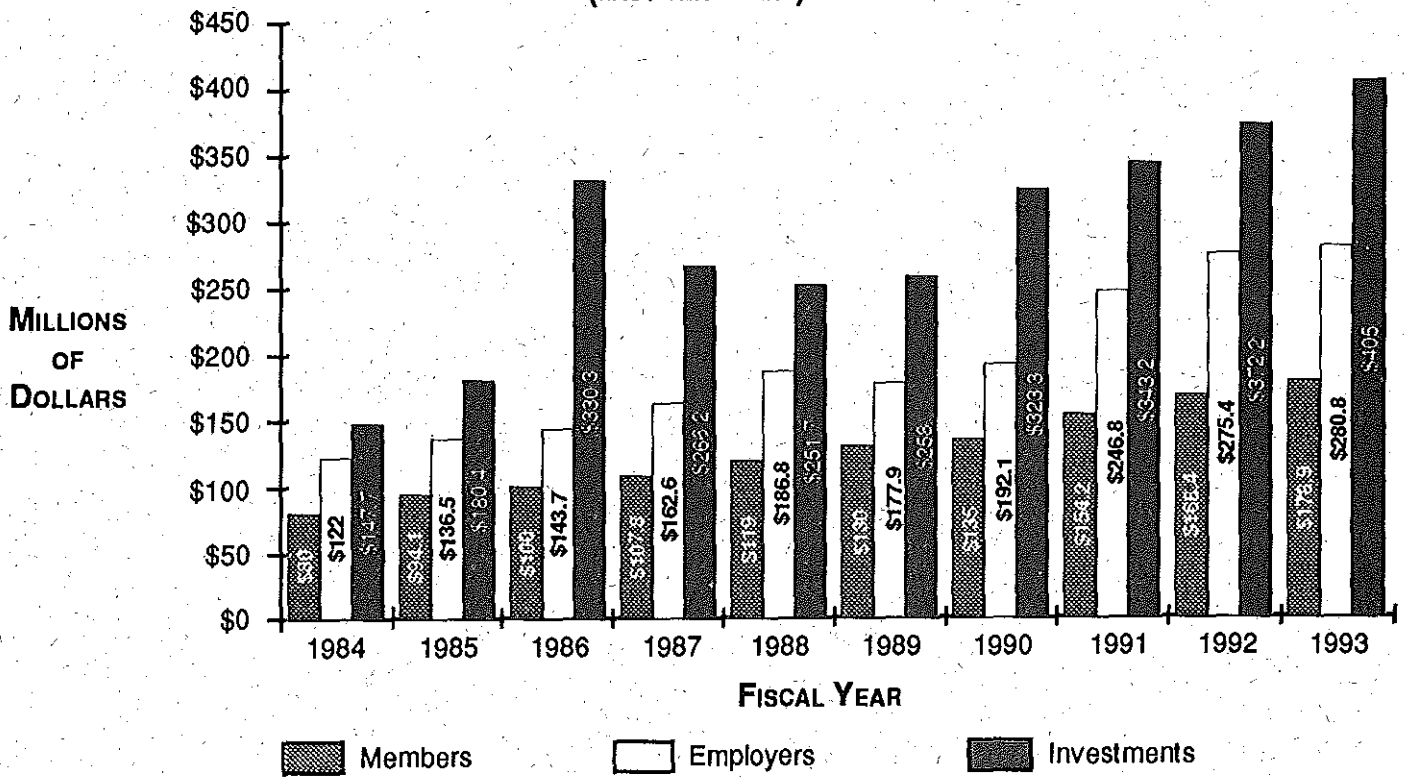
AVERAGE BENEFIT PAYMENTS



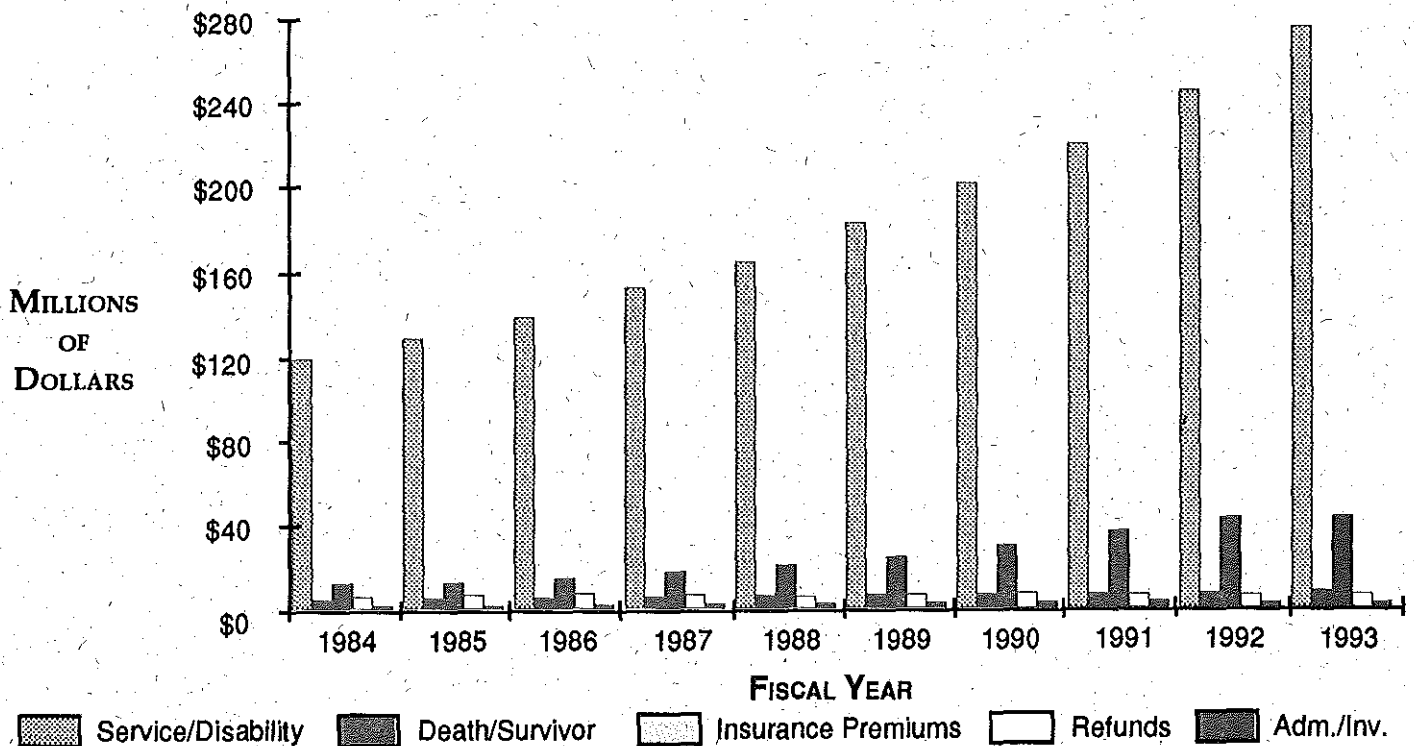
AVERAGE BENEFIT PAYMENTS (ALL RECIPIENTS)



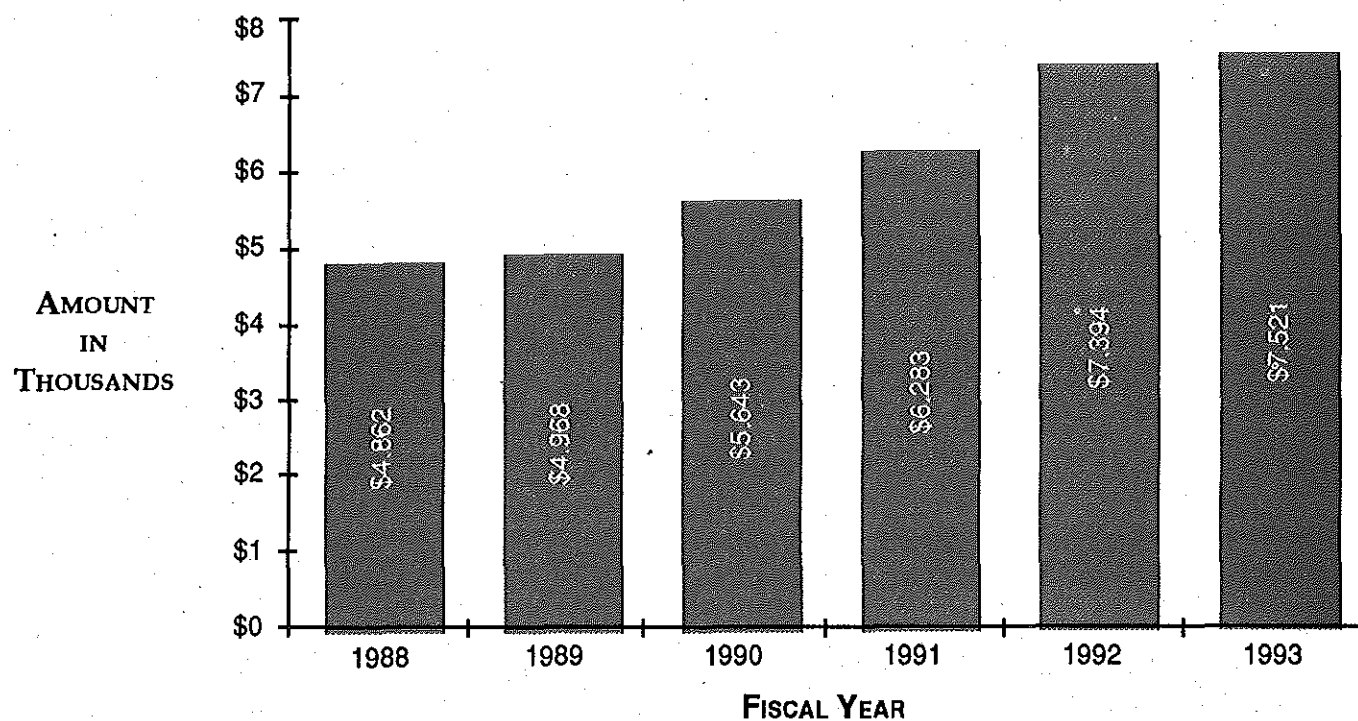
SUMMARY OF REVENUE BY SOURCE (LAST TEN YEARS)



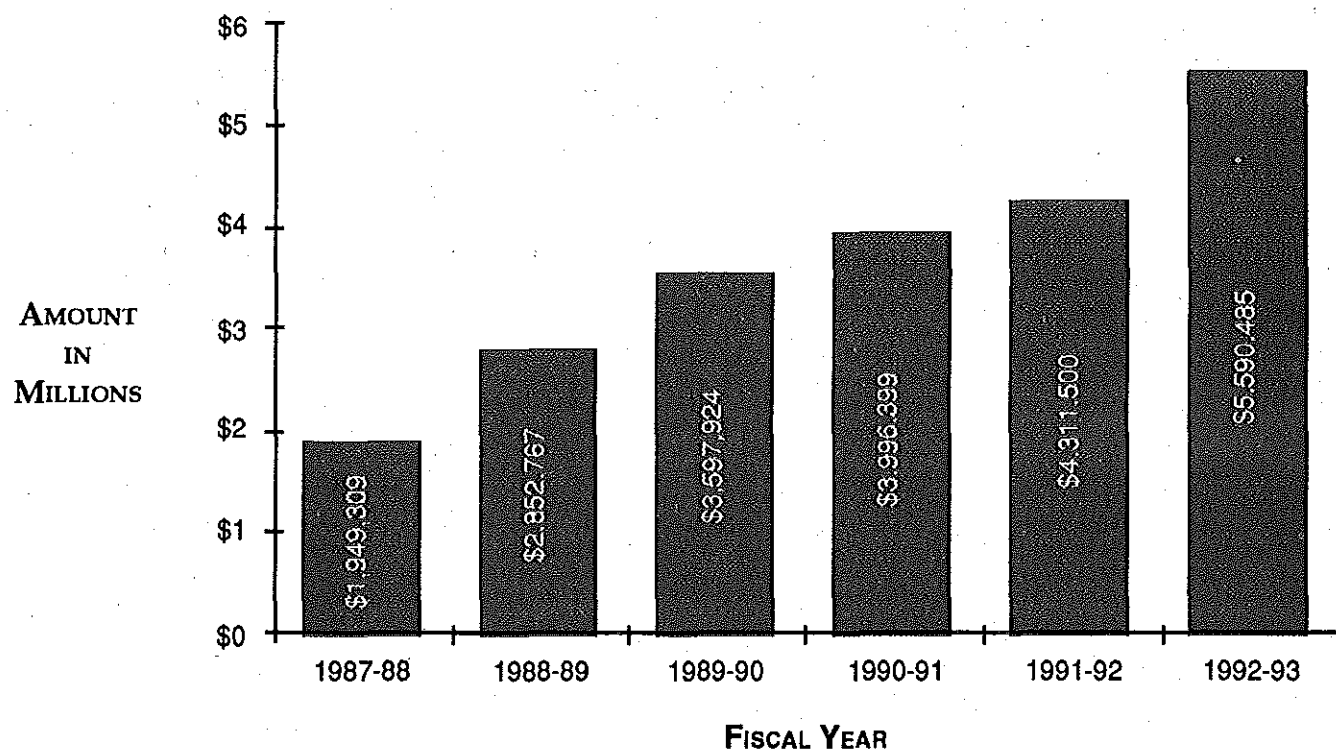
SUMMARY OF EXPENSES BY TYPE (LAST TEN YEARS)



AVERAGE SICK LEAVE PAYMENTS

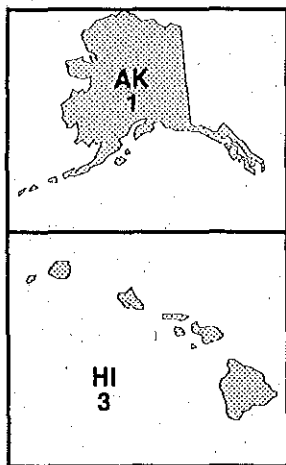
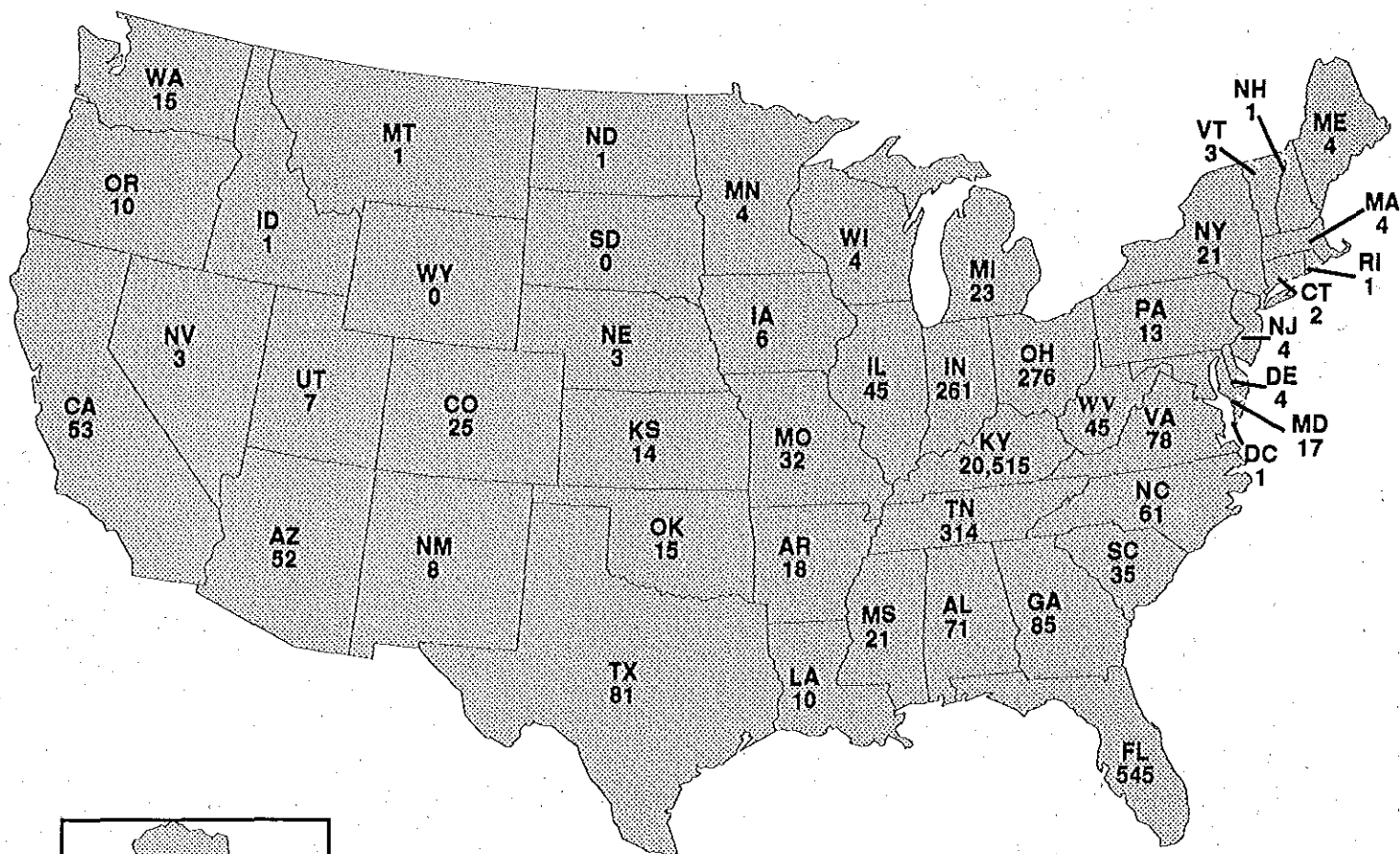


SUMMARY OF PERSONAL CHECK PAYMENTS



DISTRIBUTION OF RETIREMENT PAYMENTS WORLDWIDE

AS OF JUNE 30, 1993



TOTAL NUMBER OF PAYMENTS = 22,825
TOTAL AMOUNT OF PAYMENTS = \$280,119,964

OTHER:

PUERTO RICO 1
 MILITARY APO 1
 WEST INDIES 1

MEXICO 1
 PHILLIPPINES 2
 SWITZERLAND 1
 TURKEY 1

TOTAL OUT OF STATE =
 2,310

DISTRIBUTION OF RETIREMENT PAYMENTS STATEWIDE

AS OF JUNE 30, 1993

| COUNTY NAME | TOTAL PAYMENTS | NUMBER OF RECIPIENTS |
|--------------|----------------|----------------------|
| Adair | \$ 1,271,608 | 112 |
| Allen | 1,067,567 | 78 |
| Anderson | 982,202 | 81 |
| Ballard | 539,365 | 48 |
| Barren | 2,626,300 | 210 |
| Bath | 903,039 | 81 |
| Bell | 2,868,742 | 238 |
| Boone | 2,885,902 | 214 |
| Bourbon | 1,438,956 | 114 |
| Boyd | 3,557,203 | 313 |
| Boyle | 2,172,927 | 172 |
| Bracken | 507,484 | 43 |
| Breathitt | 1,481,192 | 117 |
| Breckinridge | 876,162 | 83 |
| Bullitt | \$ 2,109,706 | 140 |
| Butler | 915,003 | 78 |
| Caldwell | 998,273 | 90 |
| Calloway | 4,451,813 | 328 |
| Campbell | 3,190,321 | 259 |
| Carlisle | 385,905 | 35 |
| Carroll | 517,800 | 43 |
| Carter | 1,988,107 | 167 |
| Casey | 1,485,897 | 118 |
| Christian | 2,868,344 | 253 |
| Clark | 1,530,037 | 135 |
| Clay | 2,294,895 | 196 |
| Clinton | 880,493 | 69 |
| Crittenden | 551,334 | 53 |
| Cumberland | \$ 715,212 | 59 |
| Daviess | 5,925,230 | 473 |
| Edmonson | 612,233 | 53 |
| Elliott | 423,733 | 33 |
| Estill | 823,070 | 72 |
| Fayette | 15,494,702 | 1,113 |
| Fleming | 937,827 | 79 |
| Floyd | 4,152,772 | 325 |
| Franklin | 5,067,539 | 417 |
| Fulton | 580,357 | 60 |
| Gallatin | 256,943 | 25 |
| Garrard | 876,746 | 74 |
| Grant | 916,925 | 78 |
| Graves | 1,906,923 | 184 |
| Grayson | 1,628,942 | 132 |
| Green | 996,445 | 76 |
| Greenup | 2,578,931 | 197 |
| Hancock | 630,782 | 45 |
| Hardin | 4,090,522 | 300 |
| Harlan | 3,190,551 | 247 |

| COUNTY NAME | TOTAL PAYMENTS | NUMBER OF RECIPIENTS |
|-------------|----------------|----------------------|
| Harrison | 1,210,925 | 98 |
| Hart | 1,041,333 | 82 |
| Henderson | 1,909,337 | 160 |
| Henry | 1,109,929 | 96 |
| Hickman | 246,381 | 26 |
| Hopkins | 2,644,091 | 240 |
| Jackson | 991,167 | 88 |
| Jefferson | 45,228,340 | 3,102 |
| Jessamine | 1,339,604 | 110 |
| Johnson | 2,398,839 | 190 |
| Kenton | 4,174,216 | 332 |
| Knott | 1,590,253 | 136 |
| Knox | 1,702,329 | 150 |
| Larue | 997,884 | 67 |
| Laurel | 2,891,238 | 243 |
| Lawrence | 840,216 | 79 |
| Lee | 819,635 | 70 |
| Leslie | 857,695 | 83 |
| Letcher | 2,448,993 | 206 |
| Lewis | 1,061,288 | 90 |
| Lincoln | 1,635,879 | 135 |
| Livingston | 630,975 | 57 |
| Logan | 1,506,602 | 139 |
| Lyon | 722,606 | 55 |
| Madison | 6,668,230 | 512 |
| Magoffin | 910,736 | 89 |
| Marion | 904,899 | 82 |
| Marshall | \$ 1,561,269 | 132 |
| Martin | 896,262 | 77 |
| Mason | 1,109,603 | 85 |
| McCracken | 4,252,989 | 345 |
| McCreary | 1,033,861 | 83 |
| McLean | 644,381 | 55 |
| Meade | 736,337 | 52 |
| Menifee | 461,648 | 41 |
| Mercer | 1,443,135 | 127 |
| Metcalfe | 868,574 | 72 |
| Monroe | 1,285,639 | 117 |
| Montgomery | 1,294,204 | 111 |
| Morgan | 961,324 | 90 |
| Muhlenberg | 1,922,272 | 172 |
| Nelson | 1,830,288 | 137 |
| Nicholas | 405,867 | 35 |
| Ohio | 1,311,756 | 110 |
| Oldham | 1,709,322 | 138 |
| Owen | 439,567 | 41 |
| Owsley | 717,865 | 65 |
| Pendleton | 929,564 | 78 |

DISTRIBUTION OF RETIREMENT PAYMENTS STATEWIDE

AS OF JUNE 30, 1993 (CONTINUED)

| COUNTY NAME | TOTAL PAYMENTS | NUMBER OF RECIPIENTS |
|-------------|----------------|----------------------|
| Perry | 2,667,570 | 243 |
| Pike | 5,498,405 | 456 |
| Powell | 800,095 | 69 |
| Pulaski | 4,329,893 | 348 |
| Robertson | 135,637 | 14 |
| Rockcastle | 1,555,782 | 120 |
| Rowan | 3,057,255 | 226 |
| Russell | 1,215,726 | 112 |
| Scott | 1,315,601 | 113 |
| Shelby | 1,671,291 | 144 |
| Simpson | 898,753 | 76 |
| Spencer | 411,119 | 39 |
| Taylor | 1,600,585 | 132 |
| Todd | 739,305 | 71 |

| COUNTY NAME | TOTAL PAYMENTS | NUMBER OF RECIPIENTS |
|----------------------|----------------|----------------------|
| Trigg | 645,152 | 55 |
| Trimble | 192,780 | 19 |
| Union | 800,469 | 64 |
| Warren | 9,146,107 | 682 |
| Washington | 580,175 | 52 |
| Wayne | 1,902,042 | 141 |
| Webster | 858,939 | 79 |
| Whitley | 3,962,757 | 326 |
| Wolfe | 610,240 | 51 |
| Woodford | 1,116,024 | 93 |
| Total In Kentucky | \$259,164,009 | 20,515 |

SUMMARY OF STATE BUDGET APPROPRIATION TO TEACHERS' RETIREMENT SYSTEM FOR 1992-93

| EXPENSE ITEM | 1992-93 STATE BUDGET APPROPRIATION | 1992-93 STATE ACTUAL BUDGET REQUIREMENT |
|---------------------------------------|---------------------------------------|--|
| Match of Member Contributions * | \$ 185,400,000 | \$ 187,728,255 |
| Match of Personal Payments | 4,844,000 | 5,353,319 |
| Sick Leave (KRS 161.550) | 8,343,000 | 10,780,104 |
| Retiree Cost of Living Adjustment | 29,850,000 | 29,850,000 |
| Prior Service Increase | 640,000 | 640,000 |
| Minimum Benefit Adjustment | 7,964,000 | 7,964,000 |
| Increase Survivor Benefits | 600,000 | 600,000 |
| Handicapped Child Benefit | 256,000 | 262,805 |
| Mandated 2% decrease for 1993 | (1,080,000) | |
| TOTALS | \$ 236,817,000 | \$ 243,178,483 |
| State Under-appropriation for 1992-93 | \$ 6,361,483 | |

The 1992-94 budget enacted by the 1992 General Assembly 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 biennium budget appropriation to the retirement System.

*Also, it should be noted that beginning with FY 1988-89, the Department of Education and the state universities were responsible for matching their members' contributions with the state reimbursing these respective agencies in their normal budget appropriation. During this fiscal year, these agencies contributed \$26,855,152 in order to match the members' contributions. This resulted in the match of member contributions totaling \$179,571,347. In prior years, the Retirement System was appropriated an allotment of funds in their budget to cover the costs of matching these agencies member contributions.

TOTAL RETURN ON KTRS INVESTMENTS (PERCENTAGES)

| TIME WEIGHTED MARKET INDICATORS V. TIME WEIGHTED KTRS | | | | | | INFLATION RATE INDICATOR |
|---|-----------------------------------|----------------|---|---------------|-------------------------|-----------------------------|
| FISCAL YEAR | STANDARD & POOR'S 500 INDEX | KTRS STOCKS | LEHMAN BROTHERS GOVERNMENT/CORPORATE BOND INDEX | KTRS BONDS | KTRS TOTAL PORTFOLIO | CONSUMER PRICE INDEX |
| 1988-89 | 20.5 | 21.3 | 12.3 | 12.3 | 13.8 | 5.2 |
| 1989-90 | 16.5 | 18.0 | 7.1 | 7.2 | 10.4 | 4.7 |
| 1990-91 | 7.4 | 11.4 | 10.2 | 10.5 | 9.6 | 4.7 |
| 1991-92 | 13.4 | 13.7 | 14.2 | 14.9 | 12.5 | 3.1 |
| 1992-93 | 13.6 | 13.3 | 13.2 | 13.2 | 12.1 | 3.0 |
| Five Year Annualized Rate | 14.2 | 15.5 | 11.4 | 11.6 | 11.7 | 4.1 |

SUMMARY OF STATE MATCH AND SUPPLEMENTAL APPROPRIATIONS FOR MEMBER CONTRIBUTIONS TO TEACHERS' RETIREMENT SYSTEM

| FISCAL YEAR | TOTAL MEMBER CONTRIBUTIONS | EMPLOYER/ FEDERAL PAYMENTS | REQUIRED STATE MATCH CONTRIBUTION | REQUIRED SUPPLEMENTAL APPROPRIATION | REQUIRED SICK LEAVE PAYMENT | TOTAL STATE APPROPRIATION | (DEFICIT) SURPLUS STATE FUNDING | RUNNING TOTAL (DEFICIT) SURPLUS |
|----------------|-------------------------------|----------------------------------|---|---|-----------------------------------|---------------------------------|------------------------------------|------------------------------------|
| 1940-44 | \$ 2,063,717 | \$ | \$ 2,063,717 | \$ | \$ | \$ 2,063,637 | \$ (80) | \$ (80) |
| 1944-48 | 3,184,178 | | 3,184,178 | | | 3,039,017 | (145,160) | (145,240) |
| 1948-52 | 4,951,458 | | 4,951,458 | | | 5,090,848 | 139,390 | (5,850) |
| 1952-56 | 7,267,163 | | 7,267,163 | | | 6,494,102 | (773,062) | (778,911) |
| 1956-60 | 14,970,961 | | 14,970,961 | | | 14,963,272 | (7,689) | (786,600) |
| 1960-64 | 25,945,897 | | 25,945,897 | | | 25,938,763 | (7,134) | (793,734) |
| 1964-68 | 49,957,299 | 2,042,014 | 47,915,285 | | | 45,317,694 | (2,597,591) | (3,391,324) |
| 1968-72 | 82,922,869 | 6,044,865 | 76,878,005 | | | 80,091,951 | 3,213,946 | (177,378) |
| 1972-76 | 120,349,350 | 8,019,216 | 112,330,134 | | | 111,665,685 | (664,449) | (841,827) |
| 1976-80 | 189,072,371 | 12,044,186 | 177,028,185 | 75,010,028 | | 256,784,030 | 4,745,817 | 3,903,990 |
| 1980-81 | 60,087,342 | 4,109,090 | 55,978,252 | 24,908,848 | | 83,449,550 | 2,562,450 | 6,466,440 |
| 1981-82 | 63,859,388 | 4,012,767 | 59,846,622 | 26,472,323 | 1,486,463 | 89,301,425 | 1,496,018 | 3,094,894 |
| 1982-83 | 68,077,792 | 3,902,923 | 64,174,869 | 28,221,024 | 1,409,798 | 95,601,936 | 1,796,245 | 1,928,730 |
| 1983-84 | 80,720,250 | 4,310,157 | 76,410,093 | 30,019,916 | 2,300,973 | 110,314,100 | 1,583,118 | 1,376,748 |
| 1984-85 | 90,156,759 | 5,024,319 | 85,132,440 | 31,233,174 | 2,790,200 | 114,096,000 | (5,059,814) | (3,476,696) |
| 1985-86 | 95,894,952 | 5,039,582 | 90,855,370 | 33,218,460 | 2,037,928 | 117,162,300 | (8,949,458) | (13,802,902) |
| 1986-87 | 108,335,521 | 5,369,721 | 102,965,799 | 36,494,008 | 2,444,613 | 136,094,156 | (5,810,265) | (7,901,823) |
| 1987-88 | 119,545,184 | 5,983,982 ⁽¹⁾ | 113,561,202 | 40,306,185 ⁽²⁾ | 6,068,502 | 148,579,721 | (11,356,169) | (19,257,991) |
| 1988-89 | 129,546,325 | 23,980,075 | 105,566,250 | 17,600,000 ⁽³⁾ | 7,051,433 | 127,773,500 | (2,444,183) | (13,799,774) |
| 1989-90 | 136,046,386 | 24,625,824 | 111,420,562 | 22,300,000 | 5,275,861 | 140,254,800 | 1,258,377 | (12,541,397) |
| 1990-91 | 160,871,831 | 33,628,524 | 127,243,307 | 44,678,145 | 6,022,832 | 176,441,700 | (1,502,584) | (1,502,584) |
| 1991-92 | 175,934,890 | 36,817,788 | 139,117,102 | 48,967,842 | 10,627,991 | 189,888,200 | (8,849,167) | (10,351,751) |
| 1992-93 | 179,571,347 | 36,928,601 | 142,642,746 | 50,438,830 | 10,780,104 | 197,500,196 | (6,361,484) (4) | (15,210,651) |

The state under-appropriation at June 30, 1993 is \$15,210,651. This amount is comprised of the 1991-92 \$8,849,167 deficit and the current year contribution under-appropriation of \$6,361,484.

- (1) Beginning with the 1988-89 fiscal year, the Department of Education and the state universities were responsible for matching their members' contributions with the state reimbursing the respective agencies in their normal budget appropriation.
- (2) The required supplemental appropriation for 1988-89 and 1989-90 was less than the actuarially determined contribution by about \$25 and \$22.4 million respectively. KRS 161.550 was temporarily suspended by action of Legislation.
- (3) Included in the June 30, 1993 deficit is a 2% mandated decrease in appropriations of \$1,080,000.

**SUMMARY OF JUNE 30, 1993
RETIREE SICK LEAVE PAYMENTS**

| | |
|---|----------------|
| Total members retiring | 1,374 |
| Total members receiving sick leave payments | 1,048 |
| Total amount of sick leave payments (at 9.855% contribution rate) | \$7,882,007.72 |
| Average payment per retiree | \$7,521.00 |
| Total increase in final average salary base (FASB) | \$1,576,401.54 |
| Average increase in FASB | \$1,504.20 |
| Total service credit of 1,048 retirees | 30,553.61 |
| Average service credit of 1,048 retirees .. | 29.15 |

| <u>Average Yearly Increase</u> | | <u>Service Credit</u> | | <u>Retirement Factor</u> | | <u>Average Yearly Annuity</u> |
|---|---|--|---|--------------------------|---|---|
| \$1,504.20 | X | 20.23 | X | 2.00% | = | \$608.60 |
| \$1,504.20 | X | 1.00 | X | 2.25% | = | \$ 33.84 |
| \$1,504.20 | X | 8.00 | X | 2.50% | = | \$300.84 |
| Average yearly annuity | | | | | | \$943.28 |
| Average monthly annuity | | | | | | \$78.61 |
| <u>Average Monthly Annuity</u> | | <u>Present Value Factor Based on Average Age of 57</u> | | | | <u>Number of Members With Sick Leave Payments</u> |
| \$78.61 | X | 152.820 | | X | | 1,048 |
| Anticipated lifetime payout of additional annuity | | | | | | \$12,589,812.85 |

Funding of Additional Payout

| | | | | | |
|----------------------------------|---------|---|----------------|---|-----------------|
| Member Contributions | 9.855% | X | \$7,882,007.72 | = | \$ 776,771.86 |
| State Contributions | 13.105% | X | \$7,882,007.72 | = | 1,032,937.11 |
| Total Member-State Contributions | | | | | \$ 1,809,708.97 |

Deficit

| | |
|---|------------------|
| Anticipated additional payout | \$ 12,589,812.85 |
| Less total Member and State contributions | 1,809,708.97 |
| Subtotal unfunded debt | \$ 10,780,103.88 |
| Less current year appropriation | 8,343,000.00 |
| Total Defecit* | \$ 2,437,103.88 |

* This amount has been included in the 1992-93 deficit.

SCHOOL DISTRICTS ELECTING TO PAY FOR SICK LEAVE UNDER KRS 161.155(8) FOR FISCAL YEAR 1992

| COUNTY SCHOOL DISTRICT | NUMBER OF MEMBERS | TOTAL ADDITIONAL COMPENSATION |
|------------------------------|----------------------|-------------------------------------|
| Adair | 7 | \$ 45,845.78 |
| Allen | 3 | 26,596.95 |
| Anderson | 4 | 26,232.07 |
| Ballard | 2 | 10,248.51 |
| Barren | 7 | 61,583.67 |
| Bell | 4 | 23,904.42 |
| Boone | 11 | 116,949.06 |
| Bourbon | 7 | 54,161.54 |
| Boyd | 8 | 40,080.06 |
| Boyle | 4 | 37,832.07 |
| Bracken | 2 | 10,007.91 |
| Breathitt | 8 | 70,500.04 |
| Breckinridge | 5 | 40,729.28 |
| Bullitt | 7 | 54,843.44 |
| Butler | 7 | 36,579.10 |
| Caldwell | 5 | 36,438.56 |
| Calloway | 7 | 31,994.63 |
| Campbell | 7 | 51,937.50 |
| Carlisle | 2 | 12,332.93 |
| Carroll | 6 | 34,821.31 |
| Carter | 8 | 35,989.04 |
| Casey | 2 | 10,012.69 |
| Christian | 15 | 146,744.61 |
| Clark | 11 | 98,920.86 |
| Clay | 16 | 74,866.97 |
| Clinton | 2 | 10,950.38 |
| Cumberland | 4 | 15,196.66 |
| Daviess | 15 | 128,714.65 |
| Edmonson | 2 | 16,437.95 |
| Elliott | 1 | 7,554.44 |
| Estill | 2 | 21,541.65 |
| Fayette | 56 | 494,956.03 |
| Fleming | 5 | 38,704.21 |
| Floyd | 24 | 154,914.98 |
| Franklin | 12 | 84,446.57 |
| Fulton | 3 | 16,601.12 |
| Gallatin | 1 | 7,508.17 |
| Garrard | 3 | 15,468.19 |
| Grant | 1 | 2,398.17 |
| Grayson | 5 | 39,560.73 |
| Green | 8 | 63,686.36 |
| Greenup | 4 | 33,949.88 |
| Hancock | 2 | 13,967.63 |

| COUNTY SCHOOL DISTRICT | NUMBER OF MEMBERS | TOTAL ADDITIONAL COMPENSATION |
|------------------------------|----------------------|-------------------------------------|
| Hardin | 15 | \$ 105,819.10 |
| Harlan | 14 | 114,320.65 |
| Harrison | 3 | 15,036.83 |
| Hart | 1 | 9,718.52 |
| Henderson | 8 | 85,076.81 |
| Henry | 5 | 12,979.10 |
| Hickman | 1 | 1,056.72 |
| Hopkins | 14 | 121,260.69 |
| Jackson | 2 | 13,710.30 |
| Jefferson | 190 | 1,457,952.27 |
| Jessamine | 2 | 26,277.11 |
| Johnson | 6 | 58,707.66 |
| Kenton | 16 | 125,499.53 |
| Knott | 9 | 76,174.62 |
| Knox | 9 | 40,841.92 |
| Larue | 4 | 37,351.90 |
| Laurel | 11 | 88,992.49 |
| Lawrence | 4 | 15,837.45 |
| Lee | 1 | 4,804.77 |
| Leslie | 9 | 43,556.97 |
| Letcher | 9 | 48,230.95 |
| Lewis | 8 | 60,261.91 |
| Lincoln | 9 | 75,285.13 |
| Livingston | 2 | 14,230.54 |
| Logan | 6 | 34,727.64 |
| Lyon | 2 | 5,062.91 |
| Madison | 10 | 111,585.18 |
| Marshall | 8 | 57,138.92 |
| Mason | 2 | 14,591.98 |
| McCracken | 14 | 119,083.09 |
| McCreary | 4 | 21,972.80 |
| Meade | 4 | 53,634.49 |
| Menifee | 1 | 599.70 |
| Mercer | 4 | 50,861.19 |
| Metcalfe | 1 | 549.26 |
| Monroe | 10 | 76,506.44 |
| Montgomery | 6 | 34,261.91 |
| Morgan | 2 | 6,821.51 |
| Muhlenberg | 9 | 55,836.83 |
| Nelson | 5 | 41,491.52 |
| Ohio | 3 | 23,602.74 |
| Oldham | 7 | 35,575.65 |
| Owen | 2 | 27,593.10 |

**SCHOOL DISTRICTS ELECTING TO PAY FOR
SICK LEAVE UNDER KRS 161.155(8) FOR FISCAL YEAR 1992 (CONTINUED)**

| COUNTY SCHOOL DISTRICT | NUMBER OF MEMBERS | TOTAL ADDITIONAL COMPENSATION |
|------------------------------|----------------------|-------------------------------------|
| Owsley | 1 | \$ 437.54 |
| Pendleton | 4 | 28,566.63 |
| Perry | 9 | 95,486.86 |
| Pike | 27 | 181,862.70 |
| Powell | 2 | 23,680.77 |
| Pulaski | 8 | 78,176.46 |
| Rockcastle | 4 | 15,456.82 |
| Rowan | 8 | 55,228.41 |
| Russell | 3 | 21,348.05 |
| Scott | 3 | 9,126.95 |
| Shelby | 4 | 27,931.31 |
| Simpson | 5 | 49,671.93 |
| Spencer | 1 | 12,991.17 |
| Taylor | 2 | 8,795.54 |
| Todd | 7 | 72,288.18 |
| Trigg | 1 | 11,389.75 |
| Union | 7 | 47,965.70 |
| Warren | 6 | 39,385.28 |
| Wayne | 5 | 29,687.77 |
| Webster | 2 | 12,249.01 |
| Whitley | 4 | 35,299.85 |
| Wolfe | 2 | 10,024.35 |
| Woodford | 8 | 43,779.91 |

| COUNTY SCHOOL DISTRICT | NUMBER OF MEMBERS | TOTAL ADDITIONAL COMPENSATION |
|------------------------------|----------------------|-------------------------------------|
| Ashland | 9 | \$ 58,299.34 |
| Barbourville | 1 | 2,798.68 |
| Bardstown | 2 | 11,775.14 |
| Bowling Green | 8 | 94,208.23 |
| Campbellsville | 1 | 8,407.00 |
| Caverna | 2 | 8,747.13 |
| Cloverport | 2 | 12,324.40 |
| Corbin | 4 | 39,559.01 |
| Covington | 8 | 33,577.78 |
| Danville | 2 | 11,863.32 |
| Dawson Springs | 1 | 2,935.26 |
| Dayton | 2 | 5,401.32 |
| Elizabethtown | 5 | 46,935.97 |
| Eminence | 3 | 11,476.51 |
| Erlanger-Elsmere | 5 | 38,938.52 |
| Fairview | 2 | 11,103.10 |
| Frankfort | 1 | 14,055.10 |
| Glasgow | 9 | 84,482.41 |
| Harlan | 1 | 1,387.72 |
| Harrodsburg | 4 | 15,419.38 |
| Hazard | 1 | 6,065.25 |
| Jenkins | 3 | 43,971.29 |
| Mayfield | 5 | 36,535.77 |
| Middlesboro | 3 | 28,474.88 |
| Monticello | 1 | 9,211.26 |
| Newport | 5 | 24,373.72 |
| Owensboro | 20 | 162,586.09 |
| Paducah | 13 | 122,445.26 |
| Paris | 2 | 20,289.90 |
| Pikeville | 2 | 8,493.86 |
| Pineville | 3 | 10,900.96 |
| Providence | 1 | 5,793.00 |
| Raceland | 2 | 9,918.11 |
| Russell | 12 | 75,190.87 |
| Russellville | 8 | 71,276.82 |
| Somerset | 2 | 7,743.78 |
| Walton-Verona | 2 | 24,999.08 |
| Williamsburg | 1 | 8,019.99 |
| Total for All Districts | 1,048 | \$ 7,882,007.72 |

SCHEDULE OF KTRS ANNUITANTS BY TYPE OF BENEFIT

JUNE 30, 1993

| AMOUNT OF MONTHLY BENEFIT (\$) | NUMBER OF ANNUITANTS | TYPE OF RETIREMENT* | | | | |
|---|-------------------------|---------------------|-------|-----|-------|-----|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 - 200 | 1,473 | 664 | 13 | 578 | 54 | 164 |
| 201 - 400 | 1,507 | 1,234 | 10 | 89 | 174 | 0 |
| 401 - 600 | 1,972 | 1,513 | 251 | 0 | 208 | 0 |
| 601 - 800 | 2,895 | 2,539 | 155 | 0 | 201 | 0 |
| 801 - 1,000 | 3,252 | 2,967 | 134 | 0 | 151 | 0 |
| 1,001 - 1,200 | 2,649 | 2,409 | 151 | 0 | 89 | 0 |
| 1,201 - 1,400 | 2,501 | 2,238 | 170 | 1 | 92 | 0 |
| 1,401 - 1,600 | 2,000 | 1,811 | 122 | 1 | 66 | 0 |
| 1,601 - 1,800 | 1,291 | 1,186 | 67 | 0 | 38 | 0 |
| 1,801 - 2,000 | 820 | 769 | 24 | 1 | 26 | 0 |
| Over 2,000 | 1,579 | 1,523 | 26 | 2 | 28 | 0 |
| Totals | 21,939 | 18,853 | 1,123 | 672 | 1,127 | 164 |

*Type of Retirement

- 1 - Normal retirement for age & service
- 2 - Disability retirement
- 3 - Survivor payment - Active member
- 4 - Beneficiary payment - Retired member
- 5 - Mentally Disabled Child

DISTRIBUTION OF ACTIVE MEMBERS

AS OF JUNE 30, 1993

| BY AGE | | |
|---------|--------|--------|
| AGE | MALE | FEMALE |
| 20-24 | 191 | 1,001 |
| 25-29 | 1,031 | 3,607 |
| 30-34 | 1,286 | 4,033 |
| 35-39 | 1,778 | 5,732 |
| 40-44 | 3,013 | 8,241 |
| 45-49 | 3,235 | 6,504 |
| 50-54 | 2,061 | 3,696 |
| 55-59 | 1,070 | 1,713 |
| 60-64 | 433 | 741 |
| 65-69 | 73 | 177 |
| Over 70 | 13 | 41 |
| Total | 14,184 | 35,486 |

| BY SERVICE | | |
|------------------|--------|--------|
| YEARS SERVICE | MALE | FEMALE |
| Less 1 | 253 | 728 |
| 1-4 | 2,556 | 7,629 |
| 5-9 | 2,230 | 7,227 |
| 10-14 | 1,524 | 4,652 |
| 15-19 | 2,270 | 6,036 |
| 20-24 | 2,753 | 5,702 |
| 25-29 | 1,743 | 2,561 |
| 30-34 | 624 | 659 |
| Over 35 | 231 | 292 |
| Total | 14,184 | 35,486 |

KTRS SCHEDULE OF PARTICIPATING EMPLOYERS

SCHOOL DISTRICTS

COUNTY SCHOOLS

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

CITY SCHOOLS

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

KTRS SCHEDULE OF PARTICIPATING EMPLOYERS (CONTINUED)

UNIVERSITIES

1. Eastern Kentucky
2. Kentucky State
3. Morehead State
4. Murray State
5. Western Kentucky

STATE OF KENTUCKY / OTHER ORGANIZATIONS

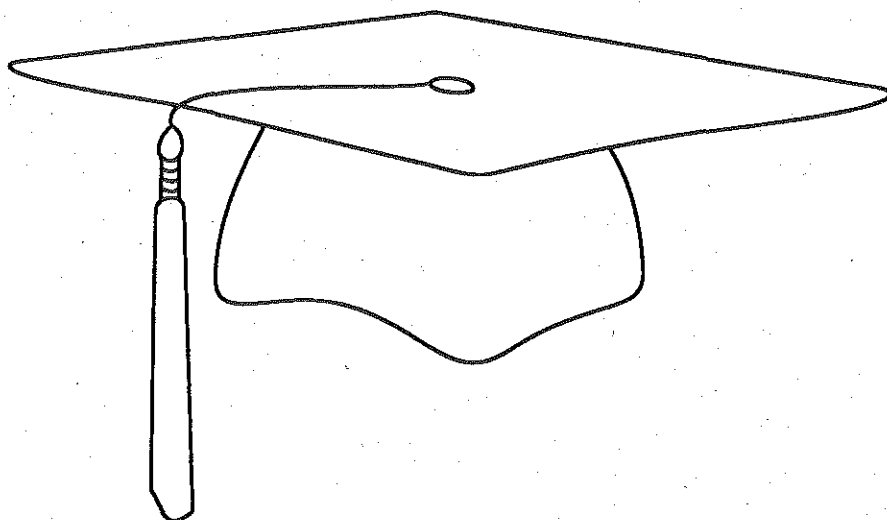
STATE OF KENTUCKY

1. Administrative Office of the Courts *
2. Department of Corrections *
3. Education and Humanities Cabinet
4. Human Resources *
5. Labor Cabinet *
6. Legislative Research Commission *
7. Workforce Development Cabinet

OTHER ORGANIZATIONS

1. Central Kentucky Education Cooperative
2. Christian County Health Department *
3. City of Murray *
4. Communicare Inc. *
5. Fivco Area Development *
6. Kentucky Education Association President
7. Kentucky Academic Association
8. Kentucky Association of School Administration
9. Kentucky Educational Development Corporation
10. Kentucky High School Athletic Association
11. Kentucky School Boards Association
12. Kentucky Valley Educational Cooperative
13. Northern Kentucky Cooperative
for Educational Services
14. Ohio Valley Educational Cooperative
15. Pennyroyal Region Mental Health *
16. West Kentucky Education Cooperative

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



*"It's what you learn
after you know it all
that counts."*

-John Wooden

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 1990 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 patterned after the "Prudent Man" concept with a limited number of restrictions. The responsibility for investing the assets of the System is clearly assigned to the Board of Trustees.

The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 1992-93 as the principal investment counselor. National Asset Management, Invesco Inc., Brinson Partners, and Wellington Management Company also were retained during the 1992-93 fiscal year to provide investment counseling services. National Asset Management assisted in the management of approximately \$790 million in bonds, while Invesco Inc. was involved with managing about \$370 million in equity investments. Brinson Partners was responsible for managing approximately \$260 million in equities, and Wellington Management Company managed about \$280 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about \$1.67 billion of fixed income and equity assets. All of the investment firms are required to work within the same broad objectives, portfolio constraints, and administrative guidelines. Five investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a \$5.1 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 1992-93 as the Custodian of Securities.

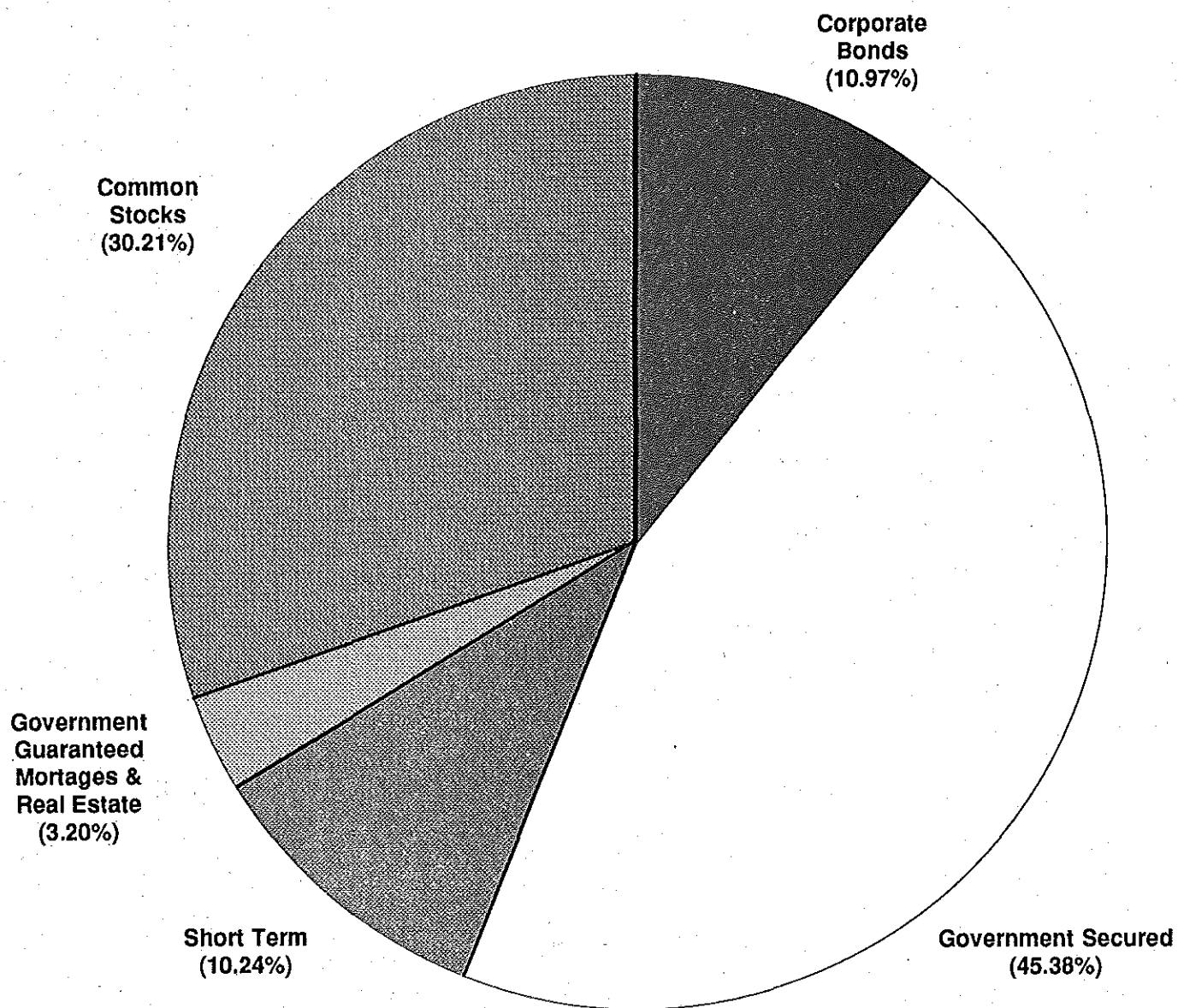
The investment portfolio experienced considerable growth in both par and book values during the year. The par value of the portfolio increased \$490 million, or 10.2%, to a total of \$5.3 billion at year-end. The book value of the fund correspondingly increased 11.2% during the year. The System earned in excess of \$408 million of investment income during 1992-93; investment income excludes monies earned but not received by the end of the fiscal year. The income resulted from interest, dividends, rental income, lending income, and gains. Total investment income for 1992-93 was about \$35.1 million higher than in 1991-92. At year-end, the "net indicated yield" on fixed income investments at par value was 6.19%. The "indicated dividend yield" on common stocks was 3.43%.

The asset allocation of investments at par value was somewhat different at the beginning of the fiscal year to what it was on June 30, 1993. During the 1992-93 fiscal year, the stock position increased from 26.7% of assets to 30.2%. The portion of the portfolio in Government securities remained at about 45.3%. The cash position decreased during the year, going from 12.3% to 10.2% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 1%.

The charts on the following pages graphically display 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, 1993. The pages thereafter provide a detailed listing of all investments held on June 30, 1993. The System annually produces a detailed investment report that is available on request.

DISTRIBUTION OF INVESTMENTS

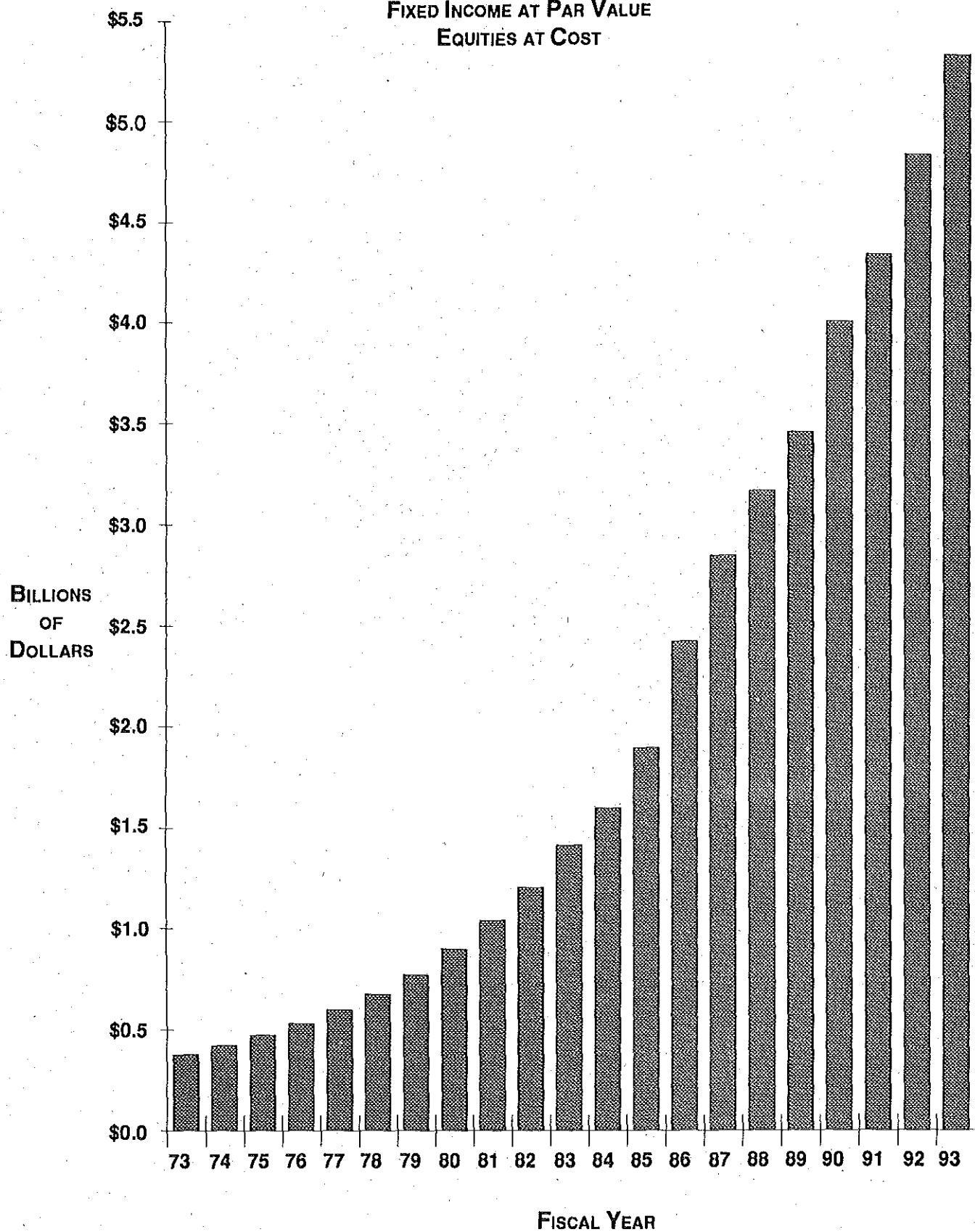
JUNE 30, 1993



INVESTMENT PORTFOLIO GROWTH

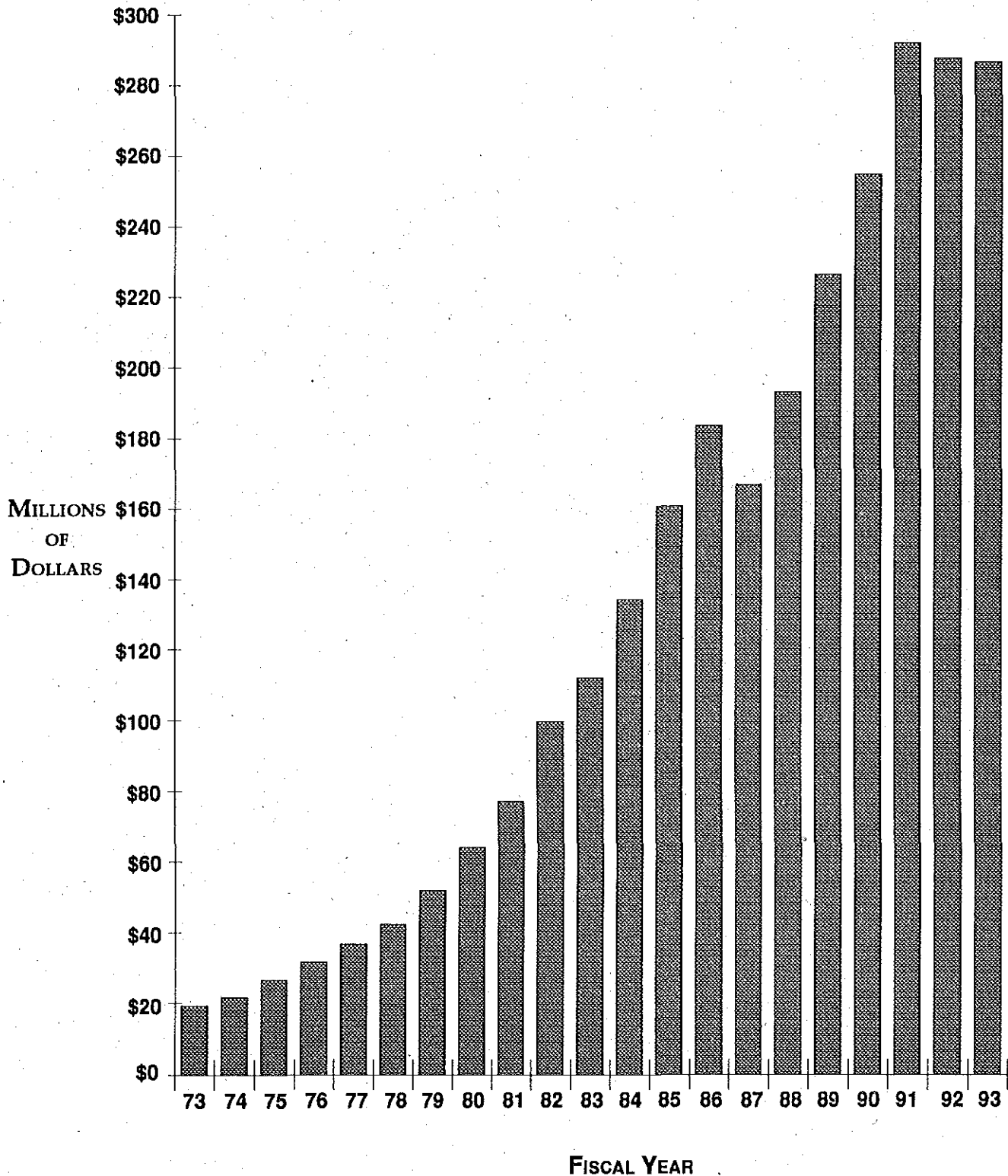
FIXED INCOME AT PAR VALUE

EQUITIES AT COST

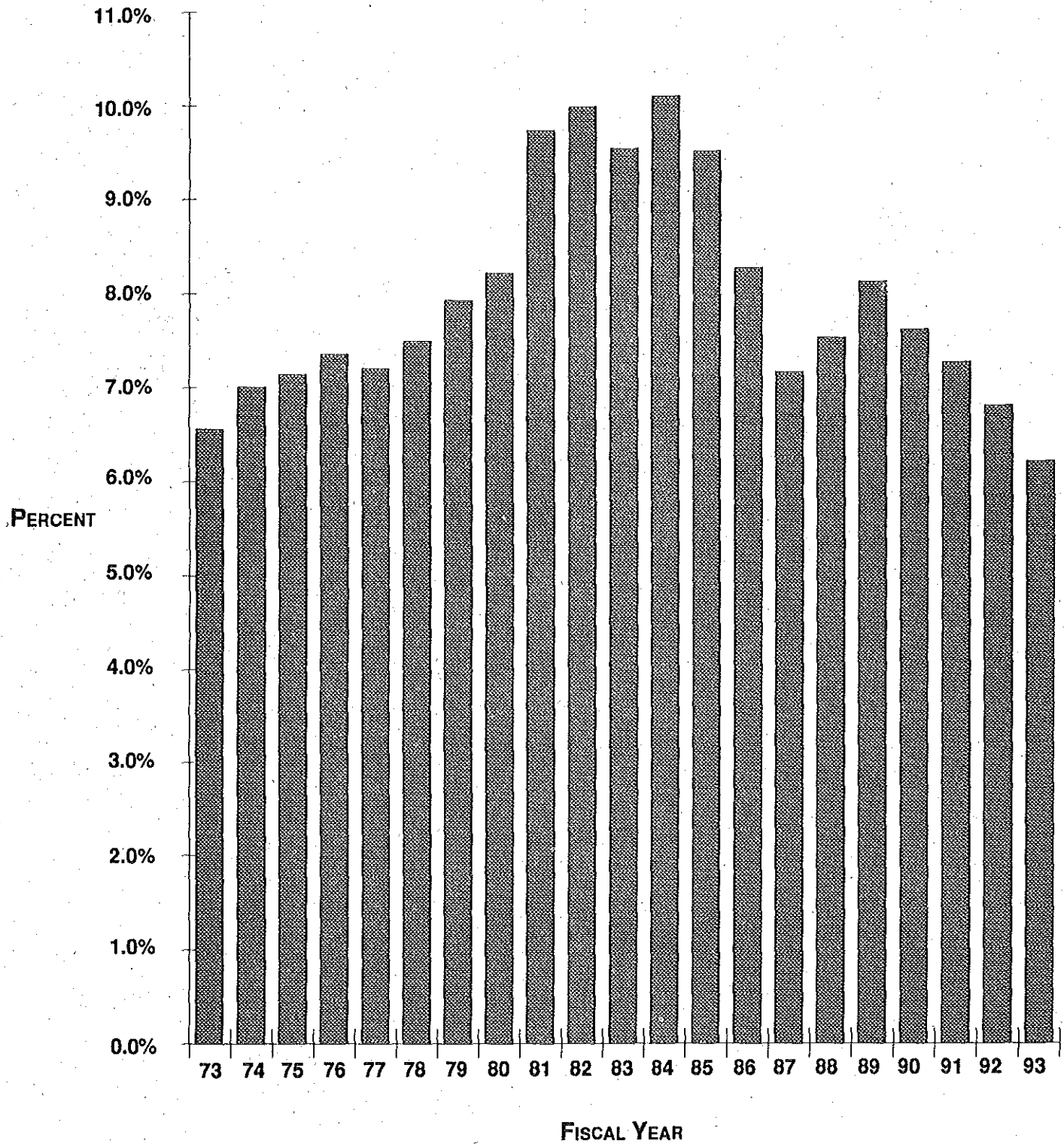


INVESTMENT INCOME GROWTH

(INCLUDES AMORTIZATION, EXCLUDES NET GAIN)



NET INDICATED YIELD ON FIXED DOLLAR ASSETS (PAR VALUE)



SCHEDULE OF INVESTMENTS

AS OF JUNE 30, 1993

| INVESTMENT | PERCENTAGE OF TOTAL | PAR VALUE* OR REMAINING PRINCIPAL BALANCE | NET ANNUAL INTEREST/ INDICATED DIVIDEND INCOME | ANNUAL YIELD |
|--------------------------------------|---------------------|---|--|--------------|
| Repurchase Agreements | 10.24% | \$ 542,850,000.00 | \$ 17,178,627.56 | 3.16% |
| Total Short Term | 10.24% | \$ 542,850,000.00 | \$ 17,178,627.56 | 3.16% |
| Treasury Notes and Bonds | 32.47% | \$ 1,721,186,000.00 | \$ 117,901,934.36 | 6.85 |
| Agencies | 3.48 | 184,442,167.92 | 11,892,778.16 | 6.45 |
| Ship Bonds (Title XI) | .20 | 10,413,515.30 | 843,762.42 | 8.10 |
| GNMA (Single Family) | 1.03 | 54,824,471.26 | 4,611,955.81 | 8.41 |
| Collateralized Mortgage Obligations | .79 | 41,994,770.11 | 3,437,058.30 | 8.18 |
| Treasury Strip Bonds | 7.41 | 392,781,780.00 | 14,504,123.49 | 3.69 |
| Other Miscellaneous | .00 | 32,887.02 | 986.61 | 3.00 |
| Total U S Government Obligations | 45.38% | \$2,405,675,591.61 | \$ 153,192,599.15 | 6.37% |
| Industrials | 4.16% | \$ 220,604,821.77 | \$ 17,306,866.71 | 7.85 |
| Finance | 4.84 | 256,264,417.10 | 19,630,045.20 | 7.66 |
| Utility Bonds (Except Telephone) | .84 | 44,362,000.00 | 2,828,680.78 | 6.38 |
| Telephone Bonds | .73 | 38,940,000.00 | 3,177,389.40 | 8.16 |
| Railroad Obligations | .26 | 13,596,000.00 | 1,058,998.20 | 7.79 |
| Corporate Bonds NOC | .14 | 7,679,592.26 | 632,395.72 | 8.23 |
| Total Corporate Bonds | 10.97% | \$ 581,446,831.13 | \$ 44,634,376.01 | 7.68% |
| FHA & VA Single Family Mortgages | .10% | \$ 4,905,896.77 | \$ 345,491.65 | 7.04 |
| Project Mortgages (FHA & GNMA) | 2.00 | 106,231,426.93 | 9,987,779.81 | 9.40 |
| Total Other Fixed Income Investments | 2.10% | \$ 111,137,323.70 | \$ 10,333,271.46 | 9.30% |
| Subtotal (Fixed Income) | 68.69% | \$3,641,109,746.44 | \$ 225,338,874.18 | 6.19% |
| Real Estate Equity | 1.10% | \$ 58,202,178.84 | \$ 5,277,587.59 | 9.07 |
| Total Real Estate Equity | 1.10% | \$ 58,202,178.84 | \$ 5,277,587.59 | 9.07% |
| Common Stocks 33,578,555.00 Shares | 22.71% | \$ 1,203,881,065.70 | \$ 42,068,648.52 | 3.49 |
| Stock Index 11,065,706.00 Shares | 7.50 | 396,955,291.85 | 12,851,872.22 | 3.24 |
| Total Stocks 44,644,261.00 Shares | 30.21% | \$ 1,600,836,357.55 | \$ 54,920,520.74 | 3.43% |
| Subtotal (Equity) | 31.31% | \$ 1,659,038,536.39 | \$ 60,198,108.33 | 3.63% |
| Total Investments, Income & Yield | 100.00% | \$5,300,148,282.83 | \$ 285,536,982.51 | 5.39% |

*These figures represent the par value for the 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, excluding repurchase agreements, at June 30, 1993 was \$2,931,972,584; the market value was \$3,151,798,089. The par and book values of stocks, which are the same, were \$1,600,836,358 for June 30, 1993; the market value of stocks was \$1,920,049,654. 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.

DETAILED LISTING OF INVESTMENTS **SHORT TERM INVESTMENTS**

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|-------------------------------|--------|----------|--|
| REPURCHASE AGREEMENTS: | | | |
| Repurchase Agreement | 3.125 | 07/08/93 | \$ 982,400.00 |
| Repurchase Agreement | 3.125 | 07/08/93 | 15,804,700.00 |
| Repurchase Agreement | 3.125 | 07/08/93 | 28,459,000.00 |
| Repurchase Agreement | 3.125 | 07/08/93 | 15,278,400.00 |
| Repurchase Agreement | 3.125 | 07/08/93 | 663,400.00 |
| Repurchase Agreement | 3.125 | 07/08/93 | 53,562,100.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 4,925,000.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 10,236,000.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 2,353,900.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 19,076,600.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 7,710,500.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 6,046,900.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 56,000.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 305,800.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 10,785,200.00 |
| Repurchase Agreement | 3.155 | 07/07/93 | 36,904,100.00 |
| Repurchase Agreement | 3.165 | 07/02/93 | 10,000,000.00 |
| Repurchase Agreement | 3.165 | 07/02/93 | 10,000,000.00 |
| Repurchase Agreement | 3.165 | 07/02/93 | 5,000,000.00 |
| Repurchase Agreement | 3.175 | 07/02/93 | 5,947,200.00 |
| Repurchase Agreement | 3.175 | 07/02/93 | 8,580,100.00 |
| Repurchase Agreement | 3.175 | 07/02/93 | 10,000,000.00 |
| Repurchase Agreement | 3.175 | 07/02/93 | 10,000,000.00 |
| Repurchase Agreement | 3.175 | 07/02/93 | 10,855,800.00 |
| Repurchase Agreement | 3.175 | 07/02/93 | 750,000.00 |
| Repurchase Agreement | 3.175 | 07/02/93 | 55,666,900.00 |
| Repurchase Agreement | 3.185 | 07/06/93 | 3,358,200.00 |
| Repurchase Agreement | 3.185 | 07/06/93 | 14,229,400.00 |
| Repurchase Agreement | 3.185 | 07/06/93 | 2,596,500.00 |
| Repurchase Agreement | 3.185 | 07/06/93 | 35,622,500.00 |
| Repurchase Agreement | 3.185 | 07/06/93 | 7,200.00 |
| Repurchase Agreement | 3.185 | 07/06/93 | 4,000,000.00 |
| Repurchase Agreement | 3.185 | 07/06/93 | 46,886,200.00 |
| Repurchase Agreement | 3.188 | 07/01/93 | 850,000.00 |
| Repurchase Agreement | 3.188 | 07/01/93 | 2,797,400.00 |
| Repurchase Agreement | 3.188 | 07/01/93 | 242,300.00 |
| Repurchase Agreement | 3.188 | 07/01/93 | 10,013,000.00 |
| Repurchase Agreement | 3.188 | 07/01/93 | 82,297,300.00 |
| Total Short Term Investments | | | \$ 542,850,000.00 |

U.S. GOVERNMENT OBLIGATIONS

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|----------------------------------|--------|----------|--|
| TREASURY BONDS AND NOTES: | | | |
| U S Treasury Bonds | 7.250 | 05/15/16 | \$ 20,000,000.00 |
| U S Treasury Bonds | 7.250 | 05/15/16 | 4,000,000.00 |
| U S Treasury Bonds | 7.250 | 05/15/16 | 3,000,000.00 |
| U S Treasury Bonds | 7.250 | 05/15/16 | 10,000,000.00 |
| U S Treasury Bonds | 7.250 | 08/15/22 | 13,000,000.00 |
| U S Treasury Bonds | 7.250 | 08/15/22 | 5,000,000.00 |

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|--|--------|----------|--|
| TREASURY BONDS AND NOTES (CONT.): | | | |
| U S Treasury Bonds | 7.250 | 08/15/22 | \$ 6,500,000.00 |
| U S Treasury Bonds | 7.500 | 11/15/16 | 10,000,000.00 |
| U S Treasury Bonds | 7.500 | 11/15/16 | 10,000,000.00 |
| U S Treasury Bonds | 7.500 | 11/15/16 | 4,800,000.00 |
| U S Treasury Bonds | 7.500 | 11/15/16 | 20,000,000.00 |
| U S Treasury Bonds | 7.500 | 11/15/16 | 3,500,000.00 |
| U S Treasury Bonds | 7.500 | 11/15/16 | 15,000,000.00 |
| U S Treasury Bonds | 7.500 | 11/15/16 | 25,000,000.00 |
| U S Treasury Bonds | 7.500 | 11/15/16 | 15,000,000.00 |
| U S Treasury Bonds | 7.500 | 11/15/16 | 5,000,000.00 |
| U S Treasury Bonds | 7.875 | 02/15/00 | 50,000,000.00 |
| U S Treasury Bonds | 7.875 | 11/15/07 | 2,000,000.00 |
| U S Treasury Bonds | 8.000 | 11/15/21 | 3,300,000.00 |
| U S Treasury Bonds | 8.000 | 11/15/21 | 2,000,000.00 |
| U S Treasury Bonds | 8.125 | 08/15/19 | 27,000,000.00 |
| U S Treasury Bonds | 8.125 | 08/15/19 | 10,000,000.00 |
| U S Treasury Bonds | 8.125 | 08/15/21 | 14,400,000.00 |
| U S Treasury Bonds | 8.125 | 08/15/21 | 15,000,000.00 |
| U S Treasury Bonds | 8.125 | 08/15/21 | 16,700,000.00 |
| U S Treasury Bonds | 8.125 | 08/15/21 | 7,300,000.00 |
| U S Treasury Bonds | 8.250 | 05/15/05 | 10,000,000.00 |
| U S Treasury Bonds | 8.750 | 11/15/08 | 1,500,000.00 |
| U S Treasury Bonds | 8.750 | 11/15/08 | 4,000,000.00 |
| U S Treasury Bonds | 8.750 | 11/15/08 | 1,500,000.00 |
| U S Treasury Bonds | 8.750 | 05/15/17 | 9,000,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 15,005,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 2,295,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 3,000,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 2,000,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 9,415,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 5,000,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 4,500,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 10,000,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 10,000,000.00 |
| U S Treasury Bonds | 8.875 | 08/15/17 | 10,000,000.00 |
| U S Treasury Bonds | 8.875 | 02/15/19 | 12,475,000.00 |
| U S Treasury Bonds | 8.875 | 02/15/19 | 7,375,000.00 |
| U S Treasury Bonds | 8.875 | 02/15/19 | 9,500,000.00 |
| U S Treasury Bonds | 9.250 | 02/15/16 | 11,000,000.00 |
| U S Treasury Bonds | 9.250 | 02/15/16 | 10,000,000.00 |
| U S Treasury Bonds | 9.250 | 02/15/16 | 6,700,000.00 |
| U S Treasury Bonds | 9.375 | 02/15/06 | 10,000,000.00 |
| U S Treasury Bonds | 9.375 | 02/15/06 | 13,400,000.00 |
| U S Treasury Bonds | 9.875 | 11/15/15 | 6,000,000.00 |
| U S Treasury Bonds | 9.875 | 11/15/15 | 1,000,000.00 |
| U S Treasury Bonds | 9.875 | 11/15/15 | 10,500,000.00 |
| U S Treasury Bonds | 9.875 | 11/15/15 | 500,000.00 |
| U S Treasury Bonds | 10.375 | 11/15/12 | 2,500,000.00 |
| U S Treasury Bonds | 10.375 | 11/15/12 | 2,300,000.00 |
| U S Treasury Bonds | 10.625 | 08/15/15 | 1,000,000.00 |
| U S Treasury Bonds | 10.625 | 08/15/15 | 500,000.00 |
| U S Treasury Bonds | 10.625 | 08/15/15 | 1,000,000.00 |
| U S Treasury Bonds | 10.625 | 08/15/15 | 3,500,000.00 |
| U S Treasury Bonds | 10.625 | 08/15/15 | 3,200,000.00 |
| U S Treasury Bonds | 10.625 | 08/15/15 | 1,700,000.00 |
| U S Treasury Bonds | 10.750 | 05/15/03 | 1,500,000.00 |
| U S Treasury Bonds | 10.750 | 05/15/03 | 2,300,000.00 |
| U S Treasury Bonds | 10.750 | 08/15/05 | 14,000,000.00 |
| U S Treasury Bonds | 11.750 | 02/15/10 | 15,400,000.00 |
| U S Treasury Bonds | 12.000 | 08/15/13 | 7,500,000.00 |
| U S Treasury Bonds | 12.375 | 05/15/04 | 9,223,000.00 |

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|--|--------|----------|--|
| TREASURY BONDS AND NOTES (CONT.): | | | |
| U S Treasury Bonds | 13.125 | 05/15/01 | \$ 8,000,000.00 |
| U S Treasury Notes | 4.125 | 05/31/95 | 7,800,000.00 |
| U S Treasury Notes | 4.250 | 01/31/95 | 35,000,000.00 |
| U S Treasury Notes | 4.250 | 01/31/95 | 8,400,000.00 |
| U S Treasury Notes | 5.375 | 05/31/98 | 15,000,000.00 |
| U S Treasury Notes | 5.500 | 02/15/95 | 20,000,000.00 |
| U S Treasury Notes | 5.500 | 09/30/97 | 4,000,000.00 |
| U S Treasury Notes | 5.500 | 09/30/97 | 6,000,000.00 |
| U S Treasury Notes | 5.500 | 04/15/00 | 55,000,000.00 |
| U S Treasury Notes | 5.500 | 04/15/00 | 1,000,000.00 |
| U S Treasury Notes | 5.500 | 04/15/00 | 15,000,000.00 |
| U S Treasury Notes | 5.875 | 05/15/95 | 25,000,000.00 |
| U S Treasury Notes | 5.875 | 05/15/95 | 25,000,000.00 |
| U S Treasury Notes | 6.000 | 11/15/94 | 25,000,000.00 |
| U S Treasury Notes | 6.000 | 11/15/94 | 11,300,000.00 |
| U S Treasury Notes | 6.000 | 11/30/97 | 2,000,000.00 |
| U S Treasury Notes | 6.000 | 10/15/99 | 2,000,000.00 |
| U S Treasury Notes | 6.000 | 10/15/99 | 8,000,000.00 |
| U S Treasury Notes | 6.250 | 01/31/97 | 10,000,000.00 |
| U S Treasury Notes | 6.375 | 01/15/00 | 5,000,000.00 |
| U S Treasury Notes | 6.375 | 08/15/02 | 7,000,000.00 |
| U S Treasury Notes | 6.375 | 08/15/02 | 7,000,000.00 |
| U S Treasury Notes | 6.375 | 08/15/02 | 12,000,000.00 |
| U S Treasury Notes | 6.375 | 08/15/02 | 20,000,000.00 |
| U S Treasury Notes | 6.375 | 08/15/02 | 7,000,000.00 |
| U S Treasury Notes | 6.375 | 08/15/02 | 2,000,000.00 |
| U S Treasury Notes | 6.375 | 08/15/02 | 10,500,000.00 |
| U S Treasury Notes | 6.375 | 08/15/02 | 3,000,000.00 |
| U S Treasury Notes | 6.375 | 08/15/02 | 20,000,000.00 |
| U S Treasury Notes | 6.500 | 11/30/96 | 25,000,000.00 |
| U S Treasury Notes | 6.500 | 11/30/96 | 25,000,000.00 |
| U S Treasury Notes | 6.750 | 02/28/97 | 25,000,000.00 |
| U S Treasury Notes | 6.750 | 02/28/97 | 25,000,000.00 |
| U S Treasury Notes | 6.750 | 05/31/97 | 24,683,000.00 |
| U S Treasury Notes | 6.875 | 10/31/96 | 25,000,000.00 |
| U S Treasury Notes | 6.875 | 10/31/96 | 15,000,000.00 |
| U S Treasury Notes | 6.875 | 04/30/97 | 10,000,000.00 |
| U S Treasury Notes | 7.000 | 05/15/94 | 5,600,000.00 |
| U S Treasury Notes | 7.000 | 09/30/96 | 14,000,000.00 |
| U S Treasury Notes | 7.125 | 10/15/98 | 5,000,000.00 |
| U S Treasury Notes | 7.125 | 10/15/98 | 16,000,000.00 |
| U S Treasury Notes | 7.125 | 10/15/98 | 5,000,000.00 |
| U S Treasury Notes | 7.250 | 08/31/96 | 25,000,000.00 |
| U S Treasury Notes | 7.375 | 05/15/96 | 12,440,000.00 |
| U S Treasury Notes | 7.375 | 05/15/96 | 10,000,000.00 |
| U S Treasury Notes | 7.375 | 05/15/96 | 9,300,000.00 |
| U S Treasury Notes | 7.375 | 05/15/96 | 11,400,000.00 |
| U S Treasury Notes | 7.500 | 11/15/01 | 4,500,000.00 |
| U S Treasury Notes | 7.500 | 11/15/01 | 2,000,000.00 |
| U S Treasury Notes | 7.500 | 05/15/02 | 15,000,000.00 |
| U S Treasury Notes | 7.500 | 05/15/02 | 3,000,000.00 |
| U S Treasury Notes | 7.500 | 05/15/02 | 15,500,000.00 |
| U S Treasury Notes | 7.625 | 05/31/96 | 13,000,000.00 |
| U S Treasury Notes | 7.750 | 02/15/01 | 4,000,000.00 |
| U S Treasury Notes | 7.875 | 07/31/96 | 11,700,000.00 |
| U S Treasury Notes | 7.875 | 08/15/01 | 4,000,000.00 |
| U S Treasury Notes | 8.000 | 10/15/96 | 13,000,000.00 |
| U S Treasury Notes | 8.000 | 08/15/99 | 1,000,000.00 |
| U S Treasury Notes | 8.000 | 08/15/99 | 7,000,000.00 |
| U S Treasury Notes | 8.000 | 08/15/99 | 6,200,000.00 |
| U S Treasury Notes | 8.000 | 05/15/01 | 8,000,000.00 |

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|--|--------|----------|--|
| TREASURY BONDS AND NOTES (CONT.): | | | |
| U S Treasury Notes | 8.250 | 11/15/94 | \$ 16,000,000.00 |
| U S Treasury Notes | 8.250 | 11/15/94 | 12,000,000.00 |
| U S Treasury Notes | 8.250 | 11/15/94 | 25,500,000.00 |
| U S Treasury Notes | 8.500 | 05/15/95 | 13,400,000.00 |
| U S Treasury Notes | 8.500 | 05/15/97 | 8,000,000.00 |
| U S Treasury Notes | 8.500 | 07/15/97 | 25,000,000.00 |
| U S Treasury Notes | 8.500 | 02/15/00 | 2,000,000.00 |
| U S Treasury Notes | 8.500 | 02/15/00 | 6,500,000.00 |
| U S Treasury Notes | 8.625 | 10/15/95 | 4,000,000.00 |
| U S Treasury Notes | 8.625 | 10/15/95 | 9,500,000.00 |
| U S Treasury Notes | 8.625 | 10/15/95 | 25,000,000.00 |
| U S Treasury Notes | 8.625 | 10/15/95 | 14,400,000.00 |
| U S Treasury Notes | 8.625 | 08/15/97 | 10,000,000.00 |
| U S Treasury Notes | 8.625 | 08/15/97 | 20,000,000.00 |
| U S Treasury Notes | 8.875 | 02/15/96 | 9,300,000.00 |
| U S Treasury Notes | 8.875 | 11/15/98 | 4,000,000.00 |
| U S Treasury Notes | 8.875 | 11/15/98 | 3,000,000.00 |
| U S Treasury Notes | 8.875 | 11/15/98 | 5,500,000.00 |
| U S Treasury Notes | 8.875 | 11/15/98 | 2,000,000.00 |
| U S Treasury Notes | 8.875 | 11/15/98 | 4,500,000.00 |
| U S Treasury Notes | 8.875 | 11/15/98 | 14,400,000.00 |
| U S Treasury Notes | 8.875 | 11/15/98 | 25,000,000.00 |
| U S Treasury Notes | 8.875 | 02/15/99 | 3,000,000.00 |
| U S Treasury Notes | 8.875 | 05/15/00 | 4,000,000.00 |
| U S Treasury Notes | 8.875 | 05/15/00 | 7,500,000.00 |
| U S Treasury Notes | 8.875 | 05/15/00 | 2,500,000.00 |
| U S Treasury Notes | 8.875 | 05/15/00 | 500,000.00 |
| U S Treasury Notes | 9.125 | 05/15/99 | 6,000,000.00 |
| U S Treasury Notes | 9.125 | 05/15/99 | 8,400,000.00 |
| U S Treasury Notes | 9.250 | 01/15/96 | 7,850,000.00 |
| U S Treasury Notes | 9.250 | 08/15/98 | 4,500,000.00 |
| U S Treasury Notes | 9.500 | 10/15/94 | 9,300,000.00 |
| U S Treasury Notes | 9.500 | 10/15/94 | 4,750,000.00 |
| U S Treasury Notes | 9.500 | 10/15/94 | 13,000,000.00 |
| U S Treasury Notes | 9.500 | 10/15/94 | 14,450,000.00 |
| U S Treasury Notes | 10.500 | 08/15/95 | 1,000,000.00 |
| U S Treasury Notes | 10.500 | 08/15/95 | 500,000.00 |
| U S Treasury Notes | 10.500 | 08/15/95 | 1,500,000.00 |
| U S Treasury Notes | 10.500 | 08/15/95 | 2,700,000.00 |
| U S Treasury Notes | 10.500 | 08/15/95 | 2,000,000.00 |
| U S Treasury Notes | 11.250 | 02/15/95 | 8,425,000.00 |
| U S Treasury Notes | 11.750 | 11/15/93 | 2,500,000.00 |
| U S Treasury Notes | 11.750 | 11/15/93 | 1,250,000.00 |
| U S Treasury Notes | 11.750 | 11/15/93 | 4,450,000.00 |
| Total Treasury Bonds and Notes | | | \$1,721,186,000.00 |
| FEDERAL AGENCIES: | | | |
| FHLB | 7.875 | 03/27/95 | \$ 5,000,000.00 |
| FHLMC Freddie Mac Group 14-0527 | 8.000 | 10/01/08 | 7,374,857.72 |
| FHLMC Mult Mtg Ctls Ser 53 CL 53-A | 9.500 | 08/15/20 | 2,655,310.20 |
| FHLMC Remic 129-G | 8.850 | 05/15/20 | 3,000,000.00 |
| FHLMC Ser 149 F | 8.500 | 08/15/21 | 15,000,000.00 |
| FNMA | 7.200 | 01/10/02 | 10,000,000.00 |
| FNMA | 9.050 | 04/10/00 | 3,500,000.00 |
| FNMA | 9.200 | 09/11/00 | 3,000,000.00 |
| FNMA | 9.550 | 09/10/97 | 1,000,000.00 |
| FNMA | 9.550 | 09/10/97 | 5,000,000.00 |

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|---|---------|----------|--|
| FEDERAL AGENCIES (CONT.): | | | |
| FNMA | 11.500 | 02/10/95 | \$ 2,500,000.00 |
| FNMA 91-62C | 8.000 | 08/25/16 | 6,000,000.00 |
| FNMA Bonds | 0.000 | 07/05/14 | 31,900,000.00 |
| FNMA Capital Debs 1988-A | 9.400 | 08/10/98 | 13,500,000.00 |
| FNMA Debs | 9.550 | 09/10/97 | 4,000,000.00 |
| FNMA Remic Tr 1990-24-H | 9.250 | 07/25/13 | 13,012,000.00 |
| FNMA Remic Tr 1991-116-Y2 CLB | 8.500 | 07/25/15 | 5,000,000.00 |
| FNMA Remic Tr 1991-116-Y2 CLB | 8.500 | 07/25/15 | 5,000,000.00 |
| FNMA Remic Trust 1990-16-E | 9.000 | 03/25/20 | 8,000,000.00 |
| FNMA Remic Trust 1990-16-E | 9.000 | 03/25/20 | 7,000,000.00 |
| FNMA Strips | 0.000 | 07/05/14 | 15,000,000.00 |
| Tennessee Valley Authority | 8.375 | 10/01/99 | 2,000,000.00 |
| Tennessee Valley Authority | 8.750 | 10/01/19 | 16,000,000.00 |
| Total Federal Agencies | | | \$ 184,442,167.92 |
| SHIP BONDS (TITLE XI): | | | |
| Atlas Marine American Hertge | 7.700 | 12/15/96 | \$ 1,268,000.00 |
| Crowley Maritime | 8.125 | 09/13/99 | 2,127,844.92 |
| Farrell Lines Inc Freedom | 7.300 | 07/01/97 | 506,000.00 |
| Farrell Lines Inc SF Ser I | 7.950 | 06/07/04 | 2,169,000.00 |
| Marine Ship Leasing A Antarctic | 7.875 | 09/12/95 | 357,760.20 |
| Marine Vessel Leasing Ind Ocean | 7.875 | 10/14/95 | 294,910.18 |
| Shipco 668 Series A SF | 8.500 | 05/11/02 | 3,690,000.00 |
| Total Ship Bonds | | | \$ 10,413,515.30 |
| GNMA SINGLE FAMILY MORTGAGES: | | | |
| Mortgage Pools | various | various | \$ 54,824,471.26 |
| Total GNMA Single Family Mortgages | | | \$ 54,824,471.26 |
| COLLATERIZED MORTGAGE OBLIGATIONS: | | | |
| CMO Coll Mtg Sec Corp Ser 88-4 CLB | 8.750 | 04/20/19 | \$ 1,996,146.99 |
| CMO Coll Mtg Sec Corp Ser 88-4 CLB | 8.750 | 04/20/19 | 7,951,853.01 |
| CMO Community Program Loan Tr | 4.500 | 10/01/18 | 11,000,000.00 |
| CMO FHLMC 1494 CL PJ | 6.850 | 01/15/22 | 2,000,000.00 |
| CMO FHLMC Ser 1243 Class C | 6.700 | 10/15/00 | 6,000,000.00 |
| CMO Ryland Accept Corp Ser 54 CL54B | 9.850 | 11/01/03 | 430,466.38 |
| CMO Trust 43 Ser Y | 8.200 | 05/20/04 | 4,051,655.73 |
| CMO Trust II 4C Bonds | 9.650 | 07/25/06 | 5,000,000.00 |
| CMO-Lomas Nettleton Mtg II 2 | 9.000 | 12/01/08 | 1,370,034.35 |
| CMO-Lomas Nettleton Mtg II 2 | 9.000 | 12/01/08 | 1,370,034.35 |
| CMO-MDC Asset Inv TR Ser 11 CL 3 | 9.050 | 11/20/17 | 824,579.30 |
| Total Collateralized Mortgage Obligations | | | \$ 41,994,770.11 |
| TREASURY STRIP BONDS: | | | |
| CATS (Treasury Securities) RU | 0.000 | 02/15/04 | \$ 4,600,000.00 |
| CATS (Treasury Securities) U | 0.000 | 02/15/01 | 1,100,000.00 |
| CATS (Treasury Securities) U | 0.000 | 02/15/02 | 10,800,000.00 |
| CATS (Treasury Securities) U | 0.000 | 08/15/02 | 5,500,000.00 |
| CATS (Treasury Securities) U | 0.000 | 02/15/03 | 5,000,000.00 |
| CATS (Treasury Securities) UR | 0.000 | 02/15/02 | 3,300,000.00 |
| CATS (Treasury Securities) VGLQT | 0.000 | 11/15/03 | 10,600,000.00 |

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|--------------------------------------|--------|----------|--|
| TREASURY STRIP BONDS (CONT.): | | | |
| CATS (Treasury Securities) Z | 0.000 | 05/15/03 | \$ 5,000,000.00 |
| Call Treasury Receipts | 0.000 | 11/15/08 | 5,000,000.00 |
| Call Treasury Receipts | 0.000 | 11/15/08 | 2,500,000.00 |
| Call Treasury Receipts | 0.000 | 11/15/11 | 2,520,000.00 |
| Principal CATS Series R | 0.000 | 08/15/04 | 45,000,000.00 |
| Principal CATS U | 0.000 | 08/15/04 | 22,800,000.00 |
| Principal CATS U | 0.000 | 08/15/04 | 5,004,000.00 |
| TIGR'S (Treasury Securities) 1 | 0.000 | 11/15/05 | 5,012,000.00 |
| TIGR'S (Treasury Securities) 18 | 0.000 | 02/15/02 | 2,500,000.00 |
| Treasury Receipts | 0.000 | 05/15/94 | 8,125,700.00 |
| Treasury Receipts | 0.000 | 05/15/04 | 2,170,080.00 |
| U S Treasury Call Strip Bonds | 0.000 | 02/15/10 | 8,300,000.00 |
| U S Treasury Principal Strips | 0.000 | 11/15/97 | 25,000,000.00 |
| U S Treasury Principal Strips | 0.000 | 08/15/00 | 25,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 11/15/96 | 15,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 02/15/97 | 13,500,000.00 |
| U S Treasury Strip Bonds | 0.000 | 08/15/97 | 3,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 08/15/97 | 11,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 08/15/97 | 10,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 02/15/01 | 25,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 11/15/02 | 1,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 05/15/03 | 14,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 05/15/04 | 15,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 08/15/06 | 3,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 08/15/07 | 15,690,000.00 |
| U S Treasury Strip Bonds | 0.000 | 08/15/07 | 15,560,000.00 |
| U S Treasury Strip Bonds | 0.000 | 11/15/08 | 5,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 05/15/09 | 1,200,000.00 |
| U S Treasury Strip Bonds | 0.000 | 08/15/10 | 20,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 11/15/11 | 15,000,000.00 |
| U S Treasury Strip Bonds | 0.000 | 02/15/13 | 5,000,000.00 |
| Total Treasury Strip Bonds | | | \$ 392,781,780.00 |
| OTHER - MISCELLANEOUS: | | | |
| FHA Certificate of Claim | 3.000 | | \$ 32,887.02 |
| Total Other | | | \$ 32,887.02 |
| Total U.S. Government Obligations | | | \$ 2,405,675,591.61 |

CORPORATE BONDS

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|-----------------------------------|--------|----------|--|
| INDUSTRIALS: | | | |
| Ariel Properties Inc Mtg Nt | 7.000 | 07/01/98 | \$ 225,675.90 |
| Burlington Resources Inc Nts | 9.625 | 06/15/00 | 3,000,000.00 |
| Burlington Resources Inc Nts | 9.625 | 06/15/00 | 9,000,000.00 |
| Burlington Resources Inc Nts | 9.625 | 06/15/00 | 2,000,000.00 |
| Chevron Corp Trust Fund Nts | 8.110 | 12/01/04 | 10,500,000.00 |
| Chevron London 1st Prfd Ship Mtg | 7.700 | 09/07/97 | 369,838.56 |
| Corning Glass Works Debs | 8.875 | 03/15/16 | 5,000,000.00 |
| Dayton-Hudson Corp SF Debs | 9.500 | 10/15/16 | 1,000,000.00 |
| Dresser Industries Inc Notes | 6.250 | 06/01/00 | 5,000,000.00 |
| Dupont (E I) deNemours Debs | 6.000 | 12/01/01 | 4,000,000.00 |
| Dupont (E I) deNemours Debs | 6.000 | 12/01/01 | 8,000,000.00 |
| Dupont (E I) deNemours Debs | 6.000 | 12/01/01 | 4,000,000.00 |
| Eaton Corp Debentures | 8.900 | 08/15/06 | 1,800,000.00 |
| Exxon Shipping Debs | 0.000 | 09/01/12 | 3,000,000.00 |
| Fahrney Paul L 1st Prfd Ship Mtg. | 7.700 | 09/08/97 | 369,838.56 |
| Ford Motor Co Debs | 9.950 | 02/15/32 | 5,000,000.00 |
| Ford Motor Co Debs | 9.950 | 02/15/32 | 8,000,000.00 |
| Ford Motor Co Nts | 8.875 | 04/01/06 | 3,045,000.00 |
| Ford Motor Credit MTN | 9.030 | 07/15/96 | 5,500,000.00 |
| Gerber Products Co. Debs | 9.000 | 10/15/06 | 1,900,000.00 |
| Halliburton Co CNV/PUT/CALL | 0.000 | 03/13/06 | 5,000,000.00 |
| Hilton Hotels Corp Sr Nts | 7.700 | 07/15/02 | 11,750,000.00 |
| Humana Medium Term Nts | 7.860 | 08/08/94 | 10,000,000.00 |
| ITT Corp Nts | 9.375 | 10/15/94 | 10,000,000.00 |
| ITT Corp Variable Duration Nts | 10.450 | 09/01/95 | 10,723,000.00 |
| K-Mart MTN | 9.600 | 09/15/98 | 3,000,000.00 |
| Limited Inc Notes | 7.800 | 05/15/02 | 2,000,000.00 |
| Marion Merrell Dow-ASOP Debs | 9.110 | 08/01/05 | 5,009,000.00 |
| May Department Stores Debs | 9.125 | 12/01/16 | 3,000,000.00 |
| Mobil Oil - ESOP Debs | 9.170 | 02/29/00 | 8,337,468.75 |
| Pfizer Inc Nts | 6.500 | 02/01/97 | 3,000,000.00 |
| Philip Morris Cos Nts | 6.375 | 01/15/98 | 11,750,000.00 |
| Philip Morris Cos Nts | 7.125 | 12/01/99 | 10,000,000.00 |
| Philip Morris Cos Nts | 7.125 | 08/15/02 | 2,000,000.00 |
| Philip Morris Cos Nts | 9.000 | 05/15/98 | 6,000,000.00 |
| RJR Nabisco Inc | 7.375 | 02/01/01 | 1,000,000.00 |
| RJR Nabisco SF Debs | 8.625 | 03/15/17 | 1,600,000.00 |
| Ryder System Inc MTN | 8.800 | 07/19/93 | 5,000,000.00 |
| Sears Roebuck & Co Mtn | 7.860 | 04/30/97 | 8,725,000.00 |
| Standard Oil Debs | 9.000 | 06/01/19 | 4,000,000.00 |
| Time Warner Inc SF Debs | 8.750 | 04/01/17 | 5,000,000.00 |
| Waste Management Inc Notes | 4.875 | 07/01/95 | 7,500,000.00 |
| Waste Management Inc Notes | 4.875 | 07/01/95 | 2,500,000.00 |
| Waste Management Inc Notes | 4.875 | 07/01/95 | 2,000,000.00 |
| Westvaco Corp SF Debs | 12.300 | 01/15/15 | 1,000,000.00 |
| Total Industrial Bonds | | | \$ 220,604,821.77 |
| FINANCE: | | | |
| American Express Cr Co Sr Nts | 7.750 | 03/01/97 | \$ 1,000,000.00 |
| American Express Cr Co Sr Nts | 7.750 | 03/01/97 | 9,000,000.00 |
| American Express Cr Corp Nts | 8.750 | 02/01/95 | 3,000,000.00 |
| American Express Cr Corp Nts | 8.750 | 02/01/95 | 2,000,000.00 |
| American Express Cr Corp Nts | 8.750 | 02/01/95 | 5,000,000.00 |
| American Tel Tel Credit Corp MTN | 8.800 | 01/31/95 | 3,500,000.00 |
| Aon Corp Notes | 6.875 | 10/01/99 | 3,000,000.00 |
| Associates Corp NA Nts | 7.500 | 05/15/99 | 7,000,000.00 |
| Associates Corp NA Nts | 9.125 | 04/01/00 | 7,500,000.00 |
| Associates Corp of North America | 8.375 | 01/15/98 | 5,000,000.00 |
| Associates Corp of North America | 9.200 | 07/01/93 | 4,400,000.00 |

CORPORATE BONDS (CONTINUED)

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|--|--------|----------|--|
| FINANCE (CONT.): | | | |
| Associates Corp of North America | 9.200 | 07/01/93 | \$ 1,000,000.00 |
| Bankamerica Corp Notes | 6.850 | 03/01/03 | 10,000,000.00 |
| C & S / Sovran Corp | 9.750 | 06/15/99 | 1,000,000.00 |
| Capital Auto 93-1 CL A6 | 4.900 | 02/17/98 | 5,000,000.00 |
| Capital Holding MTN | 8.910 | 03/18/96 | 1,800,000.00 |
| Capital Holding MTN | 8.910 | 03/18/96 | 12,000,000.00 |
| Commercial Credit Notes | 8.500 | 02/15/98 | 5,000,000.00 |
| Ford Motor Credit Notes | 7.500 | 03/01/94 | 4,000,000.00 |
| Ford Motor Credit Notes | 7.500 | 03/01/94 | 6,000,000.00 |
| Ford Motor Credit Nts | 7.875 | 01/15/97 | 4,000,000.00 |
| GMAC | 8.600 | 04/05/95 | 10,000,000.00 |
| GMAC 1992-C (A) | 5.950 | 02/15/97 | 4,523,675.85 |
| GMAC 1992-D Grantor Trust Cl A | 5.550 | 05/15/97 | 5,878,214.90 |
| GMAC Debs | 8.625 | 06/15/99 | 4,000,000.00 |
| GMAC Debs | 8.625 | 06/15/99 | 6,000,000.00 |
| GMAC MTN | 8.350 | 08/04/93 | 9,000,000.00 |
| General Electric Cap Corp Nts MTN | 9.190 | 07/16/09 | 3,000,000.00 |
| General Electric Credit Corp Debs | 5.500 | 11/01/01 | 4,000,000.00 |
| General Motors Accept Corp Debs | 8.000 | 01/15/02 | 3,500,000.00 |
| Goldman Sachs Notes #144A Reg | 7.875 | 01/15/03 | 14,000,000.00 |
| IBM Credit MTN | 8.200 | 07/30/93 | 5,000,000.00 |
| MBNA Credit Card Tr Series 91-1 | 7.750 | 10/15/98 | 15,000,000.00 |
| MBNA Credit Card Tr Series 91-1 | 7.750 | 10/15/98 | 6,000,000.00 |
| Premier Auto Trust 92-2 | 6.375 | 09/15/97 | 12,365,987.81 |
| Premier Auto Trust 92-2 | 6.375 | 09/15/97 | 4,946,395.11 |
| Premier Auto Trust 92-5 | 4.550 | 03/15/98 | 3,883,837.71 |
| Premier Auto Trust 92-5 | 4.550 | 03/15/98 | 2,330,302.63 |
| Premier Auto Trust 92-5 | 4.550 | 03/15/98 | 1,553,535.09 |
| Railcar Trust Notes 1992-1 | 7.750 | 06/01/04 | 6,582,468.00 |
| Security Pacific Ser K SR Mtn | 6.850 | 03/15/94 | 12,500,000.00 |
| Torchmark Corp | 8.625 | 03/01/17 | 1,000,000.00 |
| U S West Financial Service MTN | 9.125 | 08/02/93 | 6,000,000.00 |
| U S West Financial Service MTN | 9.125 | 08/02/93 | 6,000,000.00 |
| U S West Financial Service MTN | 9.250 | 08/02/94 | 3,000,000.00 |
| Wisconsin Hsg & Economic Dev Auth | 6.450 | 07/01/14 | 6,000,000.00 |
| Total Financial Bonds | | | \$ 256,264,417.10 |
| UTILITY BONDS (EXCEPT TELEPHONE): | | | |
| Big Rivers Rural Elec | 9.500 | 02/15/17 | \$ 2,000,000.00 |
| Florida Power Corp 1st Mtg | 7.375 | 06/01/02 | 2,000,000.00 |
| Florida Power Light 1st Mtg | 4.625 | 03/01/95 | 100,000.00 |
| Florida Power Light 1st Mtg | 5.000 | 12/01/95 | 700,000.00 |
| Georgia Power Co 1st Mtg | 5.500 | 04/01/98 | 10,000,000.00 |
| Houston Lighting Power 1st Mtg | 9.000 | 03/01/17 | 207,000.00 |
| Kentucky Utilities 1st Mtg I | 8.750 | 04/01/00 | 300,000.00 |
| Kentucky Utilities 1st Mtg J | 7.625 | 09/01/01 | 2,000,000.00 |
| Louisville Gas Electric 1st Mtg | 8.250 | 08/01/01 | 2,000,000.00 |
| Pacific Gas Elec 1st Ref Mtg 86F | 9.125 | 10/01/19 | 1,000,000.00 |
| Pacific Gas Elec 1st Ref Mtg QQ | 6.625 | 06/01/00 | 1,000,000.00 |
| Pacific Gas Elec 1st Ref Mtg XX | 7.500 | 12/01/03 | 1,300,000.00 |
| Pub Ser Elec Gas 1st Ref Mtg | 6.000 | 01/01/98 | 2,500,000.00 |
| Pub Ser Elec Gas Debs | 6.000 | 07/01/98 | 255,000.00 |
| Southern Calif Edison 1st Ref Mort | 5.900 | 01/15/97 | 4,000,000.00 |
| Southern Calif Edison 1st Ref Mort | 5.900 | 01/15/97 | 7,000,000.00 |
| Southern Calif Edison 1st Ref Mort | 5.900 | 01/15/97 | 3,000,000.00 |
| Union Electric Corp 1st Mtg | 6.750 | 10/15/99 | 5,000,000.00 |
| Total Utility Bonds | | | \$ 44,362,000.00 |

CORPORATE BONDS (CONTINUED)

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|-------------------------------------|--------|----------|--|
| TELEPHONE BONDS: | | | |
| American Tel Tel Debs | 5.500 | 01/01/97 | \$ 2,100,000.00 |
| American Tel Tel Debs | 6.000 | 08/01/00 | 1,000,000.00 |
| Cincinnati Bell Inc Nts | 9.100 | 06/15/00 | 2,000,000.00 |
| Cincinnati Bell Inc Nts | 9.100 | 06/15/00 | 3,000,000.00 |
| GTE Florida Inc | 8.000 | 03/01/01 | 250,000.00 |
| GTE Florida Inc | 8.375 | 03/01/27 | 2,000,000.00 |
| Gen Telephone Midwest 1st Mtg F | 7.500 | 02/01/01 | 200,000.00 |
| Hawaiian Telephone 1st Mtg S | 6.750 | 04/01/98 | 100,000.00 |
| Hawaiian Telephone 1st Mtg T | 8.750 | 09/01/00 | 200,000.00 |
| Michigan Bell Tel Debs | 7.000 | 11/01/12 | 2,000,000.00 |
| New York Telephone Co Debs | 8.625 | 05/15/24 | 3,750,000.00 |
| New York Telephone Co Debs | 8.750 | 04/01/23 | 10,000,000.00 |
| New York Telephone Co Debs | 8.750 | 04/01/23 | 3,000,000.00 |
| New York Telephone Co Debs | 8.750 | 04/01/23 | 2,000,000.00 |
| Pacific Tel Tel Debs | 7.800 | 03/01/07 | 250,000.00 |
| Pacific Tel Tel Debs | 8.375 | 02/01/17 | 2,500,000.00 |
| Southwestern Bell Tel Debs | 4.625 | 08/01/95 | 1,590,000.00 |
| Southwestern Bell Tel Debs | 6.750 | 06/01/08 | 1,000,000.00 |
| Southwestern Bell Tel Debs | 7.750 | 09/01/09 | 2,000,000.00 |
| Total Telephone Bonds | | | \$ 38,940,000.00 |
| RAILROAD OBLIGATIONS: | | | |
| CSX Corp Nts | 9.000 | 08/15/06 | \$ 10,000,000.00 |
| Sou Railway Memphis Div 1st Mtg | 5.000 | 07/01/96 | 539,000.00 |
| Southern Railway 1st Con Mtg | 5.000 | 07/01/94 | 2,950,000.00 |
| Virginia Southwestern Ry 1st Mtg | 5.000 | 01/01/03 | 107,000.00 |
| Total Railroad Obligations | | | \$ 13,596,000.00 |
| CORPORATE BONDS NOC: | | | |
| College & Univ FAC Loan TR 2 Ser A | 4.000 | 06/01/96 | \$ 614,418.63 |
| College & Univ FAC Loan TR 2 Ser A | 4.000 | 06/01/96 | 581,206.83 |
| Discover Credit Card Trust 1990-B | 9.200 | 11/16/95 | 4,583,334.26 |
| First US Credit Card Trust 1989A | 8.550 | 07/15/94 | 220,182.53 |
| First US Credit Card Trust 1989A | 8.550 | 07/15/94 | 220,182.53 |
| First USA Credit Card Trust 1989A | 8.550 | 07/15/94 | 660,547.61 |
| Ford Motor Credit 1989-B Grantor Tr | 8.600 | 12/15/94 | 799,719.87 |
| Total Corporate Bonds NOC | | | \$ 7,679,592.26 |
| Total Corporate Bonds | | | \$ 581,446,831.13 |

OTHER FIXED INCOME INVESTMENTS

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|--|---------|----------|--|
| SINGLE FAMILY MORTGAGES: | | | |
| FHA | various | various | \$ 2,430,624.36 |
| VA | various | various | 2,475,272.41 |
| Total Single Family Mortgages | | | \$ 4,905,896.77 |
| PROJECT MORTGAGES (FHA & GNMA): | | | |
| Americana Apts KY 221D4 | 7.500 | 10/01/18 | \$ 4,231,322.08 |
| Bedford Commons KY 221D4 | 8.000 | 11/01/23 | 1,227,236.79 |
| Bedford House KY 221D4 | 7.500 | 01/01/20 | 1,180,981.36 |
| Beech Creek Apts KY 221D4 | 7.500 | 08/01/21 | 1,985,227.87 |
| Belleville Manor Apts KY 221D4 | 7.500 | 11/01/19 | 607,295.79 |
| Berrytown Apts KY 221D4 | 8.000 | 02/01/24 | 1,335,450.34 |
| Bethany Circle Kings Daughters IN | 8.375 | 03/01/02 | 1,240,598.41 |
| Cambridge Square Apts KY 221D4 | 7.500 | 11/01/19 | 1,134,415.63 |
| Carnaby Square Apts KY 221D4 | 7.500 | 06/01/19 | 1,165,729.06 |
| Carrollton Village Apts KY 221D4 | 7.500 | 09/01/20 | 1,872,767.30 |
| Carter Court Apts KY 221D4 | 7.500 | 09/01/20 | 1,235,913.45 |
| Christ Hosp GNMA 21191PL | 8.000 | 09/15/06 | 3,004,723.77 |
| Congregational Home Kan 231 | 5.250 | 07/01/04 | 999,473.49 |
| Coolavin Apts KY 221D4 | 7.500 | 04/01/22 | 3,036,871.85 |
| Denver Ed Sr Citizns 231 | 5.250 | 11/01/03 | 557,236.28 |
| Dixie Apts KY 221D4 | 7.500 | 05/01/18 | 1,067,379.97 |
| Ephraim McDowell Hosp KY | 9.000 | 01/01/01 | 1,990,295.21 |
| Ferndale Apts KY 221D4 | 7.500 | 08/01/23 | 3,596,990.90 |
| Gainesway Village KY 221D4 | 7.500 | 02/01/19 | 1,542,200.58 |
| Glenbrook Park KY 221D4 | 7.500 | 12/01/21 | 2,383,944.35 |
| Grand Central Apts KY 221D4 | 7.500 | 03/01/25 | 2,228,542.41 |
| Greater Corbin Mnr KY 221D4 | 7.500 | 03/01/21 | 3,378,033.35 |
| Hallmark Plaza KY 223F | 8.500 | 06/01/11 | 1,030,475.81 |
| Jackson Valley Apts KY 221D4 | 7.500 | 08/01/20 | 1,880,837.85 |
| Jamestown Manor Ltd KY 221D4 | 7.500 | 02/01/22 | 1,499,329.13 |
| Lakeview Estates KY 221D4 | 7.500 | 01/01/20 | 1,061,361.79 |
| Lebanon Apts KY 221D4 | 7.500 | 02/01/20 | 1,139,272.05 |
| Lighthouse Sq Apts KY 223F | 8.625 | 01/01/27 | 4,754,697.28 |
| Lin Meadows Homes KY 221D4 | 7.500 | 11/01/22 | 260,316.71 |
| Locust Ridge KY 221D4 | 7.500 | 10/10/21 | 1,817,728.26 |
| Longmont Christian Hsg 231 | 5.250 | 03/01/03 | 342,045.85 |
| Madison Ave Apts KY 221D4 | 7.500 | 09/01/20 | 1,854,580.91 |
| Manchester Heights Apts KY 221D4 | 7.500 | 06/01/19 | 1,162,054.79 |
| Middletown Apts KY 221D4 | 7.500 | 02/01/18 | 987,625.04 |
| Montgomery Square Apts KY 221D4 | 7.500 | 05/01/19 | 1,161,155.59 |
| Mt Lebanon Cedars KY 221D3 | 7.500 | 03/01/23 | 2,547,206.69 |
| Oak Tree Villa Apts KY 221D4 | 7.500 | 05/01/23 | 3,368,170.25 |
| Panorama West KY 236 | 8.500 | 12/01/12 | 416,471.57 |
| Pine Ridge Apts KY 221D4 | 7.500 | 09/01/18 | 784,884.00 |
| Pinecreek Apts KY 221D4 | 7.500 | 10/01/17 | 538,491.53 |
| Regency Park Apts KY 221D4 | 7.500 | 05/01/18 | 910,018.75 |
| Regency Park BG KY 221D4 | 7.500 | 02/01/23 | 3,579,179.60 |
| Ridgeway Apts KY 221D4 | 7.500 | 02/01/19 | 990,029.02 |
| Rucker Village Apts KY 221D4 | 7.500 | 03/01/20 | 1,034,962.38 |
| Salem Village I 232 III | 7.750 | 03/01/16 | 940,739.33 |
| Salem Village II 231 III | 7.750 | 10/01/16 | 3,226,024.05 |
| Sandefur Manor KY 221D4 | 7.500 | 01/01/20 | 899,364.08 |
| Shepherdsville VLG KY 221D4 | 7.500 | 05/01/20 | 1,303,692.30 |
| Shively Apts KY 221D4 | 7.500 | 10/01/21 | 2,321,301.23 |
| Southside Manor KY 221D4 | 7.500 | 02/01/19 | 1,345,615.13 |
| Town Branch Apts KY 221D4 | 7.500 | 11/01/23 | 727,990.27 |
| Tree Top Apts KY 221D4 | 7.500 | 11/01/20 | 1,083,476.11 |
| Vernon Manor Ltd KY 221D4 | 7.500 | 11/01/22 | 875,325.80 |
| Walnut Hill Apts KY 221D4 | 7.500 | 05/01/19 | 1,561,168.71 |

OTHER FIXED INCOME INVESTMENTS (CONTINUED)

| SECURITY | COUPON | MATURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|---|--------|----------|--|
| PROJECT MORTGAGES (FHA & GNMA)(CONT.): | | | |
| Wesley Manor KY 232 | 8.000 | 12/01/11 | \$ 864,668.24 |
| Wessington House Apts TN 221D4 | 7.500 | 02/01/22 | 1,792,955.83 |
| Westchester Circle KY 221D4 | 7.500 | 04/01/19 | 4,005,633.73 |
| Westwood Apts KY 221D4 | 7.500 | 10/01/23 | 1,163,837.21 |
| Wilderness Trail Mnr KY 221D4 | 7.500 | 03/01/23 | 5,498,127.84 |
| Wildwood Apts KY 221D4 | 7.500 | 08/01/20 | 1,800,359.72 |
| Willow Creek Apts KY 221D4 | 7.500 | 08/01/23 | 1,344,569.30 |
| Woodsvlew Apts KY 221D4 | 7.500 | 01/01/19 | 1,353,052.96 |
| Total Project Mortgages | | | \$ 106,231,426.93 |
| Total Other Fixed Income Investments | | | \$ 111,137,323.70 |
| TOTAL FIXED INCOME INVESTMENTS | | | \$ 3,641,109,746.44 |

REAL ESTATE EQUITY

| SECURITY | PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|-----------------------------------|--|
| REAL ESTATE EQUITY: | |
| FIA Profile Fund I - 1500 Units | \$ 12,274,994.55 |
| K Mart Store Winchester KY | 2,715,512.53 |
| Kroger Store Georgetown KY | 2,186,000.00 |
| Kroger Store Richmond KY | 2,305,000.00 |
| Kroger Super-X Bowling Green KY | 2,792,467.00 |
| Kroger Super-X Owensboro KY | 2,232,400.00 |
| Mercantile Warehouse L'ville Ky | 7,730,000.00 |
| Office Building 477 | 1,419,188.76 |
| Rite Aid - Horse Cave, Ky | 370,000.00 |
| Rite Aid - Liberty, Ky | 397,700.00 |
| 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 Princeton Ky | 2,900,000.00 |
| Wal-Mart Store Shelbyville KY | 1,600,000.00 |
| Wal-Mart Store Williamstown KY | 1,090,000.00 |
| Winn Dixie - Leitchfield Ky #1617 | 2,145,833.00 |
| Winn Dixie - Lexington Ky #1614 | 3,639,167.00 |
| Winn Dixie - Somerset Ky #1602 | 3,090,479.00 |
| Winn Dixie - St Matthews Ky #1659 | 4,348,437.00 |
| Total Real Estate Equity | \$ 58,202,178.84 |

COMMON STOCKS

| STOCK | NUMBER OF SHARES | COST |
|-------------------------------|------------------|-----------------|
| AMP Inc | 121,000.00 | \$ 6,396,897.50 |
| AMR Corp | 105,600.00 | 6,665,086.00 |
| AST Research | 78,400.00 | 1,171,250.00 |
| Abbott Laboratories | 574,000.00 | 11,367,840.00 |
| Aetna Life & Casualty Co | 100,000.00 | 5,954,338.71 |
| Air & Water Technologies | 95,600.00 | 1,912,448.50 |
| Air Products & Chemicals | 197,000.00 | 6,389,972.50 |
| Allergan Inc | 206,900.00 | 4,468,189.00 |
| Aluminum Co of America | 218,500.00 | 14,753,135.00 |
| American Brands Inc | 200,000.00 | 9,376,112.50 |
| American General Corp | 300,000.00 | 5,320,537.50 |
| American Greetings | 50,000.00 | 2,490,625.00 |
| American Home Products | 270,000.00 | 16,007,787.50 |
| American International Group | 50,000.00 | 4,814,625.00 |
| Amoco Corp | 545,000.00 | 27,010,287.50 |
| Anthem Electronics Inc | 18,400.00 | 661,054.00 |
| Aon Corp | 75,500.00 | 2,990,435.00 |
| Atlantic Richfield | 130,000.00 | 16,229,076.25 |
| Automatic Data Processing Inc | 160,000.00 | 5,470,495.83 |
| Avery Dennison Corp | 78,800.00 | 1,902,006.10 |
| Baltimore Gas & Electric | 171,300.00 | 3,520,280.32 |
| Banc One | 299,700.00 | 8,676,675.14 |
| Bancorp Hawaii Inc | 66,500.00 | 2,878,644.50 |
| Bankamerica Corp | 100,000.00 | 4,345,750.00 |
| Bankers Trust NY Corp | 203,968.00 | 10,754,150.20 |
| Bard (CR) Inc | 72,600.00 | 2,056,218.50 |
| Barnett Banks Inc | 122,600.00 | 4,468,393.46 |
| Baxter International Inc | 245,000.00 | 8,504,141.18 |
| Baybanks Inc | 14,700.00 | 524,730.78 |
| Beckman Instruments | 123,300.00 | 2,379,148.00 |
| Bell Atlantic Corp | 130,000.00 | 4,767,036.80 |
| Biogen Inc | 9,000.00 | 267,463.24 |
| Black & Decker | 101,200.00 | 1,916,375.46 |
| Boeing Co | 368,750.00 | 11,771,797.88 |
| Bristol-Myers Squibb | 347,000.00 | 21,086,081.00 |
| Browning-Ferris Ind | 380,000.00 | 8,657,150.00 |
| Burlington Northern | 220,900.00 | 8,879,941.50 |
| CMS Energy Corporation | 173,700.00 | 3,181,303.79 |
| Calgene Inc | 49,400.00 | 717,575.00 |
| Capital Cities/ABC | 27,000.00 | 11,800,445.00 |
| Capital Holding Corp Del | 200,000.00 | 2,640,899.86 |
| Caremark Intl | 331,250.00 | 5,211,662.50 |
| Central & South West | 416,000.00 | 8,188,743.33 |
| Chase Manhattan | 134,500.00 | 2,664,445.00 |
| Chemical Waste Management Inc | 178,600.00 | 3,074,046.03 |
| Chiron Corp | 6,510.00 | 345,437.50 |
| Chubb Corp | 90,000.00 | 7,958,150.00 |
| Cigna Corp | 110,000.00 | 6,751,937.50 |
| Citicorp | 509,200.00 | 7,757,786.38 |
| Coca Cola Enterprises | 596,900.00 | 8,884,717.97 |
| Commonwealth Edison Co | 62,093.00 | 2,039,989.56 |
| Community Psychiatric Cntr | 200,000.00 | 3,610,265.68 |
| Compaq Computer | 300,000.00 | 8,934,562.50 |
| Consolidated Edison Co NY | 376,000.00 | 8,222,245.92 |
| Consolidated Natural Gas | 74,900.00 | 3,943,744.00 |
| Cooper Industries | 100,100.00 | 5,075,831.00 |
| Corestates Financial Corp | 250,000.00 | 10,282,500.00 |
| Deere & Co | 60,100.00 | 3,066,939.03 |
| Deluxe Corp | 200,000.00 | 6,668,562.50 |
| Dillard Dept Stores | 115,000.00 | 4,565,835.00 |
| Disney Walt Co | 92,000.00 | 2,711,355.00 |
| Dovatron Intl Inc | 18,000.00 | 0.00 |
| Dover Corp | 180,000.00 | 5,374,024.83 |
| Dow Chemical Co | 395,000.00 | 21,503,027.30 |

COMMON STOCKS (CONTINUED)

| Stock | Number of Shares | Cost |
|----------------------------|------------------|-----------------|
| Dow Jones & Co Inc | 160,000.00 | \$ 5,000,850.00 |
| DuPont (El) De Nemours | 251,000.00 | 9,169,770.95 |
| Dun & Bradstreet Corp | 360,000.00 | 19,462,429.65 |
| E G & G Inc | 350,000.00 | 6,536,375.00 |
| Eastern Utilities Assoc | 25,100.00 | 496,131.07 |
| Eastman Kodak | 80,000.00 | 3,347,050.00 |
| Emerson Electric | 220,000.00 | 9,221,829.61 |
| Exxon Corp | 459,000.00 | 21,749,756.64 |
| FHP International Corp | 122,700.00 | 1,908,132.30 |
| Federal National Mortgage | 40,000.00 | 3,163,650.00 |
| Federated Dept Stores Inc | 59,686.00 | 1,492,150.00 |
| First Data Corp | 125,000.00 | 4,093,087.50 |
| Fleet Call Inc CL A | 92,500.00 | 1,702,058.41 |
| Ford Motor Co Del | 200,000.00 | 9,479,237.50 |
| Forest Labs Inc | 46,600.00 | 1,836,968.48 |
| GFC Financial Corp | 34,500.00 | 734,757.50 |
| Galen Health Care | 70,000.00 | 910,000.00 |
| General Electric Co | 485,000.00 | 31,006,684.10 |
| General Mills | 120,000.00 | 8,300,437.50 |
| General Motors Corp | 327,200.00 | 13,087,310.41 |
| General RE Corp | 115,000.00 | 10,128,600.00 |
| Genuine Parts | 227,600.00 | 7,119,174.26 |
| Genzyme Corp | 7,800.00 | 304,289.31 |
| Gillette Corp | 110,000.00 | 6,107,212.50 |
| Grainger (WW) Inc | 140,000.00 | 5,019,862.50 |
| Gulf States Utilities | 89,900.00 | 922,087.76 |
| Halliburton Co | 228,200.00 | 7,871,270.40 |
| Harnischfeger Industries | 45,000.00 | 860,575.00 |
| Heinz (HJ) Co | 200,000.00 | 7,709,837.50 |
| Hewlett Packard Co | 165,000.00 | 7,620,934.09 |
| Hillenbrand Industries | 49,000.00 | 1,112,745.65 |
| Honeywell | 177,000.00 | 6,499,982.50 |
| Humana Inc | 70,000.00 | 1,293,600.00 |
| IBM | 100,000.00 | 11,015,712.50 |
| Imcera Group Inc | 70,000.00 | 2,166,600.00 |
| Immunex Corp | 7,000.00 | 307,347.88 |
| Intel Corp | 270,000.00 | 9,097,976.56 |
| International Flavors/Frag | 20,000.00 | 1,539,275.00 |
| International Paper | 160,000.00 | 10,826,450.00 |
| James River Corp | 390,000.00 | 9,457,174.16 |
| Johnson & Johnson | 380,000.00 | 16,588,487.50 |
| Jostens Inc | 54,100.00 | 1,780,158.50 |
| K Mart Corp | 652,000.00 | 13,712,500.79 |
| Kellogg Co | 140,000.00 | 5,939,796.43 |
| Kentucky Utilities | 106,000.00 | 2,206,782.20 |
| Kroger Co | 103,000.00 | 1,840,967.50 |
| LG&E Energy Corp | 172,500.00 | 4,649,957.91 |
| Ladd Furniture | 81,000.00 | 981,087.50 |
| Lilly (Eli) & Co | 130,000.00 | 9,691,925.00 |
| Limited Inc | 211,000.00 | 5,726,210.00 |
| Lone Star Technologies | 89,600.00 | 636,870.19 |
| Lyondell Petrochemical | 27,300.00 | 678,941.19 |
| MBNA Corp | 360,000.00 | 9,949,550.00 |
| MCI Communications | 132,500.00 | 3,987,018.00 |
| MNC Financial Inc | 41,300.00 | 450,053.00 |
| Manor Care Inc | 92,700.00 | 1,408,008.00 |
| Marsh & McLennan Inc | 294,600.00 | 21,879,737.36 |
| Martin Marietta | 32,300.00 | 1,810,763.00 |
| Masco Corp | 60,000.00 | 1,811,725.00 |
| Maxus Energy Corp | 233,400.00 | 2,056,104.00 |
| May Dept Stores Co | 338,000.00 | 7,388,257.27 |
| McDonalds Corp | 290,000.00 | 10,380,709.80 |
| Medtronic Inc | 15,000.00 | 925,275.00 |
| Melville Corp | 130,000.00 | 4,828,775.00 |
| Merck & Co | 225,000.00 | 7,202,812.50 |

COMMON STOCKS (CONTINUED)

| Stock | Number of Shares | Cost |
|----------------------------------|------------------|---------------|
| Michigan National Corp | 11,400.00 | \$ 539,825.00 |
| Microsoft Corp | 65,000.00 | 5,214,600.00 |
| Millipore Corp | 70,900.00 | 2,766,104.00 |
| Minnesota Mining & Manufacturing | 268,000.00 | 19,950,454.31 |
| Mobil Corp | 230,100.00 | 13,221,724.34 |
| Molex Inc | 35,000.00 | 1,092,500.00 |
| Monsanto Co | 98,000.00 | 5,062,373.75 |
| Morgan (JP) & Co | 85,000.00 | 4,502,387.50 |
| Nalco Chemical | 250,000.00 | 8,780,362.50 |
| New York Times CI A | 145,000.00 | 3,891,987.50 |
| Norfolk Southern | 101,000.00 | 2,916,712.50 |
| Novell | 55,000.00 | 1,503,750.00 |
| PHH Inc | 170,000.00 | 4,986,875.00 |
| PPG Industries | 100,000.00 | 5,367,906.25 |
| Pennsylvania Power & Light | 384,000.00 | 6,947,611.14 |
| Pentair Inc | 38,250.00 | 926,275.00 |
| Pepsico Inc | 130,000.00 | 4,269,050.00 |
| Pfizer Inc | 203,600.00 | 13,242,655.62 |
| Philip Morris Cos Inc | 483,000.00 | 30,753,023.23 |
| Pioneer Hi-Bred Intl | 275,000.00 | 5,208,787.50 |
| Pitney Bowes Inc | 200,000.00 | 3,238,255.00 |
| Policy Management Systems Corp | 28,000.00 | 1,560,055.00 |
| Praxair Inc | 227,217.00 | 0.00 |
| Premark International | 52,900.00 | 1,475,641.51 |
| Raychem Corp | 61,000.00 | 2,045,335.00 |
| Raytheon Co | 394,000.00 | 13,502,609.00 |
| Republic N Y Corp | 160,000.00 | 7,007,987.50 |
| Roadway Services Inc | 120,000.00 | 4,532,875.00 |
| Safeco Corp | 160,000.00 | 6,066,437.50 |
| Safety-Kleen | 15,000.00 | 453,400.00 |
| Sara Lee Corp | 220,000.00 | 4,749,700.00 |
| Schering Plough Corp | 121,000.00 | 6,950,682.37 |
| Smith's Food & Drug Ctrs | 19,600.00 | 688,263.50 |
| Snap-on-Tools | 160,000.00 | 5,082,137.50 |
| Sprint Corp | 281,100.00 | 7,638,803.50 |
| St Paul Bancorp | 30,300.00 | 464,540.45 |
| Stone Container | 134,300.00 | 2,109,783.00 |
| Super Valu Stores | 280,000.00 | 7,340,850.00 |
| Sysco Corp | 120,000.00 | 2,701,287.50 |
| TRW Inc | 168,400.00 | 7,121,423.69 |
| Tennant Co | 14,200.00 | 507,650.00 |
| Tenneco Inc | 140,600.00 | 5,732,623.50 |
| Texaco Inc | 225,000.00 | 13,105,725.00 |
| Texas Utilities Co | 427,000.00 | 13,262,642.20 |
| Textron Inc | 160,000.00 | 4,115,957.89 |
| Thomas & Betts | 66,000.00 | 4,502,485.00 |
| Transamerica Corp | 190,400.00 | 8,183,961.50 |
| Travelers Corp | 104,875.00 | 4,663,223.81 |
| Trinity Industries | 28,500.00 | 812,817.90 |
| U S West Inc | 200,000.00 | 5,946,925.00 |
| USAir Group | 123,500.00 | 1,484,760.00 |
| UST Inc | 325,000.00 | 9,965,025.00 |
| Union Carbide | 227,217.00 | 5,769,612.60 |
| Union Pacific Corp | 325,000.00 | 14,583,975.00 |
| United Technologies Corp | 340,000.00 | 15,667,041.30 |
| V F Corp | 156,187.00 | 3,927,020.42 |
| Vulcan Materials Co. | 120,000.00 | 5,039,587.50 |
| Wachovia Corp | 541,252.00 | 11,110,811.83 |
| Wal-Mart Stores | 318,000.00 | 5,608,665.62 |
| Washington Post CI B | 35,000.00 | 8,386,612.50 |
| Waste Management | 425,000.00 | 13,270,912.50 |
| Wellman Inc | 58,100.00 | 1,532,848.50 |
| Westinghouse Electric | 250,000.00 | 5,619,912.50 |
| Westvaco Corp | 38,100.00 | 1,316,736.00 |
| Whirlpool Corp | 130,000.00 | 3,714,444.11 |

COMMON STOCKS (CONTINUED)

| Stock | Cost |
|---------------------|---------------------|
| Total Common Stocks | \$ 1,203,881,065.70 |
| S&P Stock Index: | \$ 396,955,291.85 |
| Total Stocks | \$ 1,600,836,357.55 |
| TOTAL EQUITY | \$ 1,659,038,536.39 |

TOTAL INVESTMENTS

| PAR VALUE OR REMAINING PRINCIPAL BALANCE |
|--|
| \$ 5,300,148,282.83 |