

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
OF THE
TEACHERS' RETIREMENT SYSTEM
OF THE
STATE OF KENTUCKY



A COMPONENT UNIT OF THE
COMMONWEALTH OF KENTUCKY

THE 54TH COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

TEACHERS' RETIREMENT SYSTEM OF THE STATE

OF

KENTUCKY

A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY

KENTUCKY TEACHERS' RETIREMENT SYSTEM

479 VERSAILLES ROAD

FRANKFORT, KENTUCKY 40601-3800

PAT N. MILLER

EXECUTIVE SECRETARY



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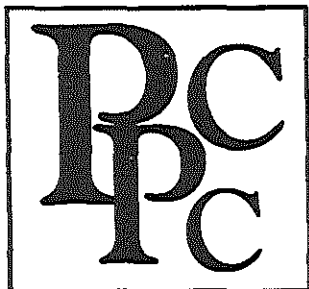
Teachers' Retirement
System of the State of
Kentucky

For its Component Unit
Financial Report
for the Fiscal Year Ended
June 30, 1993

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



President



Public Pension Coordinating Council

Public Pension Principles *1993 Achievement Award*

Presented to

Teachers' Retirement System of Kentucky

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

Presented by the Public Pension Coordinating Council, a confederation of

Government Finance Officers Association (GFOA)

National Association of State Retirement Administrators (NASRA)

National Conference on Public Employee Retirement Systems (NCPERS)

National Council on Teacher Retirement (NCTR)

Michael L. Mory
Chairman

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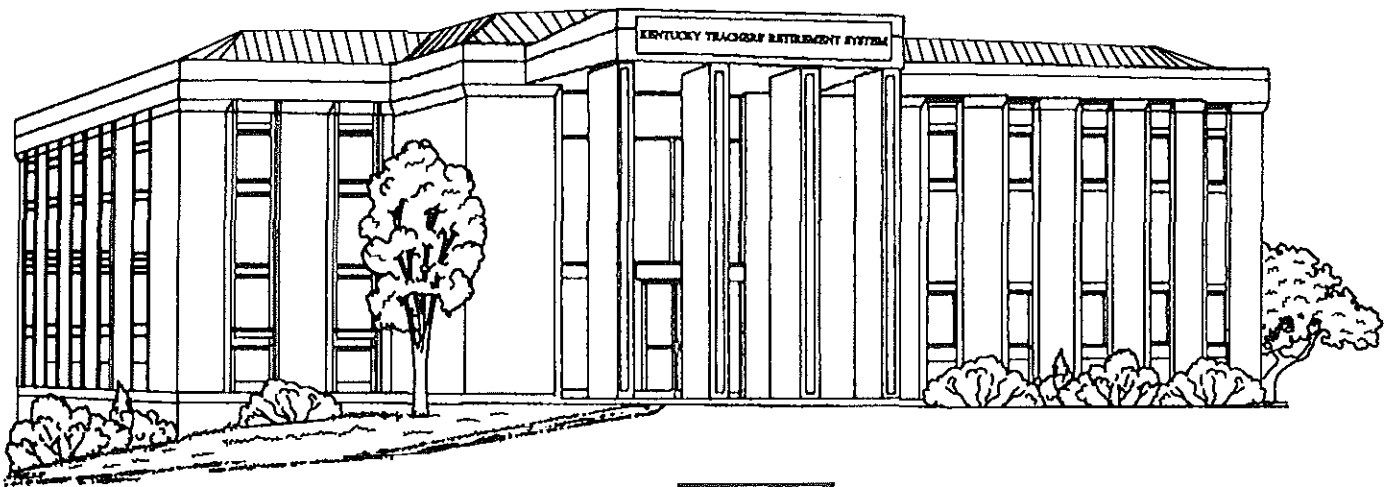
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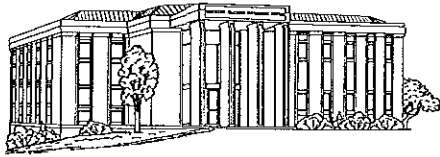
INTRODUCTORY SECTION

K^{KENTUCKY} T^{TEACHERS'} R^{RETIREMENT} S^{SYSTEM}



The System's legal name is "Teachers' Retirement System of the State of Kentucky"; however, it is commonly referred to as the Kentucky Teachers' Retirement System or KTRS. Kentucky law established the KTRS in 1938, but because of no funding, KTRS did not become operational until July 1, 1940.

TEACHERS' RETIREMENT SYSTEM
OF KENTUCKY



Honorable Brereton C. Jones, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601-3800

December 1, 1994

Dear Governor Jones:

It is my pleasure to submit the 54th Comprehensive Annual Financial Report of the Teachers' Retirement System of the State of Kentucky, a Component Unit of the Commonwealth of Kentucky, for the fiscal year ending on June 30, 1994.

State law provides the legal requirement for the publication of this report and in addition requires an annual audit of the retirement system.

Kentucky Teachers' Retirement System (KTRS) has produced an annual report that will provide you, the General Assembly, and the general public, with information necessary to gain a better understanding of the Teachers' Retirement System.

THIS REPORT CONSISTS OF SIX SECTIONS:

- ☐ The Introductory Section contains this letter of transmittal, the Board Chairman's letter, Board of Trustees information, a list of consultants used by the system, and the organizational chart.
- ☐ The Financial Section contains the opinion of the independent accountants.
- ☐ The Supporting Schedules Section supplements the Financial Section with schedules.
- ☐ The Actuarial Section contains the certification from the Actuaries of Buck Consultants as well as the results of the systems actuarial valuation.
- ☐ The Statistical Section contains information on the systems membership, both active and retired.
- ☐ The Investments Section presents investment and portfolio performance. This includes the policies, summary, profile, and listings of all the systems holdings.

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 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, employer or state contributions as well as income derived from the investment of reserve funds. Contributions and investment income for the fiscal year 1994 totaled \$917,781,495. This represents an increase of 6.13% over fiscal year 1993 revenue. The rate of increase for member and employer contributions over fiscal year 1993 was 3.7% and 3% 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 1994 and 1993 are shown for comparative purposes.

EXPENSES	1994 (MILLIONS)	1993 (MILLIONS)	INCREASE/(DECREASE)	
			(MILLIONS)	%
Retiree Benefits	\$ 287.0	\$ 260.3	\$ 26.7	10.26
Disabilities	15.2	13.6	1.6	11.76
Survivor/Death Benefits	9.0	8.2	0.8	9.76
Refunds	6.7	6.7	0	0
Medical Insurance	51.9	43.0	8.9	20.70
Administration	5.6	5.3	0.3	5.66
	<u>\$ 375.4</u>	<u>\$ 337.1</u>	<u>\$ 38.3</u>	<u>11.36</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 \$5,300,148,283 to \$5,805,483,842 during the 1993-94 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 \$442.6 million. This figure is 9.3% larger than last year's total of \$405 million.

The majority of earnings from the System's investment portfolio can be attributed to interest income of \$220,520,732. The second largest income component of \$153,077,984 was generated by gains on the sale of investments. This represented the largest annual total of realized gains in the System's history. Other income of \$69,038,029 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

Based on recommendations of the Board of Trustees, the General Assembly establishes the levels of contribution by statute that are to be made by members and employers to fund the liabilities of the system. Each year, an independent actuary performs a valuation to determine whether the current levels of contribution will be sufficient to cover the cost of benefits earned by members.

The latest actuarial valuation was for the period ending June 30, 1994. This report reflects that the System's assets totaled \$5.688 billion and the liabilities totaled \$7.521 billion. The actuary determined that the existing levels of contribution by members and employers would be sufficient to fund all of the System's liabilities within a reasonable period of time. The report concludes that the System is operating on an actuarially sound basis. Assuming that employer contributions continue in the future at rates recommended on the basis of the successive actuarial valuations, the actuary states that the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

CURRENT AND FUTURE DEVELOPMENTS

1994 GENERAL ASSEMBLY LEGISLATION

The 1994 General Assembly approved the Governor's budget recommendation of fully funding KTRS. The Governor also recommended that \$10 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 diversion of pension funding was appropriate.

In addition, the 1994 General Assembly approved an increase in the minimum value of a year of service from \$240 to \$260 which provided limited increases for more than 2,000 older retirees. Retirees receive an annual cost of living increase of 1.5% and the General Assembly approved a 1.5% ad hoc cost of living adjustment for retirees as of July 1, 1994 and 1995. With limits placed on the ad hoc adjustment, the average retiree will receive annual increases of approximately 2.8% in 1994 and 1995.

KTRS MEDICAL INSURANCE PLAN

During the 1993-94 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 \$10 million in each

LETTER OF TRANSMITTAL

fiscal year of the 1994-96 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 taking measures to contain costs and by increasing revenues to the insurance fund, adjusting coverage to meet existing revenues, or a combination of the two.

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 seven (7) of this report.

NATIONAL RECOGNITION

During the last year the System was honored by two National professional organizations in regard to the administration of the retirement program.

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky for its component unit financial report for the fiscal year ended June 30, 1993. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government reports.

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. The Teachers' Retirement System has received this certificate for six consecutive years.

PPCC ACHIEVEMENT AWARD

The Public Pension Coordinating Council awarded a Certificate of Achievement to the Teachers' Retirement System of the State of Kentucky for 1993 for implementing and maintaining high professional standards in administering the affairs of the System. The award is based on compliance with principles judged to underlie exemplary retirement system achievements in the areas of benefits, actuarial valuation, financial reporting, investments and disclosure and are widely acknowledged to be marks of excellence for retirement systems. The Teachers' Retirement System was one of thirteen public retirement systems in the United States to receive this award in 1993.

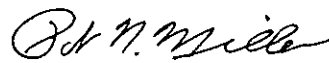
ACKNOWLEDGMENTS

The preparation of this report reflects the combined efforts of the KTRS staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information. This information serves as a basis for making management decisions and for determining compliance with legal provisions. It is also used to determine responsible stewardship for the assets contributed by the members and their employers.

This report is being mailed to all employer members of the System who, form the link between KTRS and its members. Their cooperation continues to contribute significantly to the success of KTRS. Hopefully, the employers and their employees will find this report both informative and helpful.

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

Respectfully Submitted,



Pat N. Miller
Executive Secretary

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, FRANK-
FORT

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) 573-3269

December 1, 1994

Dear Members:

The 1994 Comprehensive Annual Financial Report of the Teachers' Retirement System, a Component Unit of the Commonwealth of Kentucky, presents the financial and actuarial status of your Retirement Fund. The financial integrity and the actuarial soundness of the system presented in this report are substantiated by accompanying reports from the independent auditor and the consulting actuary.

KTRS closed the 1993-94 fiscal year with \$5.7 billion in assets. The active membership totaled 54,477 and the retired membership was 20,790 with an annual payroll of \$311 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.

We appreciate the support and cooperation extended by the Governor and the Legislature. This cooperation allows the system to not only meet current challenges but to also make timely provisions for the future.

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

Sincerely

Virginia Murrell
Virginia Murrell
Chairperson
Board of Trustees

BOARD OF TRUSTEES

MISS VIRGINIA MURRELL



CHAIRPERSON,
RETIRED TEACHER TRUSTEE
SOMERSET

MS. JUDITH R. GAMBILL



VICE-CHAIRPERSON,
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TEACHER TRUSTEE
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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) 573-3266
Deputy Executive Secretary for Administration _ Billy F. Hunt _____ (502) 573-3266
Deputy Executive Secretary for Investments ____ Stuart A. Reagan, CFA _____ (502) 573-2057

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
 221 North LaSalle Street
 Chicago, Illinois 60601

INVESTMENT CUSTODIAN

Farmers Bank and Capital Trust Co.
 Farmers Bank Plaza
 Frankfort, Kentucky 40602

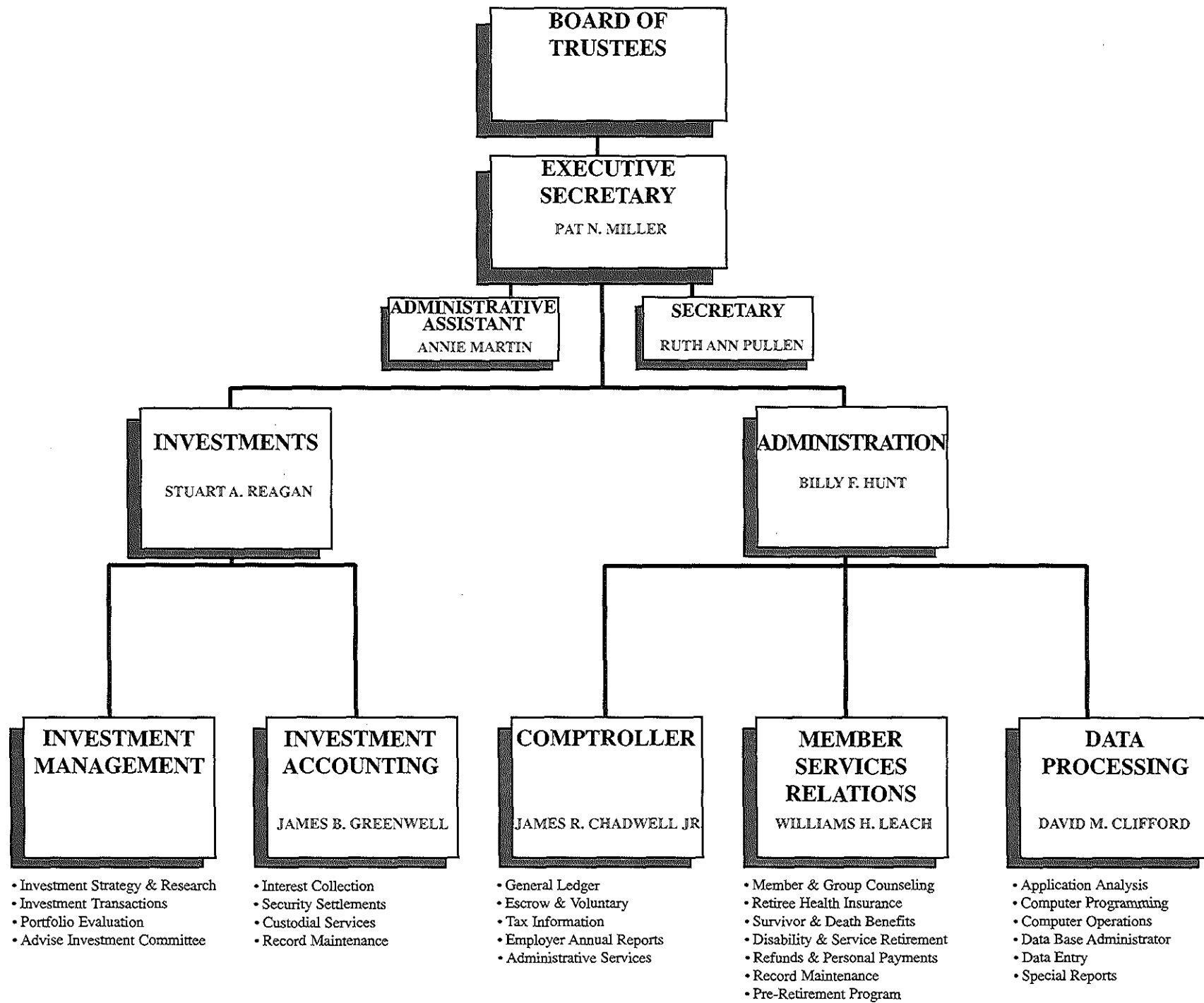
ACTUARY

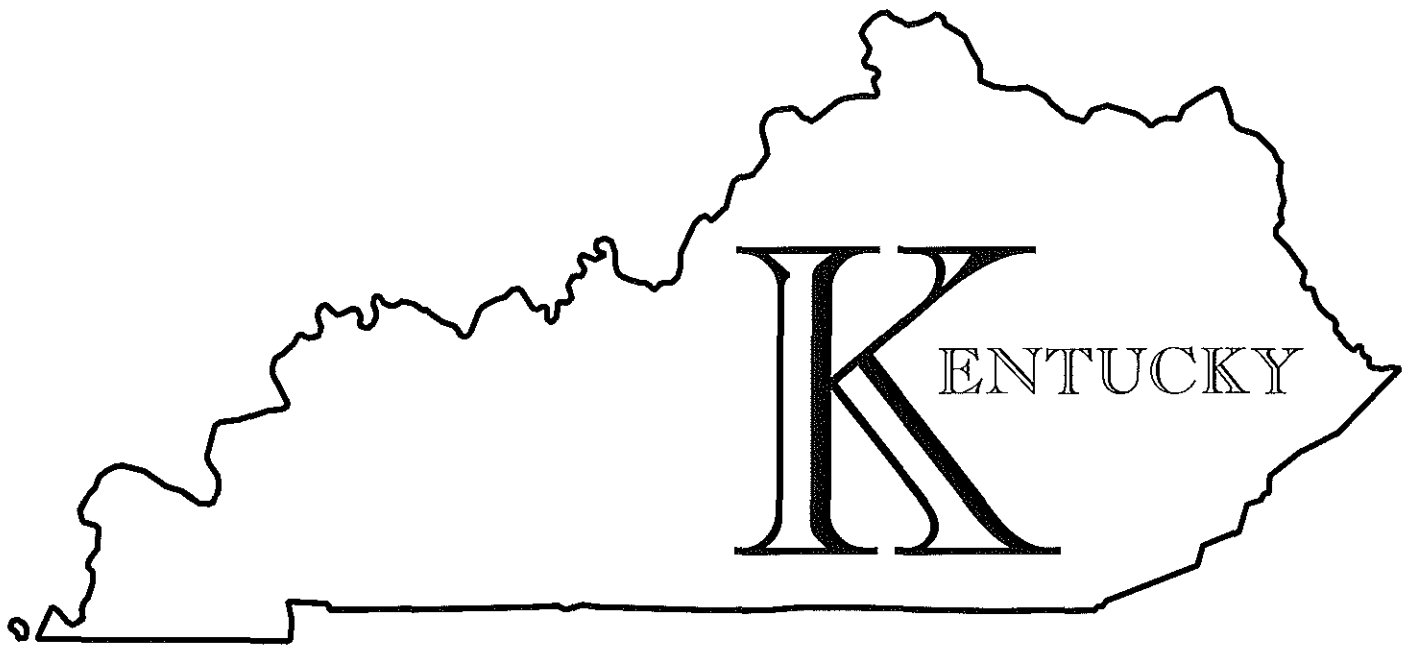
George B. Buck Consulting Actuaries, Inc.
 Suite 1200
 200 Galleria Parkway N.W.
 Atlanta, Georgia 30339

AUDITOR

Coopers & Lybrand L.L.P.
 500 West Main Street
 Suite 1800
 Louisville, Kentucky 40202-4264

ORGANIZATIONAL CHART





Known as the Bluegrass State, Kentucky grass produces a bluish-purple bud in the spring growing season giving a blue hue to fields. Early settlers and pioneers discovered this grass growing over the rich limestone soil found in this region. When asking for the seed of this particular grass, they would refer to it as simply the blue grass from Kentucky.



Coopers & Lybrand L.L.P.

a professional services firm

Board of Trustees
Teachers' Retirement System
of the State of Kentucky
Frankfort, Kentucky 40601

Independent Auditor's Report

We have audited the accompanying balance sheet of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of June 30, 1994 and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year 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 audit. The financial statements of the Teachers' Retirement System of the State of Kentucky for the year ended June 30, 1993 were audited by other auditors, whose report, dated October 1, 1993, expressed as unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides 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, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic component unit financial statements taken as a whole. The financial section schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic component unit financial statements. These schedules are the responsibility of the System's management. Such schedules as of and for the year ended June 30, 1994 have been subjected to the auditing procedures applied in our audit of the basic component unit financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic component unit financial statements taken as a whole. The schedules as of and for the years ended June 30, 1984 through 1993, were reported upon by other auditors, whose reports stated that the schedules were fairly stated when considered in relation to the basic component unit financial statements.

A handwritten signature in cursive script that reads "Coopers & Lybrand L.L.P.".

Coopers & Lybrand L.L.P.
Louisville, Kentucky
September 30, 1994

BALANCE SHEETS **JUNE 30, 1994 AND JUNE 30, 1993**

ASSETS	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1993
Cash (See Note 2)	\$ 171,465	\$ 339,314
Prepaid Expenses	252,566	132,199
Receivables		
Contributions	21,714,493	22,430,211
State of Kentucky	21,161,871	15,210,651
Investment Income	52,275,044	49,394,343
Total Receivables	95,151,408	87,035,205
Investments, at Cost (See Note 2)		
Short Term Investments (Market Value \$635,200,000 in 1994 and \$542,850,000 in 1993)	635,200,000	542,850,000
Bonds and Mortgages (Market Value \$2,959,106,564 in 1994 and \$3,151,798,089 in 1993)	3,002,021,794	2,931,972,584
Common Stock (Market Value \$2,150,248,154 in 1994 and \$1,920,049,654 in 1993)	1,968,824,213	1,600,836,358
Real Estate (Market Value \$66,781,218 in 1994 and \$58,870,387 in 1993)	67,416,933	58,202,178
Total Investments	5,673,462,940	5,133,861,120
Fixed Assets [Net of Accumulated Depreciation of \$906,546 in 1994 and \$818,414 in 1993 (See Note 2)]	2,786,991	2,831,463
Total Assets	<u>\$ 5,771,825,370</u>	<u>\$ 5,224,199,301</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Disbursements in Excess of Cash Balance	\$ 6,156,815	\$ 2,281,475
Accounts Payable	662,253	796,824
Treasurer's Unredeemed Checks	14,556	14,650
Insurance Claims Payable	10,790,604	9,301,109
Compensated Absences Payable	296,350	282,487
Unearned Insurance Premium Receipts	35,548	37,282
Total Liabilities	17,956,126	12,713,827
Fund Balance		
Member Reserve	1,582,200,532	1,463,723,642
Employer Reserve	1,631,790,441	1,509,468,801
Benefit Reserve	290,214,043	241,329,862
Medical Insurance Reserve	42,484,177	34,633,434
403(b) Program Reserve	20,615,185	18,691,806
Unallocated Reserve	2,183,897,202	1,941,036,611
Administrative Expense Reserve	2,667,664	2,601,318
Unfunded Pension Benefit Obligation (See Note 6)		
Total Fund Balance	5,753,869,244	5,211,485,474
Total Liabilities and Fund Balance	<u>\$ 5,771,825,370</u>	<u>\$ 5,224,199,301</u>

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

STATEMENTS OF REVENUES, EXPENSES
YEARS ENDED JUNE 30,RESERVES

	<u>MEMBER</u>	<u>EMPLOYER</u>	<u>BENEFIT</u>
OPERATING REVENUES			
Member Contributions	\$ 160,111,369	\$ 213,811	\$
Employer Contributions		165,715,289	
Investment Income			
Total Operating Revenues	160,111,369	165,929,100	
OPERATING EXPENSES			
Benefits			311,104,629
Refunds	5,949,712	1,365	
Insurance Expenses (See Note 8)			
Administrative Expenses			
Total Operating Expenses	5,949,712	1,365	311,104,629
Net Operating Income (Expense)	154,161,657	165,927,735	(311,104,629)
RESERVE TRANSFERS			
Retirement by Members	(77,180,232)	(79,758,313)	156,938,545
Reimbursements			195,132,285
Members Who Left System		(7,283,461)	(902,374)
Interest Allocations	41,452,859	42,734,432	9,160,308
Administrative Expenses			
Other Reclassifications	42,606	701,247	(339,954)
Total Reserve Transfers	(35,684,767)	(43,606,095)	359,988,810
Net Fund Balance Additions (Reductions)	118,476,890	122,321,640	48,884,181
Beginning Fund Balance	1,463,723,642	1,509,468,801	241,329,862
Change in Unfunded Pension Benefit Obligation (See Note 6)			
Ending Fund Balance	\$1,582,200,532	\$1,631,790,441	\$ 290,214,043

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

AND CHANGES IN FUND BALANCES
1994 AND JUNE 30, 1993

MEDICAL INSURANCE	403(b) PROGRAM	UNALLOCATED	ADMINISTRATIVE EXPENSE	1993-94 TOTAL	1992-93 TOTAL
\$ 23,653,286 33,792,195	\$ 1,619,986	\$ 90,038,814 442,636,745	\$	\$ 185,598,452 289,546,298 442,636,745	\$ 178,900,953 280,818,343 405,038,284
57,445,481	1,619,986	532,675,559		917,781,495	864,757,580
	95,407 739,588			311,200,036 6,690,665	282,052,495 6,714,014
51,882,393		2,582,897	3,041,734	51,882,393 5,624,631	43,026,950 5,312,805
51,882,393	834,995	2,582,897	3,041,734	375,397,725	337,106,264
5,563,088	784,991	530,092,662	(3,041,734)	542,383,770	527,651,316
	71,914	(195,204,199)			
(437) 2,288,049	1,069,157	8,186,272 (96,704,805)			
43	(2,683)	(3,108,080) (401,259)	3,108,080		
2,287,655	1,138,388	(287,232,071)	3,108,080		
7,850,743	1,923,379	242,860,591	66,346	542,383,770	527,651,316
34,633,434	18,691,806	1,941,036,611	2,601,318	5,211,485,474	4,683,834,158
\$ 42,484,177	\$ 20,615,185	\$2,183,897,202	\$ 2,667,664	\$5,753,869,244	\$5,211,485,474

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 1994 AND 1993

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1993
Cash Flows from Operating Activities		
Net Operating Income	\$ 542,383,770	\$ 527,651,316
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Net Investment Income	(442,636,745)	(405,038,284)
Depreciation	120,902	132,807
Amortization	(758,673)	(5,601,769)
(Increase) Decrease in Prepaid Expenses	(120,366)	104,496
(Increase) Decrease in Accounts Receivable	(8,116,203)	(5,478,003)
Increase (Decrease) in Disbursements in Excess of Cash	3,875,340	5,457
Increase (Decrease) in Accounts Payable	(134,571)	(54,104)
Increase (Decrease) in Unredeemed Checks	(94)	10,507
Increase (Decrease) in Insurance Claims Payable	1,489,495	(3,721,466)
Increase (Decrease) in Compensated Absences Payable	13,863	16,434
Increase (Decrease) in Unearned Insurance Premiums	(1,734)	37,282
	<hr/>	<hr/>
Total Adjustments	(446,268,786)	(419,586,643)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	96,114,984	108,064,673
	<hr/>	<hr/>
Cash Flows from Capital Activities		
Payments for Capital Activities	(76,431)	(102,312)
	<hr/>	<hr/>
Net Cash Used for Capital Activities	(76,431)	(102,312)
	<hr/>	<hr/>
Cash Flows from Investing Activities		
Gain on Sale of Investments	(153,077,984)	(122,593,990)
Proceeds from Sale of Investments	33,067,754,021	30,730,476,125
Payments for Investments	(33,453,519,184)	(31,120,634,407)
Other Investment Income	442,636,745	405,038,284
	<hr/>	<hr/>
Net Cash Used for Investing Activities	(96,206,402)	(107,713,988)
	<hr/>	<hr/>
Net Cash Increase (Decrease) for the Year	(167,849)	248,373
	<hr/>	<hr/>
Cash at Beginning of Year	339,314	90,941
	<hr/>	<hr/>
Cash at End of Year	\$ 171,465	\$ 339,314
	<hr/>	<hr/>

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1994 AND 1993

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, 1994 and 1993.

	<u>1994</u>	<u>1993</u>
Local School Districts	176	176
State Universities	5	5
Department of Education/Other Organizations	23	23
	<u>204</u>	<u>204</u>
TOTAL	204	204

The covered payroll of all participating employers totaled \$1,748,100,000 for the year ended June 30, 1994 and \$1,696,901,000 for the year ended June 30, 1993.

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, 1994 and 1993.

	<u>1994</u>	<u>1993</u>
Retirees and beneficiaries of deceased retirees currently receiving benefits:		
Local School Districts	18,421	17,763
Universities	1,219	1,147
Department of Education/Other Organizations	1,150	1,070
	<u>20,790</u>	<u>19,980</u>
Disabilities currently receiving benefits:		
Local School Districts	1,072	1,006
Universities	34	34
Department of Education/Other Organizations	89	83
	<u>1,195</u>	<u>1,123</u>
Survivors currently receiving benefits:		
Local School Districts	757	708
Universities	53	55
Department of Education/Other Organizations	69	73
	<u>879</u>	<u>836</u>

FINANCIAL SECTION

NOTE 1: DESCRIPTION OF PLAN (CONTINUED)

	<u>1994</u>	<u>1993</u>
Terminated employees entitled to benefits but not yet receiving them (no current contributions in the last fiscal year)		
Local School Districts	1,890	1,849
Universities	271	257
Department of Education/Other Organizations	185	176
	<u>2,346</u>	<u>2,282</u>
Current employees		
Vested		
Local School Districts	36,908	35,708
Universities	2,443	2,313
Department of Education/Other Organizations	1,827	1,803
Non-Vested		
Local School Districts	11,273	10,916
Universities	1,261	1,328
Department of Education/Other Organizations	765	774
	<u>54,477</u>	<u>52,842</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, 1994 the pension cash account totaled (\$6,156,815) and the administrative expenses cash account was \$171,465. Therefore, the total carrying value of cash was (\$5,985,350) and the corresponding bank balance was \$1,244,433. 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, 1994 and June 30, 1993.

	<u>June 30, 1994</u>	<u>June 30, 1993</u>
Short Term Investments		
Repurchase Agreements	\$ 635,200,000	\$ 542,850,000
Bonds and Mortgages		
U.S. Government Obligations		
Treasury Notes and Bonds	\$ 1,936,218,836	\$ 1,804,382,110
Agencies	177,762,130	147,907,356
Ship Bonds (Title XI)	8,835,909	10,410,310
GNMA (Single Family)	20,275,209	52,815,607
Other Miscellaneous	195,493,625	237,558,963
Total U.S. Government Obligations	\$ 2,338,585,709	\$ 2,253,074,346
Corporate Bonds		
Industrials	\$ 249,632,459	\$ 218,287,833
Finance	251,808,267	258,093,105
Utility Bonds (Except Telephone)	39,034,260	44,598,196
Telephone Bonds	12,782,128	38,272,548
Railroad Obligations	13,606,432	13,627,235
Other Corporate Bonds		7,679,592
Total Corporate Bonds	\$ 566,863,546	\$ 580,558,509
Other Fixed Income Investments		
FHA and VA Single Family Mortgages	\$ 3,679,738	\$ 4,905,897
Project Mortgages (FHA & GNMA)	92,892,801	93,433,832
Total Other Investments	\$ 96,572,539	\$ 98,339,729
Total Bonds and Mortgages	\$ 3,002,021,794	\$ 2,931,972,584
Stocks	\$ 1,968,824,213	\$ 1,600,836,358
Real Estate	\$ 67,416,933	\$ 58,202,178
TOTAL INVESTMENTS	\$ 5,673,462,940	\$ 5,133,861,120

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, 1994 was \$839,491,675 which exceeds the market value of the loaned bonds.

FINANCIAL SECTION

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On June 30, 1994 and June 30, 1993, the following values of U.S. Government Bonds were on loan. They are included among the investments and assets of the System.

SECURITIES LOANED	1994	1993
Book Value	\$825,839,192	\$932,440,178
Market Value	803,837,382	994,399,081

- 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 1993-94 were based on estimates of members' salaries. For the fiscal year ended June 30, 1994, actual appropriations were under the required appropriations by \$5,951,221.

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 cost of living adjustments (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.

NOTE 3: DESCRIPTION OF FUNDS (CONTINUED)

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, 1994, the fund's balance was \$42,484,177.

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 not to exceed 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, 1994 was \$1,515,272,058.

A comparison between actuarially established and actual member and employer pension contribution rates for the fiscal year ended June 30, 1994 is as follows:

	PENSION CONTRIBUTIONS REQUIRED		PENSION CONTRIBUTIONS MADE			
	University Members	Non- University Members	University Members Amount (000's)	% of Current Covered Payroll	Non-University Members Amount (000's)	% of Current Covered Payroll
Member	5.41%	9.105%	\$ 6,999	5.41%	\$ 148,414	9.105%
Employer	13.09	12.355	16,935	13.09	201,389	12.355
Total	18.50%	21.460%	\$ 23,934	18.50	\$ 349,803	21.460
Normal Cost	12.97	16.51	16,780	12.97	269,117	16.51
Unfunded Cost	5.53	4.95	7,154	5.50	80,686	4.95
	18.50%	21.46%	\$ 23,934	18.50%	\$ 349,803	21.46%

The employer contributions for the 1993-94 fiscal year were under the required actuarial contributions by \$17.3 million. Of this amount, \$11.3 million represents a shortage in the funding of COLAs granted to retirees (\$3 million for the 1986-88 colas and \$8.3 million 1990-92 cola). The 1994 General Assembly permanently decreased the funding of colas granted in the 1986-88, 1990-92 and 1992-94 bienniums. The effects of this legislation will be shown in future actuarial valuations of the retirement system.

In the 1993-94 fiscal year, \$3,791,221 of the \$5,951,221 deficit resulted because actual salaries exceeded the budgeted salaries used in the calculation of the matching appropriation. The remaining \$2,160,000 of the deficit was due to a 4% 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 medical insurance benefits. The actuarial cost of ad hoc retiree cost-of-living adjustments granted by the General Assembly is funded over a fifteen year period and is also included as a supplemental appropriation.

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, 1994. 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, 1994 follows:

	Balance June 30, 1993	Earned 1993-1994	Used or Paid 1993-1994	Balance June 30, 1994
Vacation and Compensatory Leave	\$282,487	\$122,248	\$108,385	\$296,350

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, 1994. Significant actuarial assumptions at June 30, 1994 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, 1994 and 1993, the unfunded pension benefit obligation was \$1,833,806,000 and \$1,697,184,000 as follows:

NOTE 6: FUNDING STATUS OF KTRS (CONTINUED)

Pension Benefit Obligation:

	<u>1994</u>	<u>1993</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them		
Current employees:	\$ 2,907,559,000	\$ 2,461,531,000
Accumulated employee contributions including allocated investment income		
Employer-financed vested	1,582,201,000	1,463,724,000
Employer-financed non-vested	1,750,524,000	1,685,389,000
	1,281,624,000	1,242,099,000
Total pension benefit obligation	<u>7,521,908,000</u>	<u>6,852,743,000</u>
Net assets available for benefits, at cost (Market Value \$5,824,399,319 in 1994 and \$5,689,474,115 in 1993)	5,688,102,000	5,155,559,000*
Unfunded pension benefit obligation	<u>1,833,806,000</u>	<u>1,697,184,000</u>
KTRS Fund Balance	\$ 1,833,806,000	\$ 1,697,184,000

The June 30, 1994 unfunded pension benefit obligation represents an increase of \$136,622,000 since June 30, 1993.

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, 1994 and 1993, made the following adjustments.

	<u>1994</u>	<u>1993</u>
Less Medical Insurance Reserve	\$ 5,753,869,244	\$ 5,211,485,474
Less 403(b) Program Reserves	42,484,177	34,633,434
Less Administrative Expense Reserves	20,615,185	18,691,806
	2,667,664	2,601,318
Net Assets Available for Benefits	<u>\$ 5,688,102,218</u>	<u>\$ 5,155,558,916</u>

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, 1994 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 cash totaling \$1,244,433 which is fully insured or collateralized with securities by KTRS or its agent in the entities name.

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, 1994. 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	\$ 635,200,000	\$	\$	\$ 635,200,000	\$ 635,200,000
U.S. Government Securities	2,338,585,709			2,338,585,709	2,299,591,942
Corporate Bonds	566,863,546			566,863,546	554,572,480
Common Stocks	1,968,824,213			1,968,824,213	2,150,248,154
	<u>\$ 5,509,473,468</u>	<u>\$</u>	<u>\$</u>	<u>\$ 5,509,473,468</u>	<u>\$ 5,639,612,576</u>
Other Government Guaranteed Fixed Income Investments and Real Estate				\$ 163,989,472	\$ 171,723,360
Total Investments				<u>\$ 5,673,462,940</u>	<u>\$ 5,811,335,936</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 19,766 retirees and 6,785 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% 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, 1994, KTRS had \$42,484,177 of net assets available for future health care benefits.

During the 1993-94 fiscal year, KTRS expensed \$48,954,856 for postretirement health care benefits and \$2,927,080 to administrators of the insurance plans. This represents a \$8,855,746 increase in health care expenses over the previous fiscal year.

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

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 incurrance 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, 1994.

	FISCAL YEAR 1994
Beginning Unpaid Claims Liability	\$ 9,301,109
Claims Incurred:	
Current Year	47,879,260
Increases in Prior Years	1,075,596
Total Incurred Claims	48,954,856
Claims Paid:	
Current Year	40,348,858
Prior Years	7,116,503
Total Payments	47,465,361
Ending Unpaid Claims Liability	\$ 10,790,604

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)
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
1994	5,688.1	7,521.9	75.6	1,833.8	1,748.1	104.9

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.

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:

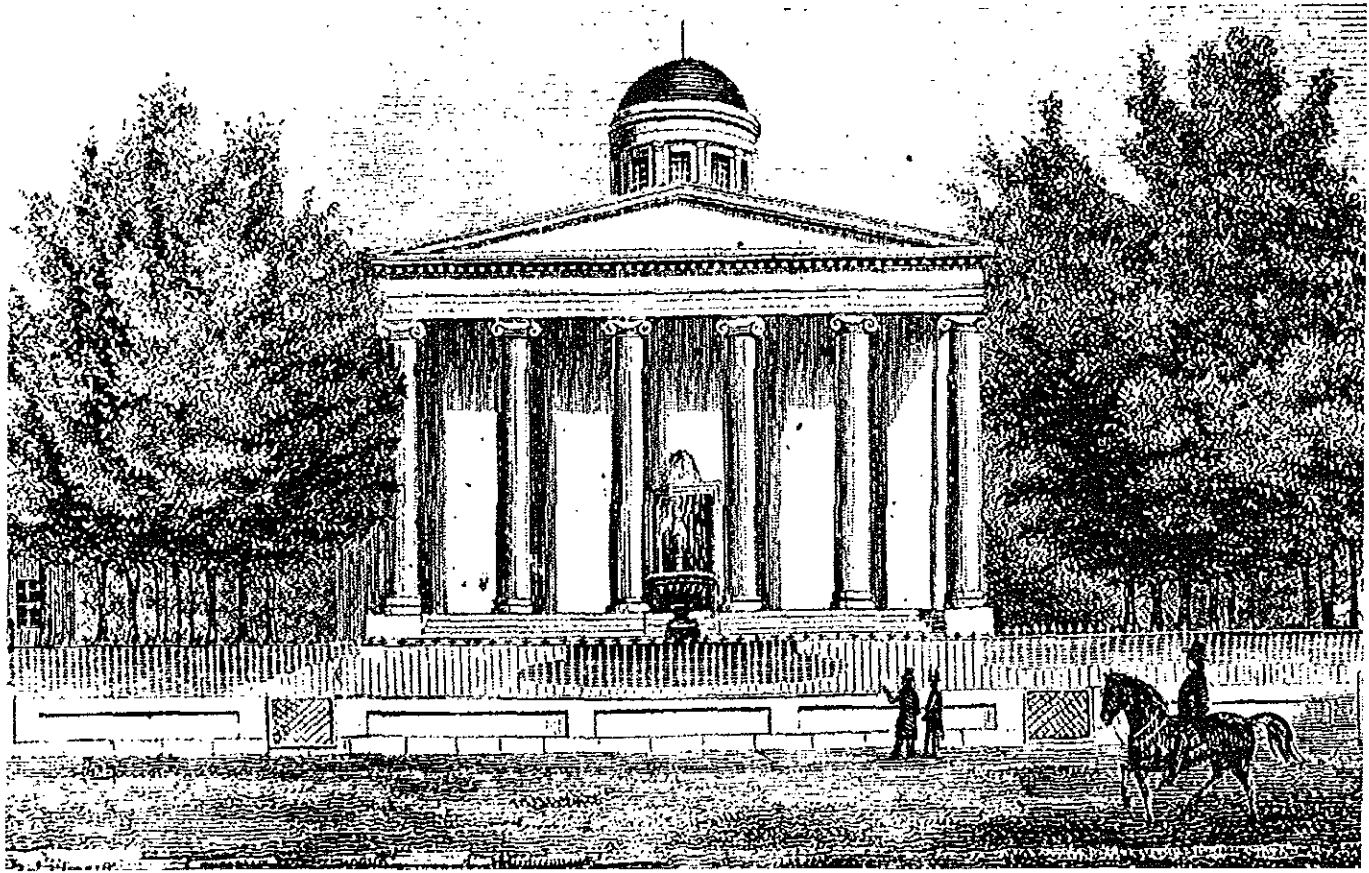
FISCAL YEAR	(1) NET ASSETS AVAILABLE FOR BENEFITS AS PER KRS 161.400(2)	(2) PENSION BENEFIT OBLIGATION	(3) PERCENTAGE FUNDED (1)÷(2)	(4) UNFUNDED PENSION BENEFIT OBLIGATION (2)-(1)	(5) ANNUAL COVERED PAYROLL	(6) UNFUNDED PENSION BENEFIT OBLIGATION AS A PERCENTAGE OF COVERED PAYROLL (4)÷(5)
1991	\$ 4,259.1	\$ 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
1994	6,006.6	7,521.9	79.9	1,515.3	1,748.1	86.7

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		
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
1994	185.6	300.8	289.5	1,748.1	16.6	442.6	917.7

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 1993-94 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
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
1994	311.2	6.7	51.9	5.6	375.4



OLD STATE HOUSE

January 12, 1827, the legislature voted to build the third permanent capital of Kentucky, the Old State House. The Old State House would replace two which had previously burned, and was constructed between 1827 and 1830. The architect, Kentucky native Gideon Shryock, designed the structure in Greek Revival bringing the first of its kind to the pioneering west. The building has many unique features including a self-supported staircase in the central rotunda.

SUMMARY OF
YEAR ENDED

	(BEGINNING OF YEAR)		
TYPE OF INVESTMENT	BOOK VALUE	MARKET VALUE	PURCHASES
Fixed Income:			
Government Bonds	\$ 2,351,414,075	\$ 2,537,562,453	\$ 1,061,104,821
Corporate Bonds	580,558,509	614,235,636	155,056,392
Total	2,931,972,584	3,151,798,089	1,216,161,213
Equity:			
Common Stocks	1,600,836,358	1,920,049,654	684,387,733
Real Estate	58,202,178	58,870,387	10,629,238
Total	1,659,038,536	1,978,920,041	695,016,971
Short Term Investments:			
Repurchase Agreements	542,850,000	542,850,000	31,542,341,000
Total	542,850,000	542,850,000	31,542,341,000
Grand Total	\$ 5,133,861,120	\$ 5,673,568,130	\$ 33,453,519,184

INVESTMENTS
JUNE 30, 1994

AMORTIZATION	SALES AND REDEMPTIONS	(END OF YEAR)		% TOTAL MARKET	% YIELD AT MARKET
		BOOK VALUE	MARKET VALUE		
\$ 976,984 (218,311)	\$ 978,337,632 168,533,044	\$ 2,435,158,248 566,863,546	\$ 2,404,534,084 554,572,480	41.38% 9.54	6.75% 7.44
758,673	1,146,870,676	3,002,021,794	2,959,106,564	50.92%	6.88%
	316,399,878 1,414,483	1,968,824,213 67,416,933	2,150,248,154 66,781,218	37.00 1.15	2.94 9.38
	317,814,361	2,036,241,146	2,217,029,372	38.15%	3.14%
	31,449,991,000	635,200,000	635,200,000	10.93	4.28
	31,449,991,000	635,200,000	635,200,000	10.93	4.28
\$ 758,673	\$ 32,914,676,037	\$ 5,673,462,940	\$ 5,811,335,936	100.00%	5.17%

SUPPORTING SCHEDULES

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS YEAR ENDED JUNE 30, 1994

Cash Balance at Beginning of Year		\$	339,314
Add Receipts			
Member Contributions	\$	186,314,170	
Employer Contributions		283,595,078	
Interest and Dividends		285,919,387	
Investments Redeemed		33,067,754,021	
Total Cash Receipts			<u>33,823,582,656</u>
Less Disbursements			
Benefit Payments		311,142,370	
Insurance Premiums		50,409,364	
Administrative Expenses		1,912,491	
Refunds		6,690,666	
Equipment Purchased		76,430	
Investments Purchased		33,453,519,184	
Total Cash Disbursements			<u>33,823,750,505</u>
Cash Balance at End of Year		\$	<u>171,465</u>

MEMBER RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1994 AND 1993

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1993
Operating Revenues		
Member Contributions	\$ 155,424,826	\$ 150,790,504
Reinstated Accounts	647,785	676,062
Personal Check Contributions	4,038,855	4,026,180
Other Revenues	(97)	170
Total Operating Revenues	160,111,369	155,492,916
Operating Expenses		
Refund of Member Contributions	5,949,712	5,782,459
Other Expenses		
Total Operating Expenses	5,949,712	5,782,459
Net Operating Income	154,161,657	149,710,457
Reserve Transfers		
Transfer from Benefit Reserves		
Disability Recoveries	169,977	90,028
Transfer from Unallocated Reserves		
Interest Credited to Member Accounts	41,452,859	38,120,794
Transfer to Benefit Reserves		
Retirements	(77,180,232)	(69,005,153)
Transfer to Unallocated Reserves		
Inactive Accounts	(127,371)	(409,759)
Total Reserve Transfers	(35,684,767)	(31,204,090)
Net Fund Balance Additions	118,476,890	118,506,367
Beginning Fund Balance	1,463,723,642	1,345,217,275
Ending Fund Balance	\$ 1,582,200,532	\$ 1,463,723,642

SUPPORTING SCHEDULES

EMPLOYER RESERVES SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES YEARS ENDED JUNE 30, 1994 AND 1993

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1993
Operating Revenues		
SAF Penalties	\$ 213,811	\$ 228,221
State Contributions - Matching	139,325,232	134,771,531
State Contributions - University Personnel	2,865,618	2,786,657
Employer Paid Matching	22,790,564	22,603,806
Employer Sick Leave Payments	733,680	640,004
Other Revenue	195	535
Total Operating Revenues	165,929,100	161,030,754
Operating Expenses		
Other Expenses	1,365	37
Net Operating Income	165,927,735	161,030,717
Reserve Transfers		
Transfer from Unallocated Reserves		
Match Interest Credited to Member Accounts	42,734,432	39,277,498
Reinstated Accounts	647,785	676,062
Balance Member Reserves and Employer Reserves	519	179
Transfer from Benefit Reserves		
Disability Recoveries	169,977	90,028
Transfer to Benefit Reserves		
Retirements	(79,758,313)	(71,370,306)
Transfer to Unallocated Reserves		
Refund of Member Contributions	(7,283,461)	(6,378,311)
Inactive Accounts	(117,034)	(409,760)
Employer Reserves Reclassification		
Total Reserve Transfers	(43,606,095)	(38,114,610)
Net Fund Balance Additions	122,321,640	122,916,107
Beginning Fund Balance	1,509,468,801	1,386,552,694
Ending Fund Balance	\$1,631,790,441	\$1,509,468,801

BENEFIT RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1994 AND 1993

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1993
Operating Revenues		
None		
Operating Expenses		
Benefits for Service Retirements	\$ 286,868,583	\$ 260,171,765
Benefits for Disability Retirements	15,188,244	13,557,546
Survivor Benefits	6,962,111	6,379,427
Death Benefits	2,085,691	1,848,216
Total Operating Expenses	311,104,629	281,956,954
Net Operating Income (Expenses)	(311,104,629)	(281,956,954)
Reserve Transfers		
Transfer from Member Reserves		
Retirements	77,180,232	69,005,153
Transfer from Employer Reserves		
Retirements	79,758,313	71,370,306
Transfer from Unallocated Reserves		
Benefits paid in Excess of Member Contributions and Employer Matching	195,132,285	180,441,759
Interest of Fund Balance	9,160,308	7,770,077
Transfer to Unallocated Reserves		
Refund of Member Contributions	(902,374)	(581,262)
Transfer to Member Reserves		
Disability Recoveries	(169,977)	(90,028)
Transfer to Employer Reserves		
Disability Recoveries	(169,977)	(90,028)
Total Reserve Transfers	359,988,810	327,825,977
Net Fund Balance Additions	48,884,181	45,869,023
Beginning Fund Balance	241,329,862	195,460,839
Ending Fund Balance	\$ 290,214,043	\$ 241,329,862

SUPPORTING SCHEDULES

MEDICAL INSURANCE RESERVES SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES YEARS ENDED JUNE 30, 1994 AND 1993

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1993
Operating Revenues		
Member Contributions	\$ 13,292,424	\$ 12,895,978
Insurance Premiums Paid by Members	10,360,862	8,718,339
State Contributions - Matching	31,021,657	30,887,676
Employer Paid Matching	2,270,768	2,244,795
Other Revenues	499,770	25
Total Operating Revenues	57,445,481	54,746,813
Operating Expenses		
Comprehensive Medical Insurance Premiums	48,808,881	40,291,015
Reimbursement of Cobra Payment	145,975	134,322
Insurance Processing Charges	2,927,080	2,600,853
Other Expenses	457	760
Total Operating Expenses	51,882,393	43,026,950
Net Operating Income	5,563,088	11,719,863
Reserve Transfers		
Transfer from Unallocated Reserves		
Additional Funding per KRS 161.420(6)	0	7,444,800
Interest on Fund Balance	2,288,049	1,820,549
Balance Member Reserves and Employer Reserves	43	15
Transfer to Unallocated Reserves		
Refund of Member Contributions	(437)	(760)
Total Reserve Transfers	2,287,655	9,264,604
Net Fund Balance Additions	7,850,743	20,984,467
Beginning Fund Balance	34,633,434	13,648,967
End Fund Balance	\$ 42,484,177	\$ 34,633,434

403(b) PROGRAM RESERVES

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

YEARS ENDED JUNE 30, 1994 AND 1993

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1993
Operating Revenues		
Voluntary Contributions by Members	\$ 1,619,986	\$ 1,565,499
Operating Expenses		
Benefit Increased by Voluntary Contributions	23,493	30,751
Benefit Continued after Voluntary Contributions Expired	71,914	64,790
Refund of Member Contributions	739,588	931,518
Total Operating Expenses	834,995	1,027,059
Net Operating Income	784,991	538,440
Reserve Transfers		
Transfer from Unallocated Reserves		
Benefits Continued after Voluntary Contributions Expired	71,914	64,790
Interest Credited to Member Accounts	1,069,157	1,198,918
Transfer to Unallocated Reserves		
Penalty on Early Withdrawal of 403(b) Accounts	(2,683)	(1,042)
Total Reserve Transfers	1,138,388	1,262,666
Net Fund Balance Additions	1,923,379	1,801,106
Beginning Fund Balance	18,691,806	16,890,700
Ending Fund Balance	\$ 20,615,185	\$ 18,691,806

UNALLOCATED RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 1994 AND 1993

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1993
Operating Revenues		
Interest Earned on Investments	\$ 220,520,732	\$ 225,740,615
Dividend Income	62,577,479	51,046,889
Rental Income	5,131,353	3,743,397
Gain on Sale of Investments	153,077,984	122,593,990
Leased Security Income	1,313,099	1,902,108
Maintenance Reserve - Rental Property	16,098	11,285
State Contributions - Sick Leave	12,211,189	10,780,104
State Contributions - Benefit Improvement	38,874,000	39,054,000
State Contributions - Supplemental Appropriation	32,031,283	30,209,024
State Contributions - Handicapped Children	289,477	262,805
Employer Contributions - Supplemental Appropriation	6,615,024	6,564,342
Escrow Late Remittance Penalty	17,841	13,039
Total Operating Revenues	532,675,559	491,921,598
Operating Expenses		
Investment Counsel Fees	2,365,600	2,101,755
Investment Processing Fees	217,297	217,997
Other Expenses	0	18,329
Total Operating Expenses	2,582,897	2,338,081
Net Operating Income	530,092,662	489,583,517
Reserve Transfers		
Transfer from Various Funds		
Refunds of Member Contributions	8,186,272	6,960,333
Inactive Accounts	244,405	819,519
Penalty on Early Withdrawal of 403(b) Accounts	2,683	1,042
Employer Reserve Reclassification		
Capital Construction		
Transfer to Various Funds		
Benefits Paid in Excess of Member Contributions and Employer Matching	(195,204,199)	(180,506,549)
Interest	(96,704,805)	(88,187,836)
Balance Member Reserves Employer Reserves	(562)	(194)
Reinstated Accounts	(647,785)	(676,062)
Additional Funding to Medical Insurance Fund Per KRS 161.420(6)	0	(7,444,800)
Administrative Expense Allotment	(3,108,080)	(2,833,156)
Capital Construction		
Total Reserve Transfers	(287,232,071)	(271,867,703)
Net Fund Balance Additions	242,860,591	217,715,814
Beginning Fund Balance	1,941,036,611	1,723,320,797
Ending Fund Balance	\$2,183,897,202	\$1,941,036,611

ADMINISTRATIVE EXPENSE RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1994 AND 1993

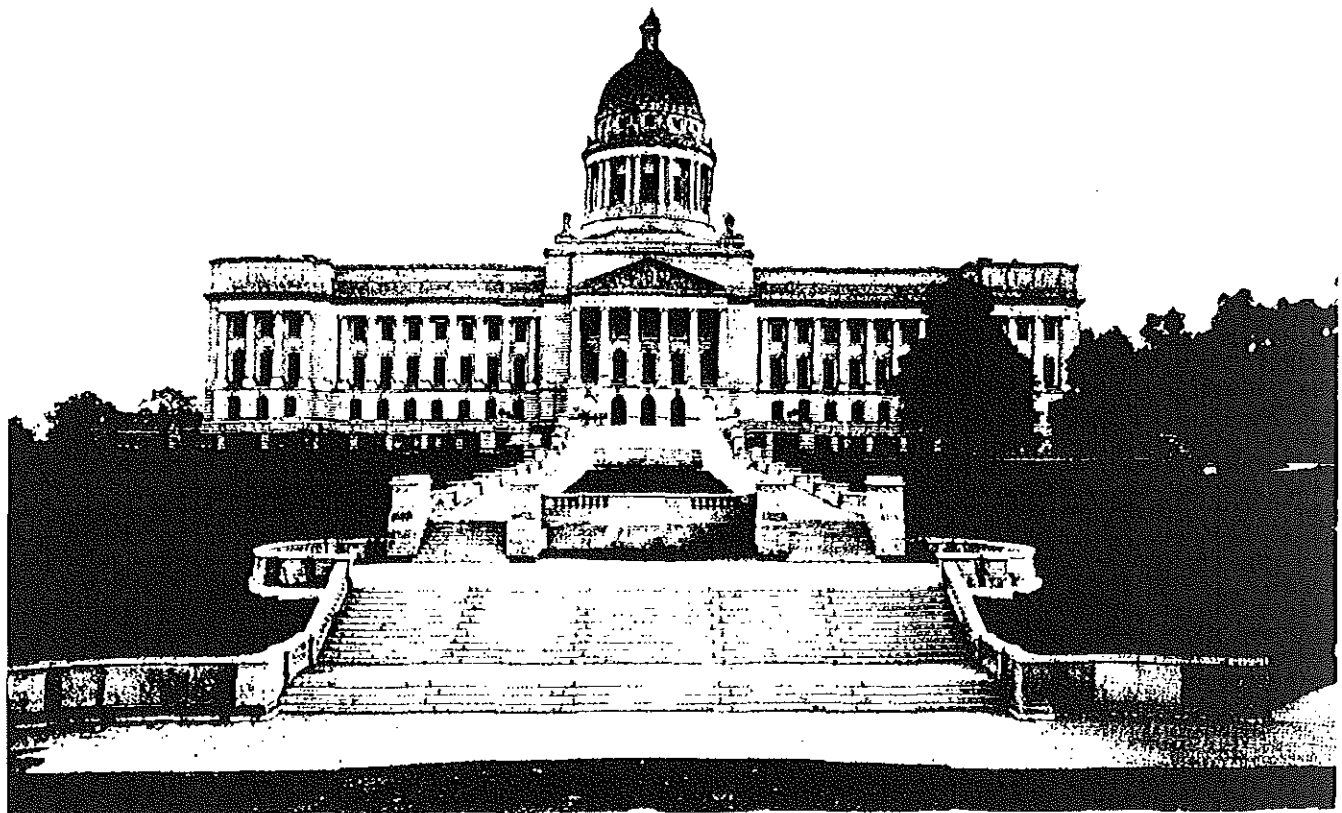
	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1993
Operating Revenues		
None		
Operating Expenses		
Salaries, Wages, and Fringe Benefits	\$ 2,095,862	\$ 2,161,000
Other Personnel Costs	4,603	4,811
Professional Contracts	166,382	109,999
Utilities and Heating Fuels	24,460	20,185
Rentals	16,893	12,453
Maintenance and Repairs	41,506	67,339
Postage and Related Services	183,080	190,924
Printing	122,577	50,751
Insurance	71,259	70,196
Miscellaneous Services	1,800	1,895
Telecommunications	33,257	40,741
Computer Services	20,070	10,685
Supplies	29,914	31,764
Depreciation	120,902	132,807
Travel	19,786	18,444
Dues and Subscriptions	16,546	16,589
Furniture, Fixtures, and Equipment Not Capitalized	8,981	10,893
Miscellaneous Commodities	49,993	6,814
Compensated Absences	13,863	16,434
Total Operating Expenses	3,041,734	2,974,724
Net Operating Income (Expense)	(3,041,734)	(2,974,724)
Reserve Transfers		
Transfer from Unallocated Reserves		
Allotment	3,108,080	2,833,156
Total Reserve Transfers	3,108,080	2,833,156
Net Fund Balance Additions (Reductions)	66,346	(141,568)
Beginning Fund Balance	2,601,318	2,742,886
Ending Fund Balance	\$ 2,667,664	\$ 2,601,318

KENTUCKY

STATE CAPITOL

After a long debate as to where the Capital of Kentucky should be located, Louisville, Lexington or Frankfort, the Kentucky Legislature voted to spend one million dollars on building a new Capitol Building to replace the Old

State Building built in 1830. Once the architect Frank Mills Andrews finished his design, it was much too large to build where the Old State Building still stands in downtown Frankfort. It was then decided to build the new building on a site just south of town. Ground was broken in 1904 for Kentucky's fourth Capitol Building ending the debate, the new Capital would be Frankfort. The Capitol was dedicated on June 2, 1910 with imposing ceremonies.



BUCK
CONSULTANTS

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

October 26, 1993

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

Ladies and Gentlemen:


Section 161.400 of the law governing the operation of the Teachers' Retirement System of the State of Kentucky provides that at least once in each two-year period the actuary shall make an actuarial valuation of the System. We have submitted the results of the actuarial valuation prepared as of June 30, 1993. 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. 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. The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. 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.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practices prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

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

Respectfully submitted,


Donald M. Overholser
Consulting Actuary

Buck Consultants, Inc.
404 | 955-2488 Fax 404 | 933-8336

REPORT OF ACTUARY ON THE VALUATION
PREPARED AS OF JUNE 30, 1993

SECTION I - SUMMARY OF PRINCIPAL RESULTS

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

VALUATION DATE	JUNE 30, 1993		JUNE 30, 1992	
Number of active members	49,694		49,027	
Annual salaries	\$ 1,696,901		\$ 1,669,228	
Number of annuitants and beneficiaries	21,972		21,161	
Annual allowances	\$ 282,362		\$ 252,989	
Assets for valuation purposes	\$ 5,454,581		\$ 4,808,670	
Unfunded actuarial accrued liability	\$ 1,398,162		\$ 1,510,303	
Statutory contribution rates:	UNIVERSITY	NON-UNIVERSITY	UNIVERSITY	NON-UNIVERSITY
Member	7.625%	9.105%	7.625%	9.105%
State	<u>10.875</u>	<u>12.355</u>	<u>10.875</u>	<u>12.355</u>
Total	18.50%	21.46%	18.50%	21.46%
Actuarially determined contribution rates:				
Normal	12.97%	16.51%	12.73%	16.29%
Accrued liability (balancing item)	<u>5.53</u>	<u>4.95</u>	<u>5.77</u>	<u>5.17</u>
Total	18.50%	21.46%	18.50%	21.46%
Accrued liability funding period	22½ years		24 years	

2. 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, 1993 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.
3. 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.
4. The valuation takes into account the effect of amendments to the System enacted through the 1993 Session of the Legislature and effective on the valuation date. Since the previous valuation, the System has been amended in order to reflect 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, 1993. Provisions of the System which were taken into account in the current valuation are summarized in Schedule D (not shown in this annual report).

SECTION II - MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the 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, 1993 on the basis of which the valuation was prepared.

GROUP	NUMBER	ANNUAL SALARIES (\$1,000's)
Men	14,186	\$ 547,796
Women	35,508	1,149,105
Total	49,694	\$ 1,696,901

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, 1993.

**THE NUMBER AND ANNUAL RETIREMENT ALLOWANCES OF
ANNUITANTS AND BENEFICIARIES ON THE ROLL AS OF JUNE 30, 1993**

GROUP	NUMBER	ANNUAL RETIREMENT ALLOWANCES (\$1,000)
Service Retirements	18,898	\$ 255,408
Disability Retirements	1,123	13,728
Beneficiaries of Deceased Members	1,643	11,851
Total	21,664	\$ 280,987

In addition, there are 308 beneficiaries entitled to term-certain only annuities totaling \$1,375,000 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 seven funds for the purpose of recording the financial transactions of the System, namely, the Teachers' Savings Fund; the State Accumulation Fund; the Allowance Reserve Fund; the Guarantee Fund; the Medical Insurance Fund; the Expense Fund; and the Voluntary Contribution Fund.

(A) TEACHERS' SAVINGS FUND

The Teachers' Savings Fund is the fund to which are credited all contributions made by members together with regular interest thereon. When a member retires by reason of service or disability, the amount of the member's accumulated contributions are transferred from the Teachers' Savings Fund to the Allowance Reserve Fund. If a survivor's benefit becomes payable, the member's accumulated contributions

are transferred from the Teachers' Savings Fund to the 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, 1993 amounted to \$1,463,723,642.

(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, 1993 amounted to \$1,509,468,801.

(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, 1993 amounted to \$241,329,862.

(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, 1993 the assets credited to this Fund amounted to \$1,941,036,611.

(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, 1993 amounted to \$34,633,434. 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, 1993 amounted to \$2,601,318. 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, 1993 amounted to \$18,691,806. This amount was not included in the assets used for valuation purposes.

2. As of June 30, 1993 the total book value of assets held by the System amounted to \$5,211,485,474. Of this amount, \$5,155,558,916 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 1.058 to the book value of assets resulted in a modified market value of \$5,454,581,333 to be used for valuation purposes, as shown in the table on the following page.

BUCK
CONSULTANTS

ASSETS AS OF JUNE 30, 1993

FUND	ASSETS FOR VALUATION PURPOSES	OTHER ASSETS	TOTAL ASSETS
Teachers' Savings	\$ 1,463,723,642		\$ 1,463,723,642
State Accumulation	1,509,468,801		1,509,468,801
Allowance Reserve	241,329,862		241,329,862
Guarantee	1,941,036,611		1,941,036,611
Medical Insurance		\$ 34,633,434	34,633,434
Expense		2,601,318	2,601,318
Voluntary Member Contribution		18,691,806	18,691,806
Total	\$ 5,155,558,916	\$ 55,926,558	\$ 5,211,485,474
Market Value Adjustment	x 1.058		
Modified Market Value	\$ 5,454,581,333		

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 \$4,391,212 or 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 \$2,374,973 after adjustment for special appropriations remaining to be made toward funding minimum annuities and the 1982, 1987, 1989, 1990, 1991, 1992 and 1993 ad hoc increases, and the liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is \$86,558. The total actuarial accrued liability of the System amounts to \$6,852,743. Against these liabilities, the System has present assets for valuation purposes of \$5,454,581. When this amount is deducted from the actuarial accrued liability of \$6,852,743, there remains \$1,398,162 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 12.97% of payroll for university members and 16.51 % 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%

4. The valuation indicates that normal contributions at the rate of 12.97% of active university members' salaries are required to meet the cost of benefits currently accruing. The rate for non-university members is 16.51%. 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 5.53% for university members and 4.95% 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 Accrued Liability (balancing)	12.97% 5.53	16.51% 4.95
Total	18.50%	21.46%

5. The unfunded actuarial accrued liability amounts to \$1,398,162,000 as of the valuation date. Accrued liability contributions at the rate of 5.53% of active university members' payroll and 4.95% of non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over the 22½ year period commencing June 30, 1993, 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, 1992 and 1993.
- 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 24 years to 22½ 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, 1993**

GROUP	NUMBER
Retirees and Beneficiaries	21,972
Active Members:	
Vested	39,101
Non-vested	10,593
Total	71,666

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, 1993, 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	\$ 2,461,531
• Current employees:	
Accumulated contributions	1,463,724
Employer-Financed vested	1,685,389
Employer-financed nonvested	1,242,099
Total Pension Benefit Obligation	\$ 6,852,743
• Net assets available for benefits	\$ 5,155,559
• Unfunded Pension Benefit Obligation	\$ 1,697,184

3. The following first seven 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	\$ 3,779.3	67.4%	\$ 1,237.0	\$ 1,101.7	112.3%
6/30/88	2,915.7	4,287.3	68.0	1,371.0	1,212.6	113.1
6/30/89	3,256.7	4,680.8	69.6	1,424.1	1,264.4	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	100.0
6/30/93	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 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, 1993
(\$1,000's)

1. Actuarial Accrued Liability

Present value of prospective benefits payable in respect of:

(a) Present active members:

• Service retirement benefits	\$ 3,981,150
• Disability retirement benefits	206,189
• Death and survivor benefits	114,426
• Refunds of member contributions	89,447

Total		\$ 4,391,212
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(b) Present inactive members and members entitled to deferred vested benefits:

86,558

(c) Present annuitants and beneficiaries

• Service retirement benefits	\$ 2,155,283
• Disability retirement benefits	92,381
• Death and survivor benefits	127,309

Total		2,374,973
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(d) Total actuarial accrued liability		\$ 6,852,743
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2. Present Assets for Valuation Purposes

5,454,581

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

\$ 1,398,162

4. Normal Contribution Rate

	UNIVERSITY	NON-UNIVERSITY
(a) Actuarial present value of benefits accruing annually	\$ 16,352	\$ 259,380
(b) Annual payroll of active members	126,032	1,570,869
(c) Normal contribution rate [4(a) divided by 4(b)]	12.97%	16.51%

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.

ACTUARIAL SECTION

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

AGE	MEN 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		2.00%
50	.249	.29	2.30	9.30%	
55	.514	1.20		12.00	
60	.892	.05		16.50	
62	1.043	.03		47.30	
65	1.346			100.00	
70					
* IT IS ALSO ASSUMED THAT AN ADDITIONAL 15% OF MEN WILL RETIRE IN THEIR FIRST YEAR OF ELIGIBILITY IF BEFORE AGE 60.					

AGE	WOMEN 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	9.20%	2.50%
55	.167	.60		15.00	
60	.239	.25		20.00	
62	.268	.06		51.00	
65	.312			100.00	
70					
* 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)	(2)	(3)		(1)	(2)	(3)
	ACTIVE MEMBER CONTRIBUTIONS	RETIRANTS AND BENEFICIARIES	ACTIVE MEMBERS (EMPLOYER FINANCED PORTION)				
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
1994	1,582.2	2,907.6	3,032.1	5,688.1	100	100	40

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.

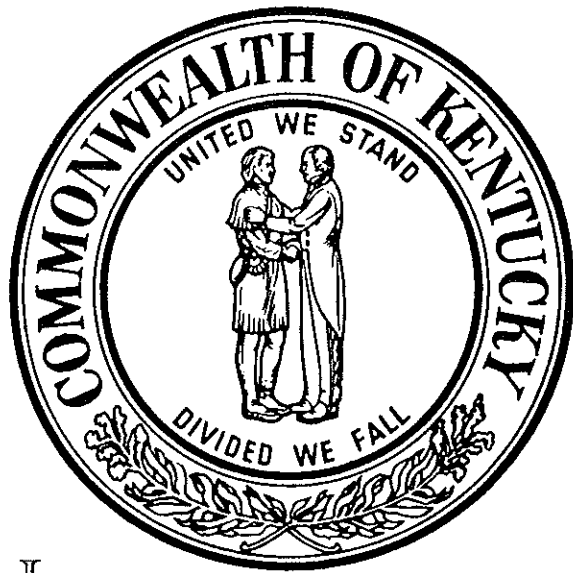
SCHEDULE OF ACTIVE MEMBER VALUATION DATA

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	0.2
1994	50,591	1,759,406,465	34,777	1.9

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

FISCAL YEAR	ADD TO ROLLS		REMOVE 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)		
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
1994	1,825	39.7	900	9.7	22,864	311.7	10.7	13,632

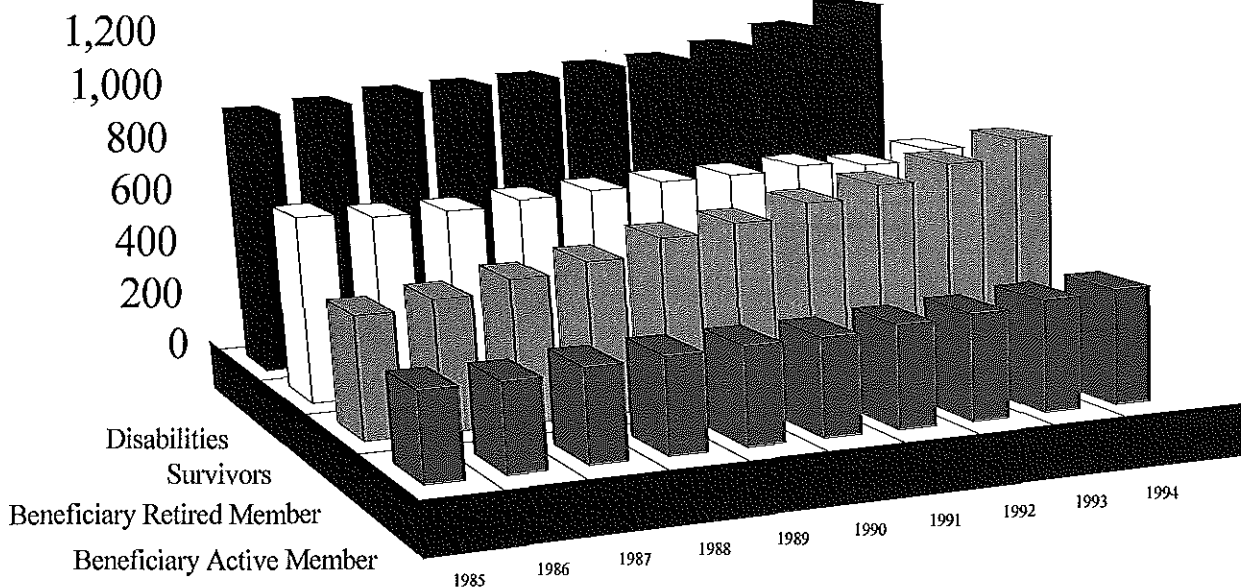
STATE SEAL



Authorized in 1792 the Kentucky state seal displays "two friends embracing." The friends have taken many forms over the years, but have always remained the central part of the seal. The motto "United We Stand; Divided We Fall" is believed to have come from "The Liberty Song," a favorite of the first Kentucky governor, Issac Shelby. The plumes of golden rod, the state flower, were added later.

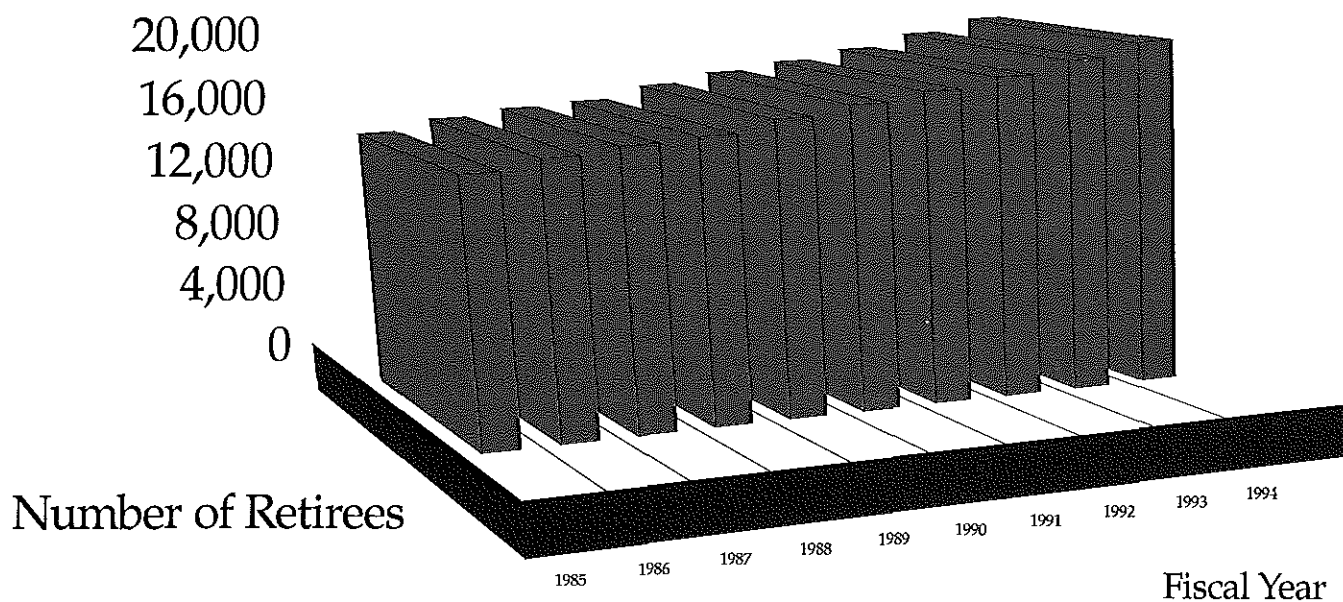
GROWTH IN ANNUITANTS (EXCEPT SERVICE RETIREMENTS)

Number of Annuitants (Thousands)



Fiscal Year

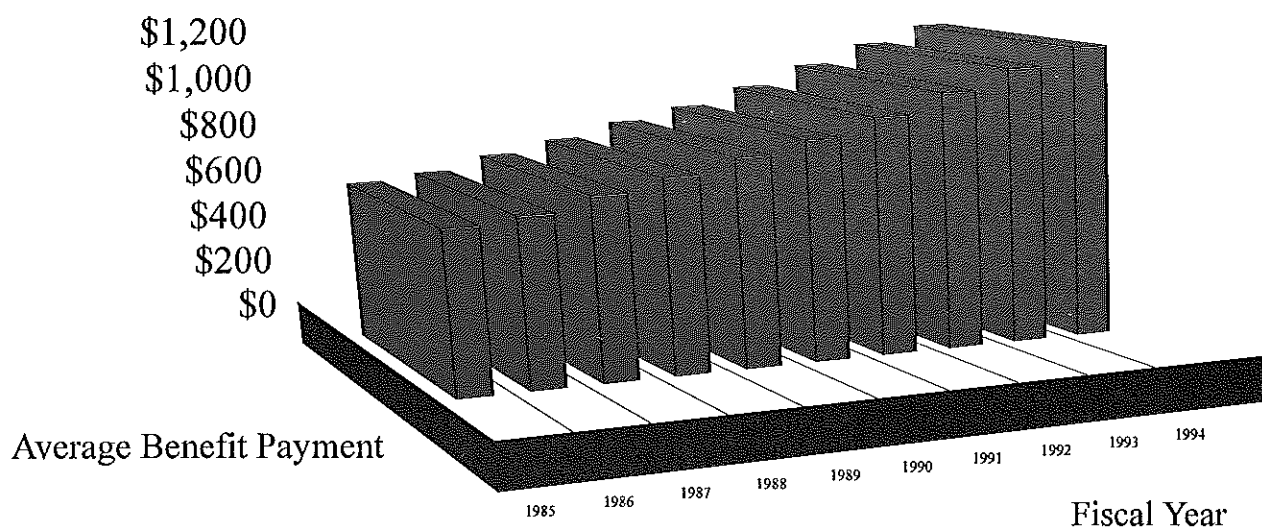
GROWTH IN SERVICE RETIREMENT



Number of Retirees

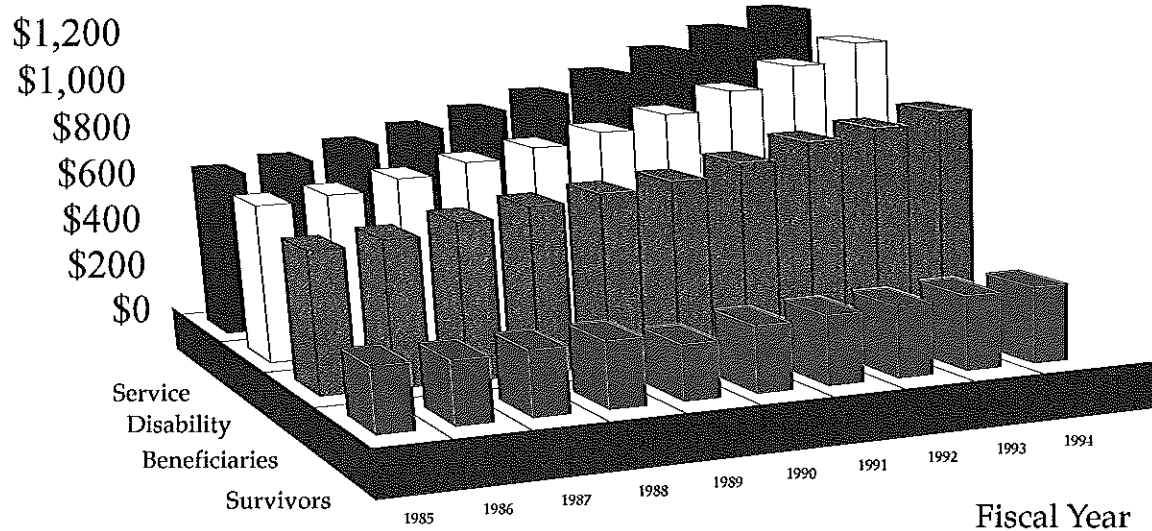
Fiscal Year

AVERAGE BENEFIT PAYMENTS



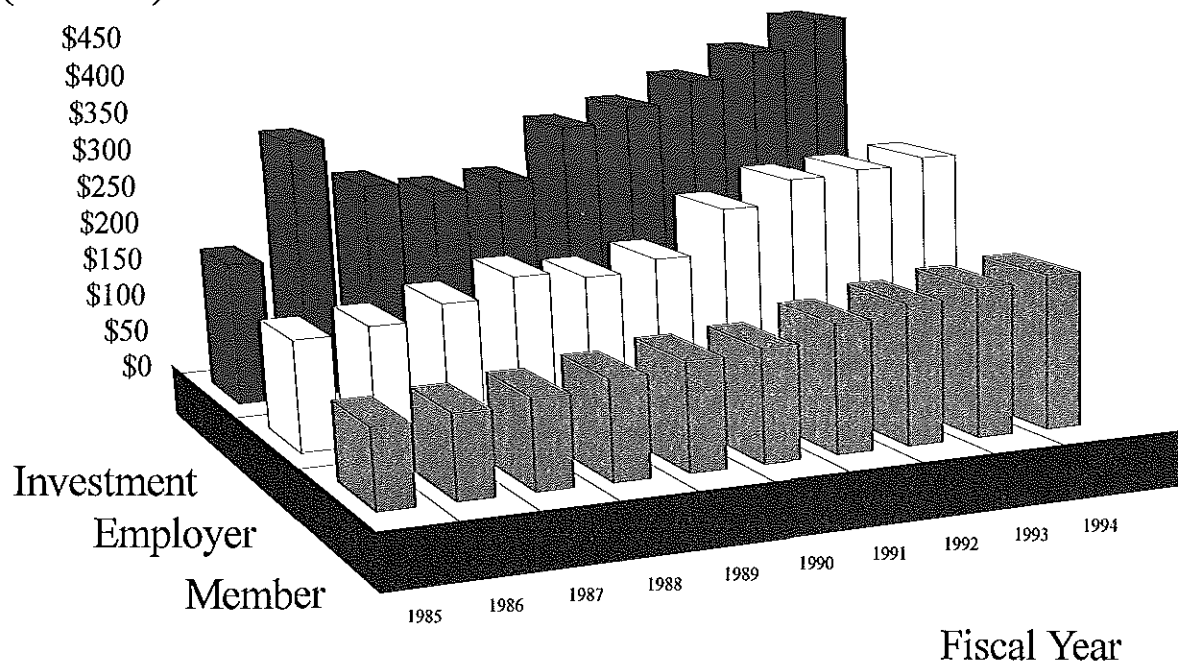
AVERAGE BENEFIT PAYMENTS (ALL RECIPIENTS)

Average Benefit Payment



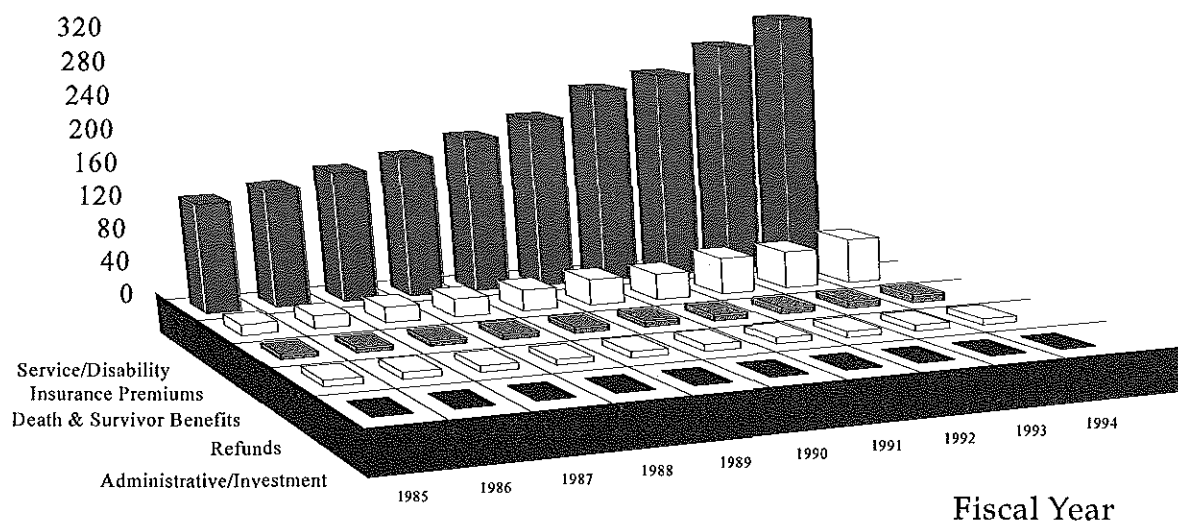
SUMMARY OF REVENUE BY SOURCE

(Millions)



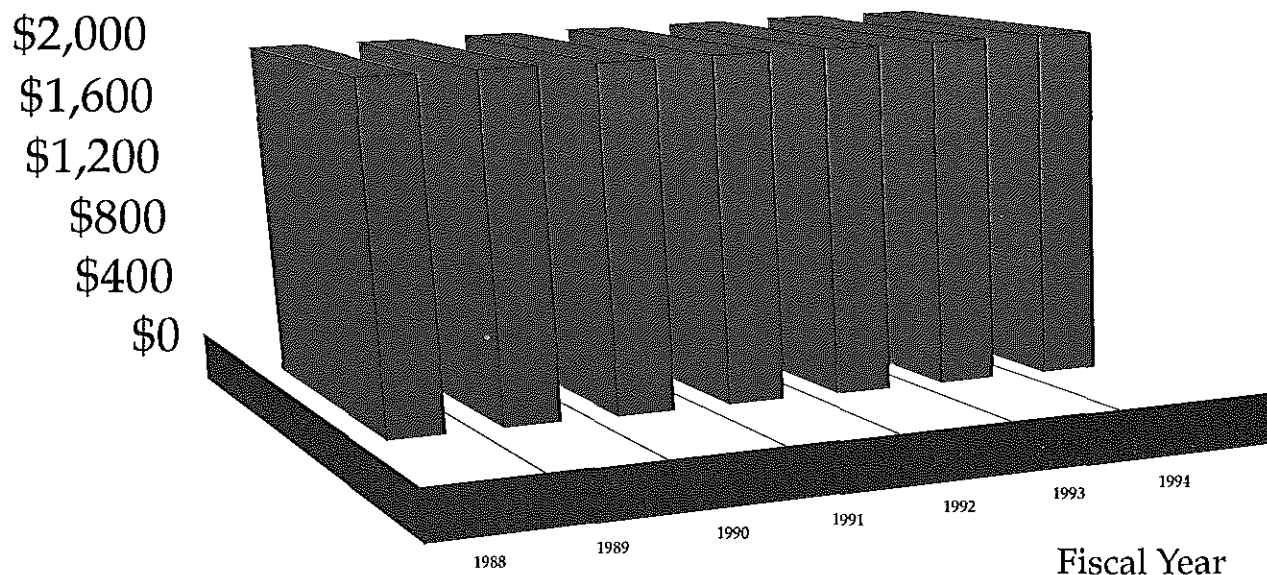
SUMMARY OF EXPENSES BY SOURCE

(Millions)



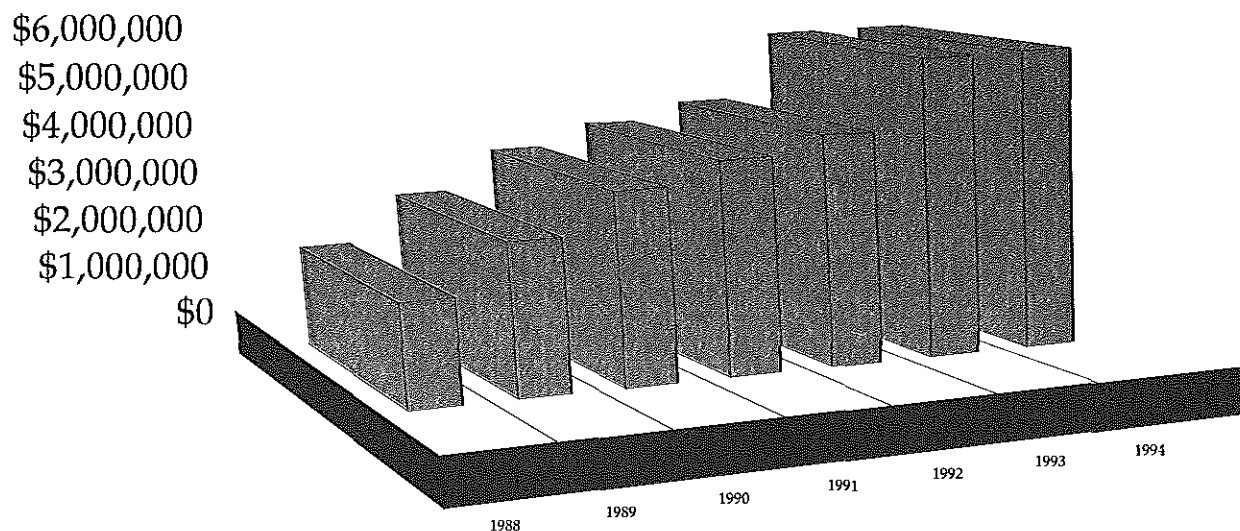
AVERAGE SICK LEAVE PAYMENTS

Amount in Thousands



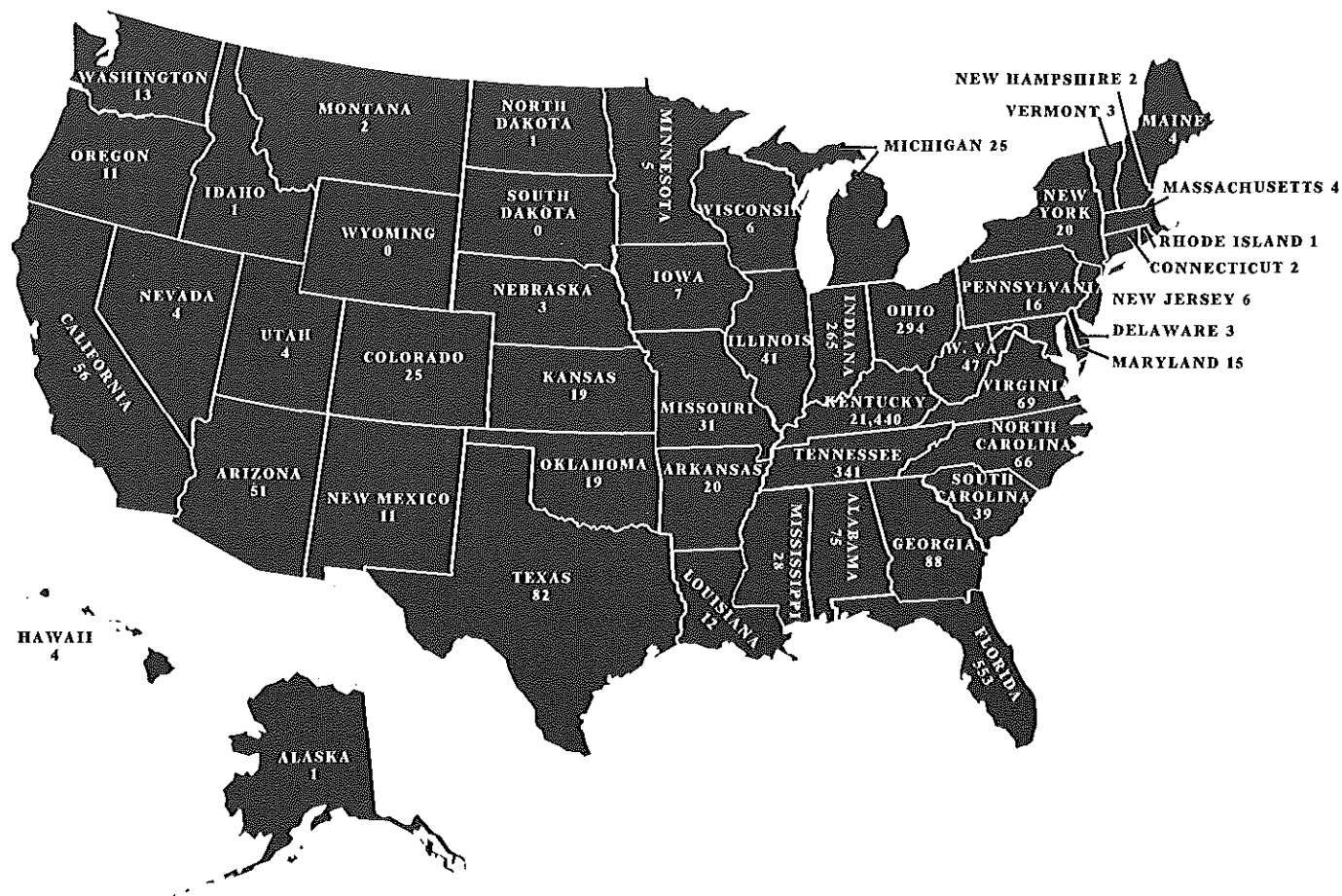
SUMMARY OF PERSONAL CHECK PAYMENTS

Amount in Millions



Fiscal Year

DISTRIBUTION OF RETIREMENT PAYMENTS WORLDWIDE
As of JUNE 30, 1994



OTHER:

AFRICA	1
CANADA	1
DISTRICT OF COLUMBIA	1
MEXICO	1
MILITARY APO	1
PHILLIPPINES	5
SWITZERLAND	1
TURKEY	1

TOTAL OUT OF STATE = 2,407

TOTAL NUMBER OF PAYMENTS = 23,407

TOTAL AMOUNT OF PAYMENTS = \$309,007,764

DISTRIBUTION OF RETIREMENT PAYMENTS STATEWIDE
AS OF JUNE 30, 1994

COUNTY NAME	TOTAL PAYMENTS	NUMBER OF RECIPIENTS
Adair	1,396,881	114
Allen	1,160,080	84
Anderson	1,079,153	84
Ballard	578,959	53
Barren	3,070,752	226
Bath	913,513	80
Bell	3,109,567	250
Boone	3,208,827	235
Bourbon	1,563,420	116
Boyd	3,827,151	318
Boyle	2,328,695	169
Bracken	596,071	45
Breathitt	1,598,717	122
Breckenridge	1,015,024	91
Bullitt	2,272,549	147
Butler	1,010,858	78
Caldwell	1,045,281	90
Calloway	4,923,121	355
Campbell	3,678,291	270
Carlisle	437,483	40
Carroll	578,562	44
Carter	2,093,033	169
Casey	1,548,282	123
Christian	3,165,825	264
Clark	1,884,825	152
Clay	2,634,487	205
Clinton	961,833	69
Crittendon	560,937	53
Cumberland	805,334	63
Daviess	6,733,189	492
Edmonson	653,391	54
Elliott	426,324	33
Estill	903,794	76
Fayette	17,314,840	1186
Fleming	949,862	75
Floyd	4,710,242	347
Franklin	5,556,348	439
Fulton	652,262	59
Gallatin	264,687	26
Garrard	1,023,762	80
Grant	891,073	73
Graves	2,078,593	188
Grayson	1,794,739	136
Green	1,121,708	79
Greenup	2,866,896	201
Hancock	657,902	44
Hardin	4,517,032	311
Harlan	3,605,907	269
Harrison	1,268,618	102
Hart	1,082,444	85
Henderson	2,115,541	162

COUNTY NAME	TOTAL PAYMENTS	NUMBER OF RECIPIENTS
Henry	1,271,980	101
Hickman	226,842	23
Hopkins	3,027,192	257
Jackson	1,075,257	93
Jefferson	49,233,486	3213
Jessamine	1,397,193	111
Johnson	2,640,867	202
Kenton	4,680,003	354
Knott	1,860,548	146
Knox	1,961,906	157
Larue	1,104,261	73
Laurel	3,245,250	253
Lawrence	985,575	84
Lee	858,813	70
Leslie	1,002,940	87
Letcher	2,752,040	209
Lewis	1,135,686	91
Lincoln	1,927,684	149
Livingston	656,374	54
Logan	1,819,366	149
Lyon	745,742	58
Madison	7,673,416	544
Magoffin	1,027,293	92
Marion	951,399	82
Marshall	1,729,925	146
Martin	931,574	78
Mason	1,132,228	82
McCracken	4,937,680	376
McCreary	1,153,283	93
McLean	754,565	62
Meade	784,676	56
Menifee	512,011	42
Mercer	1,654,269	136
Metcalfe	892,923	74
Monroe	1,571,784	125
Montgomery	1,398,103	109
Morgan	998,387	89
Muhlenberg	2,123,472	167
Nelson	1,941,072	144
Nicholas	384,134	35
Ohio	1,342,412	115
Oldham	1,881,072	140
Owen	542,273	45
Owsley	757,689	62
Pendleton	1,027,951	82
Perry	3,119,163	261
Pike	6,038,016	478
Powell	840,395	67
Pulaski	4,646,352	368
Robertson	122,006	13
Rockcastle	1,648,777	125

DISTRIBUTION OF RETIREMENT PAYMENTS STATEWIDE
AS OF JUNE 30, 1994 (CONTINUED)

COUNTY NAME	TOTAL	NUMBER OF RECIPIENTS
Rowan	3,630,713	246
Russell	1,293,047	112
Scott	1,479,692	118
Shelby	1,934,449	146
Simpson	1,042,633	82
Spencer	425,720	42
Taylor	1,728,565	135
Todd	921,809	76
Trigg	724,716	59
Trimble	199,049	19
Union	936,789	78

COUNTY NAME	TOTAL	NUMBER OF RECIPIENTS
Warren	10,155,997	722
Washington	633,632	54
Wayne	1,942,269	143
Webster	922,417	83
Whitley	4,192,959	328
Wolfe	640,442	53
Woodford	1,256,312	96
Total in Kentucky	286,425,182	21,440

SUMMARY OF STATE BUDGET APPROPRIATION TO TEACHERS' RETIREMENT SYSTEM FOR 1993-94

EXPENSE ITEM	1993-94 STATE BUDGET APPROPRIATION	1993-94 STATE ACTUAL BUDGET REQUIREMENT
Match of Member Contributions *	\$ 193,000,000	\$ 194,139,527
Match of Personal Payments	5,278,000	5,373,027
Sick Leave (KRS 161.550)	9,677,000	12,211,189
Retiree Cost of Living Adjustment	28,270,000	28,270,000
Prior Service Increase	640,000	640,000
Minimum Benefit Adjustment	9,364,000	9,364,000
Increase Survivor Benefits	600,000	600,000
Handicapped Child Benefit	271,000	289,477
Mandated 4% decrease for 1994	(2,164,000)	
TOTALS	\$ 244,936,000	\$ 250,887,220
State Under-Appropriation for 1993-94	\$ 5,951,220	

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 \$27,296,259 in order to match the members' contributions. 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
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
1993-94	1.4	2.2	(1.5)	(0.9)	0.7	2.5
Five Year Annualized Rate	10.3	11.6	8.5	8.8	9.0	3.6

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
1980-84	272,744,772	16,334,937	256,409,836	109,622,111	5,197,234	378,667,011	7,437,831	12,866,812
1984-88	413,932,416	21,417,604	392,514,811	141,251,827	13,341,243	515,932,177	(31,175,706)	(44,439,412)
1988-89	129,546,325	23,980,075(1)	105,566,250	17,600,000(2)	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(3)	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)
1993-94	184,892,279	37,404,797	147,487,482	52,025,072	12,211,189	205,772,523	(5,951,220)(5)	(21,161,871)

The state under-appropriation at June 30, 1994 is \$21,161,871. This amount is comprised of the 1991-92 \$8,849,167 deficit, the 1992-93 \$6,361,484 deficit and the current year contribution under-appropriation of \$5,951,220. The 1991-92 deficit was paid by the state July 1, 1994.

- (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 was less than the actuarially determined contribution by about \$25 million.
- (3) The required supplemental appropriation for 1989-90 was less than the actuarially determined contribution by \$22.4 million.
- (4) Included in the June 30, 1993 deficit is a 2% mandated decrease in appropriations of \$1,080,000.
- (5) Included in the June 30, 1994 deficit is a 4% mandated decrease in appropriations of \$2,160,000.

SUMMARY OF FISCAL YEAR 1993-94 RETIREE SICK LEAVE PAYMENTS

Total Members Retiring	1,681
Total Members Receiving Sick Leave Payments	1,076
Total Amount of Sick Leave Payments (at 9.855% contribution rate)	\$8,651,882.44
Average Payment Per Retiree	\$8,040.78
Total Increase in Final Average Salary Base (FASB)	\$1,730,376.49
Average Increase in FASB	\$1,608.16
Total service credit of 1,076 Retirees	31,018.79
Average Service Credit of 1,076 Retirees	28.83

Average Yearly Increase		Service Credit		Retirement Factor		Average Yearly Annuity
\$1,608.16	X	17.83	X	2.00%	=	\$573.47
\$1,608.16	X	1.00	X	2.25%	=	\$36.18
\$1,608.16	X	10.00	X	2.50%	=	\$402.04
Average yearly annuity						\$1,011.69
Average monthly annuity						\$84.31
Average Monthly Annuity		Present Value Factor Based on Average Age of 55		Number of Members With Sick Leave Payments		
\$84.31	X	156.504	X	1,076		
Anticipated lifetime payout of additional annuity						\$14,197,661.01

Funding of Additional Payout

Member Contributions	9.855%	X	\$8,651,882.44	=	\$852,643.01
State Contributions	13.105%	X	\$8,651,882.44	=	1,133,829.19
Total Member-State Contributions					\$1,986,472.21

Deficit

Anticipated Additional Payout	\$14,197,661.01
Less Total Member and State contributions	1,986,472.21
Subtotal Unfunded Debt	\$12,211,188.80
Less Current Year Appropriation	9,677,000.00
Total Deficit*	\$2,534,188.80

* This amount has been included in the 1993-94 deficit.

SCHOOL DISTRICTS ELECTING TO PAY FOR SICK LEAVE UNDER KRS 161.155(8)
FISCAL YEAR 1993-94

COUNTY SCHOOL DISTRICT		TOTAL ADDITIONAL COMPENSATION
Adair	7	43,842.72
Allen	3	28,572.71
Anderson	4	26,558.71
Ballard	3	35,908.07
Barren	10	67,660.17
Bath	1	6,446.37
Bell	4	18,438.77
Boone	15	93,754.75
Bourbon	4	30,683.41
Boyd	7	39,389.45
Boyle	3	27,070.92
Bracken	2	15,666.97
Breckenridge	7	70,927.96
Bullitt	10	77,871.84
Butler	1	1,145.61
Caldwell	7	46,822.53
Calloway	6	66,302.38
Campbell	13	125,966.62
Carlisle	3	13,396.85
Carroll	2	12,913.04
Carter	12	71,224.05
Casey	5	16,662.10
Christian	20	168,954.74
Clark	8	75,428.51
Clay	8	37,996.65
Clinton	3	20,231.36
Cumberland	1	9,545.00
Daviess	11	86,036.83
Edmonson	5	48,909.90
Elliott	3	24,054.89
Estill	4	30,772.41
Fayette	61	661,844.95
Fleming	2	24,498.53
Floyd	17	116,066.98
Franklin	11	53,207.83
Fulton	2	2,239.98
Garrard	3	20,491.73
Grant	2	9,145.91
Graves	5	34,116.49
Grayson	3	26,754.24
Green	2	18,673.06
Greenup	2	20,344.09
Hancock	1	4,699.14
Hardin	17	153,037.96
Harlan	15	103,439.58
Harrison	3	33,073.46
Hart	5	35,078.03
Henderson	14	97,470.02
Henry	1	2,731.81
Hickman	3	30,527.85

COUNTY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
Hopkins	9	71,639.05
Jackson	2	20,800.61
Jefferson	190	1,637,341.09
Jessamine	4	20,422.22
Johnson	5	43,023.53
Kenton	19	124,380.70
Knott	3	18,498.52
Knox	9	69,166.51
Larue	8	69,220.09
Laurel	12	89,987.52
Lawrence	3	18,506.85
Lee	6	28,631.06
Leslie	4	31,094.88
Letcher	17	129,266.14
Lewis	7	82,374.43
Lincoln	6	48,461.39
Livingston	1	7,583.26
Logan	5	48,771.80
Lyon	2	14,177.07
Madison	9	77,423.54
Magoffin	5	42,679.05
Marion	2	26,618.77
Marshall	8	65,100.88
Mason	4	55,326.94
McCracken	13	105,110.50
McCreary	10	50,035.20
Meade	5	45,731.51
Menifee	2	8,411.57
Mercer	2	19,704.21
Metcalfe	5	54,942.36
Monroe	7	48,501.87
Montgomery	4	30,504.31
Morgan	4	18,412.67
Muhlenberg	5	34,579.91
Nelson	9	72,607.10
Ohio	4	26,914.15
Oldham	7	42,667.28
Owen	1	10,768.65
Owsley	3	10,323.49
Pendleton	2	25,728.97
Perry	8	78,078.44
Pike	34	245,953.42
Powell	3	31,092.44
Pulaski	16	115,126.65
Rockcastle	5	33,672.35
Rowan	5	33,337.90
Russell	4	30,537.60
Scott	9	55,738.71
Shelby	3	29,628.92
Simpson	5	41,131.71

SCHOOL DISTRICTS ELECTING TO PAY FOR SICK LEAVE UNDER KRS 161.155(8)
FISCAL YEAR 1993-94

COUNTY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
Spencer	1	13,629.83
Taylor	8	43,579.92
Todd	5	41,844.66
Trigg	7	55,271.35
Trimble	2	22,808.12
Union	4	27,875.90
Warren	17	128,794.93
Washington	2	32,079.45
Wayne	1	10,459.06
Webster	3	24,706.04
Whitley	4	19,533.33
Wolfe	3	25,219.18
Woodford	9	78,284.02

CITY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
Ashland	6	54,640.48
Bardstown	1	4,486.35
Berea	1	3,314.26
Bowling Green	12	117,788.42
Burgin	3	11,320.64
Campbellsville	3	28,902.28
Caverna	1	2,540.74
Corbin	3	24,206.39
Covington	3	21,115.99
Danville	8	48,611.89
Dayton	3	11,695.18
Elizabethtown	1	9,615.73
Erlanger-Elsmere	5	42,761.14
Fairview	2	33,735.97
Frankfort	1	10,506.04
Glasgow	2	14,463.93
Hazard	1	1,845.97
Ludlow	1	8,852.26
Mayfield	1	17,267.88
Middlesboro	8	53,344.69
Monticello	2	21,719.03
Newport	3	32,698.94
Owensboro	8	72,004.68
Paducah	22	211,072.99
Paintsville	5	58,837.96
Paris	1	10,603.04
Pikeville	3	11,596.65
Pineville	3	14,205.98
Providence	2	9,761.85
Raceland	3	39,322.89
Russell	6	42,544.18
Russellville	2	8,226.89
Somerset	5	28,527.15
Southgate	2	10,437.64
Williamston	1	8,884.83

	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
TOTAL FOR ALL DISTRICTS	1,076	\$ 8,651,882.44

SCHEDULE OF KTRS ANNUITANTS BY TYPE OF BENEFIT
AS OF JUNE 30, 1994

AMOUNT OF MONTHLY BENEFIT (\$)	NUMBERS OF ANNUITANTS	TYPE OF RETIREMENT*				
		1	2	3	4	5
1 - 200	1,530	687	11	609	54	169
201 - 400	1,474	1,214	7	88	165	0
401 - 600	1,864	1,401	239	7	217	0
601 - 800	2,619	2,259	149	0	211	0
801 - 1,000	3,143	2,853	136	0	154	0
1,001 - 1,200	2,571	2,328	144	0	99	0
1,201 - 1,400	2,605	2,333	167	1	104	0
1,401 - 1,600	2,241	2,018	151	1	71	0
1,601 - 1,800	1,649	1,487	103	1	58	0
1,801 - 2,000	1,048	969	46	1	32	0
Over 2,000	2,120	2,036	42	2	40	0
Totals	22,864	19,585	1,195	710	1,205	169

*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 CONTRIBUTING MEMBERS
AS OF JUNE 30, 1994

By AGE		
AGE	MALE	FEMALE
20-24	206	974
25-29	1,067	3,763
30-34	1,345	4,068
35-39	1,694	5,328
40-44	2,763	7,968
45-49	3,406	7,293
50-54	2,183	3,876
55-59	1,028	1,801
60-64	409	707
65-69	78	183
Over 70	13	44
Total	14,192	36,005

By SERVICE		
YEARS OF SERVICE	MALE	FEMALE
Less than 1	291	694
1-4	2,683	7,699
5-9	2,320	7,421
10-14	1,446	4,684
15-19	2,137	5,695
20-24	2,591	5,976
25-29	1,886	2,910
30-34	620	660
Over 35	218	266
Total	14,192	36,005

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

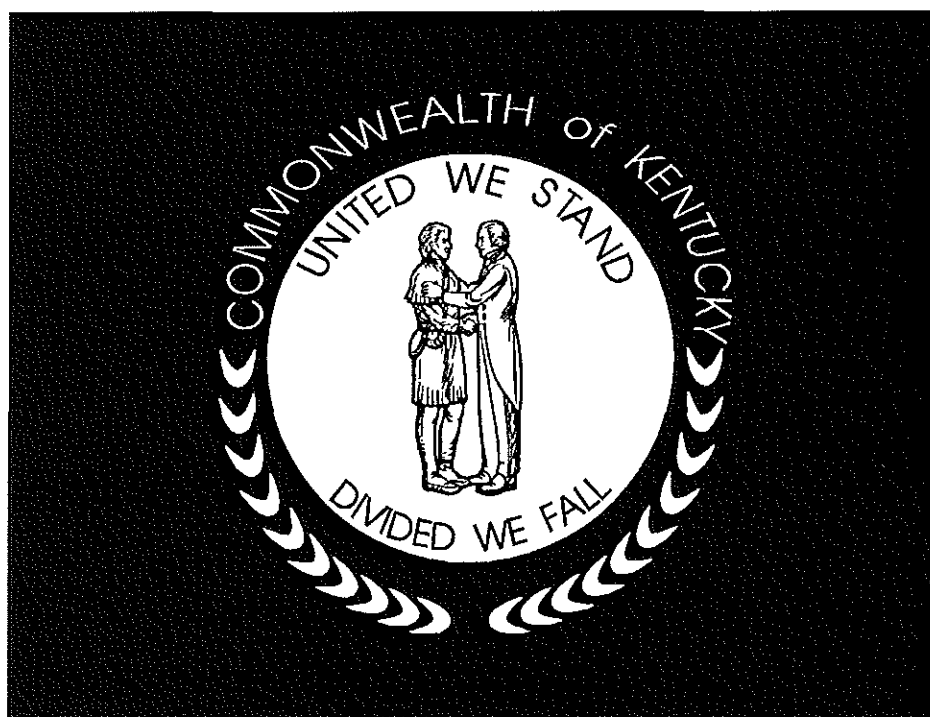
STATE OF KENTUCKY/OTHER ORGANIZATIONS	
STATE OF KENTUCKY	
1.	Administrative Office of the Courts*
2.	Department of Corrections*
3.	Education and Humanities Cabinet
4.	Human Resources*
5.	Labor Cabinet*
6.	Legislative Research Commission*
7.	Workforce Development Cabinet
OTHER ORGANIZATIONS	
1.	Central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

INVESTMENT SECTION

Imprinted on a background of navy blue the Kentucky seal rests in the center of the state flag. The flag was approved by the General Assembly in 1928 after 10 years of indecision about its design.

STATE FLAG



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.

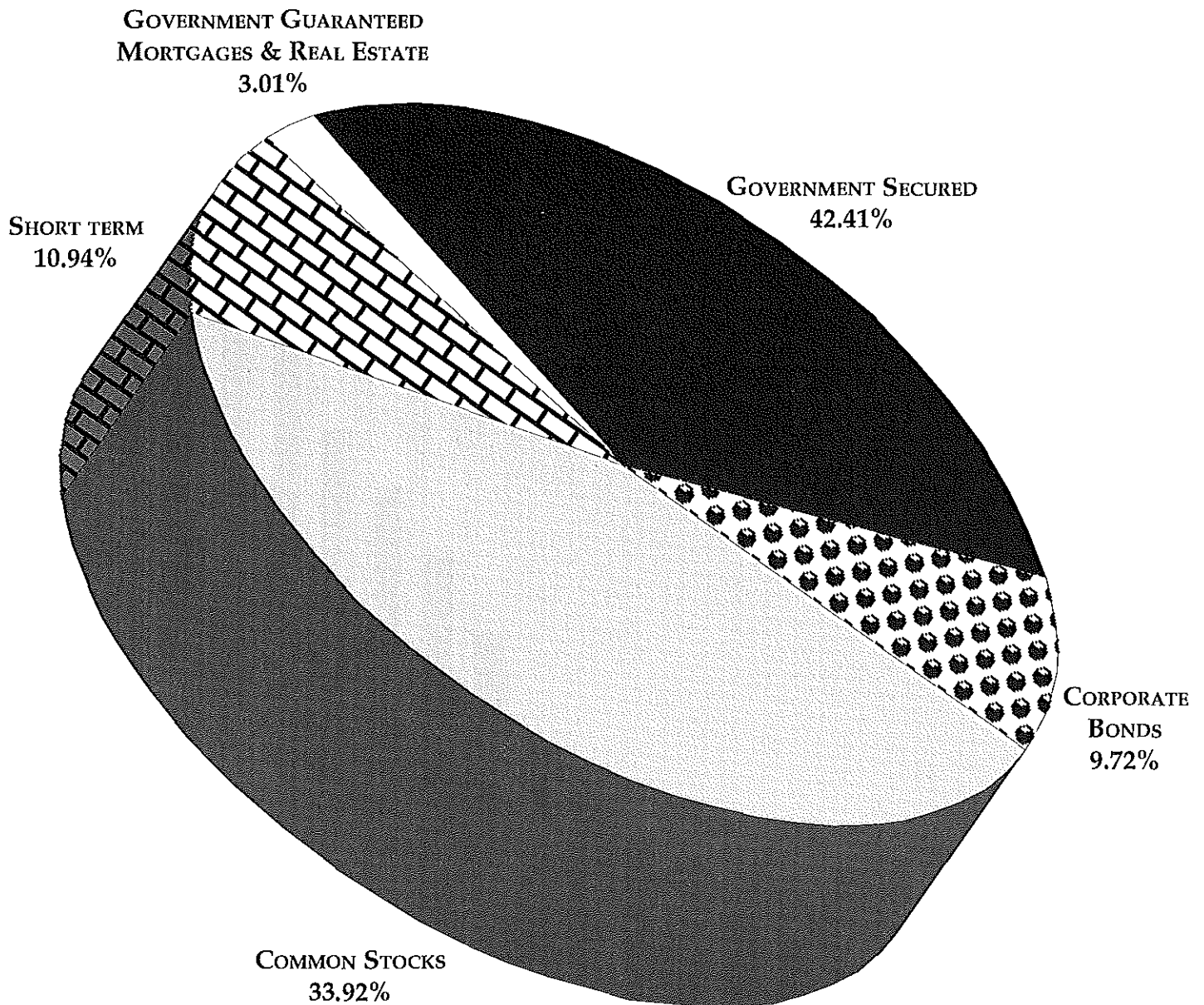
The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 1993-94 as the principal investment counselor. National Asset Management, Invesco Inc., Brinson Partners, and Wellington Management Company also were retained during the 1993-94 fiscal year to provide investment counseling services. National Asset Management assisted in the management of approximately \$890 million in bonds, while Invesco Inc. was involved with managing about \$480 million in equity investments. Brinson Partners was responsible for managing approximately \$330 million in equities, and Wellington Management Company managed about \$360 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about \$1.85 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 \$5.6 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 1993-94 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 \$505 million, or 9.5%, to a total of \$5.8 billion at year-end. The book value of the fund correspondingly increased 10.5% during the year. The System earned in excess of \$439 million of investment income during 1993-94; 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 1993-94 was about \$31.6 million higher than in 1992-93. At year-end, the "net indicated yield" on fixed income investments at par value was 6.12%. The "indicated dividend yield" on common stocks was 3.22%.

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, 1994. During the 1993-94 fiscal year, the stock position increased from 30.2% of assets to 33.9%. The portion of the portfolio in Government securities decreased from 45.3% to 42.4%. The cash position grew during the year, going from 10.2% to 10.9% 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, 1994. The pages thereafter provide a detailed listing of all investments held on June 30, 1994. The System annually produces a detailed investment report that is available on request.

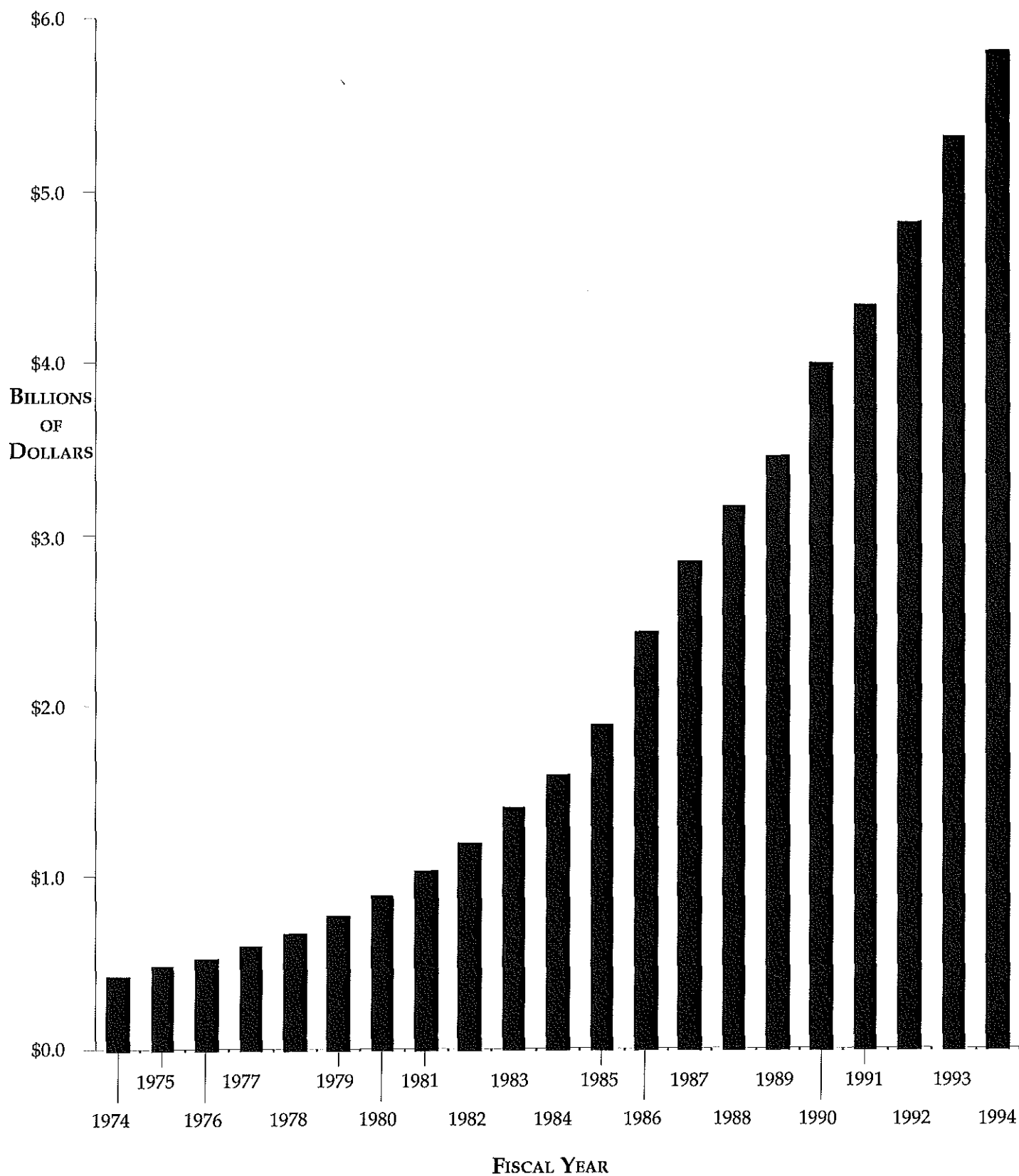
DISTRIBUTION OF INVESTMENTS
JUNE 30, 1994



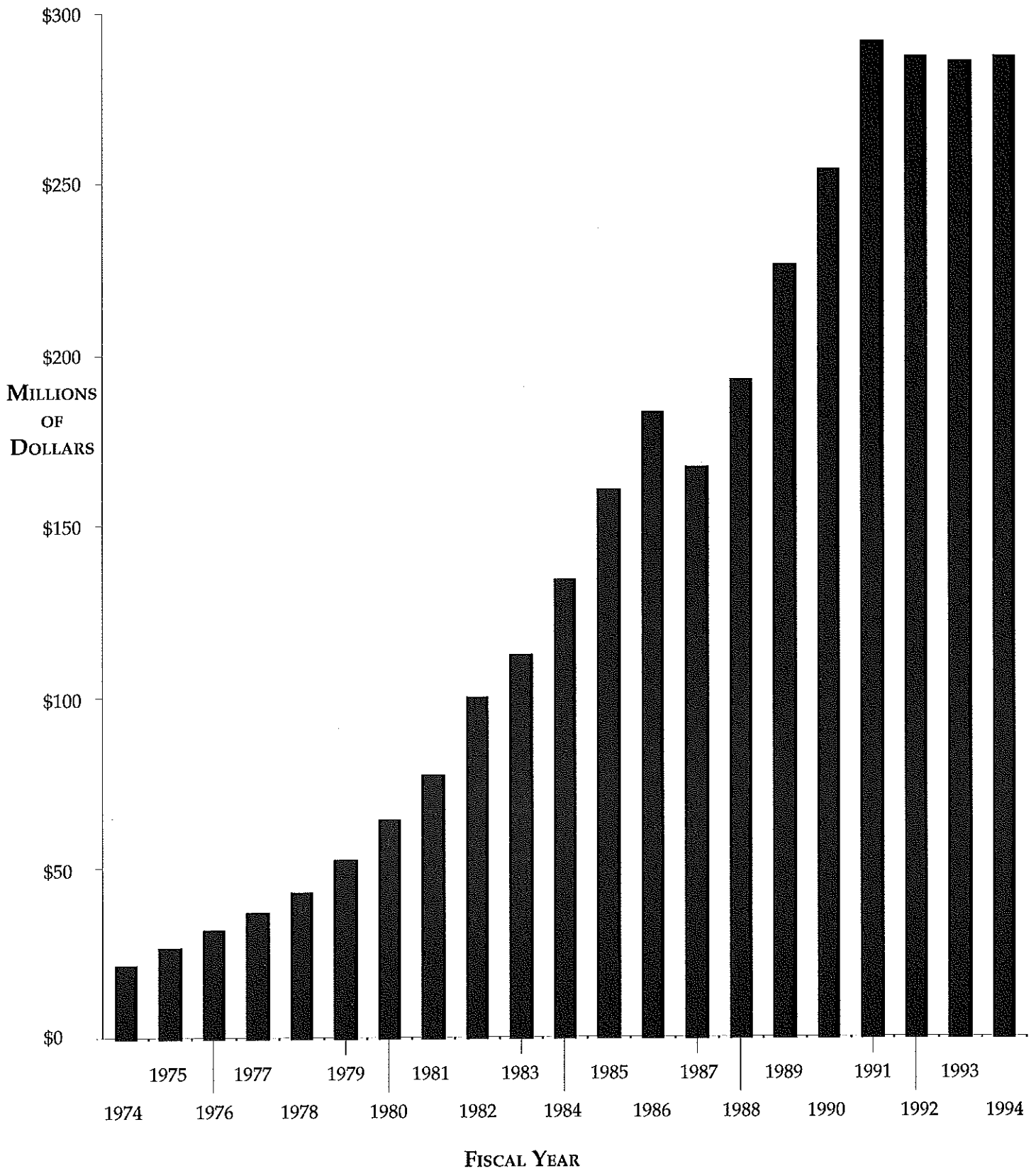
INVESTMENT PORTFOLIO GROWTH

FIXED INCOME AT PAR VALUE

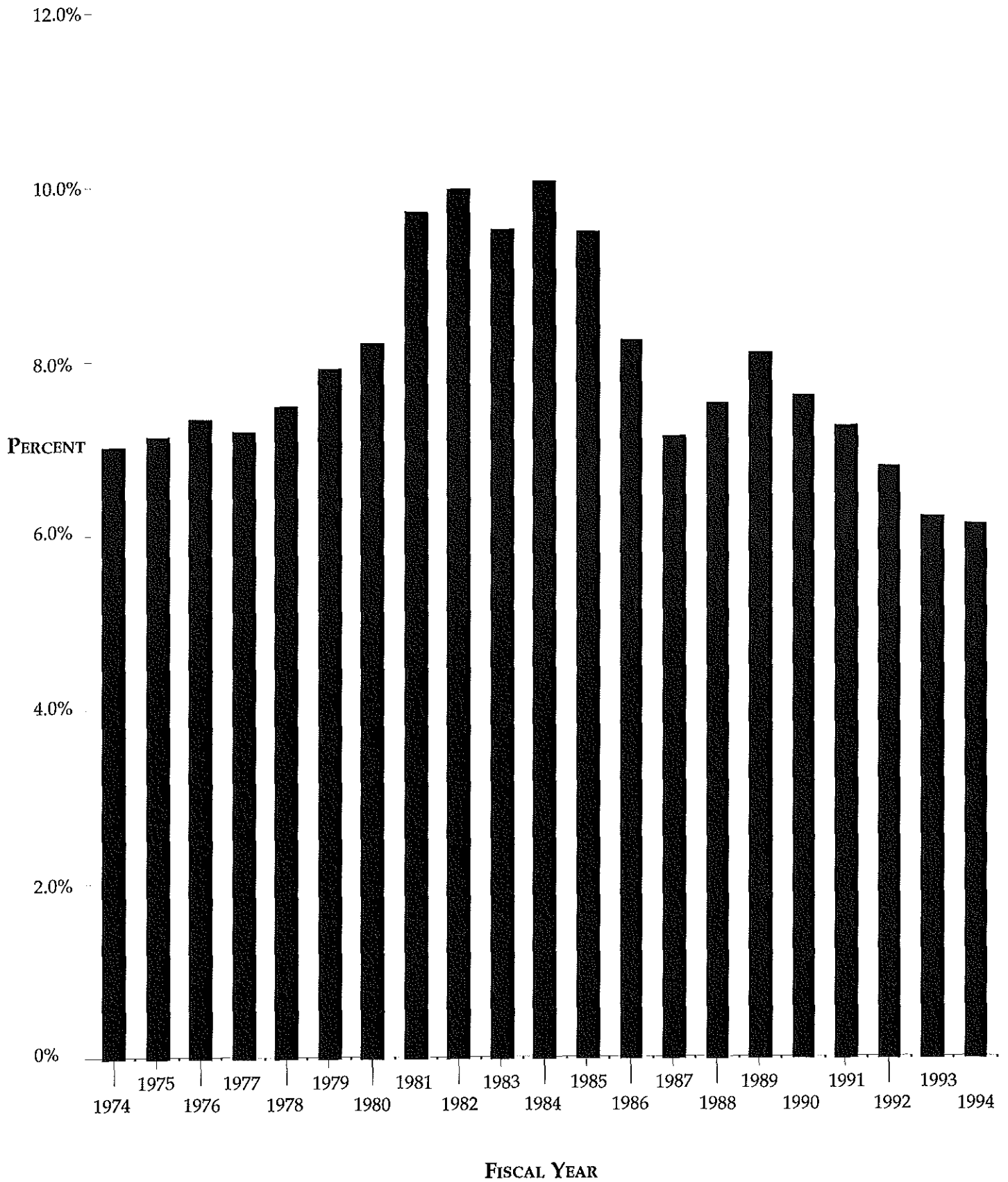
EQUITIES AT COST



INVESTMENT INCOME GROWTH
INCLUDES AMORTIZATION
EXCLUDES NET GAIN



NET INDICATED YIELD ON FIXED DOLLAR ASSETS
PAR VALUE



SCHEDULE OF INVESTMENTS
AS OF JUNE 30, 1994

INVESTMENT	PERCENTAGE OF TOTAL	PAR VALUE* OR REMAINING PRINCIPAL BALANCE	NET ANNUAL INTEREST/ INDICATED DIVIDEND INCOME	ANNUAL YIELD
Repurchase Agreements	10.94%	\$ 635,200,000.00	\$ 27,163,292.02	4.28%
Total Short Term	10.94%	\$ 635,200,000.00	\$ 27,163,292.02	4.28%
Treasury Notes and Bonds	31.85%	\$ 1,848,486,000.00	\$ 121,338,564.69	6.56%
Agencies	3.00%	174,204,033.24	14,036,326.23	8.06%
Ship Bonds (Title XI)	0.15%	8,839,335.36	717,838.81	8.12%
GNMA (Single Family)	0.35%	20,598,770.19	1,659,682.90	8.06%
Collateralized Mortgage Obligations	0.48%	28,098,608.88	2,040,601.44	7.26%
Treasury Strip Bonds	6.58%	382,106,080.00	12,508,041.22	3.27%
Other Miscellaneous	0.00%	32,887.02	986.61	3.00%
Total U.S. Government Obligations	42.41%	\$ 2,462,365,714.69	\$ 152,302,041.90	6.19%
Industrials	4.27%	\$ 247,855,619.88	\$ 19,332,033.47	7.80%
Finance	4.34%	251,750,196.66	17,698,343.06	7.03%
Utility Bonds (Except Telephone)	0.66%	38,555,000.00	2,296,198.94	5.96%
Telephone Bonds	0.22%	12,590,000.00	880,744.80	7.00%
Railroad Obligations	0.23%	13,596,000.00	1,058,998.20	7.79%
Total Corporate Bonds	9.72%	\$ 564,346,816.54	\$ 41,266,318.47	7.31%
FHA & VA Single Family Mortgages	0.06%	\$ 3,679,737.75	\$ 264,943.21	7.20%
Project Mortgages (FHA & GNMA)	1.79%	103,650,427.31	9,702,385.64	9.36%
Total Other Fixed Income	1.85%	\$ 107,330,165.06	\$ 9,967,328.85	9.29%
Subtotal (Fixed Income)	64.92%	\$ 3,769,242,696.29	\$ 230,698,981.24	6.12%
Real Estate Equity	1.16%	\$ 67,416,932.61	\$ 6,264,150.05	9.29%
Total Real Estate Equity	1.16%	\$ 67,416,932.61	\$ 6,264,150.05	9.29%
Common Stocks 42,131,082.00 Shares	25.80%	\$ 1,497,818,030.62	\$ 47,993,069.69	3.20%
Stock Index 13,567,995.00 Shares	8.12%	471,006,182.29	15,311,007.41	3.25%
Total Stocks 55,699,077.00 Shares	33.92%	\$ 1,968,824,212.91	\$ 63,304,077.10	3.22%
Subtotal (Equity)	35.08%	\$ 2,036,241,145.52	\$ 69,568,227.15	3.42%
Total Investments, Income & Yield	100.00%	\$ 5,805,483,841.81	\$ 300,267,208.39	5.17%

* 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, 1994 was \$3,002,021,794; the market value was \$2,959,106,564. The par and book values of stocks, which are the same, were \$1,968,824,213 for June 30, 1994; the market value of stocks was \$2,150,248,154. 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	4.257	07/07/94	\$ 1,320,500.00
Repurchase Agreement	4.257	07/07/94	9,810,600.00
Repurchase Agreement	4.257	07/07/94	531,400.00
Repurchase Agreement	4.257	07/07/94	26,886,900.00
Repurchase Agreement	4.257	07/07/94	14,001,300.00
Repurchase Agreement	4.257	07/07/94	20,928,300.00
Repurchase Agreement	4.257	07/07/94	10,501,800.00
Repurchase Agreement	4.257	07/07/94	12,874,100.00
Repurchase Agreement	4.257	07/07/94	92,142,100.00
Repurchase Agreement	4.270	07/05/94	3,454,800.00
Repurchase Agreement	4.270	07/05/94	15,616,000.00
Repurchase Agreement	4.270	07/05/94	5,000,000.00
Repurchase Agreement	4.270	07/05/94	15,000,000.00
Repurchase Agreement	4.270	07/05/94	10,875,200.00
Repurchase Agreement	4.270	07/05/94	51,254,200.00
Repurchase Agreement	4.270	07/05/94	23,899,800.00
Repurchase Agreement	4.280	07/06/94	5,211,700.00
Repurchase Agreement	4.280	07/06/94	4,042,800.00
Repurchase Agreement	4.280	07/06/94	23,822,200.00
Repurchase Agreement	4.280	07/06/94	21,678,600.00
Repurchase Agreement	4.280	07/06/94	17,756,100.00
Repurchase Agreement	4.280	07/06/94	6,252,700.00
Repurchase Agreement	4.280	07/06/94	8,462,000.00
Repurchase Agreement	4.280	07/06/94	1,168,300.00
Repurchase Agreement	4.280	07/06/94	22,105,600.00
Repurchase Agreement	4.290	07/08/94	2,073,500.00
Repurchase Agreement	4.290	07/08/94	25,000,000.00
Repurchase Agreement	4.290	07/08/94	10,000,000.00
Repurchase Agreement	4.290	07/08/94	12,234,200.00
Repurchase Agreement	4.290	07/08/94	15,012,200.00
Repurchase Agreement	4.290	07/08/94	13,050,000.00
Repurchase Agreement	4.290	07/08/94	683,800.00
Repurchase Agreement	4.290	07/08/94	35,446,300.00
Repurchase Agreement	4.302	07/01/94	345,900.00
Repurchase Agreement	4.302	07/01/94	13,121,400.00
Repurchase Agreement	4.302	07/01/94	16,000,000.00
Repurchase Agreement	4.302	07/01/94	25,157,200.00
Repurchase Agreement	4.302	07/01/94	16,095,800.00
Repurchase Agreement	4.302	07/01/94	22,594,800.00
Repurchase Agreement	4.302	07/01/94	63,800.00
Repurchase Agreement	4.302	07/01/94	3,721,100.00
TOTAL SHORT TERM INVESTMENTS			\$635,200,000.00

U.S. GOVERNMENT OBLIGATIONS

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
TREASURY BONDS AND NOTES:			
U S Treasury Bonds	6.250	08/15/23	\$ 5,000,000.00
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 Treasury Bonds	7.250	08/15/22	6,500,000.00

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	\$ 3,000,000.00
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	5,000,000.00
U S Treasury Bonds	7.500	11/15/16	5,000,000.00
U S Treasury Bonds	7.500	11/15/16	3,200,000.00
U S Treasury Bonds	7.500	11/15/16	15,000,000.00
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	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	08/15/19	22,500,000.00
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	12,200,000.00
U S Treasury Bonds	8.125	08/15/21	9,000,000.00
U S Treasury Bonds	8.250	05/15/05	10,000,000.00
U S Treasury Bonds	8.500	02/15/20	7,180,000.00
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	9.125	05/15/09	4,100,000.00
U S Treasury Bonds	9.125	05/15/18	12,500,000.00
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	9.375	02/15/06	10,000,000.00
U S Treasury Bonds	9.375	02/15/06	6,900,000.00
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	9.875	11/15/15	6,200,000.00
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	10.375	11/15/12	2,600,000.00
U S Treasury Bonds	10.750	08/15/05	14,000,000.00
U S Treasury Bonds	11.625	11/15/04	2,500,000.00
U S Treasury Bonds	11.625	11/15/04	2,500,000.00
U S Treasury Bonds	12.000	08/15/13	7,500,000.00
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 Treasury Bonds	13.125	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 Bonds	14.000	11/15/11	\$ 13,200,000.00
U S Treasury Notes	3.875	08/31/95	11,500,000.00
U S Treasury Notes	3.875	10/31/95	80,000,000.00
U S Treasury Notes	3.875	10/31/95	5,500,000.00
U S Treasury Notes	4.125	06/30/95	26,000,000.00
U S Treasury Notes	4.250	07/31/95	15,000,000.00
U S Treasury Notes	4.250	07/31/95	15,000,000.00
U S Treasury Notes	4.375	08/15/96	3,000,000.00
U S Treasury Notes	4.375	11/15/96	15,000,000.00
U S Treasury Notes	5.125	06/30/98	6,000,000.00
U S Treasury Notes	5.125	12/31/98	15,000,000.00
U S Treasury Notes	5.250	07/31/98	27,000,000.00
U S Treasury Notes	5.250	07/31/98	15,000,000.00
U S Treasury Notes	5.250	07/31/98	2,000,000.00
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	10,000,000.00
U S Treasury Notes	5.500	04/15/00	20,000,000.00
U S Treasury Notes	5.750	08/15/03	12,000,000.00
U S Treasury Notes	5.750	08/15/03	5,000,000.00
U S Treasury Notes	5.750	08/15/03	10,000,000.00
U S Treasury Notes	5.750	08/15/03	18,000,000.00
U S Treasury Notes	5.750	08/15/03	3,000,000.00
U S Treasury Notes	5.750	08/15/03	21,000,000.00
U S Treasury Notes	5.750	08/15/03	1,500,000.00
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	6.000	10/15/99	3,000,000.00
U S Treasury Notes	6.250	01/31/97	10,000,000.00
U S Treasury Notes	6.250	01/31/97	20,300,000.00
U S Treasury Notes	6.250	01/31/97	13,000,000.00
U S Treasury Notes	6.250	02/15/03	4,000,000.00
U S Treasury Notes	6.250	02/15/03	3,000,000.00
U S Treasury Notes	6.375	01/15/00	26,000,000.00
U S Treasury Notes	6.375	01/15/00	4,500,000.00
U S Treasury Notes	6.375	01/15/00	25,000,000.00
U S Treasury Notes	6.375	01/15/00	21,000,000.00
U S Treasury Notes	6.375	01/15/00	8,000,000.00
U S Treasury Notes	6.375	08/15/02	12,000,000.00
U S Treasury Notes	6.375	08/15/02	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	5,500,000.00
U S Treasury Notes	6.375	08/15/02	3,000,000.00
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	6.750	06/30/99	25,000,000.00
U S Treasury Notes	6.750	06/30/99	25,000,000.00
U S Treasury Notes	6.875	10/31/96	25,000,000.00
U S Treasury Notes	6.875	04/30/97	12,000,000.00
U S Treasury Notes	7.000	04/15/99	15,000,000.00
U S Treasury Notes	7.250	11/15/96	14,000,000.00
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	02/29/96	23,680,000.00
U S Treasury Notes	7.500	11/15/01	2,000,000.00
U S Treasury Notes	7.500	11/15/01	4,700,000.00

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
TREASURY BONDS AND NOTES (CONT.):			
U S Treasury Notes	7.500	11/15/01	\$ 3,900,000.00
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	7.750	02/15/01	4,000,000.00
U S Treasury Notes	7.875	08/15/01	4,000,000.00
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	8.250	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	4,000,000.00
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	8.500	11/15/00	4,500,000.00
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	8.750	10/15/97	2,780,000.00
U S Treasury Notes	8.875	02/15/96	9,300,000.00
U S Treasury Notes	8.875	11/15/98	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	05/15/00	7,500,000.00
U S Treasury Notes	8.875	05/15/00	2,500,000.00
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	9.125	05/15/99	7,000,000.00
U S Treasury Notes	9.125	05/15/99	4,260,000.00
U S Treasury Notes	9.250	01/15/96	7,850,000.00
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	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
TOTAL TREASURY BONDS AND NOTES			\$ 1,848,486,000.00
FEDERAL AGENCIES:			
FHILB	7.875	03/27/95	\$ 5,000,000.00
FHLMC Freddie Mac Group 14-0527	8.000	10/01/08	6,035,786.34
FHLMC Mult Mtg Ctls Ser 53 CI, 53-A	9.500	08/15/20	1,582,221.60
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	6.900	03/10/04	3,000,000.00
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	10.350	12/10/15	\$ 7,000,000.00
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 Pool # 190658	7.000	01/01/09	53,574,025.30
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
Tennessee Valley Authority	8.375	10/01/99	2,000,000.00
TOTAL FEDERAL AGENCIES			\$ 174,204,033.24
SHIP BONDS (TITLE XI):			
Atlas Marine American Hertge	7.700	12/15/96	\$ 924,000.00
Crowley Maritime	8.125	09/13/99	1,867,718.44
Farrell Lines Inc Freedom	7.300	07/01/97	407,000.00
Farrell Lines Inc SF Ser I	7.950	06/07/04	1,972,000.00
Marine Ship Leasing A Antarctic	7.875	09/12/95	222,886.54
Marine Vessel Leasing Ind Ocean	7.875	10/14/95	183,730.38
Shipco 668 Series A SF	8.500	05/11/02	3,262,000.00
TOTAL SHIP BONDS (TITLE XI)			\$ 8,839,335.36
GNMA SINGLE FAMILY MORTGAGES:			
Mortgage Pools	various	various	\$ 20,598,770.19
TOTAL GNMA SINGLE FAMILY MORTGAGES			\$ 20,598,770.19
COLLATERALIZED MORTGAGE OBLIGATIONS:			
CMO Coll Mtg Sec Corp Ser 88-4 CLB	8.750	04/20/19	\$ 1,445,582.62
CMO Coll Mtg Sec Corp Ser 88-4 CLB	8.750	04/20/19	5,758,624.38
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 1645 CL PD	4.500	09/15/08	4,000,000.00
CMO Trust 43 Ser Y	8.200	05/20/04	2,419,045.83
CMO Trust II 4C Bonds	9.650	07/25/06	1,415,178.35
CMO-MDC Asset Inv TR Ser 11 CL 3	9.050	11/20/17	60,177.70
TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS			\$ 28,098,608.88
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	10,227,000.00
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

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
TREASURY STRIP BONDS (CONT.):			
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	2,072,000.00
Treasury Receipts	0.000	05/15/04	2,170,080.00
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 Principal Strips	0.000	05/15/20	70,000,000.00
U S Treasury Principal Strips	0.000	11/15/21	35,200,000.00
U S Treasury Strip Bonds	0.000	08/15/96	24,500,000.00
U S Treasury Strip Bonds	0.000	11/15/97	8,700,000.00
U S Treasury Strip Bonds	0.000	02/15/02	428,000.00
U S Treasury Strip Bonds	0.000	02/15/02	20,100,000.00
U S Treasury Strip Bonds	0.000	11/15/03	373,000.00
U S Treasury Strip Bonds	0.000	05/15/04	15,000,000.00
U S Treasury Strip Bonds	0.000	11/15/05	1,000,000.00
U S Treasury Strip Bonds	0.000	05/15/09	1,200,000.00
U S Treasury Strip Bonds	0.000	05/15/09	3,000,000.00
U S Treasury Strip Bonds	0.000	11/15/11	15,000,000.00
TOTAL TREASURY STRIP BONDS			\$ 382,106,080.00
OTHER MISCELLANEOUS:			
FHA Certificate of Claim	3.000		\$ 32,887.02
TOTAL OTHER			\$ 32,887.02
TOTAL U.S. GOVERNMENT OBLIGATIONS			\$2,462,365,714.69

INVESTMENT SECTION

CORPORATE BONDS

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
INDUSTRIALS:			
Arco Chemical Co Deb	9.800	02/01/20	\$ 15,000,000.00
Ariel Properties Inc Mtg Nt	7.000	07/01/98	190,774.42
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	298,159.76
Coca Cola Enterprises Debs	6.750	09/15/23	15,000,000.00
Consolidated Natural Gas Debs	8.750	10/01/19	3,000,000.00
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
Fahrney Paul L 1st Prfd Ship Mtg.	7.700	09/08/97	298,159.76
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	11,872,000.00
K-Mart Corp Debs	8.250	01/01/22	18,000,000.00
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	4,777,619.69
May Department Stores Debs	9.125	12/01/16	3,000,000.00
Mobil Oil - ESOP Debs	9.170	02/29/00	7,598,906.25
Pfizer Inc Nts	6.500	02/01/97	3,000,000.00
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
Scariver Maritime Inc Debs	0.000	09/01/12	3,000,000.00
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
United Technologies Corp Notes	9.320	02/05/21	3,000,000.00
Wal-Mart Stores Notes	5.875	10/15/05	3,000,000.00
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			\$ 247,855,619.88
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 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	5.250	03/30/00	2,000,000.00
Associates Corp of North America	8.375	01/15/98	5,000,000.00
Bankamerica Corp Notes	6.850	03/01/03	10,000,000.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
FINANCE (CONT.):			
Beneficial Finance Corp Notes	5.750	07/21/99	\$ 7,000,000.00
Beneficial Finance Corp Notes	5.750	07/21/99	3,000,000.00
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
First Union Corp Notes	6.625	07/15/05	2,000,000.00
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	4,832,322.85
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	4,832,322.85
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	1,932,929.14
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	1,932,929.14
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	1,519,423.45
GMAC 1992-D Grantor Trust Cl A	5.550	05/15/97	2,914,330.90
GMAC 94-A Grantor Trust	6.300	06/15/99	2,000,000.00
GMAC Debs	8.625	06/15/99	4,000,000.00
GMAC Debs	8.625	06/15/99	6,000,000.00
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 Electric Credit Corp Notes	4.615	05/30/03	10,000,000.00
Goldman Sachs Notes #144A Reg	7.875	01/15/03	14,000,000.00
John Hancock Mutual Life Surplus	7.375	02/15/24	12,000,000.00
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
Merrill Lynch Asset Backed Corp	5.500	05/15/98	4,239,272.23
Merrill Lynch Trust 26 C	7.300	07/01/16	2,718,080.59
Nationsbank Corp Notes	5.375	04/15/00	5,000,000.00
Nationsbank Corp Notes	6.875	02/15/05	2,500,000.00
Premier Auto Trust 92-2	6.375	09/15/97	6,765,586.21
Premier Auto Trust 92-2	6.375	09/15/97	2,706,234.47
Premier Auto Trust 92-5	4.550	03/15/98	2,387,886.01
Premier Auto Trust 92-5	4.550	03/15/98	1,432,731.61
Premier Auto Trust 92-5	4.550	03/15/98	955,154.41
Premier Auto Trust 93-4	4.650	02/02/99	13,981,948.80
Railcar Trust Notes 1992-1	7.750	06/01/04	6,299,044.00
Torchmark Corp	8.625	03/01/17	1,000,000.00
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 FINANCE BONDS			\$ 251,750,196.66
UTILITY BONDS (EXCEPT TELEPHONE):			
Cajun Electric Pwr CO-OP Inc	9.520	03/15/19	\$ 3,000,000.00
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
Pacific Gas Elec 1st Ref Mtg QQ	6.625	06/01/00	1,000,000.00
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			\$ 38,555,000.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
TELEPHONE BONDS:			
A T & T Corp	6.000	08/01/00	\$ 1,000,000.00
Cincinnati Bell Inc Nts	9.100	06/15/00	2,000,000.00
GTE California 1st Mtg	6.250	01/15/98	2,000,000.00
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
Pacific Tel Tel Debs	7.800	03/01/07	250,000.00
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			\$ 12,590,000.00
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
TOTAL CORPORATE BONDS			\$564,346,816.54

OTHER FIXED INCOME INVESTMENTS

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>SINGLE FAMILY MORTGAGES:</u>			
FHA	various	various	\$ 1,796,963.73
VA	various	various	1,882,774.02
TOTAL SINGLE FAMILY MORTGAGES			\$ 3,679,737.75
<u>PROJECT MORTGAGES (FHA & GNMA):</u>			
Americana Apts KY 221D4	7.500	10/01/18	\$ 4,173,145.72
Bedford Commons KY 221D4	8.000	11/01/23	1,216,985.51
Bedford House KY 221D4	7.500	01/01/20	1,166,422.75
Beech Creek Apts KY 221D4	7.500	08/01/21	1,961,683.51
Belleville Manor Apts KY 221D4	7.500	11/01/19	599,700.10
Berrytown Apts KY 221D4	8.000	02/01/24	1,324,926.82
Bethany Circle Kings Daughters IN	8.375	03/01/02	1,131,458.64
Cambridge Square Apts KY 221D4	7.500	11/01/19	1,120,127.85
Carnaby Square Apts KY 221D4	7.500	06/01/19	1,150,610.77
Carrollton Village Apts KY 221D4	7.500	09/01/20	1,850,497.24
Carter Court Apts KY 221D4	7.500	09/01/20	1,221,110.44
Christ Hosp GNMA 21191PL	8.000	09/15/06	2,874,184.64
Congregational Home Kan 231	5.250	07/01/04	931,181.89
Coolavin Apts KY 221D4	7.500	04/01/22	3,003,011.37
Denver Ed Sr Citzns 231	5.250	11/01/03	515,944.57
Dixie Apts KY 221D4	7.500	05/01/18	1,052,154.97
Ephraim McDowell Hosp KY	9.000	01/01/01	1,795,628.58
Ferndale Apts KY 221D4	7.500	08/01/23	3,560,414.18
Gainesway Village KY 221D4	7.500	02/01/19	1,520,997.00
Glenbrook Park KY 221D4	7.500	12/01/21	2,354,128.87
Grand Central Apts KY 221D4	7.500	03/01/25	2,210,898.55
Greater Corbin Mnr KY 221D4	7.500	03/01/21	3,337,863.87
Hallmark Plaza KY 223F	8.500	06/01/11	1,005,127.44
Jackson Valley Apts KY 221D4	7.500	08/01/20	1,857,314.40
Jamestown Manor Ltd KY 221D4	7.500	02/01/22	1,476,407.07
Lakeview Estates KY 221D4	7.500	01/01/20	1,047,990.98
Lebanon Apts KY 221D4	7.500	02/01/20	1,125,328.61
Lighthouse Sq Apts Ky 223F	8.625	01/01/27	4,728,549.66
Lin Meadows Homes KY 221D4	7.500	11/01/22	257,646.51
Locust Ridge KY 221D4	7.500	10/10/21	1,798,443.96
Longmont Christian Hsg 231	5.250	03/01/03	314,447.08
Madison Ave Apts KY 221D4	7.500	09/01/20	1,831,144.32
Manchester Heights Apts KY 221D4	7.500	06/01/19	1,146,651.26
Middletown Apts KY 221D4	7.500	02/01/18	973,221.73
Montgomery Square Apts KY 221D4	7.500	05/01/19	1,145,763.97
Mt Lebanon Cedars KY 221D3	7.500	03/01/23	2,523,207.56
Oak Tree Villa Apts KY 221D4	7.500	05/01/23	3,334,894.28
Panorama West KY 236	8.500	12/01/12	406,894.11
Pine Ridge Apts KY 221D4	7.500	09/01/18	773,296.44
Pinecreek Apts KY 221D4	7.500	10/01/17	530,401.62
Regency Park Apts KY 221D4	7.500	05/01/18	896,448.67
Regency Park BG KY 221D4	7.500	02/01/23	3,536,618.20
Ridgeway Apts KY 221D4	7.500	02/01/19	976,809.50
Rucker Village Apts KY 221D4	7.500	03/01/20	1,022,386.70
Salem Village I 232 III	7.750	03/01/16	924,990.91
Salem Village II 231 III	7.750	10/01/16	3,174,869.11
Sandefur Manor KY 221D4	7.500	01/01/20	888,277.49
Shepherdsville VLG KY 221D4	7.500	05/01/20	1,287,268.68
Shively Apts KY 221D4	7.500	10/01/21	2,296,145.32
Southside Manor KY 221D4	7.500	02/01/19	1,327,647.89
Town Branch Apts KY 221D4	7.500	11/01/23	721,508.62
Tree Top Apts KY 221D4	7.500	11/01/20	1,071,045.53
Vernon Manor Ltd KY 221D4	7.500	11/01/22	866,361.89
Walnut Hill Apts KY 221D4	7.500	05/01/19	1,540,170.69

INVESTMENT SECTION

OTHER FIXED INCOME INVESTMENTS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
PROJECT MORTGAGES (FHA& GNMA)(CONT.):			
Wessington House Apts TN 221D4	7.500	02/01/22	\$ 1,771,920.07
Westchester Circle KY 221D4	7.500	04/01/19	3,952,924.07
Westwood Apts KY 221D4	7.500	10/01/23	1,153,402.90
Wilderness Trail Mnr KY 221D4	7.500	03/01/23	5,446,371.72
Wildwood Apts KY 221D4	7.500	08/01/20	1,778,165.85
Willow Creek Apts KY 221D4	7.500	08/01/23	1,332,430.75
Woodsview Apts KY 221D4	7.500	01/01/19	1,334,853.91
TOTAL PROJECT MORTGAGES			\$ 103,650,427.31
TOTAL OTHER FIXED INCOME INVESTMENTS			\$ 107,330,165.06
Total Fixed Income Investments			\$3,769,242,696.29

REAL ESTATE EQUITY

SECURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
REAL ESTATE EQUITY:	
FIA Profile Fund I - 1500 Units	\$ 10,935,510.32
K Mart Store Winchester KY	2,715,512.53
K-Mart Store, Cold Spring, Ky	6,415,000.00
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	1,351,426.76
Rite Aid - Horse Cave, Ky	370,000.00
Rite Aid - Liberty, Ky	397,700.00
Sam's Warehouse-Paducah KY	3,600,000.00
Wal-Mart Store Hardinsburg KY	965,000.00
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 - Lexington, Ky #1632	3,407,000.00
Winn Dixie - Somerset Ky #1602	3,090,479.00
Winn Dixie - St Matthews Ky #1659	4,348,437.00
TOTAL REAL ESTATE EQUITY	\$ 67,416,932.61

COMMON STOCKS

STOCK	NUMBER OF SHARES	COST
AMP Inc	121,000.00	\$ 6,396,897.50
AMR Corp	122,700.00	7,865,249.50
Abbott Laboratories	944,000.00	21,370,827.50
Aetna Life & Casualty Co	100,000.00	5,954,338.71
Air & Water Technologies	95,600.00	1,912,448.50
Air Products & Chemicals	430,000.00	16,761,164.17
Allergan Inc	236,600.00	5,156,783.50
Allstate Corp	77,100.00	2,106,277.74
Aluminum Co of America	179,500.00	11,990,270.53
Alza Corp	114,000.00	2,831,988.50
Amerada Hess	100,000.00	4,951,062.50
American General Corp	350,000.00	6,761,037.50
American Home Products	285,000.00	16,776,633.33
American International Group	105,000.00	7,672,175.00
American Mobil Satellite	29,000.00	561,875.00
Amoco Corp	448,000.00	22,689,240.10
Anthem Electronics Inc	32,200.00	1,113,898.87
Aon Corp	237,450.00	6,947,036.50
Atlantic Richfield Co	200,000.00	23,507,816.79
Automatic Data Processing Inc	140,000.00	4,786,683.85
Avery Dennison Corp	52,700.00	1,308,424.86
Ball Corp	86,000.00	2,508,771.50
Baltimore Gas & Electric	92,000.00	1,928,975.50
Banc One	336,312.00	11,501,342.50
Bancorp Hawaii Inc	121,500.00	3,485,152.00
Bankamerica Corp	100,000.00	4,345,750.00
Bankers Trust NY Corp	103,968.00	5,481,680.89
Bard (CR) Inc	120,400.00	3,263,561.50
Barnett Banks Inc	118,000.00	4,327,129.77
Baxter International Inc	120,000.00	4,152,891.18
Baybanks Inc	16,900.00	624,830.78
Beckman Instruments	107,700.00	2,078,136.57
Bell Atlantic Corp	150,000.00	5,881,096.80
Biogen Inc	24,800.00	738,553.58
Black & Decker Corp	118,100.00	2,263,839.46
Boeing Co	192,000.00	7,268,104.62
Bristol-Myers Squibb	352,000.00	21,272,673.68
Browning-Ferris Ind	280,000.00	6,476,062.50
Burlington Northern	92,900.00	3,734,479.70
CMS Energy Corporation	182,100.00	3,592,697.99
Calgene Inc	56,700.00	835,287.50
Campbell Soup	73,200.00	2,875,356.00
Capital Cities/ABC	130,000.00	5,681,695.75
Caremark Intl	331,250.00	5,211,662.50
Centerior Energy	133,000.00	1,467,508.70
Central & South West	416,000.00	8,188,743.33
Chase Manhattan	153,200.00	3,266,304.50
Chubb Corp	189,000.00	15,689,089.90
Cigna Corp	126,700.00	7,845,864.50
Citicorp	408,300.00	7,648,175.04
Coca Cola Enterprises	596,900.00	8,884,717.97
Comerica Inc	35,000.00	1,069,600.00
Commonwealth Edison Co	352,093.00	9,263,171.79
Community Psychiatric Cntr	200,000.00	3,610,265.68
Compaq Computer	420,000.00	4,169,462.50
Computer Sciences Corp	53,100.00	1,716,899.50
Consolidated Edison Co NY	176,000.00	3,848,710.86
Consolidated Natural Gas	155,000.00	7,679,575.00
Cooper Industries	162,100.00	8,163,051.00
Corestates Financial Corp	500,000.00	10,282,500.00
Deluxe Corp	250,000.00	8,475,575.00
Dillard Dept Stores	210,000.00	8,071,535.00
Disney Walt Co	310,000.00	12,827,200.29
Dover Corp	155,000.00	4,627,632.49

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
Dow Chemical Co	380,000.00	\$ 20,964,027.30
Dresser Industries	150,000.00	3,274,300.00
DuPont (EI) De Nemours	241,000.00	8,711,163.39
Dun & Bradstreet Corp	390,000.00	21,284,104.65
E G & G Inc	350,000.00	6,536,375.00
Eastman Kodak	80,000.00	3,347,050.00
Emerson Electric	380,000.00	19,076,697.53
Englehard Corp	200,000.00	5,094,487.50
Entergy Corp	44,974.00	928,719.24
Equitable Resources	155,000.00	6,565,750.00
Exxon Corp	415,000.00	22,044,713.00
FHP International Corp	102,900.00	1,758,536.68
Family Dollar Stores	54,000.00	918,739.80
Federal National Mortgage	60,000.00	4,753,600.00
Federated Dept Stores Inc	24,686.00	617,150.00
First Data Corp	200,000.00	6,916,650.00
First Fidelity Bancorp	100,000.00	4,651,837.50
First Financial Management	56,000.00	3,022,622.40
First Virginia Bank	130,000.00	4,746,487.50
Ford Motor Co Del	170,000.00	8,057,351.87
Forest Labs Inc	81,800.00	3,346,230.48
Gannett Co	100,000.00	5,106,000.00
General Electric Co	1,014,000.00	37,186,747.52
General Mills	180,000.00	11,765,775.50
General Motors Corp	170,000.00	7,200,916.02
General Re Corp	207,000.00	23,228,496.00
Gensia Inc	30,200.00	716,325.00
Genuine Parts	227,600.00	7,119,174.26
Genzyme Corp	25,100.00	874,088.12
Gillette Corp	80,000.00	4,441,609.09
Halliburton Co	88,200.00	2,736,965.98
Harnischfeger Industries	61,900.00	1,242,264.00
Heinz (HJ) Co	250,000.00	9,512,550.00
Hewlett Packard Co	220,000.00	12,641,889.93
Hillenbrand Industries	68,000.00	2,146,327.10
Honeywell	358,300.00	12,580,139.00
Humana Inc	70,000.00	1,293,600.00
IBM	100,000.00	9,334,587.50
Illinois Tool Works	81,700.00	3,106,339.50
Immunex Corp	20,600.00	608,297.88
Inland Steel Ind Inc	101,000.00	3,441,650.10
Intel Corp	298,000.00	13,811,699.31
International Paper	160,000.00	10,826,450.00
Interpublic Group	55,000.00	1,723,375.00
James River Corp	310,000.00	7,002,487.50
Johnson & Johnson	430,000.00	18,630,500.00
K Mart Corp	400,000.00	9,608,187.50
Kellogg Co	180,000.00	8,042,958.93
Kentucky Utilities	106,000.00	2,206,782.20
Kimberly-Clark Corp	255,500.00	13,020,405.00
Kroger Co	147,000.00	2,826,757.50
LG&E Energy Corp	172,500.00	4,649,957.91
Ladd Furniture	81,000.00	981,087.50
Lilly (Eli) & Co	200,000.00	13,019,962.50
Limited Inc	270,000.00	7,053,375.00
Loctite Corp	100,000.00	3,783,055.00
Lone Star Technologies	61,000.00	462,721.44
Lyondell Petrochemical	166,800.00	4,027,213.19
MBNA Corp	540,000.00	9,949,550.00
MCI Communications	100,000.00	2,284,370.00
Mallinckrodt Group Inc	130,000.00	4,004,383.04
Manor Care Inc	92,500.00	1,570,292.75
Marsh & McLennan Inc	442,800.00	34,850,790.94
Martin Marietta	74,100.00	2,220,113.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
Masco Corp	140,000.00	\$ 4,250,262.50
Maxus Energy Corp	361,100.00	2,861,891.00
May Dept Stores Co	368,000.00	8,730,632.27
McDonalds Corp	1,030,000.00	23,529,240.41
Medimmune Inc	49,000.00	465,500.00
Medtronic Inc	15,000.00	925,275.00
Melville Corp	250,000.00	9,963,062.50
Merck & Co	465,000.00	14,733,460.00
Michigan National Corp	13,100.00	640,975.00
Microsoft Corp	500,000.00	19,509,249.40
Minnesota Mining & Manufacturing	507,000.00	22,721,554.06
Mobil Corp	109,100.00	6,961,432.67
Molex Inc	45,000.00	1,403,100.00
Morgan (JP) & Co	235,000.00	15,672,500.00
Motorola Inc	100,000.00	4,642,900.00
Multimedia Inc	120,000.00	4,299,375.00
NBD Bancorp Inc	150,000.00	4,565,025.00
Nalco Chemical	300,000.00	10,479,562.50
New York Times C I A	115,000.00	3,086,748.71
Nextel Communications	92,500.00	1,702,058.41
Norfolk Southern	101,000.00	2,916,712.50
Novell	180,000.00	4,046,850.00
Occidental Petroleum	371,000.00	6,826,510.00
Old Republic Intl Corp	76,500.00	1,942,298.10
PHH Inc	170,000.00	4,986,875.00
Penney (JC)	80,000.00	4,409,550.00
Pennsylvania Power & Light	284,000.00	5,138,337.40
Pentair Inc	44,250.00	1,137,025.00
Pepsico Inc	340,000.00	12,576,400.00
Pfizer Inc	329,100.00	20,775,782.62
Philip Morris Cos Inc	747,200.00	43,532,735.67
Policy Management Systems Corp	28,000.00	1,560,055.00
Procter & Gamble	190,000.00	8,989,800.00
Providian Corp	160,000.00	3,477,749.92
RJR Nabisco	982,000.00	6,453,607.50
Raychem Corp	69,700.00	2,362,319.50
Raytheon Co	354,000.00	12,607,367.75
Republic N Y Corp	160,000.00	7,007,987.50
Roadway Services Inc	100,000.00	4,381,102.94
Royal Dutch Petroleum	130,000.00	13,863,954.00
Safeco Corp	160,000.00	6,066,437.50
Sara Lee Corp	200,000.00	4,317,909.09
Schering-Plough Corp	165,400.00	9,815,921.37
Scott Paper	138,000.00	5,270,233.80
Seagate Technology	38,500.00	751,000.00
Snap-on Inc	140,000.00	4,446,870.31
Sprint Corp	279,300.00	7,827,339.20
Stone Container	155,800.00	2,317,948.00
Super Valu Stores	280,000.00	7,340,850.00
Sysco Corp	120,000.00	2,701,287.50
Temple-Inland	100,000.00	4,691,963.63
Tennant Co	14,200.00	507,650.00
Tenneco Inc	49,900.00	2,034,551.30
Texaco Inc	225,000.00	13,105,725.00
Texas Utilities Co	277,000.00	8,622,363.03
Textron Inc	110,000.00	2,829,721.05
Thomas & Betts	76,000.00	5,198,085.00
Timken Co	61,500.00	2,102,686.10
Transamerica Corp	89,400.00	3,842,679.40
Travelers Corp	84,343.00	4,663,223.81
U S Bancorp Ore	27,000.00	716,256.00
U S Healthcare Inc	245,000.00	8,788,750.00
U S West Inc	150,000.00	4,460,193.75
USAir Group	182,900.00	2,409,924.00

INVESTMENT SECTION

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
UST Inc	350,000.00	\$ 10,679,025.00
Union Carbide	227,217.00	5,769,612.60
Union Pacific Corp	325,000.00	14,583,975.00
United Technologies Corp	188,000.00	8,709,902.25
V F Corp	196,187.00	6,180,253.03
Vulcan Materials Co.	150,000.00	6,503,587.50
WMX Technologies	725,000.00	21,985,912.50
Wachovia Corp	611,252.00	16,907,519.38
Wal-Mart Stores	703,000.00	16,470,881.57
Walgreen	74,000.00	3,073,064.60
Washington Post Cl B	42,800.00	10,145,880.50
Wellman Inc	91,700.00	2,140,327.00
Westinghouse Electric	250,000.00	5,619,912.50
Westvaco Corp	67,900.00	2,389,261.50
Whirlpool Corp	100,000.00	2,857,264.70
York International Corp	100,000.00	3,631,000.00
TOTAL COMMON STOCKS	42,131,082.00	\$ 1,497,818,030.62
S&P 500 STOCK INDEX	13,567,995.00	\$ 471,006,182.29
TOTAL STOCKS	55,699,077.00	\$ 1,968,824,212.91
TOTAL EQUITY		\$ 2,036,241,145.52

TOTAL INVESTMENTS

\$ 5,805,483,841.81