

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

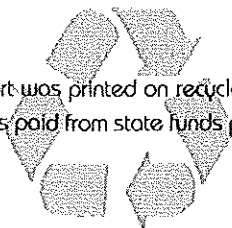
A COMPONENT UNIT
OF THE COMMONWEALTH OF KENTUCKY
FOR THE FISCAL YEAR ENDED
JUNE 30, 1996

THE 56TH COMPREHENSIVE
ANNUAL FINANCIAL REPORT
OF THE
TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF
KENTUCKY
A COMPONENT UNIT

OF THE
COMMONWEALTH OF KENTUCKY
FISCAL YEAR ENDED JUNE 30, 1996

KENTUCKY TEACHERS' RETIREMENT SYSTEM
479 VERSAILLES ROAD
FRANKFORT, KENTUCKY 40601-3800

PAT N. MILLER
EXECUTIVE SECRETARY



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INTRODUCTORY SECTION



KTRS FISCAL YEAR ENDED JUNE 30, 1996

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES

VIRGINIA MURRELL
CHAIRPERSON, SOMERSET

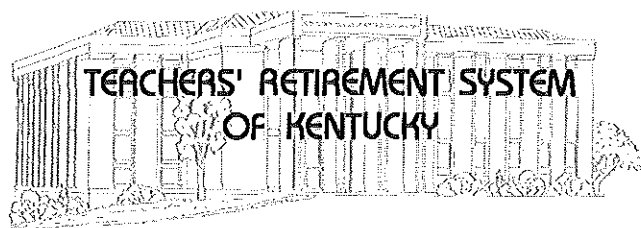
JUDITH R. GAMBILL
VICE CHAIRPERSON, ASHLAND

ROBERT M. CONLEY, PAINTSVILLE
ARTHUR GREEN, CLINTON
EARLE V. POWELL, FRANKFORT
J. KENNETH SHADOWEN, BENTON
BARBARA G. STERRATT,
LEXINGTON

EX OFFICIO

WILMER S. CODY
CHIEF STATE SCHOOL OFFICER

JOHN KENNEDY HAMILTON
STATE TREASURER



PAT N. MILLER
Executive Secretary
(502) 573-3269

December 1, 1996

Dear Members:

The 1996 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 1995-96 fiscal year with \$7.1 billion in assets. The active membership totaled 56,246 and the retired membership was 22,641 with an annual payroll of \$388.8 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.

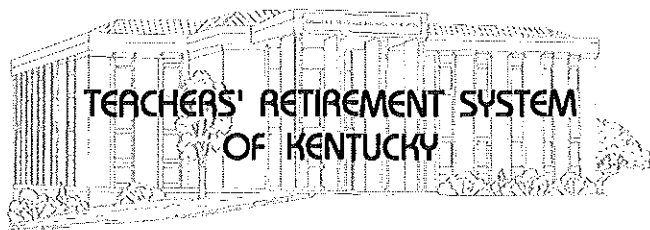
We appreciate the support and cooperation extended by the Governor and the Legislature. This cooperation allows the system to not only meet current challenges but to also make timely provisions for the future.

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



Honorable Paul E. Patton, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601-3800

December 1, 1996

Dear Governor Patton:

It is my pleasure to submit the 56th 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, 1996.

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 FIVE SECTIONS:

- The Introductory Section contains the Board Chairperson's letter, this letter of transmittal, 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, financial statements and supporting schedules.
- The Actuarial Section contains the certification from the Actuaries of Buck Consultants as well as the results of the System's actuarial valuation.
- The Statistical Section contains information on the System's membership, both active and retired.
- The Investment Section presents investment and portfolio performance. This includes the policies, summary, profile, and listings of the System's 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

LETTER OF TRANSMITTAL

1996 totaled \$1,284,809,242. This represents an increase of 42.1% over fiscal year 1995 revenue. The rate of increase for member and employer contributions over fiscal year 1995 was 3.9% and 2.9% respectively. The increase in investment income over fiscal year 1995 was 88.7%, see the investments portion of this letter for an explanation.

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 to contribution to terminated employee, insurance benefits of retired teachers, and the cost of administering the system, comprise the total expense. Expenses by type for 1996 and 1995 are shown for comparative purposes.

EXPENSES	1996 (MILLIONS)	1995 (MILLIONS)	INCREASE/(DECREASE) (MILLIONS)	%
Retiree Benefits	\$ 359.1	\$ 321.9	\$ 37.2	11.6
Disability Benefits	19.7	17.3	2.4	13.9
Survivor/Death Benefits	10.0	9.4	0.6	6.4
Refunds	8.4	8.5	(0.1)	(1.2)
Medical Insurance	61.6	58.8	2.8	4.8
Administration	6.8	6.1	0.7	11.5
	\$ 465.6	\$ 422.0	\$ 43.6	10.3

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 1995-96 year. The par value of the portfolio increased from \$6,315,115,639 to \$7,096,809,908 during the 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 \$775.8 million. This figure is 88.7% higher than last year's total of \$411.1 million. The substantial increase in investment income can be directly attributable to the record number of gains the System realized during the fiscal year.

The majority of earnings from the System's investment portfolio was the result of realized gains in the amount of \$420,680,652. The second largest income component, \$260,068,731, was generated by interest earned on the investments. Other income of \$95,057,912 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, 1996. This report reflects that the System's assets totaled \$7.0 billion and the liabilities totaled \$9.178 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

1996 GENERAL ASSEMBLY LEGISLATION

The 1996 General Assembly approved the Governor's budget recommendation of fully funding KTRS. The Governor also recommended that \$20 million of the KTRS appropriation be used to provide much needed relief for the KTRS medical insurance plan. KTRS had requested that the employer matching rate be increased. Due to the unavailability of additional state revenues, however, the Governor and General Assembly decided that a diversion of pension funding was appropriate.

Retirees receive an annual cost of living increase of 1.5% and the General Assembly approved the following increases: (1) a 3% increase on July 1, 1996 and 1997 for all retirees receiving less than \$834 monthly and (2) a 1% increase on July 1, 1996 for retirees receiving over \$834 monthly, based on an assumed monthly maximum of \$1,250.

Retirees returning to employment as a part-time teacher or in a non-teaching capacity are required to submit retirement contributions to KTRS. These monies, less the medical insurance contribution, will be returned to the retiree at the close of each fiscal year provided the retiree follows KTRS law regarding employment.

In addition, the 1996 General Assembly created a new section in KTRS law that allowed members to make installment payments when purchasing certain amounts of service credit.

KTRS MEDICAL INSURANCE PLAN

During the 1995-96 fiscal year KTRS medical costs continued to increase but at much slower rate than previous fiscal years. KTRS's 1996-98 biennial budget requested additional funding from the Commonwealth, but due to difficult economic times these funds were not available. The General Assembly addressed the problem by transferring \$20 million in each fiscal year of the 1996-98 biennium from the regular pension appropriation to KTRS's medical insurance program.

Effective January 1, 1997 KTRS retirees and dependents under the age of 65 will have their health insurance provided by plans in the State Health Alliance. Under this arrangement, KTRS will provide a monthly supplement to assist the retiree and their dependents in purchasing their health insurance. Retirees 65 and over will remain in the plan administered by KTRS. These retirees will also receive a supplement towards the cost of their coverage.

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 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 eight (8) of this report.

OUR GRATITUDE

Mrs. Bettyruth Brington of Brandenburg, Kentucky retired from the Board of Trustees effective June 30, 1996. Her service began December 21, 1992 when she was appointed to fill an unexpired term and was elected to the Board on July 1, 1993. Mrs. Brington served as a member of the Legislative Committee. She was a most dedicated member of the Board of Trustees and will be missed by the Board and staff of the System.

We welcome Mr. Arthur Green of Elkton, Kentucky who was appointed to the Board of Trustees on September 16, 1996.

NATIONAL RECOGNITION

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 comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1995. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The KTRS has received the Certificate of Achievement for the last eight consecutive years (fiscal years ended 1988-1995). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

ACKNOWLEDGMENTS

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



VIRGINIA MURRELL
CHAIRPERSON,
RETIRED TEACHER TRUSTEE
SOMESET



JUDITH GAMBILL
VICE-CHAIRPERSON,
TEACHER TRUSTEE
ASHLAND



BETTYAUTH BAINGTON
TEACHER TRUSTEE
BRANDENBURG



ROBERT CONLEY
LAY TRUSTEE
PAINTSVILLE



EARLE POWELL
LAY TRUSTEE
FRANKFORT



KENNETH SHADOWEN
TEACHER TRUSTEE
BENTON



BARBARA STERRETT
TEACHER TRUSTEE
LEXINGTON



WILMER CODY
EX-OFFICIO TRUSTEE
CHIEF STATE SCHOOL
OFFICER



JOHN KENNEDY HAMILTON
EX-OFFICIO TRUSTEE
STATE TREASURER

INTRODUCTORY SECTION

ADMINISTRATIVE STAFF
KENTUCKY TEACHERS' RETIREMENT SYSTEM
479 VERSAILLES ROAD
FRANKFORT, KENTUCKY 40601-3800

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

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Louisville, Kentucky 40202

FIXED INCOME MANAGER

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

EQUITY MANAGERS

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209 South LaSalle Street
Chicago, Illinois 60604-1295

Invesco MIM Inc.
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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 40601

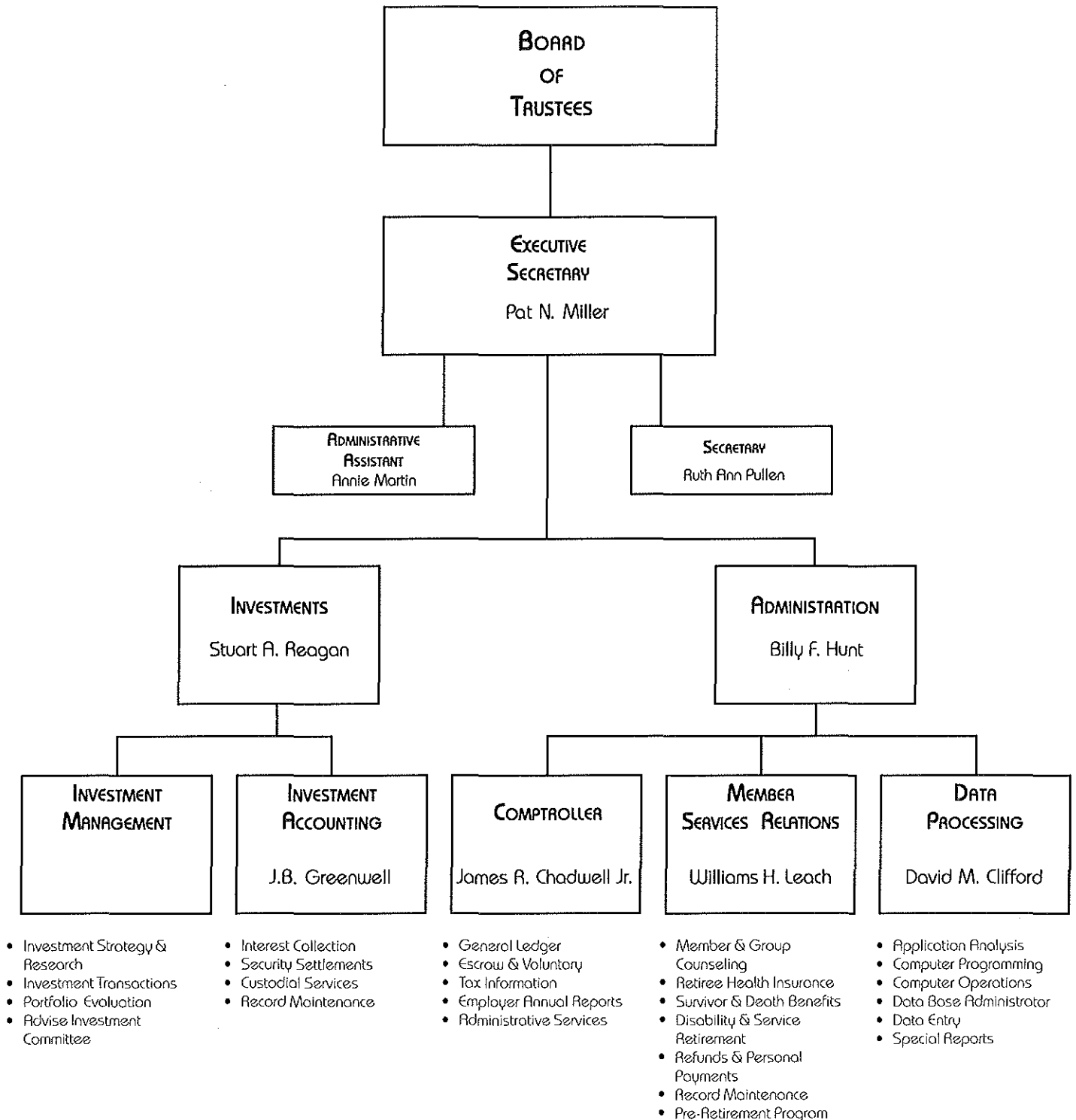
ACTUARY

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

AUDITOR

Charles T. Mitchell Company
201 West Main Street
PO Box 698
Frankfort, Kentucky 40601

ORGANIZATIONAL CHART



GFOA CERTIFICATE OF ACHIEVEMENT

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Teachers' Retirement
System of the
State of Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1995

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 comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Arthur R. Lynch
President

Jeffrey L. Esler
Executive Director

FINANCIAL SECTION



KTRS FISCAL YEAR ENDED JUNE 30, 1996

Charles T. Mitchell Company

Certified Public Accountants

201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40601
TELEPHONE - (502) 227-7395
TELECOPIER - (502) 227-8005



DON C. GILES, C.P.A.
WILLIAM G. JOHNSON, JR., C.P.A.
LARRY T. WILLIAMS, C.P.A.
JAMES CLOUSE, C.P.A.
CHARLES F. WHELAN, C.P.A.

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

Independent Auditor's Report

We have audited the accompanying balance sheets of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of June 30, 1996 and 1995 and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the years then ended. These component unit financial statements are the responsibility of the Teachers' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the 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, 1996 and 1995, and the results of its operations, changes in fund balances and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic 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 financial statements. These schedules are the responsibility of the System's management. Such schedules as of and for the years ended June 30, 1996 and 1995 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Charles T. Mitchell Co.

Charles T. Mitchell Co.
October 2, 1996

BALANCE SHEETS

JUNE 30, 1996 AND JUNE 30, 1995

ASSETS	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Cash (See Note 2)	\$ 1,445,971	\$ 280,087
Prepaid Expenses	230,687	314,404
Receivables		
Contributions	23,927,843	21,648,351
State of Kentucky	8,390,391	12,726,449
Investment Income	54,056,665	53,584,756
Other Receivables	92,038	232,124
Total Receivables	\$ 86,466,937	\$ 88,191,680
Investments, at Cost (See Note 2)		
Short Term Investments (Market Value \$632,000,000 in 1996 and \$514,252,600 in 1995)	\$ 632,000,000	\$ 513,829,247
Bonds and Mortgages (Market Value \$3,271,458,078 in 1996 and \$3,351,611,571 in 1995)	3,263,241,966	3,234,055,679
Common Stock (Market Value \$3,815,929,663 in 1996 and \$2,919,401,117 in 1995)	2,935,815,940	2,307,975,664
Real Estate (Market Value \$148,488,498 in 1996 and \$103,513,643 in 1995)	146,756,626	103,896,307
Total Investments	\$ 6,977,814,532	\$ 6,159,756,897
Fixed Assets (Net of Accumulated Depreciation of \$919,950 in 1996 and \$789,754 in 1995 (See Note 2))	2,820,893	2,953,824
Total Assets	\$ 7,068,779,020	\$ 6,251,496,892
LIABILITIES AND FUND BALANCE		
Liabilities		
Disbursements in Excess of Cash Balance	\$ 0	\$ 2,028,112
Accounts Payable	595,610	697,149
Treasurer's Unredeemed Checks	15,405	2,836
Insurance Claims Payable	12,752,491	12,523,652
Compensated Absences Payable	355,054	325,117
Unearned Insurance Premium Receipts	40,407	39,631
Capital Assets Payable	126,333	201,330
Total Liabilities	\$ 13,885,300	\$ 15,817,827
Fund Balance		
Member Reserve	\$ 1,805,336,437	\$ 1,691,718,372
Employer Reserve	1,863,301,992	1,745,511,046
Benefit Reserve	403,548,921	354,414,041
Medical Insurance Reserve	27,303,177	35,062,261
403(b) Program Reserve	23,568,109	21,406,264
Unallocated Reserve	2,929,373,199	2,384,881,505
Administrative Expense Reserve	2,461,885	2,660,270
Capital Construction Reserve		25,306
Total Fund Balance	\$ 7,054,893,720	\$ 6,235,679,065
Total Liabilities and Fund Balance	\$ 7,068,779,020	\$ 6,251,496,892

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

STATEMENTS OF REVENUES, EXPENSES YEARS ENDED JUNE 30,

RESERVES

	MEMBER	EMPLOYER	BENEFIT	MEDICAL INSURANCE
OPERATING REVENUES				
Member Contributions	\$ 172,976,974	\$ 541,980	\$	\$ 27,066,818
Employer Contributions		178,881,418		24,999,122
Investment Income				
Total Operating Revenues	172,976,974	179,423,398		52,065,940
OPERATING EXPENSES				
Benefits			388,681,135	
Refunds	7,676,004	2,386		
Insurance Expenses				61,607,051
Administrative Expenses				
Total Operating Expenses	7,676,004	2,386	388,681,135	61,607,051
Net Operating Income (Expense)	165,300,970	179,421,012	(388,681,135)	(9,541,111)
RESERVE TRANSFERS				
Retirement by Members	(98,790,830)	(102,522,466)	201,313,296	
Reimbursements			225,009,185	
Members Who Left System		(8,324,218)	(1,014,005)	(1,013)
Interest Allocations	47,589,255	49,097,651	12,546,091	1,783,040
Administrative Expenses				
Other Reclassifications	(481,330)	118,967	(38,552)	
Total Reserve Transfers	(51,682,905)	(61,630,066)	437,816,015	1,782,027
Net Fund Balance Additions (Reductions)	113,618,065	117,790,946	49,134,880	(7,759,084)
Beginning Fund Balance	1,691,718,372	1,745,511,046	354,414,041	35,062,261
Ending Fund Balance	\$ 1,805,336,437	\$ 1,863,301,992	\$ 403,548,921	\$ 27,303,177

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

AND CHANGES IN FUND BALANCES 1996 AND JUNE 30, 1995

403(b) PROGRAM	UNALLOCATED	ADMINISTRATIVE EXPENSE	CAPITAL CONSTRUCTION	1995-96 TOTAL	1994-95 TOTAL
\$ 1,304,713	\$ 103,230,922 775,807,295	\$	\$	\$ 201,890,485 307,111,462 775,807,295	\$ 194,292,694 298,396,992 411,108,468
1,304,713	879,038,217			1,284,809,242	903,798,154
79,412 739,641				388,760,547 8,418,031 61,607,051 6,808,958	348,566,240 8,528,796 58,817,338 6,075,959
	3,138,952	3,575,187	94,819		
819,053	3,138,952	3,575,187	94,819	465,594,587	421,988,333
485,660	875,899,265	(3,575,187)	(94,819)	819,214,655	481,809,821
66,754	(225,075,939) 9,339,236				
1,610,337	(112,626,374) (3,371,316)	3,371,316			
(906)	326,822	5,486	69,513		
1,676,185	(331,407,571)	3,376,802	69,513		
2,161,845	544,491,694	(198,385)	(25,306)	819,214,655	481,809,821
21,406,264	2,384,881,505	2,660,270	25,306	6,235,679,065	5,753,869,244
\$ 23,568,109	\$ 2,929,373,199	\$ 2,461,885	\$ 0	\$ 7,054,893,720	\$6,235,679,065

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 1996 AND 1995

	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Cash Flows from Operating Activities		
Net Operating Income	\$ 819,214,655	\$ 481,809,821
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Net Investment Income	(775,807,295)	(411,108,468)
Depreciation	219,893	114,886
Amortization	(12,124,798)	(3,295,989)
Gain on Sale of Investments	(420,680,652)	(88,084,607)
(Increase) Decrease in Prepaid Expenses	83,717	(61,838)
(Increase) Decrease in Accounts Receivable	1,724,743	6,959,728
Increase (Decrease) in Disbursements in Excess of Cash	(2,028,112)	(4,128,703)
Increase (Decrease) in Accounts Payable	(101,539)	34,896
Increase (Decrease) in Unredeemed Checks	12,569	(11,720)
Increase (Decrease) in Insurance Claims Payable	228,839	1,733,048
Increase (Decrease) in Compensated Absences Payable	29,937	28,767
Increase (Decrease) in Unearned Insurance Premiums	776	4,083
Increase (Decrease) in Capital Assets Payable	(74,997)	201,330
Total Adjustments	(1,208,516,919)	(497,614,587)
Net Cash Used for Operating Activities	(389,302,264)	(15,804,766)
Cash Flows from Capital Activities:		
Payments for Capital Acquisitions	(86,962)	(281,719)
Net Cash Used for Capital Activities	(86,962)	(281,719)
Cash Flows from Investing Activities:		
Proceeds from Sale of Investments	47,872,005,634	33,576,220,973
Payments for Investments	(48,257,257,819)	(33,971,134,334)
Other Investment Income	775,807,295	411,108,468
Net Cash Provided by Investing Activities	390,555,110	16,195,107
Net Cash Increase (Decrease) for the Year	1,165,884	108,622
Cash at Beginning of Year	280,087	171,465
Cash at End of Year	\$ 1,445,971	\$ 280,087

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1996 AND 1995

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, 1996 and June 30, 1995.

	1996	1995
Local School Districts	176	176
State Universities	5	5
Department of Education/Other Organizations	21	22
TOTAL	202	203

The covered payroll of all participating employers totaled \$1,877,900,000 for the year ended June 30, 1996 and \$1,819,778,000 for the year ended June 30, 1995.

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, 1996 and June 30, 1995.

	1996	1995
Retirees and beneficiaries of deceased retirees currently receiving benefits:		
Local School Districts	20,004	19,283
Universities	1,383	1,313
Department of Education/Other Organizations	1,254	1,201
	22,641	21,797
Disabilities currently receiving benefits:		
Local School Districts	1,194	1,133
Universities	35	37
Department of Education/Other Organizations	104	98
	1,333	1,268
Survivors currently receiving benefits:		
Local School Districts	784	750
Universities	50	50
Department of Education/Other Organizations	69	69
	903	869

FINANCIAL SECTION

NOTE 1: DESCRIPTION OF PLAN (CONTINUED)

	<u>1996</u>	<u>1995</u>
Terminated employees entitled to benefits but not yet receiving them (no current contributions in the last fiscal year)		
Local School Districts	1,989	1,914
Universities	313	295
Department of Education/Other Organizations	180	181
Current employees	<u>2,482</u>	<u>2,390</u>
Vested		
Local School Districts	37,500	37,145
Universities	2,515	2,470
Department of Education/Other Organizations	1,873	1,864
Non-Vested		
Local School Districts	12,231	11,696
Universities	1,328	1,312
Department of Education/Other Organizations	799	794
	<u>56,246</u>	<u>55,281</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, 1996 the pension cash account totaled \$1,272,337 and the administrative expenses cash account was \$173,634. Therefore, the total carrying value of cash was \$1,445,971 and the corresponding bank balance was \$7,725,064. 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 dates. 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, 1996 and June 30, 1995.

	JUNE 30, 1996	JUNE 30, 1995
Short Term Investments		
Repurchase Agreements	\$ 632,000,000	\$ 504,500,000
Treasury Bills		9,329,247
Total Short Term Investments	\$ 632,000,000	\$ 513,829,247
Bonds and Mortgages		
U.S. Government Obligations		
Treasury Notes and Bonds	\$ 1,795,434,207	\$ 1,839,631,993
Agencies	407,111,092	340,683,015
Ship Bonds (Title XI)	5,113,017	6,325,512
GNMA (Single Family)	14,766,981	17,540,814
Other Miscellaneous	199,674,293	252,206,011
Total U.S. Government Obligations	\$ 2,422,099,590	\$ 2,456,387,345
Corporate Bonds		
Industrials	\$ 172,031,657	\$ 215,597,697
Finance	448,675,596	339,184,694
Utility Bonds (Except Telephone)	41,107,220	50,508,598
Telephone Bonds	55,743,448	52,350,321
Railroad Obligations	10,646,016	10,646,026
Total Corporate Bonds	\$ 728,203,937	\$ 668,287,336
Other Fixed Income Investments		
FHA and VA Single Family Mortgages	\$ 1,964,693	\$ 2,752,041
Project Mortgages (FHA & GNMA)	109,768,746	105,423,957
State and Local Government Issues	1,205,000	1,205,000
Total Other Investments	\$ 112,938,439	\$ 109,380,998
Total Bonds and Mortgages	\$ 3,263,241,966	\$ 3,234,055,679
Stocks	\$ 2,935,815,940	\$ 2,307,975,664
Real Estate	\$ 146,756,626	\$ 103,896,307
Total Investments	\$ 6,977,814,532	\$ 6,159,756,897

The System operates a securities lending program. For a fee the System lends U.S. Government bonds through 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, 1996 was \$516,551,020 which exceeds the market value of the loaned bonds plus accrued interest.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On June 30, 1996 and June 30, 1995, the following values of U.S. Government Bonds were on loan. They are included among the investments and assets of the System.

SECURITIES LOANED	1996	1995
Book Value	\$ 504,833,130	\$ 872,615,273
Market Value	495,141,928	892,675,988

- D. **Fixed Assets:** Included in this classification are furniture, equipment, and improvements (book value \$493,174) the KTRS office building (book value \$1,876,423) and land (\$451,296). 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 1995-96 were based on estimates of members' salaries. For the fiscal year ended June 30, 1996, actual appropriations were under the required appropriations by \$2,025,425.

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.

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, 1996, the fund's balance was \$27,303,177.

NOTE 3: DESCRIPTION OF FUNDS (CONTINUED)

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

CAPITAL CONSTRUCTION RESERVE: This fund was established to pay for expenses incurred to acquire a new computer system and repave the parking lot.

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, 1996 was \$1,553,877,562.

A comparison between actuarially established and actual member and employer pension contribution rates for the fiscal year ended June 30, 1996 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%	\$ 7,633	5.41%	\$ 159,874	9.105%
Employer	13.09	12.355	18,468	13.09	216,941	12.355
Total	18.50%	21.460%	\$ 26,101	18.50%	\$ 376,815	21.460%
Normal Cost	12.76	16.86	18,003	12.76	296,044	16.86
Unfunded Cost	5.74	4.60	8,098	5.74	80,771	4.60
	18.50%	21.46%	\$ 26,101	18.50%	\$ 376,815	21.46%

The employer contributions for the 1995-96 fiscal year were under the required actuarial contributions by \$13.32 million. Of this amount \$2,025,425 represents the current year deficit resulting primarily due to actual employer sick leave payments exceeding the estimated budget amounts. The remaining \$11.3 million represents the 1994 legislative permanent decrease in funding of COLAs granted in 1986-88, 1990-92 & 1992-94 bienniums. ✓

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, 1996. 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, 1996 follows:

	Balance June 30, 1995	Earned 1995-1996	Used or Paid 1995-1996	Balance June 30, 1996
Vacation and Compensatory Leave	\$325,117	\$177,424	\$147,487	\$355,054

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, 1996. Significant actuarial assumptions at June 30, 1996 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 4.50% to 8.60% per year compounded annually with an inflation component of 4.5%, (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, 1996 and 1995, the unfunded pension benefit obligation was \$2,177,016,000 and \$2,033,523,000 as follows:

NOTE 6: FUNDING STATUS OF KTRS (CONTINUED)

Pension Benefit Obligation:

	<u>1996</u>	<u>1995</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$ 4,018,237,000	\$ 3,281,536,000
Current employees:		
Accumulated employee contributions including allocated investment income	1,805,336,000	1,691,718,000
Employer-financed vested	2,378,879,000	2,271,693,000
Employer-financed non-vested	976,125,000	965,101,000
Total pension benefit obligation	9,178,577,000	8,210,048,000
Net assets available for benefits, at cost (Market Value \$7,884,893,389 in 1996 and \$6,898,631,495 in 1995)	7,001,560,000	6,176,525,000
Unfunded pension benefit obligation	\$ 2,177,017,000	\$ 2,033,523,000

The June 30, 1996 unfunded pension benefit obligation represents an increase of \$143,494,000 since June 30, 1995.

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, 1996 and 1995, made the following adjustments.

	<u>1996</u>	<u>1995</u>
KTRS Fund Balance	\$ 7,054,893,720	\$ 6,235,679,065
Less Medical Insurance Reserve	27,303,177	35,062,261
Less 403(b) Program Reserves	23,568,109	21,406,264
Less Administrative Expense Reserves	2,461,885	2,660,270
Less Capital Construction Reserve		25,306
Net Assets Available for Benefits	\$ 7,001,560,549	\$ 6,176,524,964

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, 1996 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 \$7,725,064 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, 1996. 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. Also, listed among the Other Government Guaranteed Fixed Income Investments are mortgages which are either securitized or unsecuritized, but all are insured through various Federal or State Agencies (FHA, GNMA, VA).

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

	CATEGORY			
	1	2	3	CARRYING AMOUNT MARKET VALUE
Repurchase Agreements	\$ 632,000,000	\$	\$	\$ 632,000,000 \$ 632,000,000
U.S. Government Securities	2,424,354,786			2,424,354,786 2,433,741,183
State and Local Government Issues	1,205,000			1,205,000 1,266,973
Corporate Bonds	728,203,937			728,203,937 725,889,037
Common Stocks	2,935,815,940			2,935,815,940 3,815,929,663
	<u>\$ 6,721,579,663</u>	<u>\$</u>	<u>\$</u>	<u>\$6,721,579,663 \$7,608,826,856</u>
Other Government Guaranteed Fixed Income Investments and Real Estate				\$ 256,234,869 \$ 259,049,383
Total Investments				<u>\$6,977,814,532 \$7,867,876,239</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.

As of June 30, 1996, KTRS insurance covered 21,299 retirees and 7,205 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 is 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, 1996, KTRS had \$27,303,177 of net assets available for future health care benefits.

During the 1995-96 fiscal year, KTRS expensed \$58,104,837 for postretirement health care benefits and \$3,501,219 to administrators of the insurance plans. This represents a \$2,789,546 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 incurral and payment to estimate incurred claims from available paid claim information. The following schedule shows the change in the claims and liability and the claims activity for the year ended June 30, 1996.

	<u>FISCAL YEAR 1996</u>
Beginning Unpaid Claims Liability	<u>\$ 12,523,652</u>
Claims Incurred:	
Current Year	58,635,733
Decrease in Prior Years	<u>(530,896)</u>
Total Incurred Claims	<u>58,104,837</u>
Claims Paid:	
Current Year	49,469,794
Prior Years	<u>8,406,204</u>
Total Payments	<u>57,875,998</u>
Ending Unpaid Claims Liability	<u>\$ 12,752,491</u>

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)
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
1995	6,176.5	8,210.0	75.2	2,033.5	1,819.8	111.7
1996	7,001.6	9,178.6	76.3	2,177.0	1,877.9	115.9

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
1995	6,621.2	8,210.0	80.7	1,588.8	1,819.8	87.3
1996	7,624.7	9,178.6	83.1	1,553.9	1,877.9	82.7

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

REVENUES BY SOURCE

FISCAL YEAR	EMPLOYEE CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS		ANNUAL COVERED PAYROLL	PERCENTAGE OF ANNUAL COVERED PAYROLL	INVESTMENT INCOME	TOTAL
		EMPLOYER CONTRIBUTIONS (REQUIRED)(ACTUAL)					
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
1995	194.3	309.7	298.4	1,819.8	16.4	411.1	903.8
1996	201.9	318.4	307.1	1,877.9	16.4	775.8	1,284.8

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 1995-96 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
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
1995	348.6	8.5	58.8	6.1	422.0
1996	388.7	8.4	61.6	6.8	465.5

Supporting Schedules

SUPPORTING SCHEDULES

**SUMMARY OF
YEAR ENDED**

TYPE OF INVESTMENT	(BEGINNING OF YEAR)		PURCHASES
	BOOK VALUE	MARKET VALUE	
Fixed Income:			
Government Bonds	\$ 2,565,768,343	\$ 2,671,540,449	\$ 1,035,001,405
Corporate Bonds	668,287,336	680,071,122	371,151,261
Total	3,234,055,679	3,351,611,571	1,406,152,666
Equity:			
Common Stocks	2,307,975,664	2,919,401,117	1,470,217,712
Real Estate	103,896,307	103,513,643	48,197,441
Total	2,411,871,971	3,022,914,760	1,518,415,153
Short Term Investments:			
Repurchase Agreements	504,500,000	504,500,000	45,332,690,000
Treasury Bills	9,329,247	9,752,600	
Total	513,829,247	514,252,600	45,332,690,000
Grand Total	\$ 6,159,756,897	\$ 6,888,778,931	\$ 48,257,257,819

INVESTMENTS

JUNE 30, 1996

AMORTIZATION	SALES AND REDEMPTIONS	(END OF YEAR)		% TOTAL MARKET	% YIELD AT MARKET
		BOOK VALUE	MARKET VALUE		
\$ 11,849,636 (395,591)	\$ 1,077,581,355 310,839,069	\$ 2,535,038,029 728,203,937	\$ 2,545,569,041 725,889,037	32.35% 9.23%	6.77% 6.98%
11,454,045	1,388,420,424	3,263,241,966	3,271,458,078	41.58%	6.81%
	842,377,436 5,337,122	2,935,815,940 146,756,626	3,815,929,663 148,488,498	48.50% 1.89%	2.21% 9.39%
	847,714,558	3,082,572,566	3,964,418,161	50.39%	2.48%
670,753	45,205,190,000 10,000,000	632,000,000	632,000,000	8.03%	5.43%
670,753	45,215,190,000	632,000,000	632,000,000	8.03%	5.43%
\$ 12,124,798	\$ 47,451,324,982	\$ 6,977,814,532	\$ 7,867,876,239	100.00%	4.52%

SUPPORTING SCHEDULES

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 1996

Cash Balance at Beginning of Year		\$	280,087
Add Receipts			
Member Contributions	\$	199,610,993	
Employer Contributions		311,447,520	
Interest and Dividends		342,529,936	
Investments Redeemed		47,872,005,634	
Total Cash Receipts			<u>48,725,594,083</u>
Less Disbursements			
Benefit Payments	\$	388,747,978	
Insurance Premiums		61,246,620	
Administrative Expenses		8,670,789	
Refunds		8,418,031	
Equipment Purchased		86,962	
Investments Purchased		48,257,257,819	
Total Cash Disbursements			<u>48,724,428,199</u>
Cash Balance at End of Year		\$	<u><u>1,445,971</u></u>

MEMBER RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1996 AND 1995

	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Operating Revenues		
Member Contributions	\$ 167,510,292	\$ 161,962,909
Reinstated Accounts	579,298	584,826
Personal Check Contributions	4,887,384	4,665,268
Total Operating Revenues	172,976,974	167,213,003
Operating Expenses		
Refund of Member Contributions	7,676,004	6,648,011
Total Operating Expenses	7,676,004	6,648,011
Net Operating Income	165,300,970	160,564,992
Reserve Transfers		
Transfer from Benefit Reserves		
Disability Recoveries	19,276	162,841
Transfer from Unallocated Reserves		
Interest Credited to Member Accounts	47,589,255	44,438,458
Balance Member Reserves and Employer Reserves		176
Transfer to Benefit Reserves		
Retirements	(98,790,830)	(95,286,471)
Transfer to Unallocated Reserves		
Inactive Accounts	(500,606)	(362,156)
Total Reserve Transfers	(51,682,905)	(51,047,152)
Net Fund Balance Additions	113,618,065	109,517,840
Beginning Fund Balance	1,691,718,372	1,582,200,532
Ending Fund Balance	\$ 1,805,336,437	\$ 1,691,718,372

SUPPORTING SCHEDULES

EMPLOYER RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1996 AND 1995

	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Operating Revenues		
SAF Penalties	\$ 541,980	\$ 720,487
State Contributions - Matching	150,250,011	144,878,022
State Contributions - University Personnel	3,125,042	2,996,034
Employer Paid Matching	24,730,974	24,025,943
Employer Sick Leave Payments	772,580	529,594
Other Revenue	2,811	(50)
Total Operating Revenues	179,423,398	173,150,030
Operating Expenses		
Other Expenses	2,386	353
Net Operating Income	179,421,012	173,149,677
Reserve Transfers		
Transfer from Unallocated Reserves		
Match Interest Credited to Member Accounts	49,097,651	45,834,487
Reinstated Accounts	579,298	584,825
Balance Member Reserves and Employer Reserves	(2,249)	
Transfer from Benefit Reserves		
Disability Recoveries	19,276	162,841
Transfer to Benefit Reserves		
Retirements	(102,522,466)	(98,353,605)
Transfer to Unallocated Reserves		
Refund of Member Contributions	(8,324,218)	(7,307,892)
Inactive Accounts	(477,358)	(349,728)
Total Reserve Transfers	(61,630,066)	(59,429,072)
Net Fund Balance Additions	117,790,946	113,720,605
Beginning Fund Balance	1,745,511,046	1,631,790,441
Ending Fund Balance	\$ 1,863,301,992	\$ 1,745,511,046

BENEFIT RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1996 AND 1995

	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Operating Revenues		
None		
Operating Expenses		
Benefits for Service Retirements	\$ 359,005,970	\$ 321,763,254
Benefits for Disability Retirements	19,661,323	17,328,942
Survivor Benefits	7,834,903	7,483,006
Death Benefits	2,178,939	1,898,670
Total Operating Expenses	388,681,135	348,473,872
Net Operating Income (Expense)	(388,681,135)	(348,473,872)
Reserve Transfers		
Transfer from Member Reserves		
Retirements	98,790,830	95,286,471
Transfer from Employer Reserves		
Retirements	102,522,466	98,353,605
Transfer from Unallocated Reserves		
Benefits paid in Excess of Member Contributions and Employer Matching	225,009,185	208,913,463
Interest of Fund Balance	12,546,091	11,115,636
Transfer to Unallocated Reserves		
Refund of Member Contributions	(1,014,005)	(669,623)
Transfer to Member Reserves		
Disability Recoveries	(19,276)	(162,841)
Transfer to Employer Reserves		
Disability Recoveries	(19,276)	(162,841)
Total Reserve Transfers	437,816,015	412,673,870
Net Fund Balance Additions	49,134,880	64,199,998
Beginning Fund Balance	354,414,041	290,214,043
Ending Fund Balance	\$ 403,548,921	\$ 354,414,041

SUPPORTING SCHEDULES

MEDICAL INSURANCE RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1996 AND 1995

	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Operating Revenues		
Member Contributions	\$ 14,355,761	\$ 13,875,415
Insurance Premiums Paid by Members	12,711,057	11,061,636
State Contributions - Matching	22,405,841	21,485,471
Employer Paid Matching	2,466,015	2,389,944
Other Revenues	127,266	126,508
Total Operating Revenues	52,065,940	48,938,974
Operating Expenses		
Comprehensive Medical Insurance Premiums	57,938,599	55,105,178
Reimbursement of Cobra Payment	166,238	179,313
Insurance Processing Charges	3,501,219	3,532,019
Other Expenses	995	828
Total Operating Expenses	61,607,051	58,817,338
Net Operating Income (Expense)	(9,541,111)	(9,878,364)
Reserve Transfers		
Transfer from Unallocated Reserves		
Interest on Fund Balance	1,783,040	2,457,224
Balance Member Reserves and Employer Reserves		15
Transfer to Unallocated Reserves		
Refund of Member Contributions	(1,013)	(791)
Total Reserve Transfers	1,782,027	2,456,448
Net Fund Balance Additions (Reductions)	(7,759,084)	(7,421,916)
Beginning Fund Balance	35,062,261	42,484,177
End Fund Balance	\$ 27,303,177	\$ 35,062,261

403(b) PROGRAM RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1996 AND 1995

	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Operating Revenues		
Voluntary Contributions by Members	\$ 1,304,713	\$ 1,422,153
Operating Expenses		
Benefit Increased by Voluntary Contributions	12,658	17,135
Benefit Continued after Voluntary Contributions Expired	66,754	75,233
Refund of Member Contributions	739,641	1,880,432
Total Operating Expenses	819,053	1,972,800
Net Operating Income (Expense)	485,660	(550,647)
Reserve Transfers		
Transfer from Unallocated Reserves		
Benefits Continued after Voluntary Contributions Expired	66,754	75,233
Interest Credited to Member Accounts	1,610,337	1,266,743
Transfer to Unallocated Reserves		
Penalty on Early Withdrawal of 403(b) Accounts	(906)	(250)
Total Reserve Transfers	1,676,185	1,341,726
Net Fund Balance Additions	2,161,845	791,079
Beginning Fund Balance	21,406,264	20,615,185
Ending Fund Balance	\$ 23,568,109	\$ 21,406,264

SUPPORTING SCHEDULES

UNALLOCATED RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1996 AND 1995

	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Operating Revenues		
Interest Earned on Investments	\$ 260,068,731	\$ 241,827,838
Dividend Income	82,037,748	72,672,188
Rental Income	12,164,589	8,174,967
Gain on Sale of Investments	420,680,652	88,084,607
Leased Security Income	779,351	367,561
Maintenance Reserve - Rental Property	76,224	(18,693)
State Contributions - Sick Leave	16,292,516	14,024,782
State Contributions - Benefit Improvement	33,815,873	36,500,611
State Contributions - Supplemental Appropriation	45,516,670	44,235,243
State Contributions - Handicapped Children	337,256	307,951
Employer Contributions - Supplemental Appropriation	7,221,049	6,868,703
Escrow Late Remittance Penalty	47,558	28,236
Total Operating Revenues	879,038,217	513,073,994
Operating Expenses		
Investment Counsel Fees	2,799,581	2,502,213
Investment Processing Fees	339,371	339,579
Total Operating Expenses	3,138,952	2,841,792
Net Operating Income	875,899,265	510,232,202
Reserve Transfers		
Transfer from Various Funds		
Refunds of Member Contributions	9,339,236	7,978,306
Inactive Accounts	977,965	711,884
Penalty on Early Withdrawal of 403(b) Accounts	905	250
Transfer to Various Funds		
Benefits in Excess of Member Contributions and Employer Matching	(225,075,939)	(208,988,696)
Interest	(112,626,374)	(105,112,548)
Balance Member Reserves Employer Reserves	2,250	(191)
Reinstated Accounts	(579,298)	(584,825)
Administrative Expense Allotment	(3,371,316)	(3,177,079)
Capital Construction	(75,000)	(75,000)
Total Reserve Transfers	(331,407,571)	(309,247,899)
Net Fund Balance Additions	544,491,694	200,984,303
Beginning Fund Balance	2,384,881,505	2,183,897,202
Ending Fund Balance	\$ 2,929,373,199	\$ 2,384,881,505

ADMINISTRATIVE EXPENSE RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1996 AND 1995

	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Operating Revenues		
None		
Operating Expenses		
Salaries, Wages, and Fringe Benefits	\$ 2,364,433	\$ 2,186,615
Other Personnel Costs	11,064	6,903
Professional Contracts	214,345	206,951
Utilities and Heating Fuels	21,488	21,836
Rentals	10,586	18,334
Maintenance and Repairs	78,102	64,720
Postage and Related Services	279,477	212,925
Printing	95,883	82,331
Insurance	71,430	74,853
Miscellaneous Services	540	1,342
Telecommunications	20,367	17,467
Computer Services	36,660	17,660
Supplies	39,791	39,323
Depreciation	219,893	114,886
Travel	26,219	21,726
Dues and Subscriptions	16,572	16,449
Miscellaneous Commodities	6,528	6,440
Furniture, Fixtures, and Equipment Not Capitalized	31,872	19,945
Compensated Absences	29,937	28,767
Total Operating Expenses	3,575,187	3,159,473
Net Operating Income (Expense)	(3,575,187)	(3,159,473)
Reserve Transfers		
Transfer from Unallocated Reserves Allotment	3,371,316	3,177,079
Transfer to Capital Construction Fund	5,486	(25,000)
Total Reserve Transfers	3,376,802	3,152,079
Net Fund Balance Additions (Reductions)	(198,385)	(7,394)
Beginning Fund Balance	2,660,270	2,667,664
Ending Fund Balance	\$ 2,461,885	\$ 2,660,270

SUPPORTING SCHEDULES

CAPITAL CONSTRUCTION RESERVES
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED JUNE 30, 1996 AND 1995

	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Operating Revenues		
None		
Operating Expenses	\$ 94,819	\$ 74,694
Total Operating Expenses	94,819	74,694
Net Operating Income (Expense)	(94,819)	(74,694)
Reserve Transfers		
Transfer from Unallocated Reserves Capital Construction	75,000	75,000
Transfer to Unallocated Reserves Unused Funds Upon Completion	(5,487)	25,000
Total Reserve Transfers	69,513	100,000
Net Fund Balance Additions (Reductions)	(25,306)	25,306
Beginning Fund Balance	25,306	
Ending Fund Balance	\$ 0	\$ 25,306

ACTUARIAL SECTION



KTRS FISCAL YEAR ENDED JUNE 30, 1996

ACTUARY'S CERTIFICATION LETTER

BUCK CONSULTANTS

200 Galleria Parkway, N. W. Suite 1200
Atlanta, Georgia 30339

February 12, 1996

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, 1995. 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 4.5% 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, 1995

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, 1995	JUNE 30, 1994
Number of active members	50,903	50,255
Annual salaries	\$ 1,819,778	\$ 1,748,141
Number of annuitants and beneficiaries	23,953	22,883
Annual allowances	\$ 351,381	\$ 312,197
Assets for valuation purposes	\$ 6,621,235	\$ 6,006,636
Unfunded actuarial accrued liability	\$ 1,588,813	\$ 1,529,516
Statutory contribution rates:	UNIVERSITY	NON-UNIVERSITY
Member	7.625%	9.105%
State	10.875	12.355
Total	18.50%	21.46%
Actuarially determined contribution rates:	UNIVERSITY	NON-UNIVERSITY
Normal	12.76%	16.86%
Accrued liability (balancing item)	5.74	4.60
Total	18.50%	21.46%
Accrued liability funding period	30 years	29 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 sufficient to support the benefits of the System. Comments on the valuation results as of June 30, 1995 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 since the previous valuation.
4. The valuation takes into account the effect of amendments to the System enacted through the 1995 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 1.5% of the first \$1,250 of monthly annuity for members and beneficiaries of members who retired on or before July 1, 1995.

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SECTION II - MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuation were furnished by the Retirement System office. The following table shows the number of active members and their annual salaries as of June 30, 1995 on the basis of which the valuation was prepared.

GROUP	NUMBER	ANNUAL SALARIES (\$1,000)
Men	14,178	\$ 570,047
Women	36,725	1,249,731
Total	50,903	\$ 1,819,778

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, 1995.

**THE NUMBER AND ANNUAL RETIREMENT ALLOWANCES OF
ANNUITANTS AND BENEFICIARIES ON THE ROLL AS OF JUNE 30, 1995**

GROUP	NUMBER	ANNUAL RETIREMENT ALLOWANCES (\$1,000)
Service Retirements	20,566	\$ 317,554
Disability Retirements	1,268	17,720
Beneficiaries of Deceased Members	1,812	14,621
Total	23,646	\$ 349,895

In addition, there are 307 beneficiaries entitled to term-certain only annuities totaling \$1,486,000 annually.

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

SECTION III - ASSETS

1. The retirement law provides for the maintenance of eight funds for the purpose of recording the financial transactions of the System, namely, the Teachers' Savings Fund; the State Accumulation Fund; the Allowance Reserve Fund; the Guarantee Fund; the Medical Insurance Fund; the Expense Fund; the Voluntary Contribution Fund, and the Capital Construction Reserve 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, 1995 amounted to \$1,691,718,372.

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(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, 1995 amounted to \$1,745,511,046.

(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, 1995 amounted to \$354,414,041.

(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, 1995 the assets credited to this Fund amounted to \$2,384,881,505.

(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, 1995 amounted to \$35,062,261. 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, 1995 amounted to \$2,660,270. 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, 1995 amounted to \$21,406,264. This amount was not included in the assets used for valuation purposes.

(H) CAPITAL CONSTRUCTION RESERVE FUND

The assets credited to this Fund as of June 30, 1995 amounted to \$25,306. This amount was not included in the assets used for valuation purposes.

2. As of June 30, 1995 the total book value of assets held by the System amounted to \$6,235,679,065. Of this amount, \$6,176,524,964 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 1.072 to the book value of assets resulted in a modified market value of \$6,621,234,761 to be used for valuation purposes, as shown in the table on the following page.

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ASSETS AS OF JUNE 30, 1995

FUND	ASSETS FOR VALUATION PURPOSES	OTHER ASSETS	TOTAL ASSETS
Teachers' Savings	\$ 1,691,718,372		\$ 1,691,718,372
State Accumulation	1,745,511,046		1,745,511,046
Allowance Reserve	354,414,041		354,414,041
Guarantee	2,384,881,505		2,384,881,505
Medical Insurance		\$ 35,062,261	35,062,261
Expense		2,660,270	2,660,270
Voluntary Member Contribution		21,406,264	21,406,264
Capital Construction Reserve		25,306	25,306
Total	\$ 6,176,524,964	\$ 59,154,101	\$ 6,235,679,065
Market Value Adjustment	x 1.072		
Modified Market Value	\$ 6,621,234,761		

SECTION IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation (amounts are \$1,000's). The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method which are described in Schedule B.
2. The valuation shows that the System has an actuarial accrued liability of \$4,928,513 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of benefits payable to annuitants and beneficiaries amounts to \$3,175,782 after adjustment for special appropriations remaining to be made toward funding minimum annuities and the 1982, 1987, 1989, 1990, 1991, 1992, 1993, 1994 and 1995 ad hoc increases, and the liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is \$105,753. The total actuarial accrued liability of the System amounts to \$8,210,048. Against these liabilities, the System has present assets for valuation purposes of \$6,621,235. When this amount is deducted from the actuarial accrued liability of \$8,210,048, there remains \$1,588,813 as the unfunded actuarial accrued liability.
3. The normal contribution rate is equal to the actuarial present value of benefits accruing during the current year divided by the annual active members' payroll. The normal contribution rate is determined to be 12.76% of payroll for university members and 16.86 % for non-university members.

SECTION V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

1. Section 161.540 of the retirement law provides that each university member will contribute 8.375% 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.
2. 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.
3. The total net statutory contribution rate is 18.50% of active university members' salaries and 21.46% for active non-university members.

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NET STATUTORY CONTRIBUTION RATES

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

4. The valuation indicates that normal contributions at the rate of 12.76% of active university members' salaries are required to meet the cost of benefits currently accruing. The rate for non-university members is 16.86%. 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 5.74% for university members and 4.60% for non-university members. These rates are shown in the following table.

ACTUARIALLY DETERMINED CONTRIBUTION RATES

RATE	PERCENTAGE OF MEMBERS' SALARIES	
	UNIVERSITY	NON-UNIVERSITY
Normal	12.76 %	16.86 %
Accrued Liability (balancing)	5.74	4.60
Total	18.50 %	21.46 %

5. The unfunded actuarial accrued liability amounts to \$1,588,813,000 as of the valuation date. Accrued liability contributions at the rate of 5.74% of active university members' payroll and 4.60% of non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over the 30 year period commencing June 30, 1995, based on the assumption that the payroll will increase by 4.5% 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, 1993, 1994 and 1995.
- 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 has produced an increase in the funding period for the unfunded actuarial accrued liability from 29 years to 30 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.

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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, 1995**

GROUP	NUMBER
Retirees and Beneficiaries	23,953
Active Members:	
Vested	39,817
Non-vested	11,086
Total	74,856

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, 1995, 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	\$ 3,281,536
• Current employees:	
Accumulated contributions	1,691,718
Employer-financed vested	2,271,693
Employer-financed nonvested	965,101
Total Pension Benefit Obligation	\$ 8,210,048
• Net assets available for benefits	\$ 6,176,525
• Unfunded Pension Benefit Obligation	\$ 2,033,523

3. The following first nine 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	1,371.6	1,212.6	113.1
6/30/89	3,256.7	4,680.8	69.6	1,424.1	1,261.4	112.9
6/30/90	3,660.9	5,072.1	72.2	1,411.2	1,340.3	105.3
6/30/91	4,135.1	5,716.0	72.3	1,580.9	1,522.5	103.8
6/30/92	4,650.6	6,319.0	73.6	1,668.4	1,669.2	100.0
6/30/93	5,155.6	6,852.7	75.2	1,697.1	1,696.9	100.0
6/30/94	5,688.1	7,521.9	75.6	1,833.8	1,748.1	104.9
6/30/95	6,176.5	8,210.0	75.2	2,033.5	1,819.8	111.7

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, 1995
(\$1,000's)

1. Actuarial Accrued Liability

Present value of prospective benefits payable in respect of:

(a) Present active members:

• Service retirement benefits	\$ 4,608,130	
• Disability retirement benefits	190,969	
• Death and survivor benefits	56,953	
• Refunds of member contributions	72,461	
Total		\$ 4,928,513

(b) Present inactive members and members entitled to deferred vested benefits:	105,753
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(c) Present annuitants and beneficiaries

• Service retirement benefits	2,899,170	
• Disability retirement benefits	124,394	
• Death and survivor benefits	152,218	
Total		3,175,782

(d) Total actuarial accrued liability	\$ 8,210,048
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2. Present Assets for Valuation Purposes	6,621,235
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3. Unfunded Actuarial Accrued Liability [(1) minus (2)]	\$ 1,588,813
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4. Normal Contribution Rate

	<u>UNIVERSITY</u>	<u>Non-UNIVERSITY</u>
(a) Actuarial present value of benefits accruing annually	\$ 17,276	\$ 284,012
(b) Annual payroll of active members	135,390	1,684,388
(c) Normal contribution rate [4(a) divided by 4(b)]	12.76%	16.86%

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SCHEDULE B
OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

INTEREST RATE: 8.0% per annum, compounded annually (Adopted 1995).

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

Age	Annual Rate
20	8.60%
25	7.70
30	6.70
35	6.00
40	5.50
45	5.20
50	5.00
55	4.80
60	4.70
65	4.50

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. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

ASSETS: Modified market value. This value was calculated by multiplying the book value of assets available for valuation purposes by the average ratio of market to book value during the five years ending on the valuation date.

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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			SERVICE RETIREMENT*	EARLY RETIREMENT
	DEATH	DISABILITY	WITHDRAWAL		
20	.005%	.01%	7.16%		
25	.014	.01	7.45		
30	.023	.01	6.46		
35	.046	.05	4.49		
40	.068	.07	3.11		
45	.091	.10	2.12		
50	.149	.29	1.58	10.00%	
55	.308	1.20		17.00	4.00%
60	.535	.05		20.00	
62	.626	.03		27.00	
65	.808			45.00	
70				100.00	

* IT IS ALSO ASSUMED THAT AN ADDITIONAL 15% OF MEN WILL RETIRE IN THEIR FIRST YEAR OF ELIGIBILITY IF BEFORE AGE 60.

Age	Women ANNUAL RATE OF			SERVICE RETIREMENT*	EARLY RETIREMENT
	DEATH	DISABILITY	WITHDRAWAL		
20	.004%	.01%	5.66%		
25	.008	.01	6.84		
30	.022	.01	6.30		
35	.035	.04	4.08		
40	.056	.09	2.61		
45	.065	.18	1.92		
50	.078	.29	1.57	10.00%	
55	.100	.60		17.00	5.00%
60	.143	.25		20.00	
62	.161	.06		22.00	
65	.187			35.00	
70				100.00	

* IT IS ALSO ASSUMED THAT AN ADDITIONAL 20% OF WOMEN WILL RETIRE IN THEIR FIRST YEAR OF ELIGIBILITY IF BEFORE AGE 60.

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SCHEDULE C

SUMMARY OF MAIN SYSTEM PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

The Teachers' Retirement System of the State of Kentucky was established on July 1, 1940. The valuation took into account amendments to the System effective through June 30, 1995. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

DEFINITIONS

"Final average salary" means the average of the five highest annual salaries which the member has received for service in a covered position and on which the member has made contributions or on which the public board, institution or agency has picked up the member contributions.

BENEFITS

SERVICE RETIREMENT ALLOWANCE

CONDITION FOR ALLOWANCE: Completion of 27 years of service or attainment of age 55 and 5 years of service.

AMOUNT OF ALLOWANCE: The annual retirement allowance equals the sum of:

- (a) 2% of final average salary multiplied by service after July 1, 1941, plus
- (b) \$100 multiplied by credited service prior to July 1, 1941.

For service after January 1, 1984, the annual allowance for non-university members is 2.5% of final average salary.

The annual allowance is reduced by actuarial equivalent factors from the earlier of age 60 or the date the member would have completed 27 years of service

The minimum annual service retirement allowance is the greater of:

- (a) \$260.00 multiplied by credited service, or
- (b) For a member who has attained age 60 at retirement, \$900.00.

DISABILITY RETIREMENT ALLOWANCE

CONDITION FOR ALLOWANCE: Totally and permanently incapable of being employed as a teacher and under age 60 but after completing 5 years of service.

AMOUNT OF ALLOWANCE: The disability allowance is equal to the greater of the service retirement allowance or 60% of the member's final average salary. The disability allowance is payable over an entitlement period equal to 25% of the service credited to the member at the date of disability or five years, whichever is longer. After the disability entitlement period has expired and if the member remains disabled, he will be retired under service retirement. The service retirement allowance will be computed with service credit given for the period of disability retirement. The allowance will not be less than \$6,000 per year. The service retirement allowance will not be reduced for commencement of the allowance before age 60 or the completion of 27 years of service.

BENEFITS PAYABLE ON SEPARATION FROM SERVICE

Any member who ceases to be in service is entitled to receive his contributions with allowable interest. A member who has completed 5 years of creditable service and leaves his contributions with the System may be continued in the membership of the System after separation from service, and file application for service retirement after the attainment of age 60.

ACTUARIAL SECTION

DEATH BENEFITS

ACTIVE SERVICE: A lump-sum benefit of \$2,000 is payable to the member's estate.

A surviving spouse of a member with less than 10 years of service may elect to receive an annual allowance of \$2,880 except that if income from other sources exceeds \$6,600 per year the annual allowance will be \$2,160.

A surviving spouse of a member with 10 or more years of service may elect to receive an allowance which is the actuarial equivalent of the allowance the deceased member would have received upon retirement. The allowance will commence on the date the deceased member would have been eligible for service retirement and will be payable during the life of the spouse.

If the deceased member is survived by unmarried children under age 18 the following schedule of annual allowances applies:

<u>Number of Children</u>	<u>Annual Allowance</u>
1	\$ 2,400
2	\$ 4,080
3	\$ 4,800
4 or more	\$ 5,280

The allowances are payable until a child attains age 18, or age 19 if a full-time student.

If the member has no eligible survivor, a refund of his accumulated contributions is payable to his estate.

AFTER RETIREMENT: A lump-sum amount of \$2,800 is payable to the member's estate.

OPTIONS

In lieu of the regular Option 1, a retirement allowance payable in the form of a life annuity with refundable balance, any member before retirement may elect to receive a reduced allowance which is actuarially equivalent to the full allowance, in one of the following forms:

Option 2. A single life annuity payable during the member's lifetime with payments for 10 years certain.

Option 3. At the death of the member his allowance is continued throughout the life of his beneficiary.

Option 3(a). At the death of the beneficiary designated by the member under Option 3, the member's benefit will revert to what would have been paid had he not selected an option.

Option 4. At the death of the member one half of his allowance is continued throughout the life of the beneficiary.

Option 4(a). At the death of the beneficiary designated by the member under Option 4, the member's benefit will revert to what would have been paid had he not selected an option.

POST-RETIREMENT ADJUSTMENTS

The retirement allowance of each retired member and of each beneficiary shall be increased by 1-1/2% each July 1.

CONTRIBUTIONS

MEMBER CONTRIBUTIONS

University members contribute 8.375% of salary.

Non-University members contribute 9.855% of salary.

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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	RETIREES AND BENEFICIARIES	ACTIVE MEMBERS (EMPLOYER FINANCED PORTION)				
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
1995	1,691.7	3,281.5	3,236.8	6,176.5	100	100	37
1996	1,805.3	4,018.2	3,355.0	7,001.6	100	100	35

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

	(1)	(2)	(3)	(4)
FISCAL YEAR	NUMBER OF ACTIVE MEMBERS	TOTAL ANNUAL PAYROLL	AVERAGE ANNUAL PAY (2) ÷ (1)	% INCREASE (DECREASE) IN AVERAGE PAY
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
1995	51,257	1,831,763,327	35,737	2.8
1996	51,986	1,896,990,404	36,490	2.1

**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)		
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
1995	1,973	49.2	903	10.1	23,934	350.9	12.6	14,659
1996	1,910	50.1	967	11.4	24,877	389.5	11.0	15,658

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

YEAR ENDED JUNE 30	ACTUARIAL ACCRUED LIABILITIES	VALUATION ASSETS	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (1) - (2)	VALUATION PAYROLL	ASSETS AS % OF LIABILITIES (2) ÷ (1)	UNFUNDED LIABILITIES AS % OF PAYROLL (3) ÷ (4)
1987	3,799.3	2,562.3	1,237.0	1,101.7	67.4%	112.3%
1988	4,287.3	2,915.7	1,371.6	1,212.6	68.0%	113.1%
1989	4,680.8	3,256.7	1,424.1	1,261.4	69.6%	112.9%
1990	5,072.1	3,660.9	1,411.2	1,340.3	72.2%	105.3%
1991	5,716.0	4,259.1	1,456.9	1,522.5	74.5%	95.7%
1992	6,319.0	4,808.7	1,510.3	1,669.2	76.1%	90.5%
1993	6,852.7	5,454.6	1,398.1	1,696.9	79.6%	82.4%
1994	7,521.9	6,006.6	1,515.3	1,748.1	79.9%	86.7%
1995	8,210.0	6,621.2	1,588.8	1,819.8	80.7%	87.3%
1996	9,178.6	7,624.7	1,553.9	1,877.9	83.1%	82.7%

Please note for comparison purposes, the method of computing the valuation assets in column (2) changed in 1991. The previous method was based on the system's book value of pension assets. Years 1991 to the present implements the modified market value method as required by state law (KRS 161.400(2)).

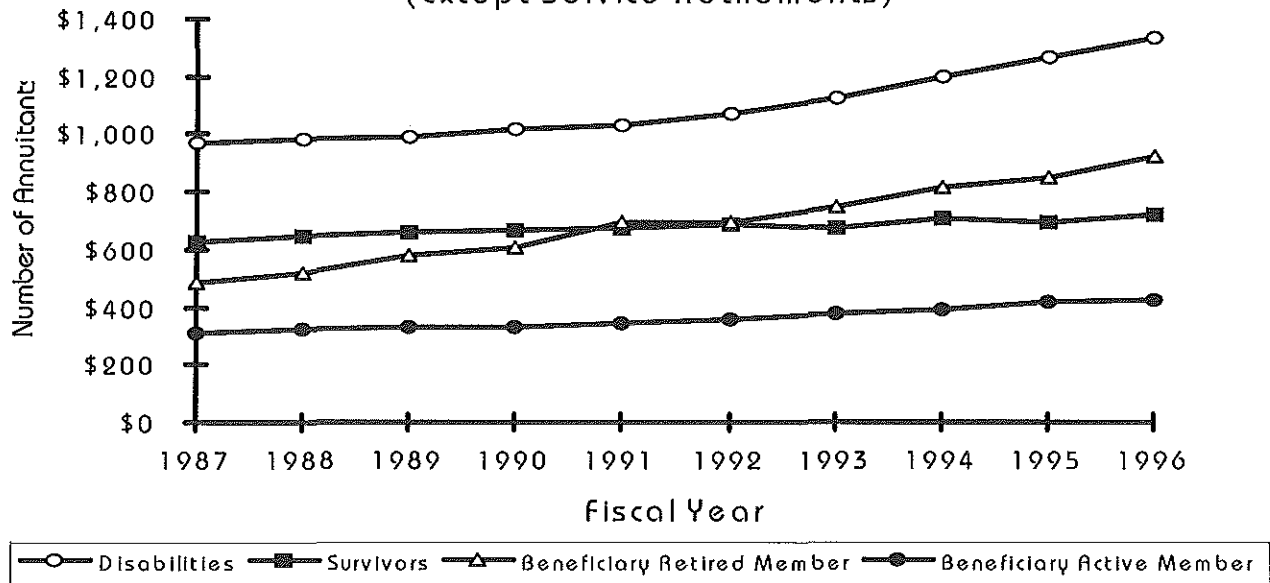
STATISTICAL SECTION



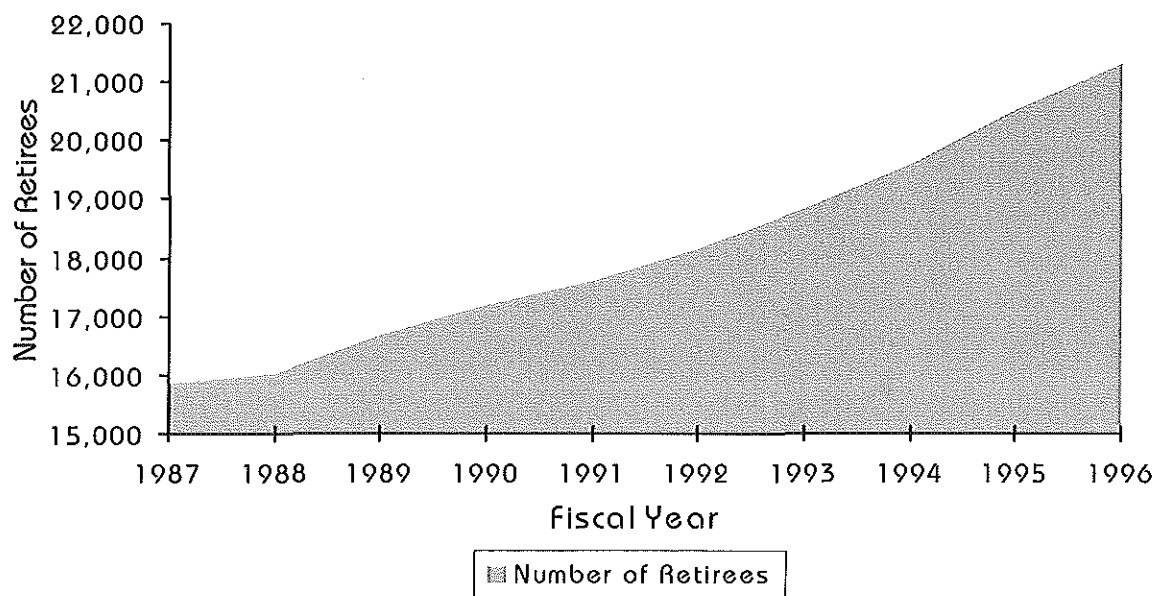
KTRS FISCAL YEAR ENDED JUNE 30, 1996

Growth in Annuitants

(Except Service Retirements)

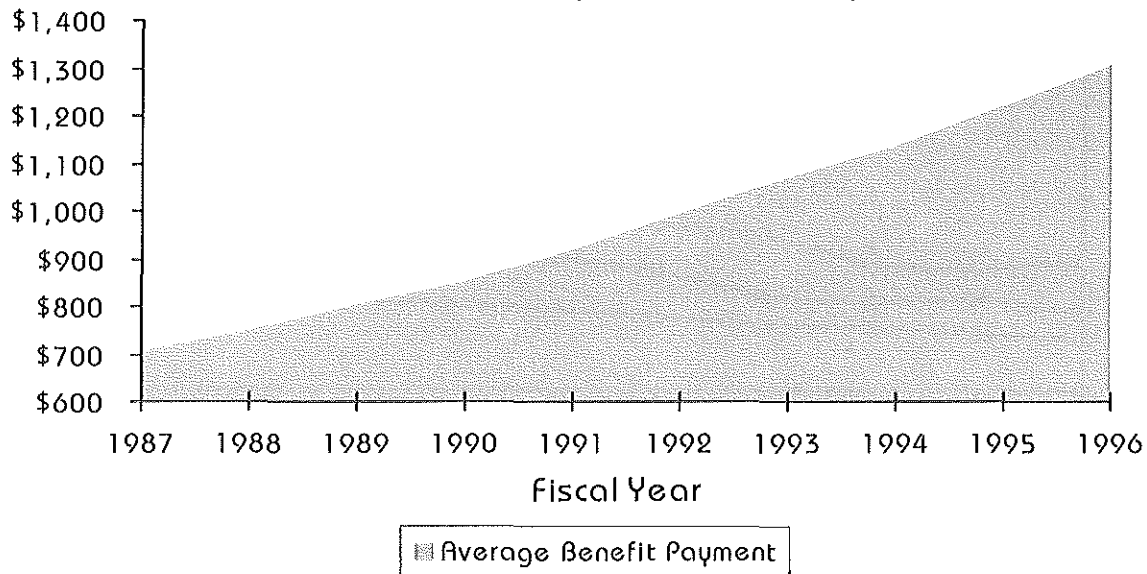


Growth in Service Retirement



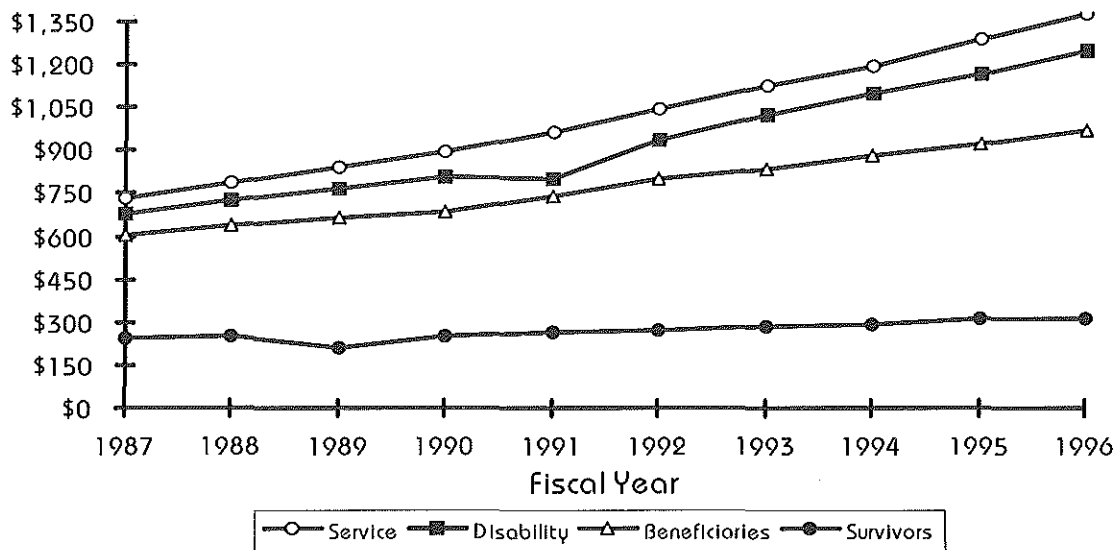
Average Monthly Benefit Payment

(Service/Disability Retirement Only)

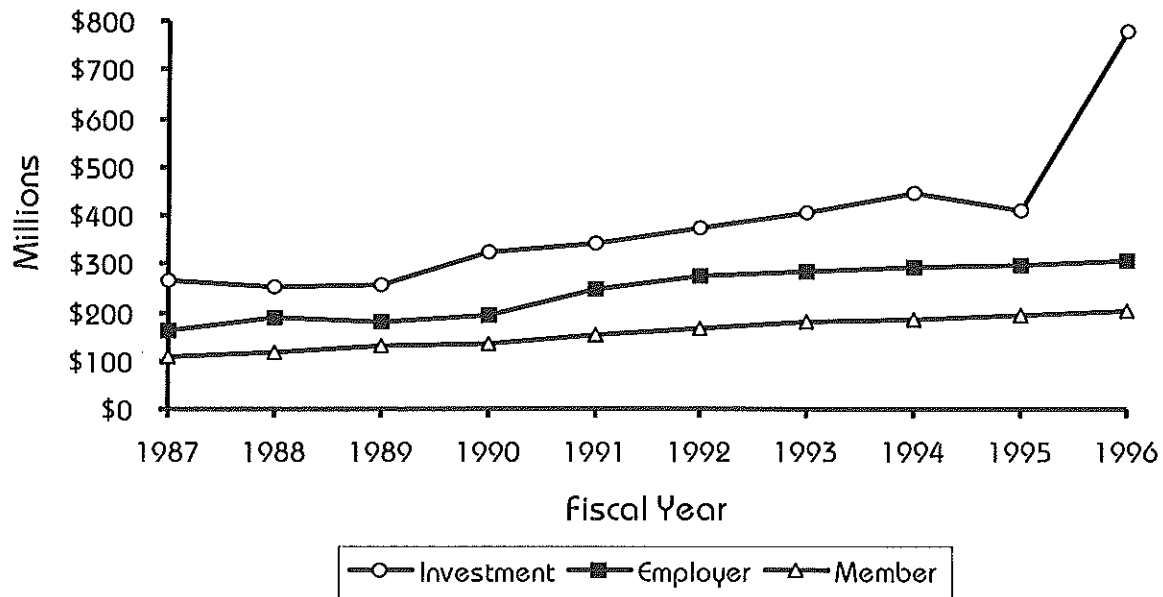


Average Monthly Benefit Payment

(All Recipients)

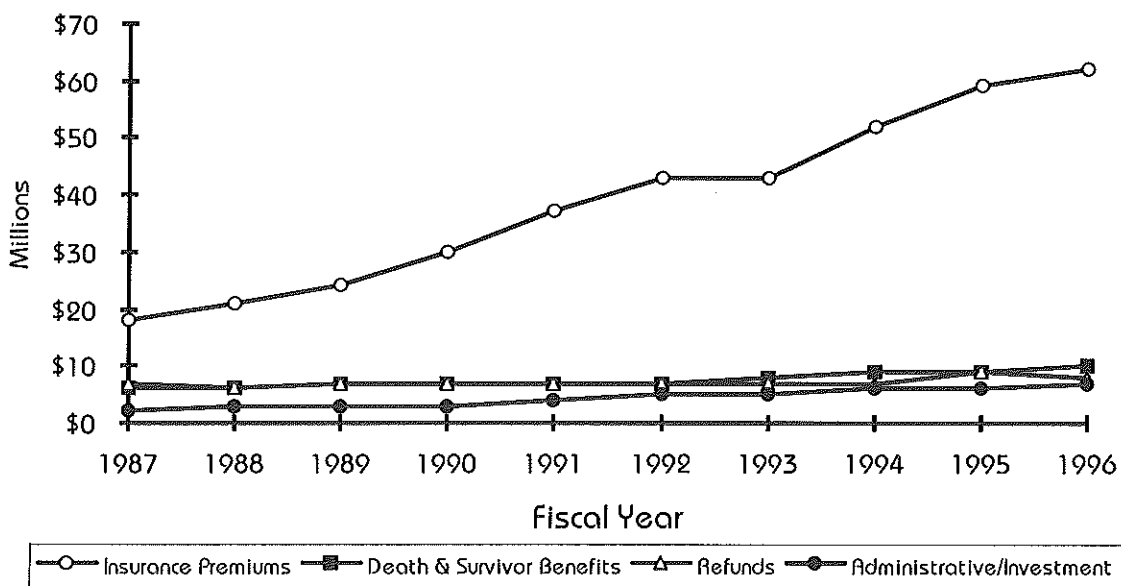


Summary of Revenue by Source



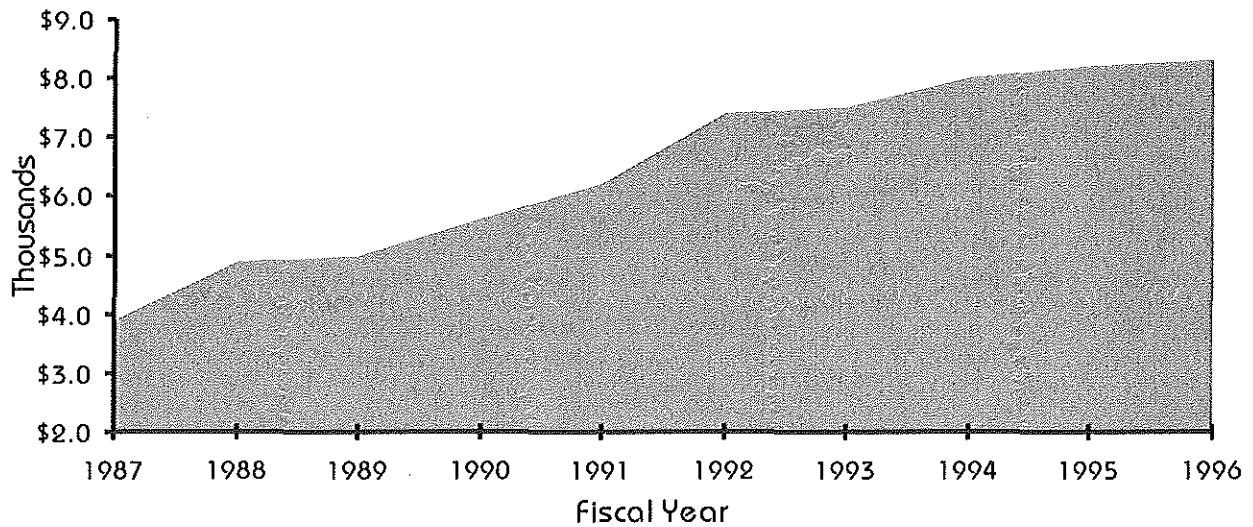
Summary of Expenses by Type

(Excluding Service/Disability Benefits)

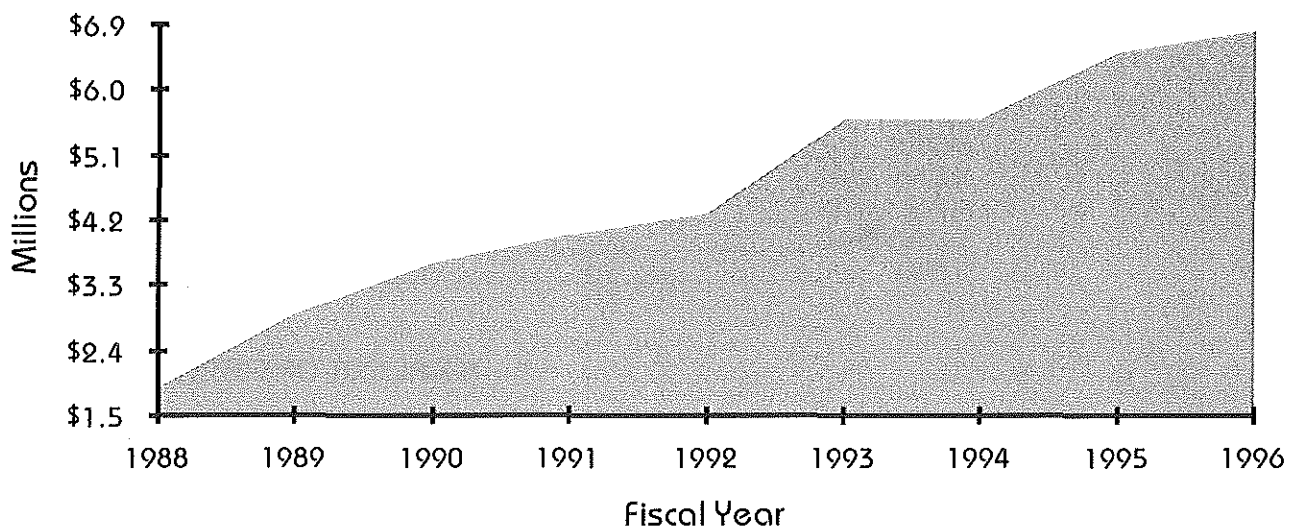


Average Sick Leave Payment

(Per Retiree)



Summary of Personal Check Payments



DISTRIBUTION OF RETIREMENT PAYMENTS WORLDWIDE
As of JUNE 30, 1996



OTHER:

AFRICA	1
BRITISH WEST INDIES	1
CANADA	2
MEXICO	1
MILITARY APO	1
PHILIPPINES	2
SWITZERLAND	1
TURKEY	1

TOTAL OUT OF STATE = 2,572

TOTAL NUMBER OF PAYMENTS = 25,928
TOTAL AMOUNT OF PAYMENTS = \$386,530,905

DISTRIBUTION OF RETIREMENT PAYMENTS STATEWIDE

AS OF JUNE 30, 1996

COUNTY NAME	TOTAL PAYMENTS	NUMBER OF RECIPIENTS	COUNTY NAME	TOTAL PAYMENTS	NUMBER OF RECIPIENTS
Adair	\$ 1,782,602	125	Jefferson	\$ 59,703,908	3469
Allen	1,459,170	92	Jessamine	1,921,518	128
Anderson	1,193,799	85	Johnson	3,433,610	224
Ballard	749,371	55	Kenton	6,112,399	394
Barren	3,563,539	240	Knott	2,128,508	145
Bath	1,010,051	79	Knox	2,651,790	179
Bell	3,957,607	272	Larue	1,558,304	88
Boone	4,672,835	283	Laurel	4,044,822	283
Bourbon	1,869,940	125	Lawrence	1,183,238	89
Boyd	5,104,617	348	Lee	1,078,583	74
Boyle	2,975,102	188	Leslie	1,316,487	96
Bracken	670,454	48	Letcher	3,987,630	243
Breathitt	1,848,740	128	Lewis	1,614,668	107
Breckinridge	1,299,469	96	Lincoln	2,598,629	170
Bullitt	3,235,385	177	Livingston	800,236	58
Butler	1,023,632	74	Logan	2,340,438	168
Caldwell	1,398,414	101	Lyon	911,087	61
Calloway	6,214,281	396	Madison	9,515,872	602
Campbell	4,647,230	306	Magoffin	1,223,510	92
Carlisle	545,717	38	Marion	1,268,611	93
Corroll	694,808	47	Marshall	2,324,454	163
Carter	2,755,956	194	Martin	1,118,317	81
Cosey	1,775,209	126	Mason	1,365,526	87
Christian	4,304,887	282	McCracken	6,067,473	392
Clark	2,484,945	171	McCreary	1,792,357	110
Clay	3,022,620	204	McLean	1,003,060	70
Clinton	1,474,600	97	Meade	1,068,137	64
Crittenden	524,435	44	Menifee	608,004	45
Cumberland	917,690	61	Mercer	2,042,466	149
Daviess	8,056,674	537	Metcalf	1,239,448	82
Edmonson	893,673	60	Monroe	1,756,439	120
Elliott	600,264	40	Montgomery	1,821,806	115
Estill	1,003,917	70	Morgan	1,412,327	100
Fayette	21,496,403	1314	Muhlenberg	2,516,567	175
Fleming	1,113,930	83	Nelson	2,442,756	154
Floyd	5,993,066	378	Nicholas	399,776	31
Franklin	6,940,901	484	Ohio	1,706,690	128
Fulton	701,914	57	Oldham	2,588,765	171
Gallatin	341,348	25	Owen	699,378	52
Garrard	1,096,005	80	Owsley	956,708	67
Grant	1,159,298	76	Pendleton	1,210,950	84
Graves	2,585,358	199	Perry	3,811,153	274
Grayson	2,072,299	140	Pike	8,585,035	567
Green	1,236,754	74	Powell	911,305	64
Greenup	3,378,659	214	Pulaski	5,708,202	385
Hancock	729,060	43	Robertson	85,365	9
Hardin	5,637,046	353	Rockcastle	1,899,617	132
Harlan	4,374,454	284	Rowan	4,357,656	270
Harrison	1,628,918	111	Russell	1,701,949	127
Hart	1,324,711	81	Scott	1,865,204	125
Henderson	3,171,920	201	Shelby	2,286,525	159
Henry	1,341,255	103	Simpson	1,287,027	89
Hickman	289,276	24	Spencer	573,331	47
Hopkins	3,908,573	279	Taylor	2,321,872	156
Jackson	1,237,307	94	Todd	998,003	71

**DISTRIBUTION OF RETIREMENT PAYMENTS STATEWIDE
AS OF JUNE 30, 1996 (CONTINUED)**

COUNTY NAME	TOTAL PAYMENTS	NUMBER OF RECIPIENTS
Trigg	\$ 990,774	67
Trimble	237,969	20
Union	1,113,145	75
Warren	12,937,368	797
Washington	935,622	65
Wayne	2,345,882	150
Webster	1,229,883	88
Whitley	5,129,428	357
Wolfe	900,862	66
Woodford	1,769,841	107
TOTAL IN KENTUCKY	\$ 359,028,358	23356

SCHEDULE OF BENEFIT EXPENSES BY TYPE

YEAR ENDED	SERVICE RETIRANTS	DISABILITY RETIRANTS	SURVIVORS	DEATH BENEFITS	REFUNDS
June 30, 1987	144,201,331	7,473,805	4,462,253	1,287,603	6,711,487
June 30, 1988	155,690,001	8,025,592	4,799,224	1,437,866	5,945,822
June 30, 1989	172,989,090	8,708,015	5,038,352	1,522,922	6,996,134
June 30, 1990	190,534,735	9,550,511	5,220,474	1,531,702	7,380,344
June 30, 1991	208,034,102	10,582,152	5,351,157	1,748,448	6,774,864
June 30, 1992	232,027,180	11,896,196	5,770,289	1,627,527	6,516,430
June 30, 1993	260,267,306	13,557,546	6,379,427	1,848,216	6,714,014
June 30, 1994	286,963,990	15,188,244	6,962,111	2,085,691	6,690,665
June 30, 1995	321,855,622	17,328,942	7,483,006	1,898,670	8,528,796
June 30, 1996	359,085,382	19,661,323	7,834,903	2,178,939	8,418,031

SUMMARY OF STATE BUDGET APPROPRIATION TO
TEACHERS' RETIREMENT SYSTEM FOR 1995-96

EXPENSE ITEM	1995-96 STATE BUDGET APPROPRIATION	1995-96 STATE ACTUAL BUDGET REQUIREMENT
Match of Member Contributions *	\$ 208,000,000	\$ 209,016,156
Match of Personal Payments	8,771,000	6,212,597
Sick Leave (KRS 161.550)	12,730,400	16,292,516
Retiree Cost of Living Adjustment	20,618,900	20,618,900
Prior Service Increase	640,100	640,100
Minimum Benefit Adjustment	9,535,800	9,535,800
Increase Survivor Benefits	640,100	640,100
Handicapped Child Benefit	331,300	337,256
TOTALS	\$ 261,268,000	\$ 263,293,425
State Under-Appropriation for 1995-96	\$ (2,025,425)	

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 \$29,740,322 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 VERSUS 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
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
1994-95	26.1	25.3	12.8	12.7	16.9	3.0
1995-96	26.0	25.3	4.7	4.3	13.5	2.8
Five Year Annualized Rate	15.7	15.6	8.5	8.7	11.0	2.9

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

Fiscal Year	Total Member Contributions	Employer/State Payments	Required State Match Contributions	Required Supplemental Appropriation	Required State Match Payments	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)
1988-92	602,399,432	119,352,211(1)	483,347,221	133,545,987(2)	28,978,117	634,358,200	(11,537,557)	(38,195,506)
1992-93	179,571,347	36,928,601	142,642,746	50,438,830	10,780,104	197,500,196	(6,361,484)(3)	(15,210,651)
1993-94	184,892,279	37,404,797	147,487,482	52,025,072	12,211,189	205,772,522	(5,951,221)(4)	(21,161,871)
1994-95	192,671,167	39,298,632	153,372,535	54,386,177	14,024,782	221,369,749	(413,745)	(12,726,449)
1995-96	199,682,976	40,664,321	159,018,655	56,210,098	16,292,516	229,495,844	(2,025,425)	(8,390,391)

The state under-appropriation at June 30, 1996 is \$8,390,391. This amount is comprised of the 1993-94 \$5,951,221 deficit, the 1994-95 \$413,745 deficit and the current year contribution under-appropriation of \$2,025,425. The 1993-94 and 1994-95 deficits were paid by the state July 1, 1996.

(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 the years 1988-90 was less than the actuarially determined contribution by about \$47 million.

(3) Included in the June 30, 1993 deficit is a 2% mandated decrease in appropriations of \$1,080,000.

(4) Included in the June 30, 1994 deficit is a 4% mandated decrease in appropriations of \$2,160,000.

SUMMARY OF FISCAL YEAR 1995-96
RETIREE SICK LEAVE PAYMENTS

Total Members Retiring	1,690
Total Members Receiving Sick Leave Payments	1,391
Total Amount of Sick Leave Payments (at 9.855% contribution rate)	\$11,548,268.43
Average Payment Per Retiree	\$8,302.13
Total Increase in Final Average Salary Base (FASB)	\$2,309,653.69
Average Increase in FASB	\$1,660.43
Total Service Credit of 1,391 Retirees	39,391.50
Average Service Credit of 1,391 Retirees	28.32

Average Yearly Increase		Service Credit		Retirement Factor		Average Yearly Annuity
\$1,660.43	X	15.32	X	2.00%	=	\$508.75
\$1,660.43	X	1.00	X	2.25%	=	\$37.36
\$1,660.43	X	12.00	X	2.50%	=	\$498.13
Average yearly annuity						\$1,044.24
Average monthly annuity						\$87.02
Average Monthly Annuity		Present Value Factor Based on Average Age of 55		Number of Members With Sick Leave Payments		
\$87.02	X	156.504	X	1,391		
Anticipated lifetime payout of additional annuity						\$18,943,998.51

FUNDING OF ADDITIONAL PAYOUT

Member Contributions	9.855%	X	\$11,548,268.43	=	\$1,138,081.85
State Contributions	13.105%	X	\$11,548,268.43	=	1,513,400.58
Total Member-State Contributions					\$2,651,482.43
Deficit:					
Anticipated Additional Payout					\$18,943,998.51
Less Total Member and State Contributions					2,651,482.43
Subtotal Unfunded Debt					\$16,292,516.08
Less Current Year Appropriation					\$12,730,400.00
Total Deficit*					\$3,562,116.08

* This amount has been included in the 1995-96 deficit.

SCHOOL DISTRICTS ELECTING TO PAY FOR SICK LEAVE
UNDER KRS 161.155(8)
FISCAL YEAR 1995-96

COUNTY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION	COUNTY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
Adair	5	\$ 21,301.58	Jackson	6	\$ 21,071.32
Allen	13	97,351.30	Jefferson	238	2,246,578.61
Anderson	2	17,701.87	Jessamine	3	31,852.56
Ballard	6	71,812.40	Johnson	10	104,624.74
Barren	6	56,696.10	Kenton	22	167,885.57
Both	2	9,155.97	Knott	4	17,271.65
Bell	5	27,692.95	Knox	10	24,866.18
Boone	19	200,158.31	Larue	3	40,485.74
Bourbon	3	33,616.44	Laurel	6	56,518.82
Boyd	8	60,117.61	Lawrence	2	8,642.32
Boyle	5	36,476.71	Leslie	5	60,395.23
Bracken	1	5,776.15	Letcher	11	88,738.31
Breathitt	7	45,513.56	Lewis	5	57,512.02
Breckinridge	6	84,571.71	Lincoln	9	78,961.74
Bullitt	17	234,530.38	Livingston	2	13,246.88
Butler	4	22,909.60	Logan	3	26,028.62
Caldwell	6	35,755.86	Lyon	4	29,210.56
Calloway	5	28,893.35	Madison	16	95,135.97
Campbell	14	106,985.48	Magoffin	5	68,021.41
Carlisle	1	17,475.09	Marion	7	40,452.87
Carroll	5	26,226.88	Marshall	7	68,539.01
Carter	9	53,362.04	Martin	4	33,693.35
Casey	3	14,387.52	Mason	2	23,153.02
Christian	30	283,433.80	McCracken	21	215,816.87
Clark	6	48,053.68	McCreary	7	35,612.27
Clay	6	28,228.72	Meade	8	95,358.18
Clinton	1	4,851.85	Mercer	6	33,325.63
Crittenden	2	13,975.24	Metcalfe	3	36,805.79
Cumberland	2	16,027.81	Monroe	7	55,657.53
Daviess	26	235,716.90	Montgomery	5	20,900.55
Edmonson	6	48,296.80	Morgan	4	44,346.42
Elliott	4	33,192.28	Muhlenberg	14	104,847.98
Estill	3	13,024.46	Nelson	6	57,895.18
Fayette	75	745,977.68	Nicholas	1	16,251.95
Fleming	1	7,874.58	Ohio	12	118,972.09
Floyd	14	121,976.36	Oldham	7	55,116.80
Franklin	10	65,018.06	Owen	2	22,001.62
Fulton	1	2,678.84	Owsley	2	17,133.03
Gallatin	1	311.01	Pendleton	1	11,716.08
Garrard	1	1,127.04	Perry	11	95,014.73
Grant	3	12,189.04	Pike	34	233,019.70
Graves	4	32,886.76	Powell	4	31,481.59
Grayson	4	38,074.48	Pulaski	16	100,669.70
Green	2	15,797.97	Robertson	3	32,129.78
Greenup	12	100,514.47	Rockcastle	2	17,168.75
Hancock	2	20,275.29	Rowan	8	56,433.17
Hardin	17	163,657.24	Russell	13	161,122.39
Harlan	16	112,632.99	Scott	8	83,598.97
Harrison	6	40,745.30	Shelby	9	98,228.31
Hart	6	73,852.76	Simpson	8	63,520.24
Henderson	19	165,503.58	Spencer	1	16,269.51
Henry	2	7,150.08	Taylor	6	40,134.76
Hopkins	16	129,527.76	Todd	5	54,381.22

SCHOOL DISTRICTS ELECTING TO PAY FOR SICK LEAVE
UNDER KAS 161.155(8)
FISCAL YEAR 1995-96

COUNTY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION	CITY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
Trigg	5	\$ 51,287.97	Ashland	10	\$ 107,674.06
Trimble	3	35,061.80	Bardstown	1	7,436.83
Union	4	34,807.82	Berea	4	22,632.37
Warren	14	145,356.15	Bowling Green	16	140,621.50
Washington	7	60,890.93	Campbellsville	2	13,937.39
Wayne	6	95,089.80	Covarna	1	10,566.62
Webster	1	11,513.85	Corbin	5	38,673.57
Whitley	7	44,545.62	Covington	2	6,708.06
Wolfe	11	114,887.99	Danville	4	37,312.23
Woodford	2	18,917.91	Dayton	3	14,754.54
			Elizabethtown	8	77,268.19
			Erlanger-Elsmere	3	12,227.60
			Fairview	2	20,452.67
			Fort Thomas	3	6,394.12
			Frankfort	1	3,712.13
			Fulton	3	18,117.30
			Glasgow	3	23,539.42
			Harlan	1	1,945.10
			Harrodsburg	2	6,296.70
			Hazard	2	6,001.52
			Jenkins	1	5,931.41
			Mayfield	5	34,198.06
			Middlesboro	7	64,118.31
			Murray	3	35,481.89
			Newport	7	50,160.93
			Owensboro	10	96,276.11
			Paducah	11	99,070.42
			Paintsville	2	10,377.27
			Paris	3	24,910.30
			Pineville	1	10,519.03
			Providence	1	4,032.98
			Raceland	2	22,425.17
			Russell	8	104,611.48
			Russellville	1	15,452.77
			Science Hill	1	12,813.50
			Somerset	3	36,980.31
			Southgate	1	11,429.83
			Walton-Verona	5	39,500.97
			West Point	1	2,506.44
			Williamsburg	1	14,767.02
			Williamstown	1	9,928.46

TOTAL FOR ALL DISTRICTS

NUMBER OF MEMBERS

TOTAL ADDITIONAL COMPENSATION

1,279

\$ 11,212,983.40

SCHEDULE OF KTAS ANNUITANTS BY TYPE OF BENEFIT
AS OF JUNE 30, 1996

AMOUNT OF MONTHLY BENEFIT (\$)	NUMBERS OF ANNUITANTS	TYPE OF RETIREMENT*				
		1	2	3	4	5
1 - 200	1,558	671	15	630	58	184
201 - 400	1,341	1,133	9	62	137	0
401 - 600	1,613	1,188	194	15	216	0
601 - 800	2,092	1,735	142	0	215	0
801 - 1,000	2,769	2,454	126	0	189	0
1,001 - 1,200	2,515	2,233	144	0	138	0
1,201 - 1,400	2,441	2,204	142	0	95	0
1,401 - 1,600	2,464	2,197	174	2	91	0
1,601 - 1,800	2,332	2,057	191	3	81	0
1,801 - 2,000	1,804	1,660	94	2	48	0
Over 2,000	3,948	3,767	102	5	74	0
TOTALS	24,877	21,299	1,333	719	1,342	184

*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, 1996

By AGE				By SERVICE			
AGE	MALE	FEMALE	TOTAL	YEARS OF SERVICE	MALE	FEMALE	TOTAL
20-24	245	918	1,163	Less than 1	306	762	1,068
25-29	1,268	4,182	5,450	1-4	2,916	7,992	10,908
30-34	1,457	4,178	5,635	5-9	2,380	7,572	9,952
35-39	1,563	4,930	6,493	10-14	1,705	5,450	7,155
40-44	2,416	7,284	9,700	15-19	1,630	5,001	6,631
45-49	3,498	8,643	12,141	20-24	2,335	5,865	8,200
50-54	2,142	4,349	6,491	25-29	2,109	3,724	5,833
55-59	1,050	1,951	3,001	30-34	583	706	1,289
60-64	396	621	1,017	35 or more	166	176	342
65-69	80	164	244				
Over 70	15	28	43				
TOTAL	14,130	37,248	51,378	TOTAL	14,130	37,248	51,378

KTAS 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. Cosey	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. Pointsville	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**

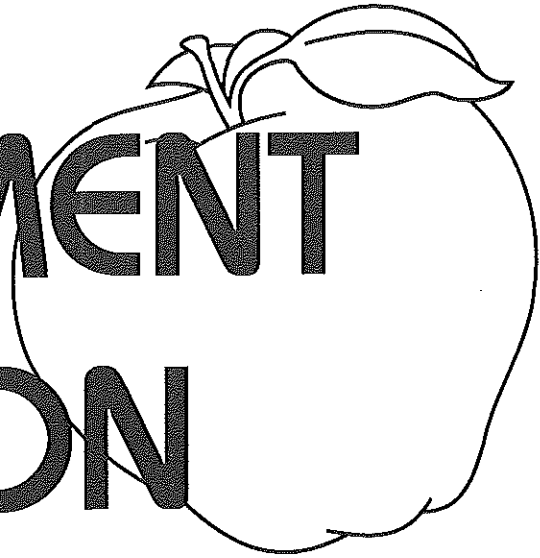
1. Administrative Office of the Courts*
2. Department of Corrections*
3. Education and Humanities Cabinet
4. Human Resources*
5. Labor Cabinet*
6. Legislative Research Commission*
7. Workforce Development Cabinet

OTHER ORGANIZATIONS

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



KTRS FISCAL YEAR ENDED JUNE 30, 1996

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.

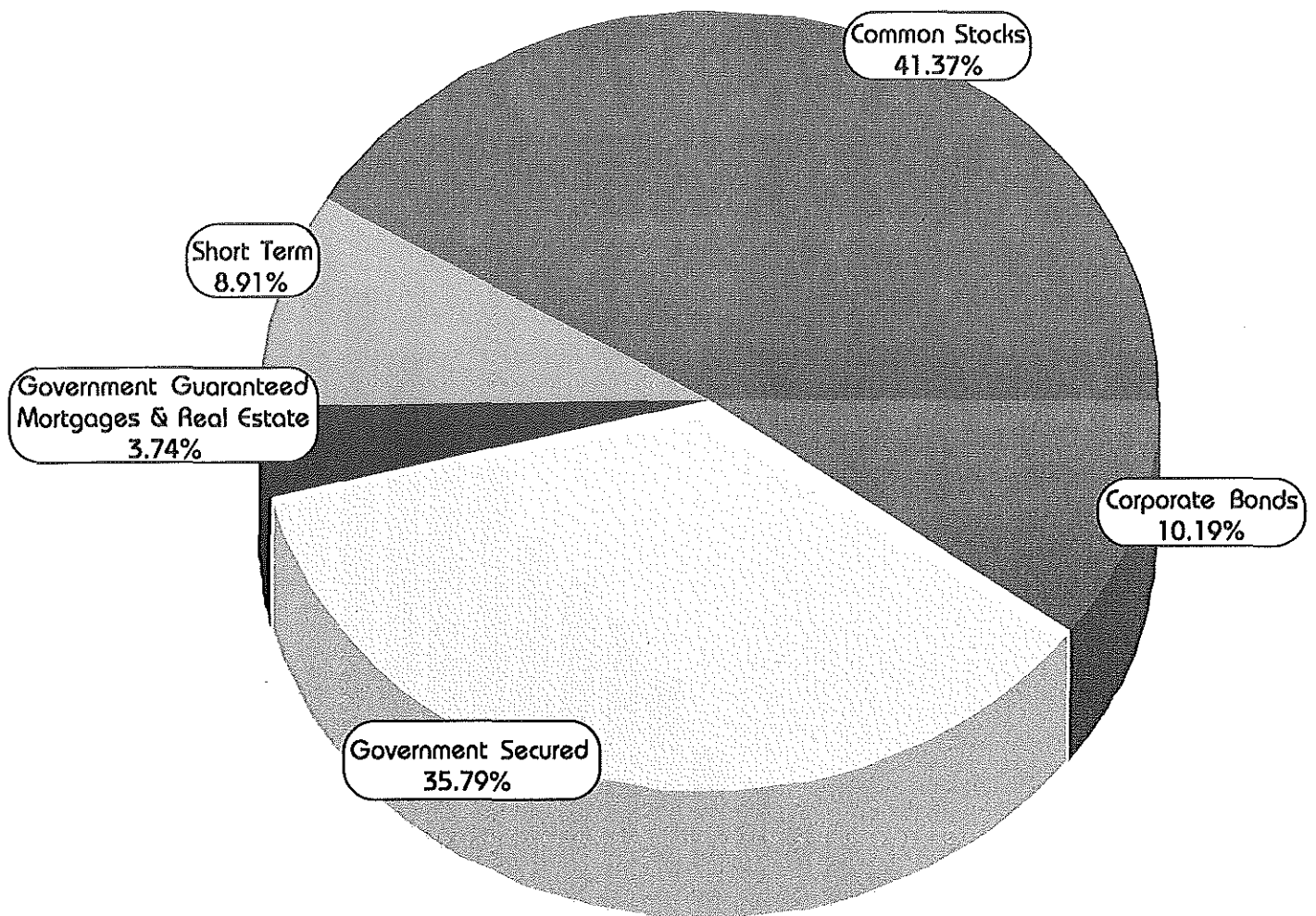
The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 1995-96 as the principal investment counselor. National Asset Management, Invesco Inc., Brinson Partners, and Wellington Management Company also were retained during the 1995-96 fiscal year to provide investment counseling services. National Asset Management assisted in the management of approximately \$880 million in bonds, while Invesco Inc. was involved with managing about \$620 million in equity investments. Brinson Partners was responsible for managing approximately \$510 million in equities, and Wellington Management Company managed about \$540 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about \$2.3 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 \$6.9 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 1995-96 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 \$782 million, or 12.4%, to a total of \$7.1 billion at year-end. The book value of the fund correspondingly increased 13.3% during the year. The System earned in excess of \$775 million of investment income during 1995-96; 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. At year-end, the "net indicated yield" on fixed income investments at par value was 6.41%. The "indicated dividend yield" on common stocks was 2.87%.

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, 1996. During the 1995-96 fiscal year, the stock position increased from 36.5% of assets to 41.4%. The portion of the portfolio in Government securities decreased from 41.3% to 35.8%. The cash position increased during the year, going from 8.1% to 8.9% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 2.1%.

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, 1996. The pages thereafter provide a detailed listing of all investments held on June 30, 1996. The System annually produces a detailed investment report that is available on request.

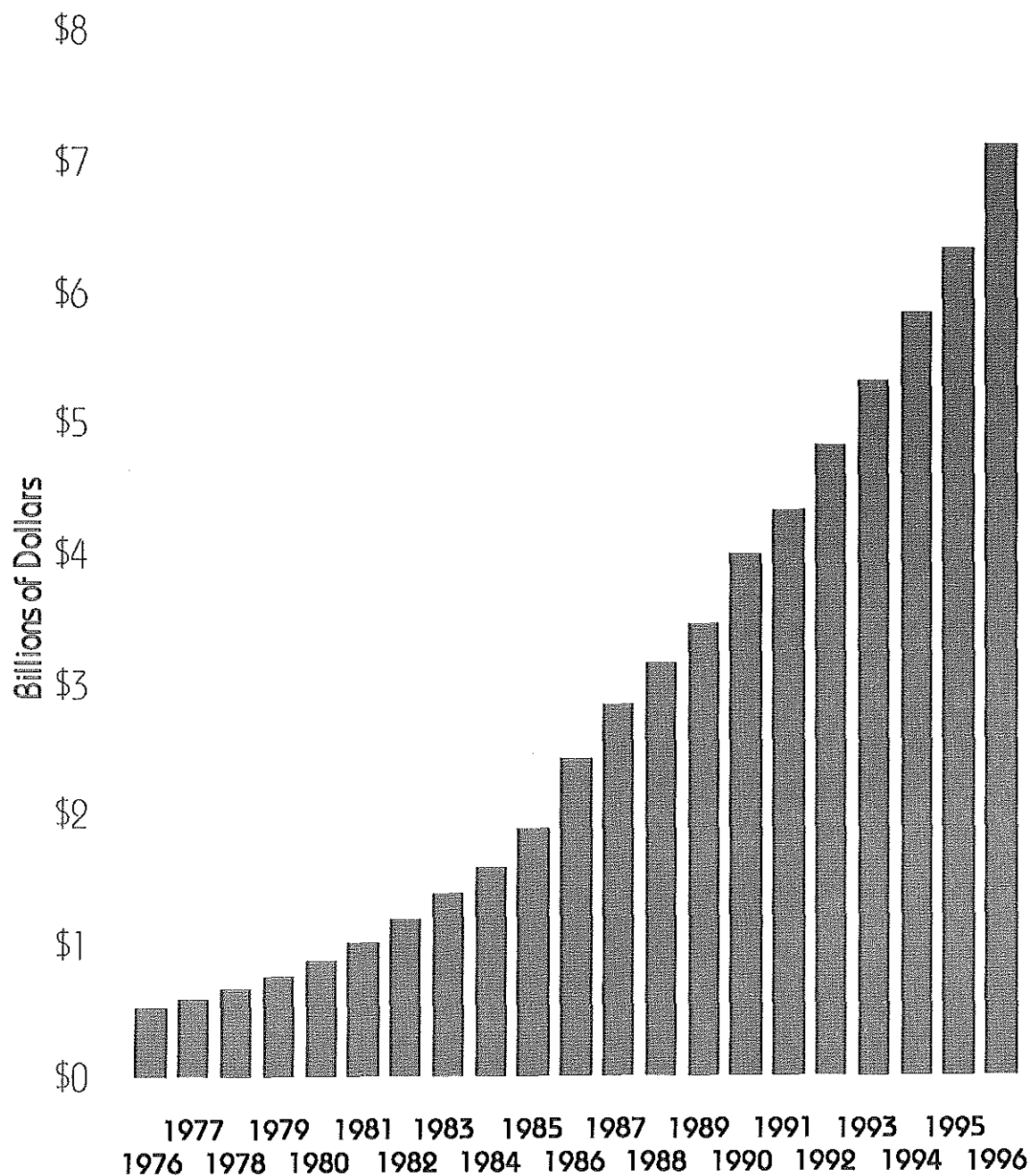
DISTRIBUTION OF INVESTMENTS
JUNE 30, 1996



INVESTMENT PORTFOLIO GROWTH

FIXED INCOME AT PAR VALUE

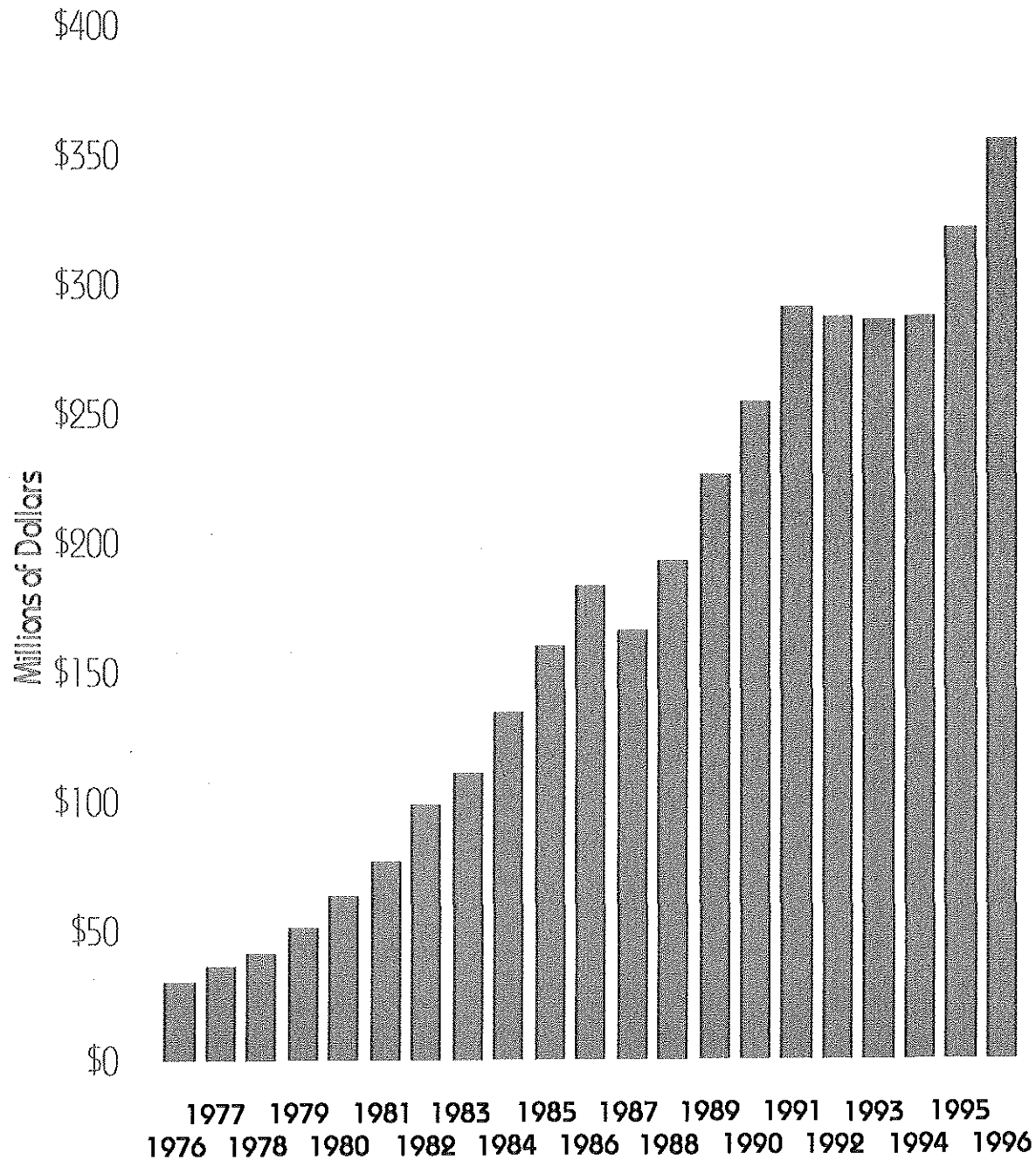
EQUITIES AT COST



INVESTMENT INCOME GROWTH

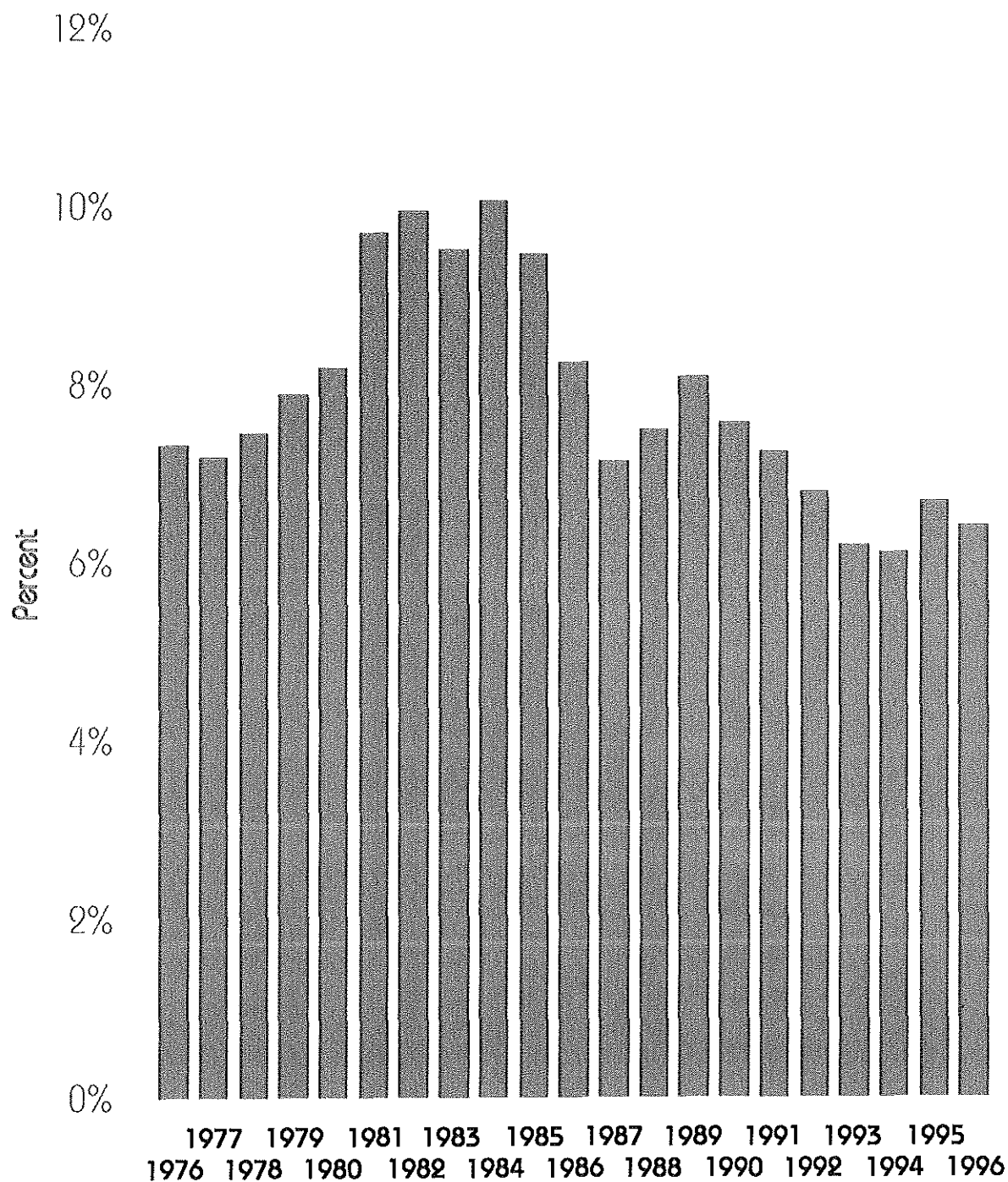
INCLUDES AMORTIZATION

EXCLUDES NET GAIN



FISCAL YEAR

NET INDICATED YIELD ON FIXED DOLLAR ASSETS
PAR VALUE



FISCAL YEAR

SCHEDULE OF INVESTMENTS

AS OF JUNE 30, 1996

INVESTMENT	PERCENTAGE OF TOTAL	PAR VALUE* OR REMAINING PRINCIPAL BALANCE	NET ANNUAL INTEREST/ INDICATED DIVIDEND INCOME	ANNUAL YIELD
Repurchase Agreements	8.91%	\$ 632,000,000.00	\$ 34,322,400.00	5.43%
Total Short Term	8.91%	\$ 632,000,000.00	\$ 34,322,400.00	5.43%
Treasury Notes and Bonds	24.39%	\$ 1,730,728,000.00	\$ 115,026,361.38	6.65%
Agencies	6.11%	433,920,612.39	29,503,722.03	6.80%
Ship Bonds (Title XI)	.07%	5,113,983.97	419,517.29	8.20%
GNMA (Single Family)	.21%	14,980,675.52	1,225,883.57	8.18%
Collateralized Mortgage Obligations	.23%	16,349,752.78	1,251,570.66	7.65%
Treasury Strip Bonds	4.76%	337,466,080.00	13,751,278.37	4.07%
Other Miscellaneous	.00%	32,887.02	986.61	3.00%
Total U.S. Government Obligations	35.77%	\$ 2,538,591,991.68	\$ 161,179,319.91	6.35%
Industrials	2.37%	\$ 168,730,077.79	\$ 12,647,000.33	7.50%
Finance	6.26%	443,997,852.99	30,132,220.29	6.79%
Utility Bonds (Except Telephone)	.57%	40,755,000.00	2,459,355.76	6.03%
Telephone Bonds	.84%	59,350,000.00	4,461,717.82	7.52%
Railroad Obligations	.15%	10,646,000.00	932,289.42	8.76%
Total Corporate Bonds	10.19%	\$ 723,478,930.78	\$ 50,632,583.62	7.00%
FHA & VA Single Family Mortgages	.03%	\$ 1,964,692.97	\$ 147,856.05	7.53%
Project Mortgages (FHA & GNMA)	1.64%	116,996,726.77	10,807,663.99	9.24%
State and Local Government Issues	.02%	1,205,000.00	101,220.00	8.40%
Total Other Fixed Income	1.69%	\$ 120,166,419.74	\$ 11,056,740.04	9.20%
Subtotal (Fixed Income)	56.56%	\$ 4,014,237,342.20	\$ 257,191,043.57	6.41%
Real Estate Equity	2.07%	\$ 146,756,626.56	\$ 13,946,865.27	9.50%
Total Real Estate Equity	2.07%	\$ 146,756,626.56	\$ 13,946,865.27	9.50%
Common Stocks 58,463,778.00 Shares	32.45%	\$ 2,303,120,110.42	\$ 62,328,579.27	2.71%
Preferred Stocks 712,900.00 Shares	.07%	4,699,629.00	428,595.48	9.12%
Stock Index 20,098,916.00 Shares	8.85%	627,996,200.24	21,598,049.02	3.44%
Total Stocks 79,275,594.00 Shares	41.37%	\$ 2,935,815,939.66	\$ 84,355,223.77	2.87%
Subtotal (Equity)	43.44%	\$ 3,082,572,566.22	\$ 98,302,089.04	3.19%
Total Investments, Income & Yield	100.00%	\$ 7,096,809,908.42	\$ 355,493,132.61	5.01%

* 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, 1996 was \$3,263,241,966; the market value was \$3,271,458,078. The par and book values of stocks, which are the same, were \$2,935,815,940 for June 30, 1996; the market value of stocks was \$3,815,929,663. 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.

INVESTMENT SECTION

DETAILED LISTING OF INVESTMENTS
SHORT TERM INVESTMENTS

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
REPURCHASE AGREEMENTS:			
Repurchase Agreement	5.350	07/01/96	\$ 100,000,000.00
Repurchase Agreement	5.390	07/02/96	25,596,700.00
Repurchase Agreement	5.390	07/02/96	7,436,500.00
Repurchase Agreement	5.390	07/02/96	102,966,800.00
Repurchase Agreement	5.410	07/02/96	30,000,000.00
Repurchase Agreement	5.410	07/02/96	20,567,300.00
Repurchase Agreement	5.410	07/02/96	6,252,700.00
Repurchase Agreement	5.410	07/02/96	766,400.00
Repurchase Agreement	5.410	07/02/96	20,000,000.00
Repurchase Agreement	5.410	07/02/96	22,413,600.00
Repurchase Agreement	5.450	07/03/96	31,038,300.00
Repurchase Agreement	5.450	07/03/96	12,518,000.00
Repurchase Agreement	5.450	07/03/96	1,288,300.00
Repurchase Agreement	5.450	07/03/96	13,160,700.00
Repurchase Agreement	5.450	07/03/96	1,955,000.00
Repurchase Agreement	5.450	07/03/96	20,633,700.00
Repurchase Agreement	5.450	07/03/96	115,406,000.00
Repurchase Agreement	5.550	07/01/96	3,394,000.00
Repurchase Agreement	5.550	07/01/96	26,000,000.00
Repurchase Agreement	5.550	07/01/96	18,786,000.00
Repurchase Agreement	5.550	07/01/96	15,000,000.00
Repurchase Agreement	5.550	07/01/96	34,016,100.00
Repurchase Agreement	5.550	07/01/96	<u>2,803,900.00</u>
Total Repurchase Agreements			\$ 632,000,000.00
TOTAL SHORT TERM INVESTMENTS			\$ 632,000,000.00

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	6.250	08/15/23	10,000,000.00
U S Treasury Bonds	6.250	08/15/23	7,000,000.00
U S Treasury Bonds	6.250	08/15/23	10,000,000.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00
U S Treasury Bonds	6.250	08/15/23	7,000,000.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00
U S Treasury Bonds	6.250	08/15/23	5,000,000.00

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>TREASURY BONDS AND NOTES (CONT.):</u>			
U S Treasury Bonds	6.250	08/15/23	\$ 15,000,000.00
U S Treasury Bonds	6.250	08/15/23	5,000,000.00
U S Treasury Bonds	6.250	08/15/23	10,000,000.00
U S Treasury Bonds	7.125	02/15/23	4,500,000.00
U S Treasury Bonds	7.125	02/15/23	1,000,000.00
U S Treasury Bonds	7.250	05/15/16	15,000,000.00
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	1,000,000.00
U S Treasury Bonds	7.250	05/15/16	3,000,000.00
U S Treasury Bonds	7.250	05/15/16	2,000,000.00
U S Treasury Bonds	7.250	05/15/16	2,000,000.00
U S Treasury Bonds	7.250	05/15/16	2,500,000.00
U S Treasury Bonds	7.500	11/15/16	5,000,000.00
U S Treasury Bonds	7.500	11/15/16	3,500,000.00
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	2,000,000.00
U S Treasury Bonds	7.500	11/15/16	15,000,000.00
U S Treasury Bonds	7.500	11/15/16	35,500,000.00
U S Treasury Bonds	7.500	11/15/24	20,000,000.00
U S Treasury Bonds	7.625	02/15/25	10,000,000.00
U S Treasury Bonds	7.625	02/15/25	2,000,000.00
U S Treasury Bonds	7.875	11/15/07	2,000,000.00
U S Treasury Bonds	7.875	02/15/21	1,700,000.00
U S Treasury Bonds	8.000	11/15/21	2,000,000.00
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	8.875	08/15/17	5,005,000.00
U S Treasury Bonds	8.875	08/15/17	2,295,000.00
U S Treasury Bonds	8.875	08/15/17	2,000,000.00
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. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>TREASURY BONDS AND NOTES (CONT.):</u>			
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	05/15/18	2,500,000.00
U S Treasury Bonds	9.125	05/15/18	9,300,000.00
U S Treasury Bonds	9.375	02/15/06	10,000,000.00
U S Treasury Bonds	9.375	02/15/06	6,250,000.00
U S Treasury Bonds	9.875	11/15/15	3,100,000.00
U S Treasury Bonds	9.875	11/15/15	1,000,000.00
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	10.375	11/15/12	14,000,000.00
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	13.125	05/15/01	8,000,000.00
U S Treasury Bonds	14.000	11/15/11	13,200,000.00
U S Treasury Notes	4.375	11/15/96	15,000,000.00
U S Treasury Notes	4.750	02/15/97	22,000,000.00
U S Treasury Notes	5.125	02/28/98	2,000,000.00
U S Treasury Notes	5.125	04/30/98	3,000,000.00
U S Treasury Notes	5.125	12/31/98	5,000,000.00
U S Treasury Notes	5.125	12/31/98	15,000,000.00
U S Treasury Notes	5.125	12/31/98	10,000,000.00
U S Treasury Notes	5.125	12/31/98	2,000,000.00
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	5.250	01/31/01	15,000,000.00
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	11/15/98	19,000,000.00
U S Treasury Notes	5.500	11/15/98	23,000,000.00
U S Treasury Notes	5.500	11/15/98	18,000,000.00
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	5.500	12/31/00	5,000,000.00
U S Treasury Notes	5.625	02/15/06	2,000,000.00
U S Treasury Notes	5.625	02/15/06	15,000,000.00
U S Treasury Notes	5.750	10/31/00	2,500,000.00
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. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>TREASURY BONDS AND NOTES (CONT.):</u>			
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	5.750	08/15/03	3,000,000.00
U S Treasury Notes	5.750	08/15/03	2,750,000.00
U S Treasury Notes	5.875	02/15/04	3,000,000.00
U S Treasury Notes	5.875	02/15/04	2,000,000.00
U S Treasury Notes	5.875	02/15/04	1,500,000.00
U S Treasury Notes	5.875	11/15/05	1,000,000.00
U S Treasury Notes	5.875	11/15/05	25,000,000.00
U S Treasury Notes	6.000	10/15/99	2,000,000.00
U S Treasury Notes	6.000	10/15/99	8,000,000.00
U S Treasury Notes	6.000	10/15/99	3,000,000.00
U S Treasury Notes	6.000	10/15/99	3,000,000.00
U S Treasury Notes	6.000	10/15/99	7,000,000.00
U S Treasury Notes	6.125	05/15/98	20,000,000.00
U S Treasury Notes	6.125	05/15/98	15,000,000.00
U S Treasury Notes	6.250	01/31/97	10,000,000.00
U S Treasury Notes	6.250	01/31/97	13,000,000.00
U S Treasury Notes	6.250	05/31/00	25,000,000.00
U S Treasury Notes	6.250	08/31/00	25,000,000.00
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	6.250	02/15/03	15,000,000.00
U S Treasury Notes	6.250	02/15/03	2,000,000.00
U S Treasury Notes	6.250	02/15/03	15,000,000.00
U S Treasury Notes	6.250	02/15/03	15,000,000.00
U S Treasury Notes	6.375	01/15/99	20,000,000.00
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	6.375	08/15/02	7,000,000.00
U S Treasury Notes	6.500	05/15/05	2,000,000.00
U S Treasury Notes	6.500	05/15/05	2,000,000.00
U S Treasury Notes	6.500	05/15/05	3,000,000.00
U S Treasury Notes	6.500	08/15/05	3,000,000.00
U S Treasury Notes	6.500	08/15/05	10,000,000.00
U S Treasury Notes	6.500	08/15/05	2,000,000.00
U S Treasury Notes	6.750	04/30/00	2,000,000.00

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>TREASURY BONDS AND NOTES (CONT.):</u>			
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	05/31/99	2,000,000.00
U S Treasury Notes	6.750	06/30/99	25,000,000.00
U S Treasury Notes	6.750	04/30/00	10,500,000.00
U S Treasury Notes	6.875	04/30/97	4,000,000.00
U S Treasury Notes	6.875	04/30/97	1,000,000.00
U S Treasury Notes	6.875	05/15/06	5,000,000.00
U S Treasury Notes	7.000	04/15/99	15,000,000.00
U S Treasury Notes	7.125	02/29/00	10,000,000.00
U S Treasury Notes	7.250	05/15/04	5,000,000.00
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 Treasury Notes	7.500	05/15/02	15,000,000.00
U S Treasury Notes	7.500	05/15/02	15,500,000.00
U S Treasury Notes	7.500	05/15/02	30,000,000.00
U S Treasury Notes	7.500	02/15/05	20,000,000.00
U S Treasury Notes	7.500	02/15/05	15,000,000.00
U S Treasury Notes	7.500	02/15/05	30,000,000.00
U S Treasury Notes	7.500	02/15/05	3,000,000.00
U S Treasury Notes	7.750	11/30/99	52,705,000.00
U S Treasury Notes	7.750	01/31/00	50,000,000.00
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	8.500	05/15/97	8,000,000.00
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	10,000,000.00
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	2,500,000.00
U S Treasury Notes	9.125	05/15/99	3,250,000.00
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
Total Treasury Bonds and Notes			\$ 1,730,728,000.00
<u>FEDERAL AGENCIES:</u>			
FHLB Bonds	6.270	01/14/04	\$ 9,000,000.00
FHLB Notes	5.950	05/21/98	2,000,000.00
FHLB Notes	6.250	06/26/98	5,000,000.00
FHLB Notes	6.695	06/26/98	5,000,000.00

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

PAR VALUE OR REMAINING PRINCIPAL
BALANCE

SECURITY

COUPON

MATURITY

FEDERAL AGENCIES (CONT.):

FHLB Notes	7.410	03/27/00	\$ 10,000,000.00
FHLB Notes	8.000	08/09/10	1,000,000.00
FHLMC (Gold) Pool # E00408	6.500	12/01/10	14,356,724.56
FHLMC (Gold) Pool # A01533	8.500	09/01/20	12,557,720.76
FHLMC (Gold) Pool # E00425	6.000	04/01/11	5,957,144.40
FHLMC Debs	5.600	03/01/99	2,000,000.00
FHLMC Debs	7.070	07/20/05	2,500,000.00
FHLMC Freddie Mac Group 14-0527	8.000	10/01/08	4,022,096.26
FHLMC Mult Mtg Cfs Ser 53 CL 53-A	9.500	08/15/20	313,153.20
FHLMC Notes	5.400	03/16/98	4,190,000.00
FHLMC Notes	5.990	03/06/01	10,000,000.00
FHLMC Notes	8.010	04/13/05	2,000,000.00
FHLMC Notes	8.020	08/24/09	8,500,000.00
FHLMC Ser 149 F	8.500	08/15/21	6,614,227.50
FNMA	6.900	03/10/04	3,000,000.00
FNMA	6.950	09/10/02	5,000,000.00
FNMA	8.250	11/01/22	2,000,000.00
FNMA	9.200	09/11/00	3,000,000.00
FNMA	9.200	09/11/00	7,015,000.00
FNMA MTN	5.200	04/30/98	6,750,000.00
FNMA MTN	5.220	07/10/98	15,000,000.00
FNMA MTN	5.830	02/20/01	3,350,000.00
FNMA MTN	7.130	07/06/05	2,000,000.00
FNMA MTN	7.250	06/01/05	2,000,000.00
FNMA Pool # 190723	6.000	04/01/24	14,217,151.18
FNMA Pool # 340755 (Mtg KY)	6.500	03/01/26	1,814,762.34
FNMA Pool # 340800 (Mtg KY)	6.500	03/01/26	1,205,021.77
FNMA Pool # 124921	6.500	07/01/23	18,614,923.72
FNMA Pool # 190658	7.000	01/01/09	42,140,891.93
FNMA Pool # 250414	7.000	12/01/25	23,120,719.38
FNMA Pool # 266220	6.500	12/01/23	9,074,071.95
FNMA Pool # 303670	6.500	12/01/25	45,417,330.70
FNMA Pool # 303673	6.000	12/01/25	20,610,684.51
FNMA Pool # 331092	7.000	12/02/25	21,226,738.53
FNMA Pool # 347255	6.500	05/01/26	1,353,336.77
FNMA Pool # 347916 (Mtg Ky)	7.000	06/01/26	1,202,116.68
FNMA Pool # 360000	6.547	12/01/05	12,500,000.00
FNMA Pool # 343306	6.500	04/01/26	2,049,816.13
FNMA Remic Tr 1990-24-H	9.250	07/25/13	3,022,921.69
FNMA Remic Tr 1991-116-Y2 CL B	8.500	07/25/15	4,708,796.70
FNMA Remic Tr 1991-116-Y2 CL B	8.500	07/25/15	4,708,796.70
FNMA Remic Tr 1990-16-E	9.000	03/25/20	5,396,733.04
FNMA Remic Tr 1990-16-E	9.000	03/25/20	4,722,141.41
FNMA-CL Pool # 303223	7.000	11/01/24	10,687,590.58
RFCS Strips	0.000	04/15/30	10,000,000.00
RFCS Strips	0.000	04/15/30	10,000,000.00

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>FEDERAL AGENCIES (CONT.):</u>			
TVA Strip Principal Notes	0.000	07/15/43	\$ 3,000,000.00
TVA Strip Principal Notes	0.000	07/15/43	750,000.00
TVA Strip Principal Notes	0.000	07/15/43	1,250,000.00
Tennessee Valley Authority Bonds	4.600	12/15/96	<u>7,000,000.00</u>
Total Federal Agencies			\$ 433,920,612.39
<u>SHIP BONDS(TITLE XI):</u>			
Crowley Maritime	8.125	09/13/99	\$ 1,280,983.97
Farrell Lines Inc Freedom	7.300	07/01/97	194,000.00
Farrell Lines Inc SF Ser I	7.950	06/07/04	1,576,000.00
Shipco 668 Series A SF	8.500	05/11/02	<u>2,063,000.00</u>
Total Ship Bonds (Title XI)			\$ 5,113,983.97
<u>GNMA SINGLE FAMILY MORTGAGES:</u>			
Mortgage Pools	various	various	\$ <u>14,980,675.52</u>
Total GNMA Single Family Mortgages			\$ 14,980,675.52
<u>COLLATERALIZED MORTGAGE OBLIGATIONS:</u>			
CMO Coll Mtg Sec Corp Ser 88-4 CL B	8.750	04/20/19	\$ 900,471.04
CMO Coll Mtg Sec Corp Ser 88-4 CL B	8.750	04/20/19	3,587,117.36
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 FHLMC Remic 129-G	8.850	05/15/20	3,000,000.00
CMO Merrill Lynch Trust 26 C	7.300	07/01/16	1,490,499.40
CMO Trust 43 Ser Y	8.200	05/20/04	<u>1,371,664.98</u>
Total Collateralized Mortgage Obligations			\$ 16,349,752.78
<u>TREASURY STRIP BONDS:</u>			
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 Corpus	0.000	02/15/10	2,210,000.00
Call Treasury Corpus	0.000	02/15/10	2,000,000.00
Call Treasury Receipts	0.000	11/15/11	2,520,000.00
Principal CATS Series R	0.000	08/15/04	45,000,000.00
Principal CATS U	0.000	08/15/04	22,800,000.00
Principal CATS U	0.000	08/15/04	5,004,000.00
TIGR'S (Treasury Securities) 1	0.000	11/15/05	5,012,000.00
TIGR'S (Treasury Securities) 18	0.000	02/15/02	2,072,000.00

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>TREASURY STRIP BONDS (CONT.):</u>			
Treasury Receipts	0.000	05/15/04	\$ 2,170,080.00
U S Treasury Principal Strips	0.000	08/15/00	25,000,000.00
U S Treasury Principal Strips	0.000	11/15/01	25,000,000.00
U S Treasury Principal Strips	0.000	05/15/20	45,000,000.00
U S Treasury Strip Bonds	0.000	02/15/97	6,250,000.00
U S Treasury Strip Bonds	0.000	11/15/97	8,700,000.00
U S Treasury Strip Bonds	0.000	11/15/97	17,400,000.00
U S Treasury Strip Bonds	0.000	02/15/02	428,000.00
U S Treasury Strip Bonds	0.000	02/15/02	5,000,000.00
U S Treasury Strip Bonds	0.000	11/15/03	373,000.00
U S Treasury Strip Bonds	0.000	11/15/04	43,000,000.00
U S Treasury Strip Bonds	0.000	11/15/05	1,000,000.00
U S Treasury Strip Bonds	0.000	05/15/09	3,000,000.00
U S Treasury Strip Bonds	0.000	05/15/09	3,000,000.00
U S Treasury Strip Bonds	0.000	05/15/09	2,000,000.00
U S Treasury Strip Bonds	0.000	11/15/11	15,000,000.00
U S Treasury Strip Bonds	0.000	08/15/14	3,000,000.00
Total Treasury Strip Bonds			\$ 337,466,080.00
<u>OTHER MISCELLANEOUS:</u>			
FHA Certificate of Claim	3.000		\$ 32,887.02
Total Other Miscellaneous			\$ 32,887.02
TOTAL U. S. GOVERNMENT OBLIGATIONS			\$ 2,538,591,991.68

CORPORATE BONDS

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>INDUSTRIALS:</u>			
Abbott Laboratories Nts	6.800	05/15/05	\$ 2,000,000.00
Abbott Laboratories Nts	6.800	05/15/05	4,000,000.00
Aluminum Co of America Notes	5.750	02/01/01	2,000,000.00
American Home Products Notes	7.900	02/15/05	3,000,000.00
Ariel Properties Inc Mtg Nts	7.000	07/01/98	113,336.86
Atlantic Richfield Debs	9.000	05/01/31	14,500,000.00
Burlington Resources Inc Nts	9.625	06/15/00	3,000,000.00
Burlington Resources Inc Nts	9.625	06/15/00	2,000,000.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
INDUSTRIALS (CONT.):			
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	137,484.12
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
Dover Corp Notes	6.450	11/15/05	2,000,000.00
Dresser Industries Inc Notes	6.250	06/01/00	5,000,000.00
Dupont (E I) deNemours Debs	6.000	12/01/01	8,000,000.00
Dupont (E I) deNemours Debs	6.000	12/01/01	4,000,000.00
Dupont (E I) deNemours Debs	6.000	12/01/01	4,000,000.00
Eaton Corp Debentures	8.900	08/15/06	1,800,000.00
Emerson Electric Co Notes	6.300	11/01/05	1,000,000.00
Fahrney Paul L 1st Prfd Ship Mtg	7.700	09/08/97	137,484.12
Ford Motor Co Nts	8.875	04/01/06	3,045,000.00
IBM Corp Debs	7.000	10/30/25	1,000,000.00
IBM Corp Debs	7.000	10/30/25	14,775,000.00
IBM Corp Debs	7.500	06/15/13	1,000,000.00
J C Penney Co Nts	6.375	09/15/00	2,000,000.00
Marion Merrell Dow-ASOP Debs	9.110	08/01/05	4,183,835.19
May Department Stores Debs	9.125	12/01/16	3,000,000.00
Mobil Oil - ESOP Debs	9.170	02/29/00	5,637,937.50
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	9.000	05/15/98	6,000,000.00
Procter & Gamble-ESOP Debs	9.360	01/01/21	6,900,000.00
Sara Lee Corp Notes	6.000	12/05/05	2,000,000.00
Sears Roebuck Acceptance Corp Notes	6.220	03/25/99	1,000,000.00
Sysco Corp Notes	7.000	05/01/06	2,000,000.00
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
Walt Disney Co Bonds	6.375	03/30/01	20,000,000.00
Walt Disney #144A Reg Sr Notes	1.500	10/20/99	3,000,000.00
WMX Technologies Inc Notes	7.125	06/15/01	1,000,000.00
Total Industrials			\$ 168,730,077.79
FINANCE:			
A T & T Capital Corp MTN	6.730	05/12/98	\$ 1,000,000.00
American Express Cr Co Sr Nts	7.750	03/01/97	9,000,000.00
American Express Cr Co Sr Nts	7.750	03/01/97	1,000,000.00
Pon 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
Banc One Cr Card Mstr Tr 95-B CL A	6.300	10/15/02	2,000,000.00
Bankamerica Corp Notes	6.850	03/01/03	10,000,000.00
Bankamerica Corp Notes	7.125	05/12/05	7,000,000.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
FINANCE (CONT.):			
Beneficial Finance Corp Notes	5.750	07/21/99	\$ 3,000,000.00
Beneficial Finance Corp Notes	5.750	07/21/99	7,000,000.00
C & S / Sovran Corp	9.750	06/15/99	1,000,000.00
Capital Holding Corp MTN	7.820	06/23/04	2,500,000.00
Chemical Master Cr Card Tr 95-3 A	6.230	04/15/05	12,125,000.00
Citicorp Notes	7.125	09/01/05	20,000,000.00
College & Univ Facility LN TR 2 CL D	4.000	06/01/18	8,070,000.00
Commercial Credit Notes	8.500	02/15/98	5,000,000.00
Discover Card Master Trust 93-2 A	5.400	11/16/01	15,165,000.00
Discover Card Trust 1991-D Class A	8.000	10/16/00	20,000,000.00
First Deposit Master Trust 95-2	6.050	08/15/02	19,200,000.00
First Union Corp Notes	6.550	10/15/35	2,000,000.00
First Union Corp Notes	6.625	07/15/05	2,000,000.00
First Union Corp Sub Debs	6.550	10/15/35	1,000,000.00
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	1,603,591.85
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	641,436.74
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	1,603,591.85
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	641,436.74
Ford Credit 1994-B Grantor Trust	7.300	10/15/99	1,466,415.98
Ford Credit 1994-B Grantor Trust	7.300	10/15/99	977,610.66
Ford Motor Credit Notes	5.750	01/25/01	3,000,000.00
Ford Motor Credit Notes	5.750	01/25/01	2,000,000.00
Ford Motor Credit Notes	8.000	01/15/99	5,400,000.00
Ford Motor Credit Notes	8.000	12/01/97	5,000,000.00
Ford Motor Credit Notes	8.200	02/15/02	2,000,000.00
Ford Motor Credit Notes	9.030	12/30/09	1,400,000.00
Ford Motor Credit Notes	7.875	01/15/97	4,000,000.00
General Electric Cap Corp Nts MTN	9.190	07/16/09	3,000,000.00
General Electric Capital Corp	8.700	02/15/03	9,000,000.00
General Electric Credit Corp Debs	5.500	11/01/01	4,000,000.00
GMAC 94-A Grantor Trust	6.300	06/15/99	1,546,887.79
GMAC 94-A Grantor Trust	6.300	06/15/99	3,093,775.59
GMAC 94-A Grantor Trust	6.300	06/15/99	618,755.12
GMAC 95-A Grantor Trust	7.150	03/15/00	3,962,617.28
GMAC 95-A Grantor Trust	7.150	03/15/00	2,476,635.80
GMAC 95-A Grantor Trust	7.150	03/15/00	990,654.32
GMAC Debs	8.625	06/15/99	4,000,000.00
GMAC Debs	8.625	06/15/99	6,000,000.00
GMAC Notes	5.625	02/15/01	1,000,000.00
GMAC Notes	5.625	02/15/01	2,000,000.00
GMAC Notes	6.750	03/15/03	2,000,000.00
GMAC Notes	7.500	07/22/99	9,000,000.00
Goldman Sachs Notes #144A Reg	7.875	01/15/03	14,000,000.00
J P Morgan & Co Notes	7.250	10/01/10	2,000,000.00
J P Morgan & Co Notes	7.625	09/15/04	2,000,000.00
Liberty National Bank & Trust Notes	6.750	06/01/03	2,000,000.00
Liberty National Bank & Trust Notes	6.750	06/01/03	2,000,000.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
FINANCE (CONT.):			
MBNA Bank Corp MTN	7.300	08/17/98	\$ 6,000,000.00
MBNA Master Credit Card Tr Series 91-1	7.750	10/15/98	5,000,000.04
MBNA Master Credit Card Tr 91-1 A	7.750	10/15/98	1,666,666.68
Merrill Lynch Asset Backed Corp	5.500	05/15/98	257,961.47
Metropolitan Life 144-A Surplus Nts	7.800	11/01/25	12,000,000.00
Morgan Stanley Group Notes	5.625	03/01/99	1,000,000.00
National City Kentucky Sub Notes	6.300	02/15/11	2,000,000.00
Notionsbank Corp Notes	5.375	04/15/00	5,000,000.00
Notionsbank Corp Notes	6.875	02/15/05	2,500,000.00
Nationwide CSN Trust Notes	9.875	02/15/25	14,000,000.00
Premier Auto Trust 92-5	4.550	03/15/98	258,254.08
Premier Auto Trust 92-5	4.550	03/15/98	430,423.46
Premier Auto Trust 92-5	4.550	03/15/98	172,169.39
Premier Auto Trust 93-4	4.650	02/02/99	4,456,692.15
Premier Auto Trust 95-3	6.150	03/06/00	10,000,000.00
Premier Auto Trust 95-4 CL A4	6.000	05/06/00	22,000,000.00
Railcar Trust Notes 1992-1	7.750	06/01/04	5,583,276.00
Standard Credit Card Trust 95-10 A	5.900	02/07/01	2,500,000.00
Standard Credit Card Trust 95-10 A	5.900	02/07/01	24,000,000.00
Standard Credit Card Trust 95-3 A	7.850	02/07/02	12,680,000.00
Torchmark Corp	8.625	03/01/17	1,000,000.00
Travelers Group Inc Notes	9.500	03/01/02	2,000,000.00
Travelers Group Inc Notes	6.875	06/01/25	2,000,000.00
Wachovia Bank Notes	6.605	10/01/25	2,000,000.00
Wisconsin Hsg & Economic Dev Auth	6.450	07/01/14	4,509,000.00
World Omni 95-A Auto Lease Sec Tr	6.050	11/25/01	24,000,000.00
Total Finance			\$ 443,997,852.99
UTILITY BONDS (EXCEPT TELEPHONE):			
Cajun Electric Pwr CO-OP Inc	9.520	03/15/19	\$ 3,000,000.00
Georgia Power Co 1st Mtg	5.500	04/01/98	10,000,000.00
Kentucky Utilities Co 1st Mtg	5.950	06/15/00	500,000.00
Kentucky Utilities Co 1st Mtg	5.950	06/15/00	3,000,000.00
Pacific Gas Elec 1st Ref Mtg QP	6.625	06/01/00	1,000,000.00
Philadelphia Electric 1st Ref Mort	7.125	08/15/23	1,000,000.00
Potomac Edison Co 1st Mtg	8.000	06/01/06	3,000,000.00
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 California Edison Debs	5.875	01/15/01	2,000,000.00
Southern California Edison Notes	6.375	01/15/06	3,000,000.00
Soyland Power Rural Electric Co-op	9.700	09/30/17	2,500,000.00
Union Electric Corp 1st Mtg	6.750	10/15/99	5,000,000.00
Total Utility Bonds			\$ 40,755,000.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>TELEPHONE BONDS:</u>			
A T & T Corp	6.000	08/01/00	\$ 1,000,000.00
Ameritech Capital Debs	9.100	06/01/16	8,000,000.00
Bellsouth Telecommunications Debs	7.500	06/15/33	2,000,000.00
Central Telephone MTN	6.875	09/21/04	1,000,000.00
Gen Telephone Midwest 1st Mtg F	7.500	02/01/01	200,000.00
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
Hawaiian Telephone 1st Mtg S	6.750	04/01/98	100,000.00
New York Telephone Co Debs	6.700	11/01/23	21,000,000.00
Pacific Bell Telephone Deb	5.875	02/15/06	10,000,000.00
Rochester Telephone MTN	7.510	03/27/02	8,800,000.00
Southwestern Bell Tel Debs	6.750	06/01/08	1,000,000.00
U S West Communications Debs	8.875	06/01/31	2,000,000.00
Total Telephone Bonds			\$ 59,350,000.00
<u>RAILROAD OBLIGATIONS:</u>			
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
Virginia Southwestern Ry 1st Mtg	5.000	01/01/03	107,000.00
Total Railroad Obligations			\$ 10,646,000.00
TOTAL CORPORATE BONDS			\$ 723,478,930.78

OTHER FIXED INCOME INVESTMENTS

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
<u>SINGLE FAMILY MORTGAGES:</u>			
FHA Mortgage	various		\$ 1,012,941.43
VA Mortgage	various		951,751.54
Total Single Family Mortgages			\$ 1,964,692.97

OTHER FIXED INCOME INVESTMENTS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
PROJECT MORTGAGES (FHA & GNMA):			
Americana Apts KY 221D4	7.500	10/01/18	\$ 4,042,893.25
Bedford Commons KY 221D4	8.000	11/01/23	1,193,859.75
Bedford House KY 221D4	7.500	01/01/20	1,133,827.10
Beech Creek Apts KY 221D4	7.500	08/01/21	1,908,969.49
Belleville Manor Apts KY 221D4	7.500	11/01/19	582,693.89
Berrytown Apts KY 221D4	8.000	02/01/24	1,301,186.93
Bethany Circle Kings Daughters IN	8.375	03/01/02	902,115.27
Cambridge Square Apts KY 221D4	7.500	11/01/19	1,088,138.59
Carnaby Square Apts KY 221D4	7.500	06/01/19	1,116,762.08
Carrollton Village Apts KY 221D4	7.500	09/01/20	1,800,636.26
Carter Court Apts KY 221D4	7.500	09/01/20	1,187,967.66
Congregational Home Kan 231	5.250	07/01/04	783,382.60
Coolavin Apts KY 221D4	7.500	04/01/22	2,927,200.30
Denver Ed Sr Citzns 231	5.250	11/01/03	426,579.46
Dixie Apts KY 221D4	7.500	05/01/18	1,018,067.38
Ephraim McDowell Hosp KY	9.000	01/01/01	1,349,799.05
Ferndale Apts KY 221D4	7.500	08/01/23	3,478,521.71
Gainesway Village KY 221D4	7.500	02/01/19	1,473,523.74
Glenbrook Park KY 221D4	7.500	12/01/21	2,287,374.26
Grand Central Apts KY 221D4	7.500	03/01/25	2,171,395.33
Grandview Apts KY 223F	8.875	08/01/29	1,321,752.37
Greater Corbin Mnr KY 221D4	7.500	03/01/21	3,247,927.41
Hallmark Plaza KY 223F	8.500	06/01/11	947,510.98
Huntington Apts Ky 223F	7.500	08/01/28	2,393,852.64
Jackson Valley Apts KY 221D4	7.500	08/01/20	1,804,647.15
Jamestown Manor Ltd KY 221D4	7.500	02/01/22	1,424,866.49
Lakeview Estates KY 221D4	7.500	01/01/20	1,018,054.75
Lebanon Apts KY 221D4	7.500	02/01/20	1,094,110.35
Lighthouse Sq Apts KY 223F	7.600	01/01/27	4,657,284.66
Lin Meadows Homes KY 221D4	7.500	11/01/22	251,668.18
Locust Ridge KY 221D4	7.500	10/10/21	1,755,267.87
Longmont Christian Hsg 231	5.250	03/01/03	254,716.77
Madison Ave Apts KY 221D4	7.500	09/01/20	1,778,671.57
Manchester Heights Apts KY 221D4	7.500	06/01/19	1,112,163.92
Middletown Apts KY 221D4	7.500	02/01/18	940,973.81
Montgomery Square Apts KY 221D4	7.500	05/01/19	1,111,303.38
Mountain Manor KY 232	8.950	12/01/35	4,233,428.74
Mt Lebanon Cedars KY 221D3	7.500	03/01/23	2,469,475.29
Oak Tree Villa Apts KY 221D4	7.500	05/01/23	3,259,683.25
Panorama West KY 236	8.500	12/01/12	386,729.25
Park Regency Apts KY 221D4	7.625	05/01/28	2,101,606.34
Pine Ridge Apts KY 221D4	7.500	09/01/18	747,352.75
Pinecreek Apts KY 221D4	7.500	10/01/17	512,288.93

OTHER FIXED INCOME INVESTMENTS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE OR REMAINING PRINCIPAL BALANCE
PROJECT MORTGAGES (FHA & GNMA)(CONT):			
Regency Park Apts KY 221D4	7.500	05/01/18	\$ 866,066.27
Regency Park BG KY 221D4	7.500	02/01/23	3,441,326.45
Ridgeway Apts KY 221D4	7.500	02/01/19	947,212.01
Rucker Village Apts KY 221D4	7.500	03/01/20	994,230.70
Salem Village I 232 ILL	7.750	03/01/16	889,598.07
Salem Village II 231 ILL	7.750	10/01/16	3,059,904.01
Sandefur Manor KY 221D4	7.500	01/01/20	863,455.42
Shepherdsville VLG KY 221D4	7.500	05/01/20	1,250,497.43
Shively Apts KY 221D4	7.500	10/01/21	2,239,823.15
Southside Manor KY 221D4	7.500	02/01/19	1,287,420.60
Southwind Apts KY 223F	8.750	03/15/35	2,250,209.55
Town Branch Apts KY 221D4	7.500	11/01/23	706,996.72
Tree Top Apts KY 221D4	7.500	11/01/20	1,043,214.37
Vernon Manor Ltd KY 221D4	7.500	11/01/22	846,292.33
Village Square Apts KY 223F	9.000	12/01/29	1,734,888.65
Walnut Hill Apts KY 221D4	7.500	05/01/19	1,493,157.71
Wessington House Apts TN 221D4	7.500	02/01/22	1,724,822.57
Westchester Circle KY 221D4	7.500	04/01/19	3,834,911.11
Westwood Apts KY 221D4	7.500	10/01/23	1,130,041.31
Wilderness Trail Mnr KY 221D4	7.500	03/01/23	5,330,493.69
Wildwood Apts KY 221D4	7.500	08/01/20	1,728,475.44
Willow Creek Apts KY 221D4	7.500	08/01/23	1,305,253.51
Woodsvlew Apts KY 221D4	7.500	01/01/19	1,294,107.60
Yorktown Apts KY 223F	7.500	06/01/28	5,734,097.15
Total Project Mortgages (FHA & GNMA)			\$ 116,996,726.77
STATE AND LOCAL GOVERNMENT ISSUES:			
Ky Infrastructure Auth Bonds 1995-K	8.400	06/01/00	\$ 1,205,000.00
Total State and Local Government Issues			\$ 1,205,000.00
Total Other Fixed Income Investments			\$ 120,166,419.74
TOTAL FIXED INCOME INVESTMENTS			\$ 4,014,237,342.20

INVESTMENT SECTION

REAL ESTATE EQUITY**PAR VALUE OR REMAINING PRINCIPAL
BALANCE**

SECURITY**Real Estate Equity**

FIA Profile Fund I - 1500 Units	\$ 5,465,061.27
K Mart Store Cold Springs KY	6,415,000.00
K Mart Store Terre Haute IN	12,509,615.00
K Mart Store Winchester KY	2,715,512.53
Kroger Revco Bowling Green KY	2,792,467.00
Kroger Revco Owensboro KY	2,232,400.00
Kroger Store Georgetown KY	2,186,000.00
Kroger Store Richmond KY	2,305,000.00
Lowe's Store Conroe TX	7,859,747.00
Lowe's Store Lafayette IN	7,600,000.00
Lowe's Store Marion IN	5,600,000.00
Lowe's Store Paducah KY	7,351,000.00
Lowe's Store Pikeville KY	5,530,000.00
Lowe's Store Sherman TX	8,726,000.00
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
Walgreen's Store Chattanooga TN	2,772,000.00
Walgreen's Store Chattanooga TN	2,313,000.00
Walgreen's Store Clarksville IN	3,403,460.00
Walgreen's Store East Ridge TN	2,283,800.00
Walgreen's Store Jeff'ville IN	2,692,894.00
Walgreen's Store Knoxville TN	1,954,945.00
Walgreen's Store Nashville TN	2,588,000.00
Wal-Mart Store Hardinsburg KY	965,000.00
Wal-Mart Store Jefferson City TN	8,599,000.00
Wal-Mart Store Paris KY	1,200,000.00
Wal-Mart Store Princeton KY	2,913,682.00
Wal-Mart Store Shelbyville KY	1,600,000.00
Wal-Mart Store Williamstown KY	1,090,000.00
Winn Dixie Bullitt Cty KY #1669	3,013,000.00
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**\$ 146,756,626.56**

COMMON STOCKS

Stock	NUMBER OF SHARES	COST
3 Com Corp	50,000.000	\$ 2,526,565.00
360 Communications Co	113,366.000	2,624,396.65
A T & T Corp	600,000.000	34,238,810.00
Abbott Laboratories	964,000.000	33,585,389.79
ABCBancorp	2,300.000	34,931.25
Aetna Life & Casualty Co	145,900.000	9,654,868.80
Air Express Intl	8,400.000	190,050.00
Air Products & Chemicals	400,000.000	15,733,093.37
Airtouch Communications	100,000.000	3,211,310.00
Alaska Air Group Inc	15,700.000	362,379.50
Albany Intl Corp CL A	18,200.000	377,711.44
Allergan Inc	244,000.000	5,547,626.28
Alliance Pharm Corp	16,900.000	209,575.00
Alliedsignal Inc	100,000.000	5,533,080.00
Alza Corp	228,000.000	5,797,303.50
Amerada Hess	150,000.000	7,269,062.50
America West Airlines	25,100.000	464,903.37
American Exploration	22,000.000	225,763.23
American Express	210,000.000	8,766,146.00
American General Corp	350,000.000	6,761,037.50
American Home Products	662,000.000	28,198,237.17
American International Group	300,000.000	23,546,248.47
American Mobil Satellite	36,200.000	700,275.00
American National BCP	10,400.000	103,012.00
American Re	160,000.000	6,264,949.20
Amerisource Health Corp CL A	13,500.000	386,587.59
Ameritech Corp	300,000.000	11,938,141.85
Amoco Corp	418,000.000	22,426,452.98
AMP Inc	100,000.000	2,643,346.08
Amylin Pharmaceutical	22,100.000	153,130.55
Anchor Gaming	3,200.000	65,600.00
Aon Corp	296,150.000	9,295,530.90
Applebees Intl Inc	4,300.000	106,242.25
Apria Healthcare Group Inc	11,800.000	371,700.00
Arch Communications	2,500.000	58,125.00
Atlantic Richfield Co	200,000.000	23,507,816.79
Auspex Systems Inc	26,800.000	408,874.00
Automatic Data Processing Inc	520,400.000	19,696,472.26
Avon Products	428,200.000	15,728,161.02
Ballard Medical Products	8,900.000	151,486.89
Banc One	165,000.000	5,235,255.00
Bancfirst Corp	18,900.000	383,008.00
Bancorp Hawaii Inc	181,500.000	5,727,514.00
Bard (CR) Inc	147,000.000	3,965,593.64
Barrett Resources	9,700.000	245,558.50
Bay Networks Inc	50,000.000	2,401,250.00
Beckman Instruments	95,200.000	1,970,938.88
Beverly Enterprises	210,000.000	2,991,326.00
Big B Inc	21,900.000	218,790.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
Biogen Inc	24,800.000	\$ 738,553.58
Biomet Inc	29,700.000	578,866.00
Birmingham Steel	95,400.000	2,129,268.00
Bisys Group Inc	10,700.000	301,666.44
BMC Software	60,000.000	2,019,376.00
Boeing Co	275,300.000	21,816,397.50
Boole & Babbage Inc	11,350.000	281,861.50
Borg-Warner Automotive Inc	5,000.000	149,075.00
Boston Beer Co Inc A	10,000.000	240,675.00
Boston Technology	56,400.000	745,575.00
Bostonfed Bancorp Inc	16,400.000	195,146.95
Brinker Intl	70,000.000	1,118,166.00
Bristol-Myers Squibb	245,000.000	17,299,178.98
Browning-Ferris Ind	470,000.000	12,286,732.50
Burlington Northern Santa Fe Corp	448,700.000	32,292,531.04
Burlington Resources	200,000.000	7,500,100.98
Bush Boake Allen Inc	8,400.000	257,722.69
Combrex Corp	3,800.000	144,426.56
Camco Intl	7,400.000	177,321.96
Canandaigua Wine A	7,000.000	231,140.00
Canandaigua Wine B	2,000.000	70,560.00
Capital Re Corp	6,900.000	246,813.00
Caraustar Inds	18,000.000	362,750.00
Carbide/Graphite Group	23,300.000	334,937.50
Caremark Intl	331,250.000	5,211,662.50
Castle & Cooke Inc	30,400.000	494,297.28
Castle (A.M.) & Co	3,875.000	100,049.50
Cellular Comm Pr Inc	5,300.000	141,881.00
Centennial Cell CL A	5,700.000	104,949.27
Centerior Energy	157,700.000	1,724,065.13
Central & South West	626,000.000	13,780,766.95
Century Aluminum Co	2,900.000	39,446.56
Chase Manhattan	329,040.000	22,453,237.08
Chrysler Corp	129,231.000	6,166,124.89
Chubb Corp	270,000.000	11,660,387.50
Cigna Corp	114,400.000	13,419,285.02
Cilcorp Inc	2,200.000	95,832.00
Circon Corp	14,600.000	215,350.00
Cisco Systems	250,000.000	6,519,975.00
Citicorp	786,300.000	49,152,341.17
CMS Energy Corp	252,100.000	6,557,178.79
Coca Cola Co	758,000.000	24,084,970.34
Coca Cola Enterprises	348,400.000	5,267,648.29
Collagen Corp	15,800.000	294,700.00
Columbia/HCA Healthcare Corp	220,000.000	11,727,248.08
Comerica Inc	65,800.000	2,055,050.50
Commnet Cellular Inc	4,000.000	110,617.00
Compaq Computer	480,000.000	23,545,280.84
Computer Associates Int'l	185,000.000	8,744,763.08

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
Compuware Corp	3,600.000	\$ 75,045.11
Converse Technology Inc	70,700.000	1,669,075.50
Conrail Inc	100,000.000	7,343,100.00
Consolidated Edison Co NY	206,000.000	4,761,760.86
Continental Air CL B	7,000.000	291,482.81
Cooper Cameron Corp	24,271.000	498,687.49
Cooper Tire & Rubber	490,000.000	13,112,678.18
Corestates Financial Corp	375,000.000	9,836,000.00
Corning Inc	356,000.000	12,252,100.20
CPC International	130,000.000	6,955,886.55
C-Tec Corp	3,700.000	105,551.00
Cyrix Corp	12,800.000	418,355.94
Cytex Inds Inc	2,100.000	133,888.05
Dallas Semiconductor	11,600.000	251,818.28
Darden Restaurants Inc	180,000.000	2,121,697.22
Datalogix International Inc	17,000.000	163,426.40
Datascope Corp	9,400.000	217,575.00
Dekalb Genetics CL B	22,200.000	332,900.50
Devon Energy Corp	11,600.000	280,960.00
Devon Group Inc	3,200.000	102,496.00
Dial Corp	228,600.000	5,618,311.78
Dillard Dept Stores	508,000.000	16,275,007.35
Disney Walt Co (Holding Co)	200,000.000	9,074,560.00
Dover Corp	301,000.000	13,662,601.16
Dow Chemical Co	490,000.000	29,132,023.80
Downey Financial Corp	21,735.000	509,611.31
Dresser Industries	150,000.000	3,274,300.00
Dun & Bradstreet Corp	205,000.000	11,818,453.22
DuPont (EI) De Nemours	65,000.000	2,989,583.06
Duracell Intl	70,000.000	3,713,960.00
Eastman Kodak	135,000.000	6,595,664.50
EMC Corp	257,000.000	4,839,284.30
Emerson Electric	345,000.000	24,655,695.62
Englehard Corp	302,500.000	5,465,200.56
Ennis Business Forms	23,200.000	294,409.75
Enron Corp	507,400.000	18,199,151.96
Everest Reinsurance Holdings Inc	12,600.000	284,256.00
Evergreen Bancorp Inc	3,800.000	82,211.54
Executone Info Sys	46,100.000	124,325.27
Exxon Corp	168,000.000	13,693,310.40
Federal National Mortgage	420,000.000	10,969,087.50
Federal Realty	350,000.000	7,579,399.65
Federated Dept Stores Inc	327,100.000	8,120,580.60
Fidelity Federal Savings	7,300.000	121,275.00
FileNet Corp	18,000.000	921,875.40
First Bank System	100,000.000	5,054,508.39
First Chicago NBD Corp	275,000.000	8,539,746.04
First Citizens Bancshares CL A	3,100.000	168,987.50
First Commerce CL B	12,400.000	178,042.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
First Data Corp	284,700.000	\$ 13,941,301.71
First Union Corp	150,000.000	8,378,502.40
First Victoria National Bank	5,000.000	109,375.00
First Virginia Bank	165,000.000	5,982,225.22
Food Lion Class A	486,000.000	2,926,565.30
Ford Motor Co Del	240,300.000	6,921,372.89
Fore Systems Inc	22,600.000	844,982.80
Forest Labs Inc	161,600.000	6,933,780.60
Franklin Quest Co	3,400.000	94,126.96
Frontier Insurance Group	17,600.000	530,044.00
G & K Services Inc CL A	22,400.000	554,086.19
Gannett Co	579,000.000	33,110,165.20
Gencorp Inc	30,100.000	371,696.00
General Communications CL A	25,800.000	115,059.52
General Electric Co	775,000.000	46,086,095.25
General Instruments	220,000.000	6,248,110.00
General Mills	180,000.000	9,644,078.28
General Motors	200,000.000	10,486,055.52
General Re Corp	67,000.000	5,923,671.00
Genuine Parts	337,600.000	11,464,585.30
Genzyme Corp General Division	31,100.000	1,124,163.12
Gillette Co	385,000.000	16,194,888.89
Goodyear Tire & Rubber	271,700.000	12,053,748.70
Granite Construction Inc	5,000.000	99,375.00
Granite St Bankshares Inc	3,400.000	55,777.00
Gymboree Corp	47,900.000	1,180,352.72
Haemonetics Corp Ma	11,400.000	197,334.00
Harris Savings Bank	6,200.000	123,225.00
Healthcare & Retirement Corp	124,200.000	3,245,105.32
Heinz (HJ) Co	645,000.000	18,425,127.70
Hewlett Packard Co	310,000.000	17,094,516.82
Honeywell	180,100.000	6,489,232.26
Hubco Inc	5,600.000	113,705.83
Humana Inc	70,000.000	1,293,600.00
IBM	564,000.000	52,020,630.50
Ilex Corp	7,500.000	309,083.14
IES Inds Inc	8,600.000	240,736.47
Ikos Systems Inc	28,600.000	515,533.06
Imco Recycling Inc	6,800.000	158,091.42
Immunex Corp	13,600.000	228,287.50
Imperial Credit Inds	24,600.000	538,371.00
Independent Bank Ma	10,000.000	70,186.40
Inference Corp CL A	3,900.000	78,486.00
Information Resources	3,500.000	42,760.16
Inland Steel Ind Inc	140,900.000	4,825,081.80
Input/Output Inc	7,200.000	275,968.00
Intel Corp	320,000.000	12,352,194.21
Interim Services Inc	2,800.000	108,500.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
International Paper	600,000.000	\$ 22,140,549.50
Interpublic Group	113,900.000	3,988,060.11
Intl Cabletel Inc	5,500.000	144,772.01
Jacobs Engineering	9,900.000	239,385.44
Jacor Communications	9,500.000	261,106.42
James River Corp	131,000.000	3,488,047.41
Jefferson-Pilot	283,500.000	10,086,612.94
Johnson & Johnson	464,000.000	17,713,992.80
Johnstown Amer Inds	52,100.000	273,911.48
K N Energy	15,000.000	440,211.16
Kaiser Aluminum Corp	54,700.000	819,981.66
Kaye Group Inc	72,000.000	549,720.00
Kellogg Co	177,000.000	13,589,652.90
Kent Electronics Corp	8,400.000	364,491.96
Keystone Intl	16,800.000	350,492.10
Kimball International CL B	3,400.000	99,025.00
Kimberly-Clark Corp	358,900.000	24,161,968.94
Kinder-Care Learning Centers	7,800.000	107,250.00
Kinetic Concepts Inc	9,100.000	93,275.00
Kroger Co	95,700.000	3,615,488.58
Legg Mason Inc	18,000.000	514,080.00
Lennor Corp	10,400.000	240,911.92
LG&E Energy Corp	445,000.000	6,745,457.91
Libbey Inc	20,000.000	460,688.20
Lilly (Eli) & Co	324,000.000	18,785,201.40
Limited Inc	146,853.000	3,836,330.66
Liposome Co	11,000.000	202,475.00
Living Centers of America Inc	8,000.000	257,901.22
Lockheed Martin	326,700.000	20,635,766.49
Loctite Corp	80,000.000	3,026,444.00
Lodgenet Entertainment Corp	16,300.000	215,157.50
Long Island Bancorp	34,600.000	882,300.00
LTC Properties REIT	32,200.000	482,526.28
Lyondell Petrochemical	259,200.000	6,450,794.64
Macromedia Inc	5,300.000	207,031.25
Magainin Pharmaceutical	12,900.000	120,283.75
Magellan Health	9,500.000	217,882.50
Magna Group Inc	48,100.000	1,044,100.00
Mallinckrodt Group Inc	140,000.000	4,388,271.04
Monitowoc Inc	9,400.000	279,267.91
Manor Care Inc	155,500.000	3,551,202.83
Manufactured Home REIT	27,000.000	480,127.40
Marcam Corp	9,600.000	169,925.00
Markel Corp	6,700.000	482,601.00
Marsh & McLennan Inc	120,000.000	8,430,387.50
Mascotech Inc	31,500.000	348,614.25
Mattel Inc	537,250.000	13,206,875.17
Matthews Intl CL A	3,700.000	100,825.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
Maxxim Medical Inc	7,400.000	\$ 120,141.05
May Dept Stores Co	110,000.000	3,240,258.08
MBNA Corp	450,000.000	6,031,828.13
McAfee Assoc	5,700.000	173,874.07
McDonald's Corp	550,000.000	23,613,230.37
McGrath Rentcorp	6,500.000	133,445.00
MCI Communications	100,000.000	2,284,370.00
McLeod Inc CL A	1,300.000	26,000.00
Meadowbrook Insurance Group	12,500.000	380,187.10
Meditrust	260,000.000	7,886,266.50
Medpartners/Mullikin Inc	15,015.000	396,804.50
Melville Corp	340,500.000	12,293,476.83
Merck & Co	393,000.000	21,034,227.17
Mercury Interactive Corp	7,600.000	121,949.84
Metrocall Inc	5,800.000	123,388.70
Michael Foods Inc	12,700.000	142,346.00
Microsoft	255,000.000	19,177,816.42
Minerals Tech Inc	4,100.000	155,035.50
Minnesota Mining & Manufacturing	461,000.000	28,886,762.59
Mobil Corp	170,000.000	19,143,840.65
Molex Inc	70,312.000	1,403,100.00
Mondavi Robert CL A	9,600.000	278,736.00
Moovies Inc	8,900.000	135,903.00
Morgan (JP) & Co	220,000.000	15,565,474.50
Morton Intl	120,000.000	3,725,900.00
Mosinee Paper Corp	8,933.000	162,150.00
Mossimo Inc	300.000	5,400.00
MovieFone Inc CL A	97,200.000	506,609.25
Nalco Chemical	300,000.000	10,479,562.50
Nash Finch Co	5,900.000	99,562.50
National Semiconductor	261,100.000	4,652,654.17
Nationsbank Corp	70,000.000	4,815,540.00
Newfield Exploration	6,500.000	192,420.27
Nextel Communications	232,200.000	4,166,532.65
NL Industries	9,800.000	125,318.90
Norfolk Southern	145,000.000	6,218,028.55
North Star Universal	51,100.000	385,576.15
Northrop Gruman Inc	100,000.000	6,615,750.00
Northwest Savings Bank	10,000.000	124,842.50
Northwestern Public Service Co	2,900.000	81,030.51
Novell	180,000.000	4,046,850.00
Nynex	485,000.000	21,891,749.04
Oak Industries Inc	8,900.000	262,625.66
Office Depot Inc	340,000.000	7,674,460.00
Oil Dri Corp America	5,900.000	88,849.91
Old Republic Intl Corp	137,700.000	2,384,005.02
Owens-Illinois	195,800.000	2,235,854.15
Paragon Trade Brands	12,600.000	272,315.89
Patriot Amer REIT	20,000.000	480,649.43

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
Paxar Corp	18,300.000	\$ 262,218.87
Payless Shoesource Inc	17,600.000	292,154.42
Penney (JC)	300,000.000	13,794,690.00
Pentair Inc	112,300.000	1,703,425.30
Penwest Ltd	8,800.000	228,800.00
People's Choice TV	10,300.000	181,038.25
Peoples Telephone Co	33,200.000	99,932.00
Pepisco Inc	700,000.000	13,159,500.00
Petrolite Corp	2,800.000	70,406.00
Pfizer Inc	579,500.000	31,518,747.13
PHH Inc	170,000.000	4,986,875.00
Philip Morris Companies Inc	654,200.000	56,112,902.82
Physician Corp of Amer	24,800.000	373,887.25
Policy Management Systems Corp	54,000.000	2,748,575.00
Precision Castparts Corp	8,700.000	331,774.50
Premisys Communications Inc	5,900.000	264,536.90
Prism Solutions Inc	2,000.000	49,104.50
Procter & Gamble	455,000.000	32,627,485.75
Pronet Inc	3,800.000	111,166.00
Public Service Co NC	21,800.000	393,116.73
Public Service Co NM	24,100.000	434,072.25
Ralston Purina	70,000.000	4,373,951.00
Rational Software	2,300.000	49,450.00
Raytheon	487,000.000	23,208,403.62
Red Brick Systems Inc	100.000	1,800.00
Regions Financial Corp	330,000.000	13,127,059.90
Reinsurance Group of America	6,300.000	258,276.25
RJR Nabisco	106,900.000	3,384,969.15
Rohr Industries Inc	9,800.000	172,810.69
Rollins Truck Leasing	37,500.000	391,891.00
Rowan Companies Inc	46,000.000	367,032.50
Royal Dutch Petroleum	295,000.000	33,969,226.13
Safeco Corp	431,000.000	15,456,124.10
Sara Lee Corp	200,000.000	4,317,909.09
Schering-Plough	271,900.000	15,522,227.20
Schlumberger Ltd	230,000.000	14,821,473.00
Schulman A Inc	3,800.000	76,367.00
Seagate Technology	71,400.000	1,918,491.60
Seagull Energy Corp	5,700.000	106,848.50
Show Industries	691,600.000	10,728,330.89
Silicon Valley Group	26,400.000	626,200.00
Simpson Industries	6,400.000	61,200.00
Software Artistry Inc	12,500.000	122,488.52
Sonat Offshore Drilling	9,400.000	354,688.00
Southwestern Energy	20,000.000	261,472.90
Sports Authority Inc	30,700.000	795,131.89
Sprint Corp	177,100.000	6,452,144.07
SPS Technologies Inc	2,900.000	174,055.38
Standard Products Co	21,000.000	351,377.25

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
Starwood Lodging Tr REIT	17,400.000	\$ 501,368.61
State Street Boston Corp	267,900.000	10,697,121.64
Sterling Software Inc	2,200.000	169,444.00
Stewart Enterprises Inc CL A	3,300.000	97,691.00
Storage USA Inc REIT	15,600.000	469,474.00
Stratus Computer	17,100.000	575,579.60
Suiza Foods Corp	10,000.000	140,000.00
Sunstone Hotel REIT	52,800.000	483,425.00
Suntrust Banks	400,000.000	12,090,194.12
Super Valu Stores	280,000.000	7,340,850.00
Swift Transportation	15,600.000	263,250.00
Sysco Corp	120,000.000	2,701,287.50
Systems & Comp Tech	4,200.000	82,647.00
Talbots Inc	125,000.000	3,610,625.00
Temple-Inland	175,000.000	8,166,228.63
Tetra Technologies	7,000.000	116,375.00
Texaco Inc	225,000.000	13,105,725.00
Texas Regional Bancshares A	10,500.000	233,625.00
Texas Utilities Co	607,000.000	20,442,757.30
Textron Inc	110,000.000	2,829,721.05
Thomas & Betts	152,000.000	5,198,085.00
Timken Co	66,200.000	2,373,108.97
Titan Wheel Int'l Inc	17,100.000	290,386.85
Tommy Hilfiger Corp	19,300.000	866,042.22
Toys 'R' Us (Holding Co)	100,000.000	3,436,710.00
Transamerica Corp	63,200.000	2,880,125.72
Transport Corp of America	13,000.000	162,875.00
Trico Bancshares	17,600.000	278,985.00
U S Bancorp Ore	161,700.000	4,289,465.88
U S Healthcare Inc	175,000.000	6,660,096.15
U S West Communications Group	230,000.000	5,036,595.10
Ultramar Corp	103,600.000	2,690,853.50
Unicom Corp	352,093.000	9,263,171.79
Unifirst Corp	5,500.000	133,626.00
Unilever N V	86,000.000	10,002,825.40
United Healthcare Corp	320,000.000	15,135,174.00
United Intl Hldgs A	26,100.000	377,736.50
United Technologies Corp	50,000.000	2,681,277.60
United WI Services	3,300.000	81,586.53
Unocal Corp	335,000.000	9,577,488.00
USF&G Corp	211,900.000	3,286,798.16
UST Inc	505,000.000	15,857,600.00
V F Corp	196,187.000	6,180,253.03
Valuevision Intl A	68,600.000	402,502.38
Ventritex Inc	21,300.000	336,441.12
Vermont Finl Svcs	16,600.000	534,664.15
Viacom Inc Class B	200,000.000	8,503,200.00
Vivra Inc	9,200.000	217,953.38
Vulcan Materials Co	185,000.000	8,124,087.50
Wachovia Corp	466,252.000	14,714,636.69

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	COST
Wal-Mart Stores	1,038,000.000	\$ 24,966,026.38
Warner Lambert	178,000.000	8,586,536.27
Watts Industries Inc Class A	16,300.000	345,631.46
Werner Enterprises	9,000.000	186,988.00
Westcorp Inc	51,765.000	984,158.24
Westvaco Corp	75,450.000	1,779,950.71
Whirlpool Corp	200,000.000	8,478,326.84
Whitman Corp	137,000.000	3,466,839.80
WMX Technologies	1,090,700.000	32,406,519.91
WPS Resources Corp	8,600.000	274,130.51
York International Corp	104,400.000	<u>3,833,901.59</u>
Total Common Stocks	58,463,778.000	\$ 2,303,120,110.42
Preferred Stocks	712,900.000	\$ 4,699,629.00
S & P 500 Stock Index	20,098,916.000	\$ 627,996,200.24
 TOTAL STOCKS	 79,275,594.000	 \$ 2,935,815,939.66
TOTAL EQUITY		\$ 3,082,572,566.22

TOTAL INVESTMENTS	\$ 7,096,809,908.42
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