

KTRS

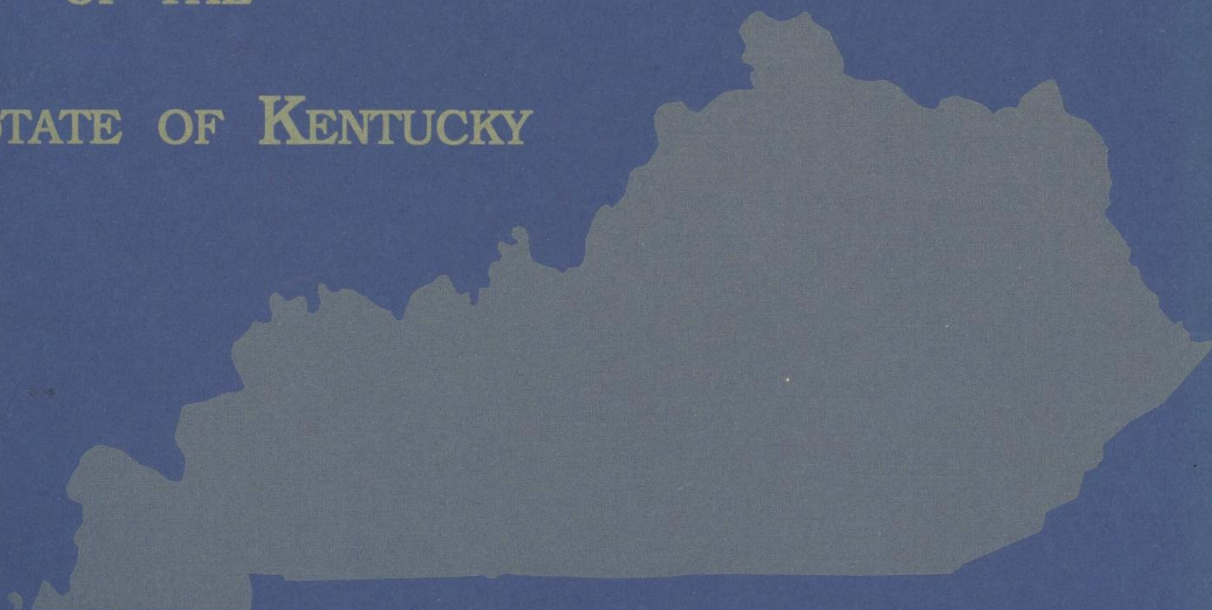
FOR THE FISCAL YEAR ENDED
JUNE 30, 1997

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

TEACHERS' RETIREMENT SYSTEM

OF THE

STATE OF KENTUCKY

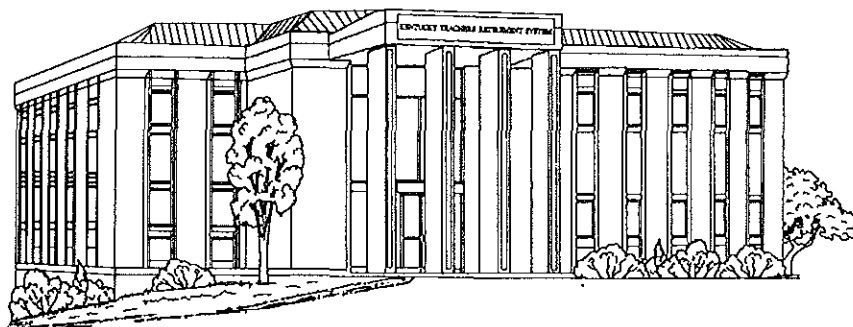


A COMPONENT UNIT

OF THE

COMMONWEALTH OF KENTUCKY

The 57th 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, 1997

**Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800**

**Pat N. Miller
Executive Secretary**

This report was prepared by the Teachers' Retirement System staff.

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Introductory Section

KTRS FISCAL YEAR ENDED JUNE 30, 1997

Chairperson's Letter

BOARD OF TRUSTEES

VIRGINIA MURRELL
CHAIRPERSON, SOMERSET

JUDITH R. GAMBILL
VICE CHAIRPERSON
ASHLAND

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PAINTSVILLE

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ELKTON

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FRANKFORT

J. KENNETH SHADOWEN
BENTON

BARBARA G. STERRETT
LEXINGTON

EX OFFICIO

WILMER S. CODY
CHIEF STATE SCHOOL
OFFICER

JOHN KENNEDY HAMILTON
STATE TREASURER

**TEACHERS' RETIREMENT SYSTEM
OF KENTUCKY**

PAT N. MILLER
Executive Secretary
(502) 573-3266

December 1, 1997

Dear Members:

The 1997 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 1996-97 fiscal year with \$9.4 billion in assets. The active membership totaled 50,445 and the retired membership was 26,283 with an annual payroll of \$431.6 million.

The Board of Trustees is totally committed to managing the retirement system funds in a prudent, professional manner. The retirement system is justly proud that the funding level of the system has shown continued improvement over the past twenty years. Every effort will be made to insure that the system continues to operate in a fiscally sound manner. Present and future members of the system deserve to be able to avail themselves of the best possible retirement as authorized by statute.

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
Chairperson
Board of Trustees



TEACHERS' RETIREMENT SYSTEM OF KENTUCKY

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

December 1, 1997

Dear Governor Patton:

It is my pleasure to submit the 57th 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, 1997.

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 required supplementary 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. This year KTRS implemented GASB 25 which requires investment income to include net appreciation in fair value of investments. Total additions (contributions and net investment income) for the fiscal year were \$2.0 billion for the defined benefit plan, while the additions to the medical insurance plan and the tax-sheltered annuity plan were \$65.8 and \$2.9 million respectively. There were no

LETTER OF TRANSMITTAL

changes to the contribution rates in the defined benefit and medical insurance plans. The tax-sheltered annuity plan no longer accepts contributions as of April 30, 1997.

EXPENSES

The primary purpose of a retirement system relates to the purpose for which it was created, the payment of benefits. These payments, along with refunds of contributions to terminated employees, insurance benefits of retired teachers, and the cost of administering the system, comprise the total expenses. The total expenses of the tax-sheltered annuity plan were \$25.4 million, consisting primarily of refunds. All contributing members of the tax-sheltered annuity plan not receiving annuity payments were required to transfer or refund their accounts. The total expenses of the medical insurance plan were \$67.9 million. The majority of that amount is composed of health premiums and actual medical expenses. The defined benefit plan generated a total of \$443.0 million of expenses which are detailed as follows:

EXPENSES	(Millions)
Retiree Benefits	\$ 388.2
Disability Benefits	21.8
Survivor/Death Benefits	21.5
Refunds	8.0
Administration	3.5

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, and the System's professional staff in evaluating investments.

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, 1997. This report reflects that the System's assets totaled \$8.8 billion and the liabilities totaled \$9.9 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.

INVESTMENTS

The investment portfolio's earnings represent a substantial financial contribution to the System. Income from investments provides most of the funds used in paying member annuities. The investment portfolio experienced significant growth during the 1996-97 fiscal year. The portfolio's par value increased from \$7,096,809,908 to \$7,963,095,509. The growth of the portfolio primarily was due to investment income that included an unprecedented level of realized capital gains. Investment earnings exceeded \$1.5 billion. Employer and employee contributions also provided significant income to the portfolio.

The majority of earnings from the System's investment portfolio was the result of net appreciation in fair value of investments in the amount of \$1,179,662,596. The second largest earnings component, \$267,161,234, was generated in interest income earned on investments. Other income of \$103,222,361 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

KTRS MEDICAL INSURANCE PLAN

During the 1996-97 fiscal year KTRS medical costs continued to increase. 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 have their health insurance provided by plans in the State Health Alliance. Under this arrangement, KTRS provides a monthly supplement to assist the retiree and their dependents in purchasing their health insurance. Retirees 65 and over remain in the plan administered by KTRS. These retirees 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.

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, 1996. 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 nine consecutive years (fiscal years ended 1988-1996). 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,



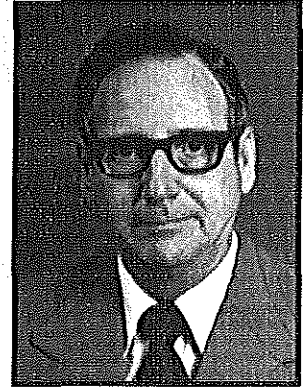
Pat N. Miller
Executive Secretary



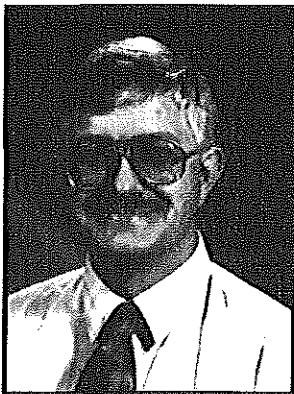
VIRGINIA MURRELL
CHAIRPERSON,
RETIRED TEACHER
TRUSTEE
SOMERSET



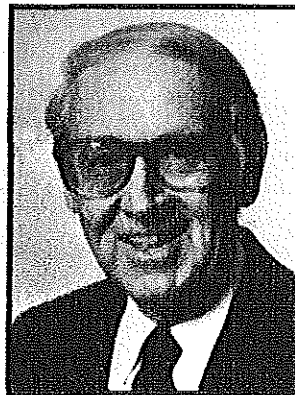
JUDITH GAMBILL
VICE-CHAIRPERSON,
TEACHER TRUSTEE
ASHLAND



ROBERT CONLEY
LAY TRUSTEE
PAINTSVILLE



ARTHUR GREEN
TEACHER TRUSTEE
ELKTON



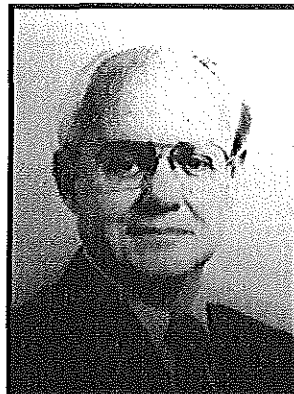
EARLE POWELL
LAY TRUSTEE
FRANKFORT



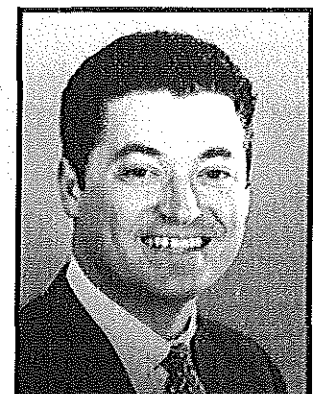
KENNETH SHADOWEN
TEACHER TRUSTEE
BENTON



BARBARA STERRETT
TEACHER TRUSTEE
LEXINGTON



WILMER CODY
EX-OFFICIO TRUSTEE
CHIEF STATE SCHOOL
OFFICER



JOHN KENNEDY
HAMILTON
EX-OFFICIO TRUSTEE
STATE TREASURER

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

Todd Investment Advisors
3160 National City Tower
Louisville, Kentucky 40202

FIXED INCOME MANAGER

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

EQUITY MANAGERS

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Suite 102
209 South LaSalle Street
Chicago, Illinois 60604-1295

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

Wellington Management Company
75 State Street
Boston, Massachusetts 02109

INVESTMENT CONSULTANT

Becker, Burke Associates, Inc.
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Chicago, Illinois 60601

INVESTMENT CUSTODIAN

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Farmers Bank Plaza
Frankfort, Kentucky 40601

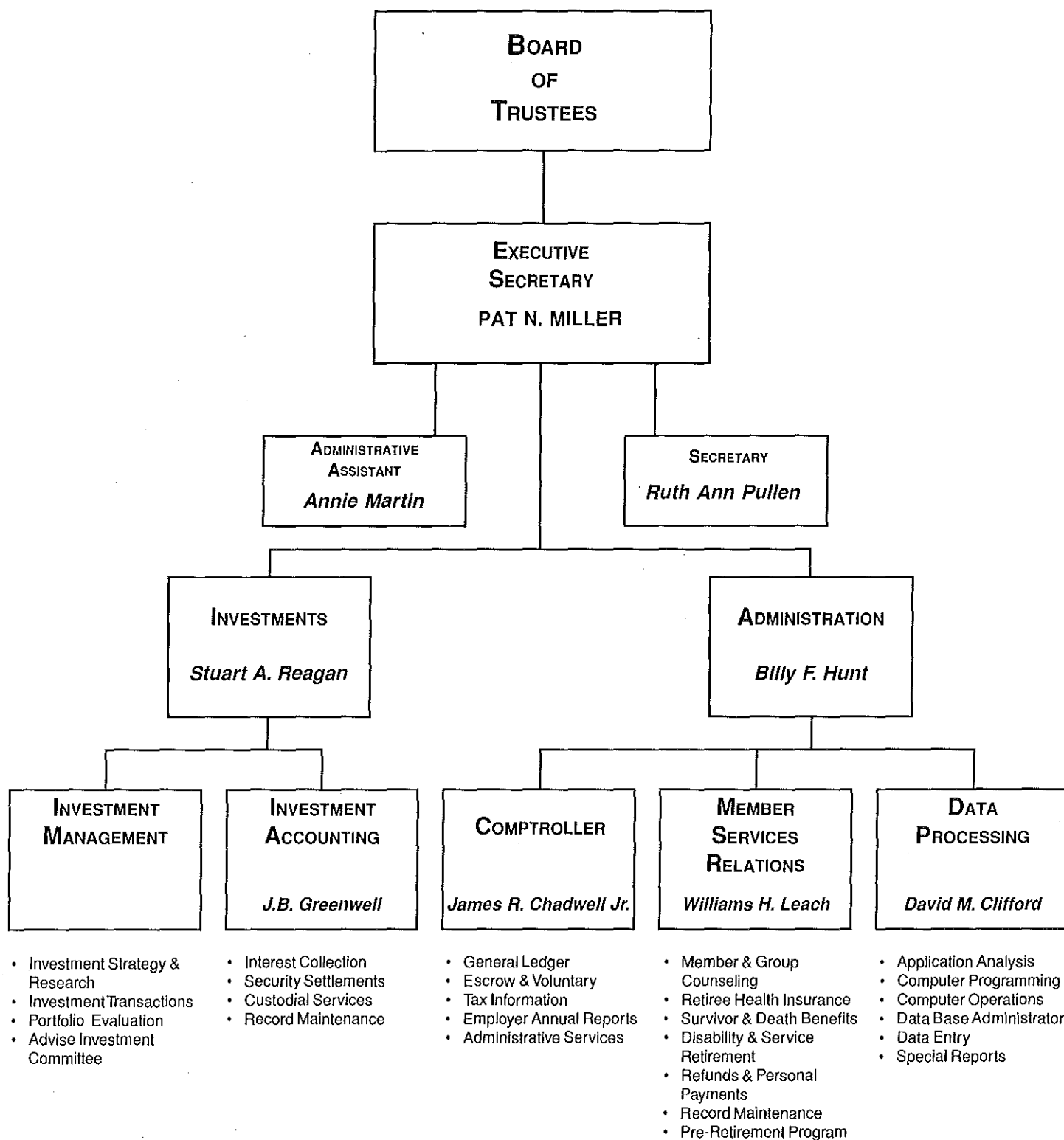
ACTUARY

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

AUDITOR

Charles T. Mitchell Company, LLP
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, 1996

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.



Linda N. Savitsky
President

Jeffrey L. Esser
Executive Director

Financial Section

KTRS FISCAL YEAR ENDED JUNE 30, 1997

INDEPENDENT AUDITORS REPORT

Charles T. Mitchell Company, LLP

Certified Public Accountants

201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40602-0698
TELEPHONE - (502) 227-7395
TELECOPIER - (502) 227-3005

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

|| C T M

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.

CHARLES T. MITCHELL, C.P.A.
CONSULTANT

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of net plan assets of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of June 30, 1997 and the related statement of changes in net plan assets for the year then ended. These component unit financial statements are the responsibility of the Teachers' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, 1997, and the changes in its net plan assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the System implemented Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

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 year ended June 30, 1997, 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 Company, LLP
October 2, 1997

STATEMENTS OF PLAN NET ASSETS

AS OF JUNE 30, 1997

ASSETS	DEFINED BENEFIT PLAN	MEDICAL INSURANCE PLAN	TAX-SHELTERED ANNUITY PLAN
Cash	\$ 357,273	\$ 0	\$ 0
Prepaid Expenses	192,497		
Receivables			
Contributions	22,431,826	1,825,675	
State of Kentucky	7,136,108		
Investment Income	60,130,187		
Other Receivables		1,320	
Total Receivables	\$ 89,698,121	\$ 1,826,995	
Investments, at fair value (See Note 4)			
Short Term Investments	403,032,905	34,623,511	1,643,584
Bonds and Mortgages	3,902,460,065		
Common Stock	4,892,577,550		
Real Estate	184,580,575		
Total Investments	\$ 9,382,651,095	\$ 34,623,511	\$ 1,643,584
Invested Security Lending Collateral	691,254,778		
Fixed Assets, at cost net of accumulated depreciation of \$789,754 (See Note 2)	2,745,252		
Total Assets	\$ 10,166,899,016	\$ 36,450,506	\$ 1,643,584
LIABILITIES			
Liabilities			
Disbursements in Excess of Cash Balance	3,784,144		
Accounts Payable	1,378,722		607,028
Treasurer's Unredeemed Checks	4,341		
Insurance Claims Payable		10,645,361	
Compensated Absences Payable	402,664		
Unearned Insurance Premium Receipts		66,520	
State of Kentucky		617,604	
Obligations under Securities Lending	\$ 691,254,778		
Total Liabilities	\$ 696,824,649	\$ 11,329,485	\$ 607,028
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 23.)	\$ 9,470,074,367	\$ 25,121,021	\$ 1,036,556

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

STATEMENTS OF CHANGES IN NET PLAN ASSETS

YEAR ENDED JUNE 30, 1997

ADDITIONS	DEFINED BENEFIT PLAN	MEDICAL INSURANCE PLAN	TAX-SHELTERED ANNUITY PLAN
Contributions			
Employer	293,733,987	34,873,431	
Member	182,182,151	29,486,665	903,147
Total Contributions	\$ 475,916,138	\$ 64,360,096	\$ 903,147
Investment Income			
Net Appreciation in Fair Value of Investments	\$ 1,179,662,596		
Interest	263,788,216	1,422,219	\$ 1,950,799
Dividends	86,536,579		
Rental Income, Net	15,988,924		
Securities Lending, Gross Earnings	27,199,676		
Gross Investment Income	\$ 1,573,175,991	\$ 1,422,219	\$ 1,950,799
Less Investment Expense	(3,572,854)		
Less Securities Lending Expense	(26,502,818)		
Net Investment Income	1,543,100,319	1,422,219	\$ 1,950,799
Total Additions	\$ 2,019,016,457	\$ 65,782,315	\$ 2,853,946
DEDUCTIONS			
Benefits	431,506,143		91,149
Refunds of Contributions	8,032,371	1,703	25,285,508
Insurance Expenses		64,966,674	
Administrative Expense	3,487,717	2,996,094	8,842
Total Deductions	\$ 443,026,231	\$ 67,964,471	\$ 25,385,499
Net Increase (Decrease)	1,575,990,226	(2,182,156)	(22,531,553)
Net Assets Held in Trust for Pension Benefits			
Beginning of year (as restated)	\$ 7,894,084,141	\$ 27,303,177	\$ 23,568,109
Ending of year	\$ 9,470,074,367	\$ 25,121,021	\$ 1,036,556

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1997

NOTE 1: DESCRIPTION OF PLAN

A. REPORTING ENTITY

The Teachers' Retirement System of the State of Kentucky (KTRS) was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS is a cost-sharing multiple-employer defined benefit plan established to provide pension benefit plan coverage for local school districts and other public educational agencies in the state.

B. PARTICIPANTS

As of June 30, 1997 a total of 203 employers participated in the plan. Employers are comprised of 176 local school districts, 5 universities, and 22 Department of Education agencies and other educational organizations.

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 classifications of members:

Active contributing members:	
Vested	37,975
Nonvested	12,470
Inactive members, both vested and nonvested	
Retirees and beneficiaries currently receiving benefits	4,375
	26,283
Total members, retirees and beneficiaries	81,103

C. BENEFIT PROVISIONS

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire with less than 27 years of service receive reduced retirement benefits. Non-university members 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 member's five (5) highest annual salaries. The system also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A death benefit payable upon the death of a member is the sum of \$2,000 for active contributing members and \$2,800 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases, and any other benefit amendments must be authorized by the General Assembly.

NOTE 4: DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (INCLUDING REPURCHASE AGREEMENTS)**A. SUMMARY OF INVESTMENTS**

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 chart on the following page represents the market values of the investments of the Kentucky Teachers' Retirement System for June 30, 1997.

The KTRS bank balance consists of cash totaling \$3,738,896 which is fully insured or collateralized with securities by KTRS or its agent in the entities name.

B. SECURITIES LENDING

Section 161.430 of the Kentucky Revised Statutes empowers the Board of Trustees with complete fiduciary responsibility for the funds of the System. The System operates a securities lending program in which it temporarily lends securities to qualified agents in exchange for a net fee and high quality collateral. U.S. Government and agency securities and selected domestic stocks are the types of securities that are lent. The System's securities subcustodian, The Bank of New York, acts as lending agent in exchanging securities for collateral. The collateral has a value of not less than 102% of the market value of the lent securities plus any accrued, unpaid distributions. The collateral consists of cash, marketable U.S. Government securities, and selected marketable U.S. Government agency securities approved by the System. Cash collateral is invested in short term obligations fully guaranteed by the United States Government and Government Repurchase Agreements with qualified agents. If a qualified agent defaults on a loan, the System is free to sell the loan collateral. The lending agent also indemnifies the System from any financial loss associated with a borrower's default and collateral inadequacy. As of June 30, 1997, the weighted average maturity of cash collateral investments was one day. At fiscal year end, the System has no credit risk exposure to borrowers, since the amounts the System owes the borrowers exceeds the amounts the borrowers owe the System.

NOTE 4: DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (INCLUDING REPURCHASE AGREEMENTS) CONTINUED . . .

SCHEDULE OF INVESTMENTS

	June 30, 1997
Short Term Investments	
Repurchase Agreements (1)	\$ 439,300,000
Total Short Term Investments	\$ 439,300,000
Bonds and Mortgages	
U.S. Government Obligations	
Treasury Notes & Bonds	\$ 1,808,390,467
Agencies	438,736,691
GNMA (Single Family)	37,088,676
Other Miscellaneous	184,255,392
Total U.S. Government Obligations	\$ 2,468,471,226
Corporate Bonds	
Industrials	\$ 338,595,609
Finance	830,100,728
Utility Bonds (Except Telephone)	67,089,258
Telephone Bonds	79,177,478
Railroad Obligations	97,745
Total Corporate Bonds	\$ 1,315,060,818
Other Fixed Income Investments	
FHA and VA Single Family Mortgages	\$ 1,310,980
Project Mortgages (FHA & GNMA)	111,300,590
State and Local Government Issues	6,316,451
Total Other Investments	\$ 118,928,021
Total Bonds and Mortgages	\$ 3,902,460,065
Stocks	\$ 4,892,577,550
Real Estate	\$ 184,580,575
Total Investments	\$ 9,418,918,190

(1) Includes \$34,623,511 of Medical Insurance Fund investments and \$1,643,584 of Tax-Sheltered Annuity Plan investments for June 30, 1997.

C. SUMMARY OF CATEGORIZED INVESTMENTS

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, 1997. 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 securities purchased by and held by the System's custodial agent. The agent loans securities owned by the System with the simultaneous receipt of cash collateral for the loaned securities. Cash collateral is reinvested in accordance with the System's securities lending agreement. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of KTRS.

FINANCIAL SECTION

NOTE 4: DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (INCLUDING REPURCHASE AGREEMENTS) CONTINUED . . .

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).

SUMMARY OF CATEGORIZED INVESTMENTS AS OF JUNE 30, 1997

		TOTAL FAIR VALUE
<u>Investments - Category 1</u>		
Repurchase Agreements (1)	\$	439,300,000
U.S. Government Obligations		
Not on Securities Loan	\$	1,757,795,213
On Securities Loan for Securities Collateral		69,096,072
Corporate Bonds		1,315,060,818
State and Local Government Issues		6,316,451
Common Stocks		4,886,134,675
<u>Investments - Category 3</u>		
Securities Lending Short-Term Collateral	\$	691,254,778
SUBTOTAL		\$9,164,958,007
<u>Investments - Not Categorized</u>		
Investments held by broker dealers under securities loans with cash collateral		
U.S. Government Obligations	\$	660,628,161
Common Stocks		6,442,875
Other Government Guaranteed Fixed Income Investments		93,563,350
Real Estate		184,580,575
TOTAL	\$	10,110,172,968

(1) Includes \$34,623,511 of Medical Insurance Fund investments and \$1,643,584 of Tax-Sheltered Annuity Plan investments.

NOTE 5: MEDICAL INSURANCE PLAN & POSTEMPLOYMENT BENEFITS**A. PLAN DESCRIPTION**

In addition to the required pension benefits described in Note 1, Kentucky Revised Statute 161.675 allows KTRS to provide postretirement healthcare benefits to members and dependents. To be eligible for medical benefits, the member must have retired either for service or disability, attain age 55 with 5 years of Kentucky service or had 27 years of Kentucky service.

For the period July 1, 1996 through December 31, 1996 all KTRS retirees and dependents were covered by the KTRS medical insurance plan. The plan was a self-insured plan with KTRS reimbursing a third-party administrator for eligible claims paid. The plan reimbursed 80% of covered expenses for medical and hospital costs incurred by pre-Medicare retirees and dependents. Claims submitted by Medicare eligible retirees and spouses were reimbursed for 80% of medical costs not covered by Medicare. Retirees paid from 10-19% of the single premium cost and spouses paid from 45-100% of the cost.

On January 1, 1997 the KTRS self insured plan was limited to KTRS members and spouses over the age of 65. All KTRS members under the age of 65 were offered insurance through an accountable health plan offered by the Kentucky Health Purchasing Alliance. The Alliance's primary function is to negotiate contracts with health plans to obtain the best price for persons covered through the Alliance. KTRS members in the Alliance were given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement was based on the member's service credit and age. Premiums over the monthly supplement were paid by the member.

KTRS members and spouses over age 65 in the KTRS self-insured plan were also given a supplement based on service credit. Members with 25 or more years of service received the highest supplement.

At June 30, 1997, KTRS insurance covered 23,373 retirees and 6,398 dependents.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Accounting**

The Medical Insurance Plan financial statements are prepared using the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Healthcare premiums charged to retired members are recognized when due and any premiums collected in advance are recognized as a liability.

Method Used to Value Investments

Since the investments are all short-term investments they are reported at cost, which is fair value.

C. CONTRIBUTIONS

The postretirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the postretirement healthcare benefits, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description help meet the medical expenses of the plan.

Since medical expenses have skyrocketed in the last decade, it has become increasingly difficult to meet the expenses of the retiree health insurance program. To fund the plan, the state legislatures in past years have approved transfers from the retirement plan appropriations to the Medical Insurance Plan. For the 1996-97 fiscal year, \$20 million was approved and transferred.

NOTE 5: MEDICAL INSURANCE PLAN & POSTEMPLOYMENT BENEFITS (CONTINUED . . .)**D. INCURRED BUT NOT REPORTED CLAIMS LIABILITIES**

July 1, 1991 KTRS became self-insured assuming all liability for postretirement care costs. Effective January 1, 1997, insurance plan participants under age 65 joined the Kentucky Health Purchasing Alliance as described in the preceding plan description. KTRS recognizes estimates of liabilities for self-insured unpaid claims that have incurred (both reported and unreported) using the development method. This method uses past observed patterns of time between the date the claim is incurred and the date the claim is paid 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, 1997.

		Fiscal Year 1997
Beginning Unpaid Claims Liability	\$	<u>12,752,491</u>
Claims Incurred		
Current Year		66,724,371
Decrease in Prior Years		<u>(1,757,697)</u>
Total Incurred Claims	\$	<u>64,966,674</u>
Claims Paid		
Current Year	\$	57,447,485
Prior Years		<u>9,626,319</u>
Total Payments	\$	<u>67,073,804</u>
Ending Unpaid Claims Liability	\$	<u>10,645,361</u>

NOTE 6: 403(b) TAX-SHELTERED ANNUITY PLAN**A. PLAN DESCRIPTION**

KTRS has, in prior years, administered a salary deferral program as permitted by section 403(b) of the Internal Revenue Code. Under this program members were able to voluntarily defer a portion of their compensation within the limits established by the applicable laws and regulations. However, the System's Board of Trustees determined that the cost of providing the necessary services to assure the System of continuing compliance with these laws and regulations was not economically feasible due to the limited participation in the program by the System's members. The Board decided, therefore, to discontinue offering the program as of April 30, 1997. Members who were not receiving annuities from their account as of April 30, 1997, were able to transfer their respective accounts directly into other tax-sheltered plans on a tax-free basis. The 101 members who were receiving annuities will continue to receive distributions according to the terms of their respective elections.

B. SUMMARY OF SIGNIFICANT POLICIES**Basis of Accounting**

The Tax-sheltered Annuity Plan financial statements are prepared using an accrual basis of accounting. Contributions are no longer being accepted into the plan, therefore, there are no receivables to be recognized.

Method Used to Value Investments

Since the investments are all short-term investments they are reported at cost, which is fair value.

C. CONTRIBUTIONS

As stated in the plan description, contributions are made on a voluntary basis and limited by the internal revenue code. As of April 30, 1997, KTRS no longer accepts contributions into this plan.

**REQUIRED SUPPLEMENTAL SCHEDULE 1
SCHEDULE OF FUNDING PROGRESS
(DOLLAR AMOUNTS IN MILLIONS)**

VALUATION YEAR JUNE 30	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCURED LIABILITIES	UNFUNDED ACTUARIAL ACCURED LIABILITIES (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	a	b	(b-a)	(a/b)	c	[(b-a)/c]
1992	\$ 4,808.7	\$ 6,319.0	\$ 1,510.3	76.1%	\$ 1,669.2	90.5%
1993	5,454.6	6,852.7	1,398.1	79.6	1,696.9	82.4
1994	6,006.6	7,521.9	1,515.3	79.9	1,748.1	86.7
1995	6,621.2	8,210.0	1,588.8	80.7	1,819.8	87.3
1996	7,624.7	9,178.6	1,553.9	83.1	1,877.9	82.7
1997	8,789.9	9,906.2	1,116.3	88.7	1,925.0	58.0

The amounts reported in this schedule of funding progress do not include assets or liabilities for postemployment healthcare benefits, nor are the assets and liabilities of the tax-sheltered annuity plan included.

The actuarial value of assets is calculated using the modified market value as prescribed by KRS 161.400(2).

**REQUIRED SUPPLEMENTAL SCHEDULE 2
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(DOLLAR AMOUNTS IN MILLIONS)**

FISCAL YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTIONS	(1)	PERCENTAGE CONTRIBUTED
1992	\$ 275.4		100%
1993	280.4		100%
1994	289.5		100%
1995	298.4		100%
1996	307.1		100%
1997	328.6		100%

(1) The annual required contributions includes the Medical Insurance Plans contributions.

See accompanying notes to required supplementary schedules.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1: DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

The schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 1997, and each of the preceding five years. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented. Of note, the actuarial report published in this annual report is for June 30, 1996. Although KTRS receives current year information on actuarial accrued liabilities, actuarial valuation of assets and covered payroll (in order to present these schedules) the current year actuarial report is not published in time to be included in the actuarial section of this June 30, 1997 comprehensive financial annual report.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the retirement system. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of covered progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement.

NOTE 2: ACTUARIAL METHODOLOGIES AND ASSUMPTIONS

A. METHODOLOGIES

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 day. 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 11 year period using an open amortization approach.

B. ASSUMPTIONS

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 1997, the most recent published actuarial valuation include:

*	Assumed inflation rate	4.5%
*	Assumed investment rate	8.0%
*	Assumed projected salary increases	4.5% - 8.6%
*	Assumed post retirement benefit increase	1.5%

Actuarial Section

KTRS FISCAL YEAR ENDED JUNE 30, 1997

ACTUARY'S CERTIFICATION LETTER

BUCK CONSULTANTS

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

January 8, 1997

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

Ladies and Gentlemen:

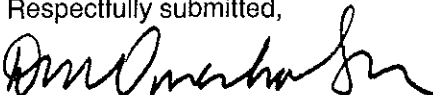
Section 161.400 of the law governing the operation of the Teachers' Retirement System of the State of Kentucky provides that at least once in each two-year period the actuary shall make an actuarial valuation of the System. We have submitted the results of the actuarial valuation prepared as of June 30, 1996. The valuation indicates that combined member and State contributions at the rate of 18.50% of university members' salaries and 21.46% of non-university members' salaries are sufficient to support the benefits of the System. In preparing the valuation, the actuary relied on data provided by the System. While not verifying the data at source, the actuary performed tests for consistency and reasonability.

The financing objective of the System is that contribution rates will remain relatively level over time as a percentage of payroll. The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the 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 practice 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
Principal and Consulting Actuary

Buck Consultants Inc.
404/955-2488 Fax 404/933-8336

**REPORT OF ACTUARY ON THE VALUATION
PREPARED AS OF JUNE 30, 1996**

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, 1996		JUNE 30, 1995	
Number of active members		51,429		50,903
Annual salaries	\$	1,877,888	\$	1,819,778
Number of annuitants and beneficiaries		24,898		23,953
Annual allowances	\$	399,282	\$	351,381
Assets for valuation purposes	\$	7,624,699	\$	6,621,235
Unfunded actuarial accrued liability	\$	1,294,190	\$	1,588,813
Statutory contribution rates:				
	UNIVERSITY	Non-UNIVERSITY	UNIVERSITY	Non-UNIVERSITY
Member	7.625%	9.105%	7.625%	9.105%
State	10.875	12.355	10.875	12.355
Total	18.50	21.46	18.50	21.46
Actuarially determined contribution rates:				
Normal	12.56%	16.76%	12.76%	16.86%
Accrued liability (balancing item)	5.94	4.70	5.74	4.60
Total	18.50%	21.46%	18.50%	21.46%
Accrued liability funding period	20 years		30 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, 1996 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 1996 Session of the Legislature and effective on the valuation date. Since the previous valuation, the System has been amended in order to reflect the following benefit improvements for members and beneficiaries of members who retired on or before July 1, 1996: (i) a one-time 1.0% increase on the first \$1,250 of monthly annuity for members and beneficiaries of members receiving benefits of at least \$834 per month, and (ii) a one-time 3.0% increase for members and beneficiaries of members receiving benefits of less than \$834 per month. Provisions of the System which were taken into account in the current valuation are summarized in Schedule C.

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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, 1996 on the basis of which the valuation was prepared.

GROUP	NUMBER	ANNUAL SALARIES (\$1,000)
Men	14,129	\$ 578,726
Women	37,300	1,299,162
Total	51,429	\$ 1,877,888

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, 1996.

**THE NUMBER AND ANNUAL RETIREMENT ALLOWANCES OF
ANNUITANTS AND BENEFICIARIES ON THE ROLL AS OF JUNE 30, 1996**

GROUP	NUMBER	ANNUAL RETIREMENT ALLOWANCES (\$1,000)
Service Retirements	21,331	\$ 360,628
Disability Retirements	1,333	20,384
Beneficiaries of Deceased Members	1,916	16,719
Total	24,580	\$ 397,731

In addition, there are 318 beneficiaries entitled to term-certain only annuities totaling \$1,551,000 annually.

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

SECTION III - ASSETS

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

(A) TEACHERS' SAVINGS FUND

The Teachers' Savings Fund is the fund to which are credited all contributions made by members together with regular interest thereon. When a member retires by reason of service or disability, the amount of the member's accumulated contributions are transferred from the Teachers' Savings Fund to the Allowance Reserve Fund. If a survivor's benefit becomes payable, the member's accumulated contributions are transferred from the Teachers' Savings Fund to the Allowance Reserve Fund. Refunds of accumulated member contributions upon withdrawal or death are also made from this Fund. The assets credited to the Teachers' Savings Fund on June 30, 1996 amounted to \$1,805,336,437.

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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, 1996 amounted to \$1,863,301,992.

(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, 1996 amounted to \$403,548,921.

(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, 1996 the assets credited to this Fund amounted to \$2,929,373,199.

(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, 1996 amounted to \$27,303,177. 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, 1996 amounted to \$2,461,885. 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, 1996 amounted to \$23,568,109. This amount was not included in the assets used for valuation purposes.

The assets credited to this Fund as of June 30, 1996 amounted to \$0.

2. As of June 30, 1996 the total book value of assets held by the System amounted to \$7,054,893,720. Of this amount, \$7,001,560,549 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 1.089 to the book value of assets resulted in a modified market value of \$7,624,699,438 to be used for valuation purposes, as shown in the table on the following page.

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ACTUARIAL SECTION

ASSETS AS OF JUNE 30, 1996

FUND	ASSETS FOR VALUATION PURPOSES	OTHER ASSETS	TOTAL ASSETS
Teachers' Savings	\$ 1,805,336,437		\$ 1,805,336,437
State Accumulation	1,863,301,992		1,863,301,992
Allowance Reserve	403,548,921		403,548,921
Guarantee	2,929,373,199		2,929,373,199
Medical Insurance		\$ 27,303,177	27,303,177
Expense		2,461,885	2,461,885
Voluntary Member Contribution		23,568,109	23,568,109
Total	\$ 7,001,560,549	\$ 53,333,171	\$ 7,054,893,720
Market Value Adjustment	x 1.089		
Modified Market Value	\$ 7,624,699,438		

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 \$5,102,978 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 \$3,701,187 after adjustment for special appropriations remaining to be made toward funding minimum annuities and the 1982, 1987, 1989, 1990, 1991, 1992, 1993, 1994, 1995 and 1996 ad hoc increases, and the liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is \$114,724. The total actuarial accrued liability of the System amounts to \$8,918,889. Against these liabilities, the System has present assets for valuation purposes of \$7,624,699. When this amount is deducted from the actuarial accrued liability of \$8,918,889, there remains \$1,294,190 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 12.56% of payroll for university members and 16.76 % 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 12.56% of active university members' salaries are required to meet the cost of benefits currently accruing. The rate for non-university members is 16.76%. 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 5.94% for university members and 4.70% 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	12.56 %	16.76 %
Accrued Liability (balancing)	5.94	4.70
Total	18.50 %	21.46 %

5. The unfunded actuarial accrued liability amounts to \$1,294,190,000 as of the valuation date. Accrued liability contributions at the rate of 5.94% of active university members' payroll and 4.70% of non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over the 20 year period commencing June 30, 1996, 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 1995 and 1996.
- 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 a decrease in the funding period for the unfunded actuarial accrued liability from 30 years to 20 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, 1996**

GROUP	NUMBER
Retirees and Beneficiaries	24,898
Active Members:	
Vested	40,087
Non-vested	11,342
Total	76,327

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, 1996, 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	\$ 4,018,237
• Current employees:	
Accumulated contributions	1,805,336
Employer-Financed vested	2,378,879
Employer-financed nonvested	976,125
Total Pension Benefit Obligation	\$ 9,178,577
• Net assets available for benefits	\$ 7,001,561
• Unfunded Pension Benefit Obligation	\$ 2,177,016

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
6/30/96	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 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, 1996
(\$1,000's)

1. Actuarial Accrued Liability

Present value of prospective benefits payable in respect of:

(a) Present active members:

• Service retirement benefits	\$ 4,824,776
• Disability retirement benefits	144,502
• Death and survivor benefits	56,787
• Refunds of member contributions	76,913

Total \$ 5,102,978

(b) Present inactive members and members entitled to deferred vested benefits: \$ 114,724

(c) Present annuitants and beneficiaries

• Service retirement benefits	\$ 3,379,256
• Disability retirement benefits	152,367
• Death and survivor benefits	169,564

Total \$ 3,701,187

(d) Total actuarial accrued liability \$ 8,918,889

2. Present Assets for Valuation Purposes 7,624,699

3. Unfunded Actuarial Accrued Liability
[(1) minus (2)] \$ 1,294,190

4. Normal Contribution Rate

	<u>UNIVERSITY</u>	<u>NON-UNIVERSITY</u>
(a) Actuarial present value of benefits accruing annually	\$ 17,593	\$ 291,187
(b) Annual payroll of active members	140,021	1,737,867
(c) Normal contribution rate [4(a) divided by 4(b)]	12.56%	16.76%

SCHEDULE B
OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

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

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows (Adopted 1995):

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 1995):

MEN ANNUAL RATE OF					
AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
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.

WOMEN ANNUAL RATE OF					
AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
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, 1996. 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.

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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				PORTION OF ACCRUED LIABILITIES COVERED BY ASSETS		
	(1)	(2)	(3)	VALUATION ASSETS	(1)	(2)	(3)
	ACTIVE MEMBER CONTRIBUTIONS	RETIRANTS AND BENEFICIARIES	ACTIVE MEMBERS (EMPLOYER FINANCED PORTION)				
1992	\$ 1,345.2	\$ 2,139.3	\$ 2,834.5	\$ 4,808.7	100%	100%	47%
1993	1,463.7	2,461.5	2,927.5	5,454.6	100	100	52
1994	1,582.2	2,907.6	3,032.1	6,006.6	100	100	50
1995	1,691.7	3,281.5	3,236.8	6,621.2	100	100	51
1996	1,805.3	4,018.2	3,355.0	7,624.7	100	100	54
1997	1,893.5	4,575.5	3,437.3	8,789.9	100	100	68

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

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

FISCAL YEAR	(1) NUMBER OF ACTIVE MEMBERS	(2) TOTAL ANNUAL PAYROLL	(3) AVERAGE ANNUAL PAY	(4) % INCREASE (DECREASE) IN AVERAGE PAY
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
1997	50,445	1,962,675,946	38,907	6.6

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)		
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
1997	2,383	62.9	976	11.6	26,284	440.8	13.2	16,771

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

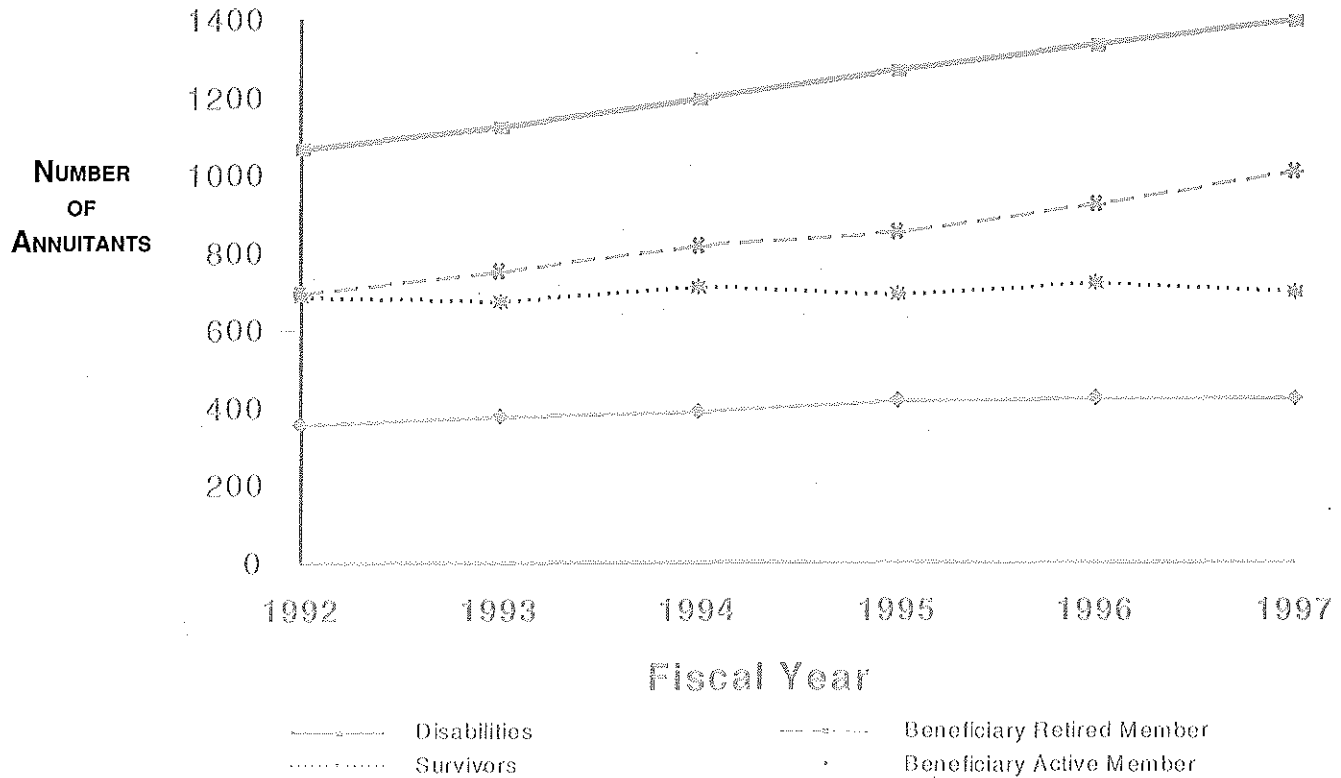
YEAR ENDED JUNE 30	ACTUARIAL ACCRUED LIABILITIES	VALUATION ASSETS	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (1) - (2)	VALUATION PAYROLL	ASSETS AS % OF LIABILITIES (2) ÷ (1)	UNFUNDED LIABILITIES AS % OF PAYROLL (3) ÷ (4)
1992	6,319.0	4,808.7	1,510.3	1,669.2	76.1%	90.5%
1993	6,852.7	5,454.6	1,398.1	1,696.9	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%
1997	9,906.2	8,789.9	1,116.3	1,925.0	88.7%	58.0%

The actuarial value of assets is calculated using the modified market value as prescribed by KRS 161.400(2).

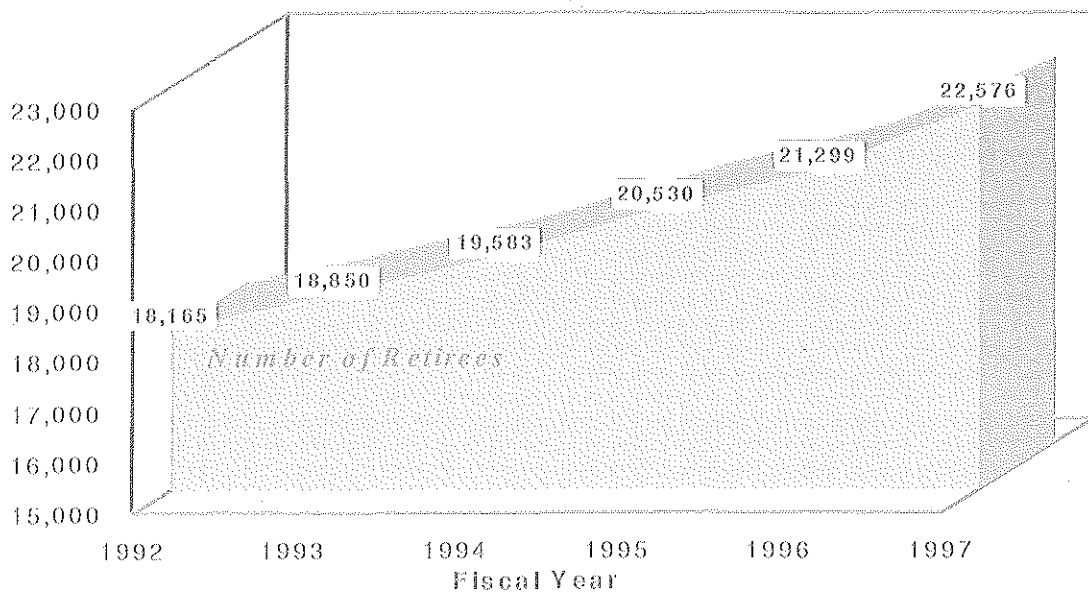
Statistical Section

KTRS FISCAL YEAR ENDED JUNE 30, 1997

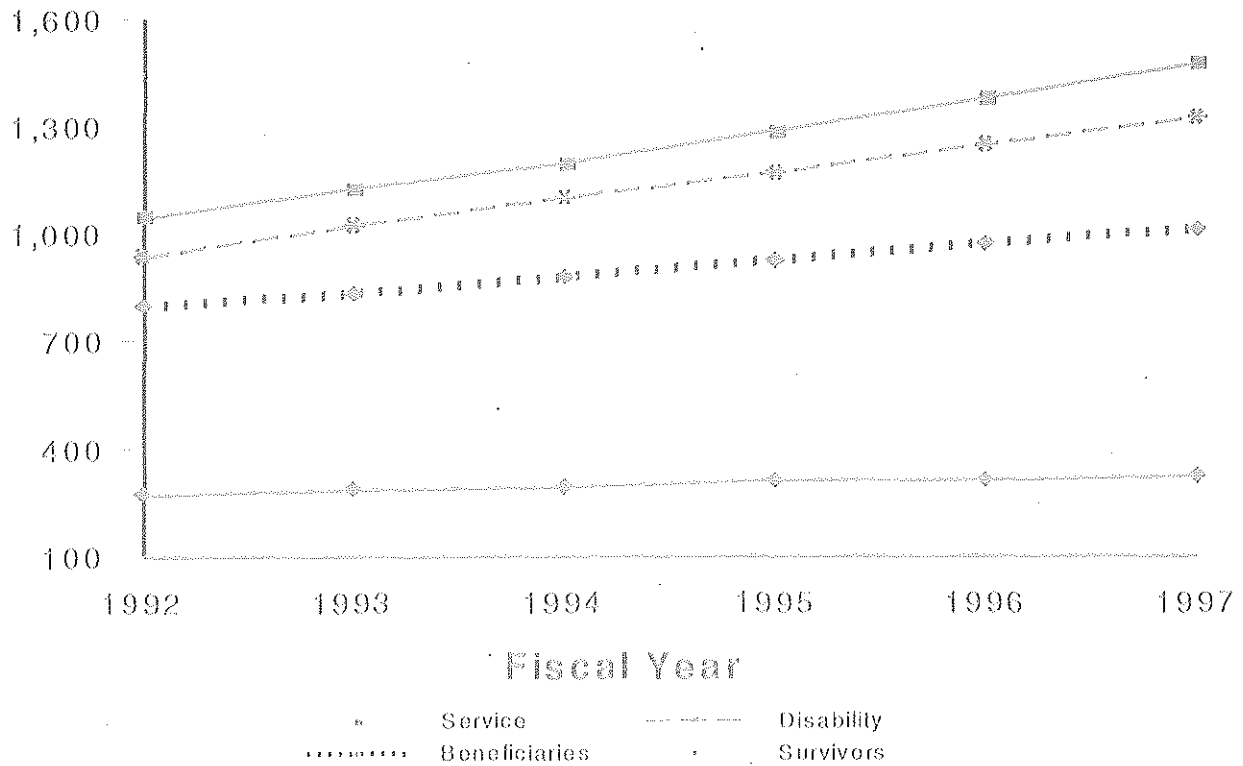
GROWTH IN ANNUITANTS (EXCEPT SERVICE RETIREMENTS)



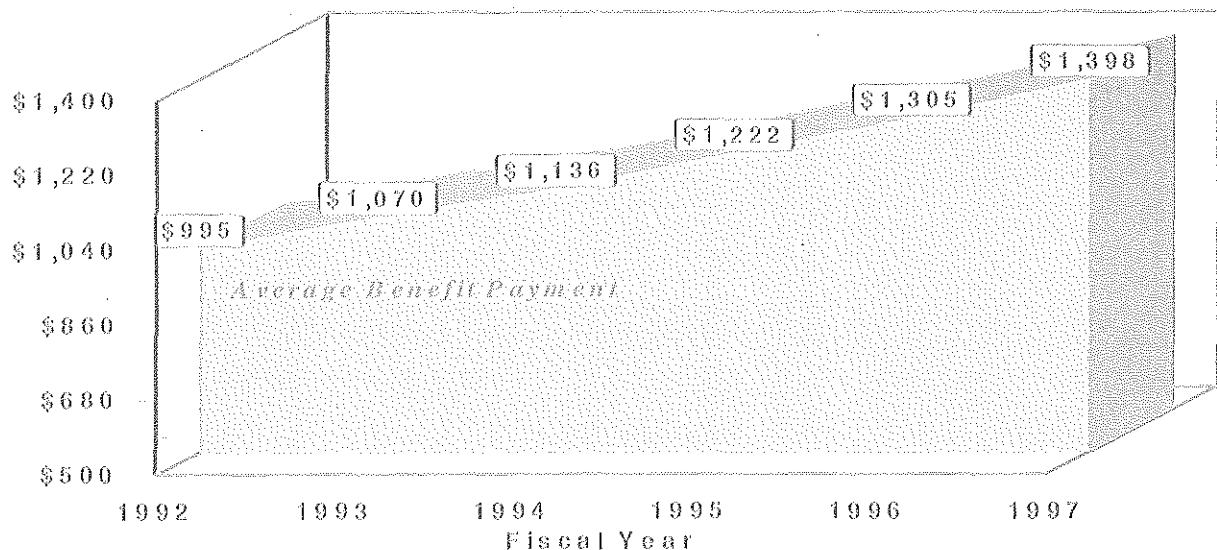
GROWTH IN SERVICE RETIREMENT



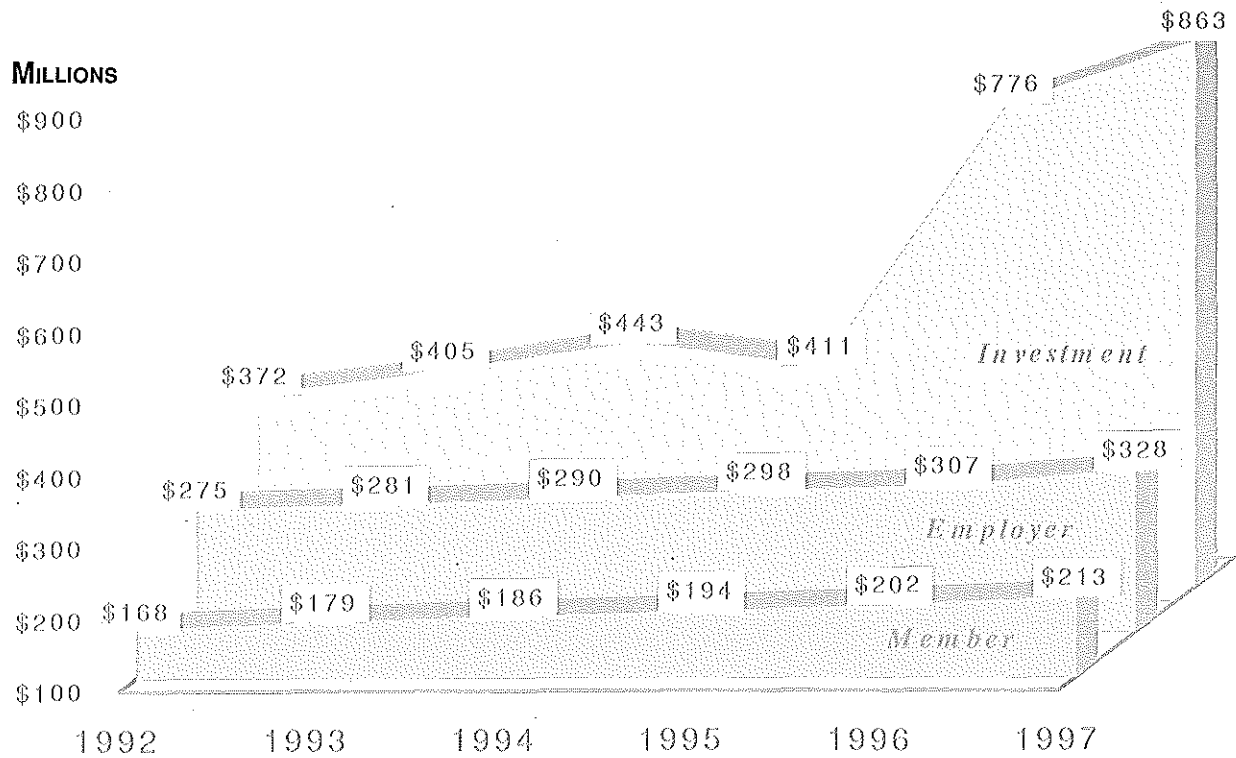
AVERAGE MONTHLY BENEFIT PAYMENT (ALL RECIPIENTS)



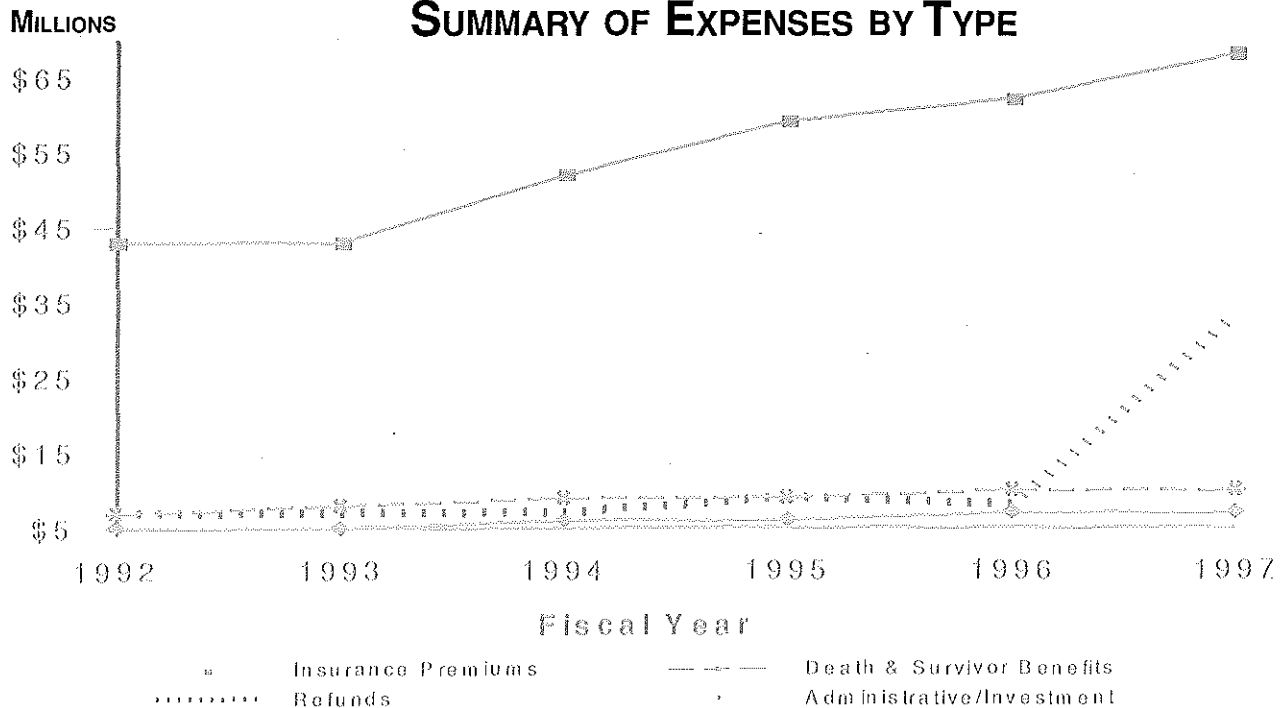
AVERAGE MONTHLY BENEFIT PAYMENT (SERVICE/DISABILITY RETIREMENT ONLY)



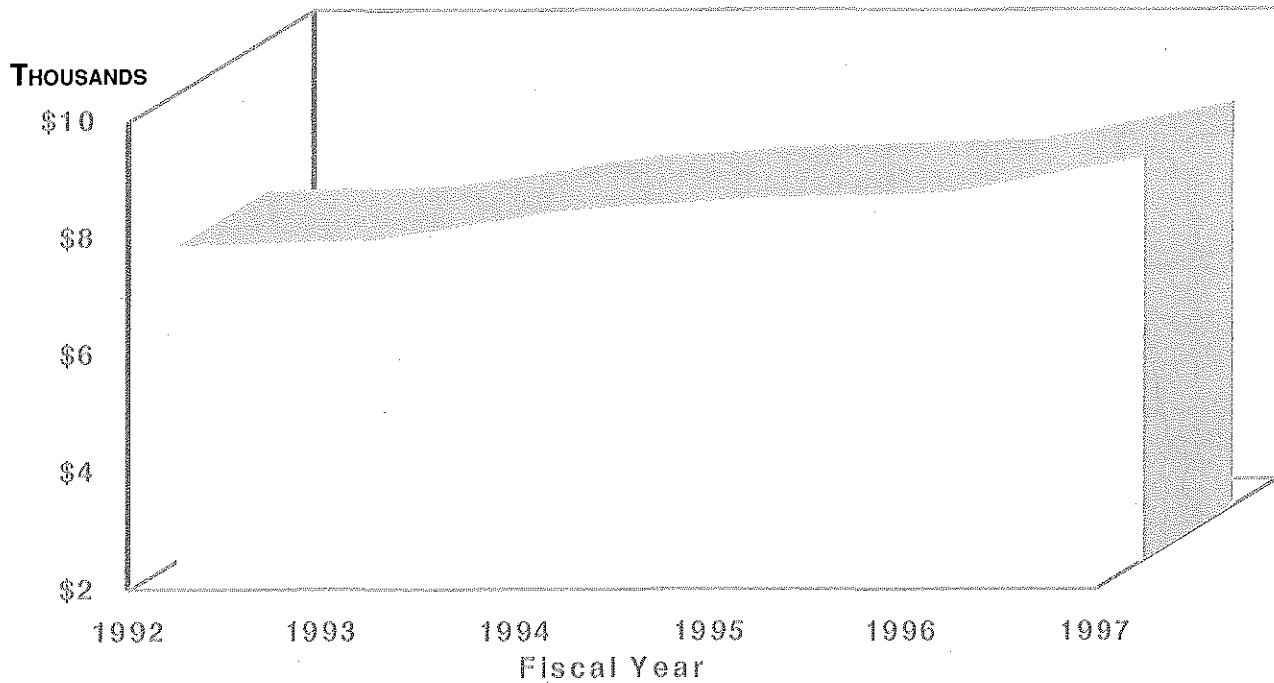
SUMMARY OF REVENUE BY SOURCE



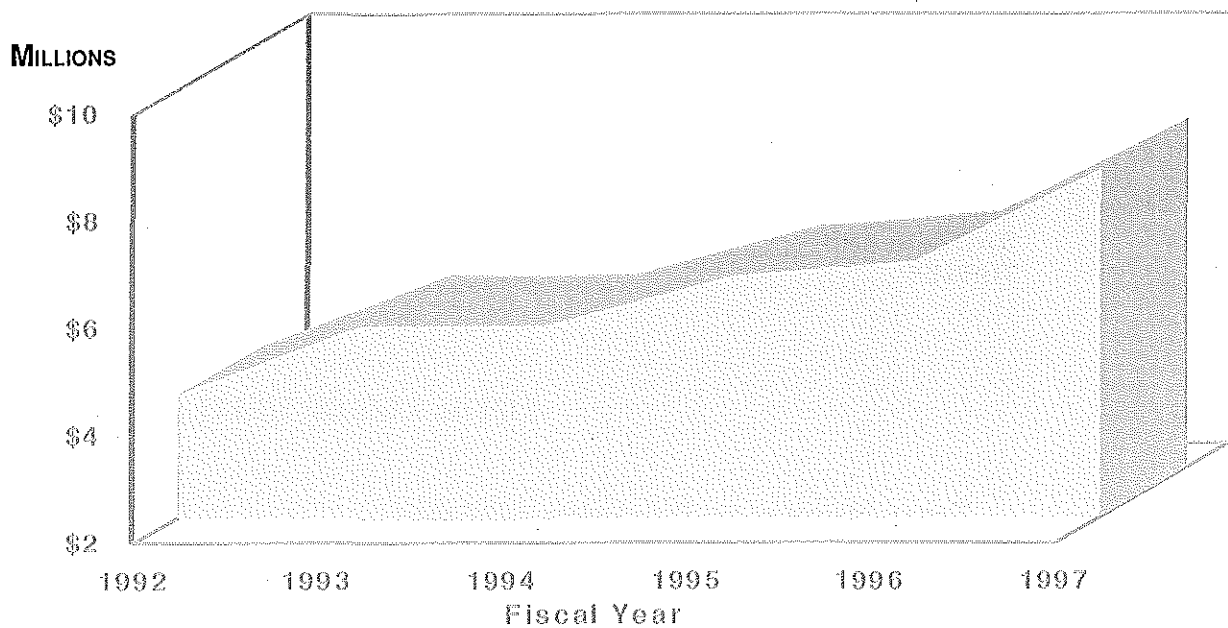
SUMMARY OF EXPENSES BY TYPE



AVERAGE SICK LEAVE PAYMENT



SUMMARY OF PERSONAL CHECK PAYMENTS



DISTRIBUTION OF RETIREMENT PAYMENTS WORLDWIDE
AS OF JUNE 30, 1997



OTHER:

CANADA	3
MEXICO	1
MILITARY APO	1
PUERTO RICO	1
PHILIPINES	2
SWITZERLAND	1
TURKEY	1

TOTAL OUT OF STATE = 2,712

TOTAL NUMBER OF PAYMENTS = 27,341
TOTAL AMOUNT OF PAYMENTS = \$429,447,810

DISTRIBUTION OF RETIREMENT PAYMENTS STATEWIDE

AS OF JUNE 30, 1997

COUNTY NAME	TOTAL PAYMENTS	NUMBER OF RECIPIENTS	COUNTY NAME	TOTAL PAYMENTS	NUMBER OF RECIPIENTS
Adair	\$ 1,998,826	131	Laurel	4,326,809	292
Allen	1,732,773	103	Lawrence	1,206,620	84
Anderson	1,416,610	93	Lee	1,037,026	73
Ballard	812,421	55	Leslie	1,579,008	103
Barren	3,863,281	248	Letcher	4,301,224	249
Bath	1,091,430	86	Lewis	1,741,170	110
Bell	4,399,279	307	Lincoln	2,979,203	183
Boone	5,550,612	316	Livingston	816,690	55
Bourbon	2,086,068	129	Logan	2,424,231	174
Boyd	5,534,936	349	Lyon	1,070,477	64
Boyle	3,322,464	206	Madison	10,821,303	631
Bracken	671,906	48	Magoffin	1,404,188	92
Breathitt	2,026,579	155	Marion	1,485,120	97
Breckinridge	1,552,779	98	Marshall	2,587,530	169
Bullitt	3,981,478	203	Martin	1,224,574	84
Butler	1,108,333	73	Mason	1,412,296	89
Caldwell	1,519,767	106	McCracken	6,790,098	416
Calloway	6,814,557	410	McCreary	2,120,384	119
Campbell	5,420,976	321	McLean	1,043,384	68
Carlisle	557,284	37	Meade	1,356,804	73
Carroll	795,496	48	Menifee	604,357	44
Carter	3,006,482	217	Mercer	2,317,904	164
Casey	1,740,858	124	Metcalfe	1,347,402	87
Christian	5,061,634	306	Monroe	1,940,123	131
Clark	2,579,365	173	Montgomery	1,955,053	132
Clay	3,271,300	206	Morgan	1,482,119	101
Clinton	1,526,694	90	Muhlenberg	2,728,387	179
Crittenden	566,931	42	Nelson	2,802,732	170
Cumberland	1,004,921	65	Nicholas	405,953	30
Daviess	9,233,423	561	Ohio	1,878,609	126
Edmonson	941,237	63	Oldham	3,351,083	199
Elliott	622,383	40	Owen	718,587	53
Estill	1,029,923	68	Owsley	1,013,535	74
Fayette	23,773,614	1,386	Pendleton	1,237,897	84
Fleming	1,215,359	81	Perry	4,112,422	283
Floyd	6,891,421	420	Pike	9,514,884	617
Franklin	7,636,309	508	Powell	1,074,041	71
Fulton	778,689	58	Pulaski	6,264,485	408
Gallatin	396,211	29	Robertson	121,505	11
Garrard	1,189,689	79	Rockcastle	2,009,673	135
Grant	1,283,862	81	Rowan	4,794,703	284
Graves	2,846,000	201	Russell	1,978,629	139
Grayson	2,157,997	142	Scott	2,173,213	130
Green	1,322,469	85	Shelby	2,623,716	173
Greenup	4,058,680	240	Simpson	1,390,838	92
Hancock	831,987	48	Spencer	640,294	49
Hardin	6,451,133	374	Taylor	2,461,364	155
Harlan	4,843,142	318	Todd	1,076,385	72
Harrison	1,823,978	114	Trigg	1,127,325	76
Hart	1,477,933	86	Trimble	320,791	24
Henderson	3,596,857	215	Union	1,238,122	86
Henry	1,534,959	105	Warren	14,328,433	843
Hickman	284,337	22	Washington	1,030,982	65
Hopkins	4,458,912	294	Wayne	2,579,770	153
Jackson	1,383,304	101	Webster	1,392,715	95
Jefferson	65,735,993	3,616	Whitley	5,650,746	380
Jessamine	2,083,472	130	Wolfe	1,164,305	77
Johnson	3,680,640	230	Woodford	1,950,248	114
Kenton	6,936,682	421			
Knott	2,365,313	153			
Knox	2,896,570	194			
Larue	1,697,690	90			
			TOTAL IN KENTUCKY	\$ 399,007,547	24,629

SCHEDULE OF BENEFIT EXPENSES BY TYPE

YEAR ENDED	SERVICE RETIRANTS	DISABILITY RETIRANTS	SURVIVORS	DEATH BENEFITS	REFUNDS
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
June 30, 1997	399,493,437	21,775,003	8,204,891	2,123,959	33,319,583 *

* Includes benefit and refund expenses of the tax-sheltered annuity plan.

**SUMMARY OF STATE BUDGET APPROPRIATION TO
TEACHERS' RETIREMENT SYSTEM FOR 1996-97**

EXPENSE ITEM	1996-97 STATE BUDGET APPROPRIATION	1996-97 STATE ACTUAL BUDGET REQUIREMENT
Match of Member Contributions *	\$ 218,600,000	\$ 216,672,326
Match of Personal Payments	8,325,000	7,069,630
Sick Leave (KRS 161.550)	17,068,300	24,728,591
Retiree Cost of Living Adjustment	25,246,900	25,246,900
Prior Service Increase	640,000	640,000
Minimum Benefit Adjustment	10,855,900	10,855,900
Increase Survivor Benefits	808,600	808,600
Handicapped Child Benefit	337,600	353,432
TOTALS	\$ 281,882,300	\$ 286,375,379
State Under-Appropriation for 1996-97	\$ (4,493,079)	

* 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.

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

Fiscal Year	Total Member Contributions	Employer/Federal Payments	Required State Match Contributions	Required Supplemental Appropriation	Required Sick Leave Payments	Total State Appropriation	(Deficit) Surplus State Funding
1940-44	\$ 2,063,717	\$	\$ 2,063,717	\$	\$	\$ 2,063,637	\$ (80)
1944-48	3,184,178		3,184,178			3,039,017	(145,160)
1948-52	4,951,458		4,951,458			5,090,848	139,390)
1952-56	7,267,163		7,267,163			6,494,102	(773,062)
1956-60	14,970,961		14,970,961			14,963,272	(7,689)
1960-64	25,945,897		25,945,897			25,938,763	(7,134)
1964-68	49,957,299	2,042,014	47,915,285			45,317,694	(2,597,591)
1968-72	82,922,869	6,044,865	76,878,005			80,091,951	3,213,946
1972-76	120,349,350	8,019,216	112,330,134			111,665,685	(664,449)
1976-80	189,072,371	12,044,186	177,028,185	75,010,028		256,784,030	4,745,817
1980-84	272,744,772	16,334,937	256,409,836	109,622,111	5,197,234	378,667,011	7,437,831
1984-88	413,932,416	21,417,604	392,514,811	141,251,827	13,341,243	515,932,177	(31,175,706)
1988-92	602,399,432	119,352,211(1)	483,347,221	133,545,987	28,978,117	634,358,200	(11,537,557)
1992-93	179,571,347	36,928,601	142,642,746	50,438,830	10,780,104	197,500,196	(6,361,484)
1993-94	184,892,279	37,404,797	147,487,482	52,025,072	12,211,189	205,772,522	(5,951,221)
1994-95	192,671,167	39,298,632	153,372,535	54,386,177	14,024,782	221,369,749	(413,745)
1995-96	199,682,976	40,664,321	159,018,655	56,210,098	16,292,516	229,495,844	(2,025,425)
1996-97	206,462,720	41,264,724	165,197,996	58,543,960	24,728,591	243,977,468	(4,493,079)

The state under-appropriation at June 30, 1997 is \$6,518,504. This amount is comprised of the 1995-96 \$2,025,425 deficit, and the current year contribution under-appropriation of \$4,493,079.

- (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.

STATISTICAL SECTION

SUMMARY OF FISCAL YEAR 1996-97 RETIREE SICK LEAVE PAYMENTS

Total Members Retiring	2,401
Total Members Receiving Sick Leave Payments	1,943
Total Amount of Sick Leave Payments (at 9.855% contribution rate)	\$17,252,857.93
Average Payment Per Retiree	\$8,879.49
Total Increase in Final Average Salary Base (FASB)	\$3,450,571.59
Average Increase in FASB	\$1,775.90
Total Service Credit of 1,943 Retirees	54,698.51
Average Service Credit of 1,943 Retirees	28.15

Average Yearly Increase		Service Credit		Retirement Factor		Average Yearly Annuity
\$1,775.90	X	14.15	X	2.00%	=	\$502.58
\$1,775.90	X	1.00	X	2.25%	=	\$39.96
\$1,775.90	X	13.00	X	2.50%	=	\$577.17
Average yearly annuity						\$1,119.70
Average monthly annuity						\$93.31

<u>Average Monthly Annuity</u>		<u>Present Value Factor Based on Average Age of 54</u>		<u>Number of Members With Sick Leave Payments</u>	
\$93.31	X	158.244	X	1,943	
Anticipated lifetime payout of additional annuity					\$28,689,847.66

FUNDING OF ADDITIONAL PAYOUT

Member Contributions	9.855%	X	\$17,252,857.93	=	\$1,700,269.15
State Contributions	13.105%	X	\$17,252,857.93	=	2,260,987.03
Total Member-State Contributions					\$3,961,256.17
Deficit:					
Anticipated Additional Payout					\$28,689,847.66
Less Total Member and State Contributions					3,961,256.17
Subtotal Unfunded Debt					\$24,728,591.49
Less Current Year Appropriation					\$17,068,300.00
Total Deficit*					\$7,660,291.49

* This amount has been included in the 1996-97 deficit.

**SCHOOL DISTRICTS ELECTING TO PAY FOR SICK LEAVE
UNDER KRS 161.155(8)
FISCAL YEAR 1996-97**

COUNTY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION	COUNTY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
Adair	3	\$ 28,687.67	Jefferson	255	2,435,319.40
Allen	3	38,259.97	Jessamine	6	39,392.54
Anderson	3	13,029.12	Johnson	12	118,652.65
Ballard	4	40,956.46	Kenton	18	143,042.63
Barren	9	95,194.83	Knott	19	205,524.71
Bath	24	162,067.37	Knox	29	186,306.03
Bell	32	287,775.75	Larue	4	39,922.98
Boone	22	205,035.75	Laurel	17	112,450.53
Bourbon	4	34,230.13	Lawrence	6	40,753.32
Boyd	5	30,300.46	Lee	3	6,525.31
Boyle	8	60,766.22	Leslie	1	83.00
Bracken	1	12,308.47	Letcher	10	88,548.43
Breathitt	40	378,124.82	Lewis	13	175,598.18
Breckinridge	5	39,828.31	Lincoln	9	68,428.20
Bullitt	26	276,609.73	Livingston	7	45,307.16
Butler	5	22,559.52	Logan	11	66,789.25
Caldwell	2	16,977.07	Lyon	2	8,634.40
Calloway	10	111,228.83	Madison	16	126,051.86
Campbell	18	222,825.67	Magoffin	17	183,262.09
Carlisle	3	24,280.77	Marion	7	46,836.94
Carroll	3	7,562.45	Marshall	13	172,411.36
Carter	31	325,139.62	Martin	5	37,923.39
Casey	7	44,363.26	Mason	8	100,991.99
Christian	14	107,482.80	McCracken	32	338,273.97
Clark	8	61,727.56	McCreary	28	103,774.95
Clay	16	74,294.15	Meade	4	49,028.21
Crittenden	1	9,065.96	Menifee	2	6,837.34
Cumberland	3	34,130.90	Mercer	5	49,606.80
Daviess	24	253,330.69	Metcalfe	8	83,691.63
Edmonson	6	35,062.42	Monroe	5	26,636.83
Elliott	1	1,366.72	Montgomery	22	190,315.57
Estill	2	11,703.30	Morgan	16	161,401.52
Fayette	94	911,224.49	Muhlenberg	13	112,549.17
Fleming	19	160,209.96	Nelson	15	192,735.76
Floyd	43	302,891.32	Ohio	9	64,902.70
Franklin	13	103,201.41	Oldham	13	115,178.40
Fulton	9	36,713.13	Owen	7	55,128.37
Garrard	4	52,978.39	Owsley	3	18,949.06
Grant	4	39,612.28	Pendleton	2	27,329.68
Graves	9	83,598.08	Perry	30	261,105.34
Grayson	9	70,314.25	Pike	119	1,074,086.39
Green	3	20,214.71	Powell	9	79,790.87
Greenup	7	67,993.72	Pulaski	23	190,500.45
Hancock	5	36,987.63	Rockcastle	6	34,771.80
Hardin	24	189,512.32	Rowan	1	5,757.08
Harlan	47	461,431.87	Russell	9	70,716.79
Harrison	7	88,293.56	Scott	11	72,554.66
Hart	8	67,627.20	Shelby	18	138,570.07
Henderson	19	169,867.99	Simpson	10	96,502.18
Henry	3	13,933.03	Spencer	3	29,502.79
Hickman	1	4,922.78	Taylor	6	75,274.88
Hopkins	31	278,918.62	Todd	3	14,870.22
Jackson	2	7,028.00	Trigg	5	25,681.37

STATISTICAL SECTION

**SCHOOL DISTRICTS ELECTING TO PAY FOR SICK LEAVE
UNDER KRS 161.155(8)
FISCAL YEAR 1996-97**

COUNTY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION	CITY SCHOOL DISTRICT	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
Trimble	6	\$ 50,191.58	Ashland	7	\$ 61,139.90
Union	8	52,338.71	Augusta	1	3,378.89
Warren	12	134,058.44	Bardstown	7	26,557.17
Washington	4	53,690.11	Berea	4	30,869.10
Wayne	4	64,421.71	Bowling Green	15	194,741.36
Webster	1	6,763.67	Burgin	1	854.19
Whitley	30	222,559.61	Campbellsville	5	73,169.65
Wolfe	3	24,862.51	Caverna	3	24,907.15
Woodford	1	7,126.84	Corbin	6	49,427.81
			Covington	21	172,841.52
			Danville	31	18,546.11
			Dawson	1	6,702.99
			Dayton	5	70,843.42
			Elizabethtown	9	79,773.51
			Eminence	2	11,076.41
			Erlanger-Elsmere	6	35,037.64
			Fairview	2	38,559.91
			Fort Thomas	6	19,204.16
			Frankfort	1	4,634.91
			Fulton	1	5,389.65
			Glasgow	7	74,014.72
			Harlan	2	26,332.82
			Hazard	6	62,787.92
			Jackson	2	14,547.65
			Jenkins	3	24,560.83
			Ludlow	4	48,215.53
			Mayfield	3	29,199.59
			Middlesboro	8	54,225.87
			Murray	5	45,982.75
			Newport	6	61,983.46
			Owensboro	23	262,384.47
			Paducah	8	54,115.38
			Paintsville	4	20,817.35
			Paris	2	18,594.01
			Pikeville	16	131,193.31
			Pineville	3	38,240.89
			Providence	2	13,686.86
			Raceland	2	15,519.23
			Russell	8	76,590.97
			Russellville	5	47,841.80
			Science Hill	1	2,547.03
			Somerset	5	25,528.36
			Walton-Verona	3	29,293.04
			West Point	1	9,397.87
			Williamsburg	8	49,168.65
			KY Valley Educ Cooperative	2	23,589.25

TOTAL	NUMBER OF MEMBERS	TOTAL ADDITIONAL COMPENSATION
FOR		
ALL DISTRICTS	1,943	\$17,252,857.93

SCHEDULE OF KTRS ANNUITANTS BY TYPE OF BENEFIT
AS OF JUNE 30, 1997

AMOUNT OF MONTHLY BENEFIT (\$)	NUMBERS OF ANNUITANTS	TYPE OF RETIREMENT*				
		1	2	3	4	5
1 - 200	1,519	652	12	606	59	190
201 - 400	1,275	1,069	8	61	137	0
401 - 600	1,462	1,074	165	12	211	0
601 - 800	1,865	1,497	143	1	224	0
801 - 1,000	2,731	2,380	140	0	211	0
1,001 - 1,200	2,453	2,173	238	0	42	0
1,201 - 1,400	2,366	2,130	198	1	37	0
1,401 - 1,600	2,452	2,181	231	2	38	0
1,601 - 1,800	2,616	2,321	256	3	36	0
1,801 - 2,000	2,217	2,018	171	3	25	0
Over 2,000	5,327	5,081	194	6	46	0
TOTALS	26,283	22,576	1,756	695	1,066	190

***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, 1997

BY AGE			BY SERVICE		
AGE	MALE	FEMALE	YEARS OF SERVICE	MALE	FEMALE
20-24	249	852			
25-29	1,396	4,350			
30-34	1,497	4,340			
35-39	1,573	4,891			
40-44	2,172	6,851			
45-49	3,305	8,524			
50-54	2,125	4,517			
55-59	965	1,869			
60-64	321	464			
65-69	65	85			
Over 70	12	22			
TOTAL	13,680	36,765			
			Less than 1	309	817
			1-4	2,958	8,001
			5-9	2,497	7,728
			10-14	1,801	5,899
			15-19	1,517	4,592
			20-24	2,155	5,584
			25-29	1,874	3,556
			30-34	471	494
			35 or more	98	94
			TOTAL	13,680	36,765

KTRS SCHEDULE OF PARTICIPATING EMPLOYERS**SCHOOL DISTRICTS****COUNTY SCHOOLS**

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

CITY SCHOOLS

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

**KTRS SCHEDULE OF PARTICIPATING EMPLOYERS
(CONTINUED)**

UNIVERSITIES

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

STATE OF KENTUCKY/OTHER ORGANIZATIONS

STATE OF KENTUCKY

1. Department of Corrections*
2. Education and Humanities Cabinet
3. Human Resources*
4. Labor Cabinet*
5. Legislative Research Commission*
6. Workforce Development Cabinet
7. Cabinet for Families and Children*
8. Cabinet for Health Services*

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.

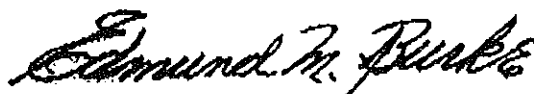
Investment Section

KTRS FISCAL YEAR ENDED JUNE 30, 1997

INVESTMENTS

CONSULTANT'S STATEMENT

Becker, Burke Associates serves as the Investment Consultant to the Kentucky Teachers' Retirement System. The investment program of the Retirement System is operated in a prudent manner that reflects its desire to preserve capital while maximizing returns. The assets of the Retirement System are assigned to various portfolios in order to diversify the System's investments and take advantage of opportunities in various asset classes and sectors. The System gravitates toward relatively conservative holdings in each asset class. The overall effect of diversification is to minimize risk. The manner in which the Retirement System operates and its investment results are commensurate with other risk-averse institutional investors in similar regulatory environments.



Edmund M. Burke
President
Becker, Burke Associates
August 28, 1997

OVERVIEW

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. The funds of the Teachers' Retirement System of the State of Kentucky shall be invested 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.

Within the Kentucky Revised Statutes and pertinent policies, the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent man rule", as identified in KRS 161.430 (2)(b). Investment activities shall be conducted, "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims". The responsibility for investing the assets of the System is clearly assigned to the Board of Trustees.

ASSET ALLOCATION

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 asset allocation limits complement the investment principals used by the Board and Committee regarding security, diversification, high return, and liquidity. The asset allocation policy in force through June 30, 1997 was adopted by the Board of Trustees and approved in the form of administrative regulation. The policy reads:

"The asset allocation parameters are structured in order to maximize return while at the same time provide a prudent diversification of assets and preserve the capital of the Teachers' Retirement System. The Board is interested in assuming secure investments that will provide long term growth to the fund. The Board will not arbitrarily compromise security in order to enhance the prospects of return. The Investment Committee and the Board will be mindful of the fund's liquidity and its capability at meeting both short and long term obligations.

1. "There will be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
2. "Not more than 35% of the assets of the System at book value shall be invested in corporate debt obligations.
3. "Not more than 45% of the assets of the System at book value shall be invested in common stocks or preferred stocks. No more than 25% of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, U.S. Stock index.
4. "Not more than 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.
5. "Not more than 1% of the assets of the System at book value shall be invested in venture capital investments providing at least 75% of such investments must be in-state.
6. "Not more than 10% of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board shall approve by resolution such additional category or categories of investments."

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year to what it was on June 30, 1997. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 1996-97 fiscal year, the market value of the stock position increased from 49% of assets to 52%. The portion of the portfolio in Government securities decreased from 31% to 26%. The cash position decreased during the year, going from 8% to 5% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 2%.

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 1996-97 as the principal investment counselor. National Asset Management, Invesco Inc., Brinson Partners, and Wellington Management Company also were retained during the 1996-97 fiscal year to provide investment counseling services. National Asset Management assisted in the management of approximately \$867 million in bonds, while Invesco Inc. was involved with managing about \$827 million in equity investments. Brinson Partners was responsible for managing approximately \$768 million in equities, and Wellington Management Company managed about \$988 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about \$3.6 billion of fixed income and equity assets. All of the investment firms, while specializing in particular asset classes or sectors, 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 \$9.4 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 1996-97 as the Custodian of Securities.

The System regularly votes proxy statements associated with its equity ownership. The positions assumed by the System are intended to represent the financial interests of the membership. The Board of Trustees has adopted a policy that directs the staff not to subjugate the financial concerns of the System to social or political protests. At the same time, the System expects the companies in which it acquires stock to be solid corporate citizens that abide by Federal, state, and local laws.

FINANCIAL ENVIRONMENT

The Standard & Poor's 500 Index produced a total return of 34.7% in the fiscal year ended June 30, 1997, after a 26.0% return the previous year, as a powerful bull market continued. The economic and financial climate was highly favorable for the equity market. Adjusted for inflation, economic output rose a healthy 3.1% over the fiscal year. Inflation decelerated, with the consumer price Index rising only 2.3% in the twelve months ended June 30, 1997, despite tight labor markets; the unemployment rate fell from 5.3% to 5.0% over the same period. Corporate profits rose 8.6% in the twelve month period ended March 31, 1997, down from a 17.0% rise in the year earlier period. Long-term interest rates fluctuated, but finished the year little changed, at 6.78% on the 30 year Treasury compared to 6.89% a year earlier. The U.S. dollar rose strongly against other major currencies as capital flowed into the U.S.

Large capitalization stocks were the best performers. Excluding dividends, the Standard & Poor's 500, a capitalization-weighted large-cap Index, rose 30.96% over the fiscal year, while the Standard & Poor's 400 Midcap rose 20.51% and the Standard & Poor's 600 Smallcap rose 19.62%. Financial stocks were a consistently strong sector over the year, producing a total return of 52.1%. Other outperforming sectors included technology, up 50.3%, health care, up 47.4%, and capital goods, up 39.0%. Utilities underperformed by a large margin, partially due to uncertainty, as the industry faces the advent of revolutionary change. Previously regulated monopolies, many economically inefficient, face an opening of competition similar to that in the telecommunications industry. Utilities produced a total return of only 5.4% over the fiscal year despite high dividend yields; excluding dividends, the Standard & Poor's utilities were up only 0.24% over the year.

The Lehman Government/Corporate Bond Index generated a total return of 7.8% in the fiscal year. All along the yield curve, rates fluctuated within an approximately 100 basis point band during the year, finishing a few basis points below a year ago. A healthy economy and strong profits caused yield spreads on corporate bonds over U.S. Treasury bonds to generally narrow over the year.

In short, an environment characterized by relatively stable interest rates and a healthy economy favored "spread" product over U.S. Treasury and agency issues. Higher yielding corporates and mortgages outperformed governments. Low credit quality corporates were the strongest sector. Long-term bonds outperformed shorter maturities due to a positively sloped yield curve which flattened slightly over the year as long-term rates declined more than short-term rates.

PORTFOLIO CHARACTERISTICS

At year's end, the System's entire stock portfolio, exclusive of the stock index fund, could be characterized as high quality and diversified. The KTRS portfolio, as measured by beta, was approximately as risky as the Standard & Poor's 500 Index. Beta is a measure of the volatility in price of a particular stock or portfolio compared to the volatility of the index. The beta of the KTRS portfolio at the end of the fiscal year was 1.03. The KTRS portfolio registered a price-earnings multiple that was higher than the index. The price-earnings ratio for the portfolio at the end of the fiscal year was 27.3 compared to 22.9 for the index. Two factors attesting to the high quality of the portfolio were the high rate of growth in both earning per share and dividends per share. The average earnings growth rate over the past five years for the KTRS stock portfolio was 19.5%, versus the index's rate of growth of 9.7%. The average dividends growth rate for the past five years of the KTRS portfolio was 9.8%, compared to the index's growth rate of 4.1%. At the end of the 1996-97 fiscal year, the yield level for the KTRS portfolio stood at 1.9%, which was identical to the index.

The stock position, apart from the stock index fund, began the 1996-97 fiscal year by being 36% of assets, and by year-end, it constituted 37% of assets. In dollars, the stock position increased from approximately \$2.8 billion to over \$3.5 billion in 1996-97. The stock index fund represented another \$1.4 billion that was invested in stocks at year end. Stock selections during 1996-97 affected a variety of market sectors. At the end of 1996-97, the sector weightings in the KTRS stock portfolio were similar to those of the Standard & Poor's 500 Index. The greatest differences were underweightings by KTRS in the consumer staples and energy sectors and overweightings in the financial and health care sectors.

Portfolio Characteristics
(continued)

On June 30, 1997, the System's entire bond portfolio had a duration of 5.6 years. Its yield to maturity was 6.9%. The current yield of the bond portfolio at the end of June was 6.1%, and the average coupon rate for the holdings was 6.4%. As of June 30, 1997, the average maturity of the fixed income portfolio was 10.5 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 71% of the fixed income investments, including short term cash equivalents, will mature by the end of 2009, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

PORTFOLIO RETURNS

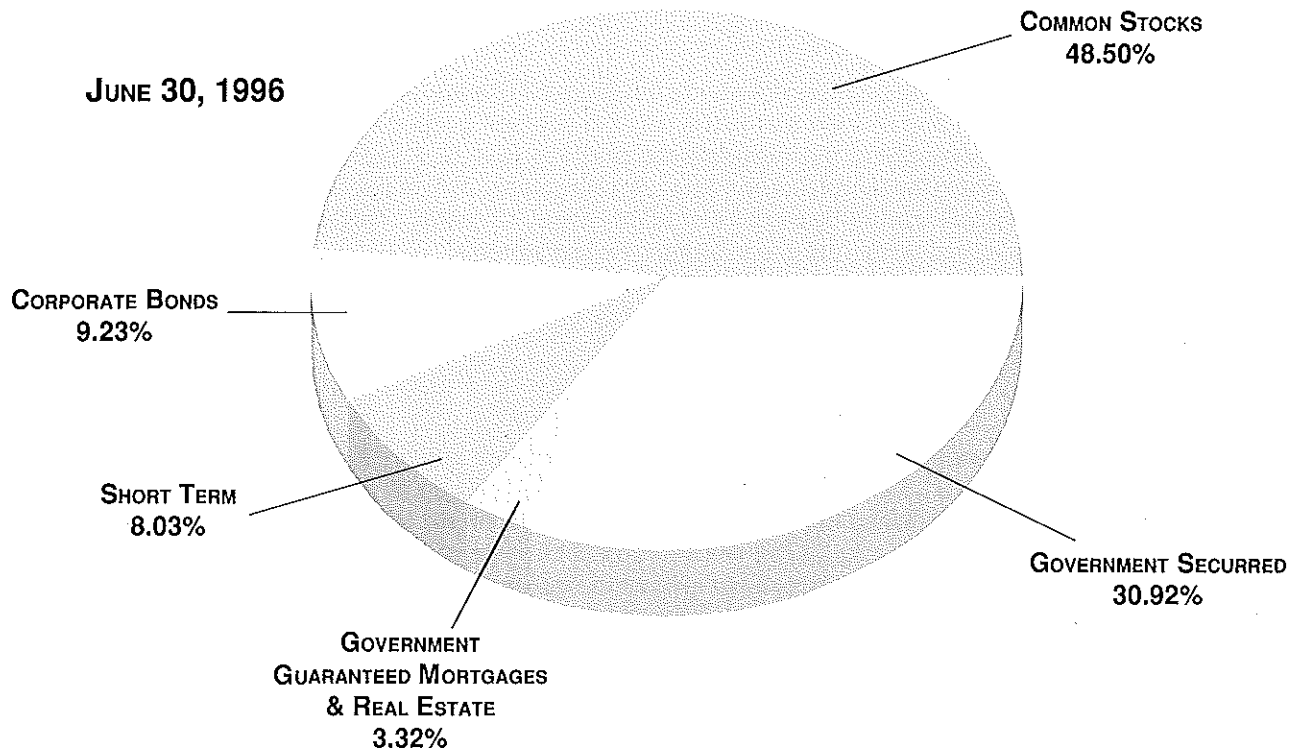
The investment portfolio experienced considerable growth in both market and book values during the year. The market value of the portfolio increased \$1.6 billion, or 19.7%, to a total of \$9.4 billion at year-end. The book value of the fund correspondingly increased 12.4% during the year. The System earned in excess of \$856 million of investment income during 1996-97; 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 book value was 6.6%. The "indicated dividend yield" on common stocks was 2.7%.

For the 1996-97 fiscal year, the total return earned by the System's stock position is slightly less than the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position earned a total return of 33.1% in 1996-97, while the stock index earned 34.7%. The eight year annualized returns for the years 1990 through 1997 are 17.4% for the System's stock position and 16.9% for the stock index. The System's bond position earned a eight year annualized total return of 8.6%. This is 0.2% better than the 8.4% earned by the Lehman Brothers Government/Corporate Bond Index. In 1996-97, the System's bonds earned a total return of 7.8%, while the Lehman Brothers Index earned 7.8%. The entire portfolio earned a total return in 1996-97 of 19.6%. The portfolio's eight year annualized rate of total return is 11.8%. The total return of the portfolio more than kept up with the rate of inflation and provided real growth. In 1996-97, the Consumer Price Index registered an inflation rate of 2.3%. The eight year annualized rate is 3.3%.

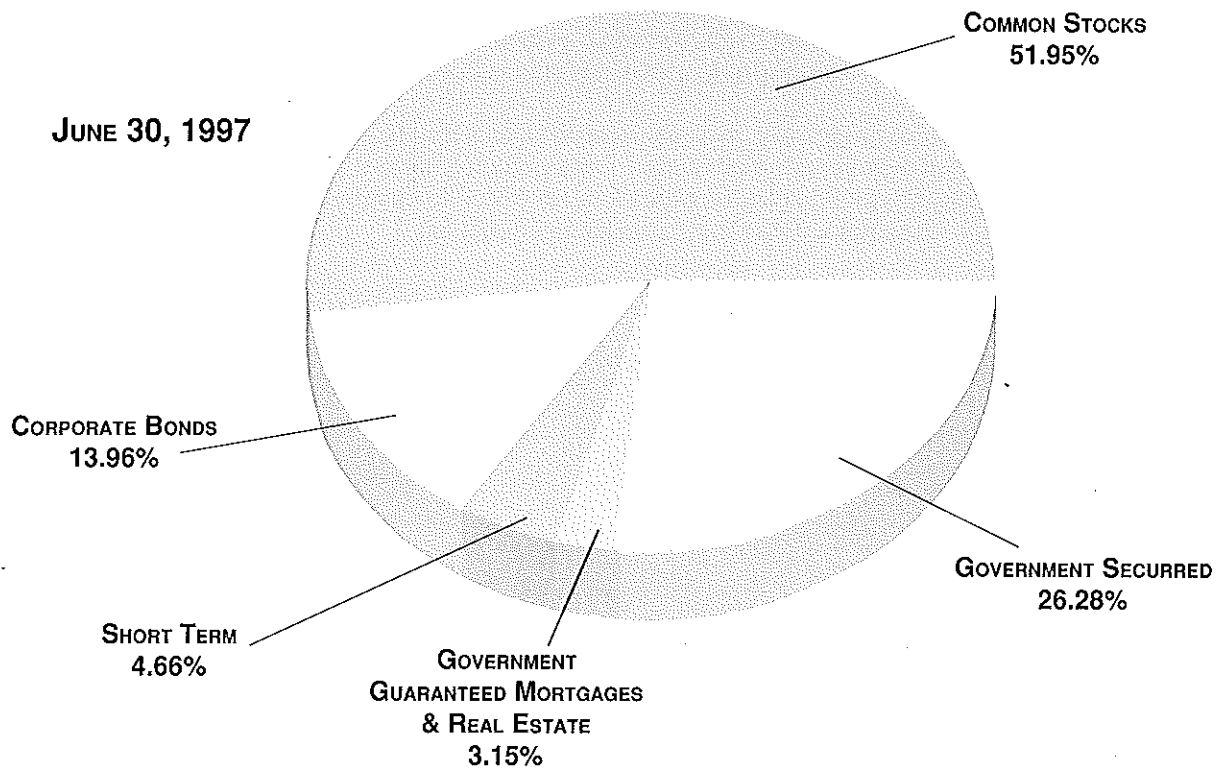
The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs and also depict the growth of the System over the last eight years. Following the charts is a summary description of investments held at June 30, 1997. The pages thereafter provide a detailed listing of all investments held on June 30, 1997. The System annually produces a detailed investment report that is available on request.

**DISTRIBUTION OF INVESTMENTS
MARKET VALUES**

JUNE 30, 1996

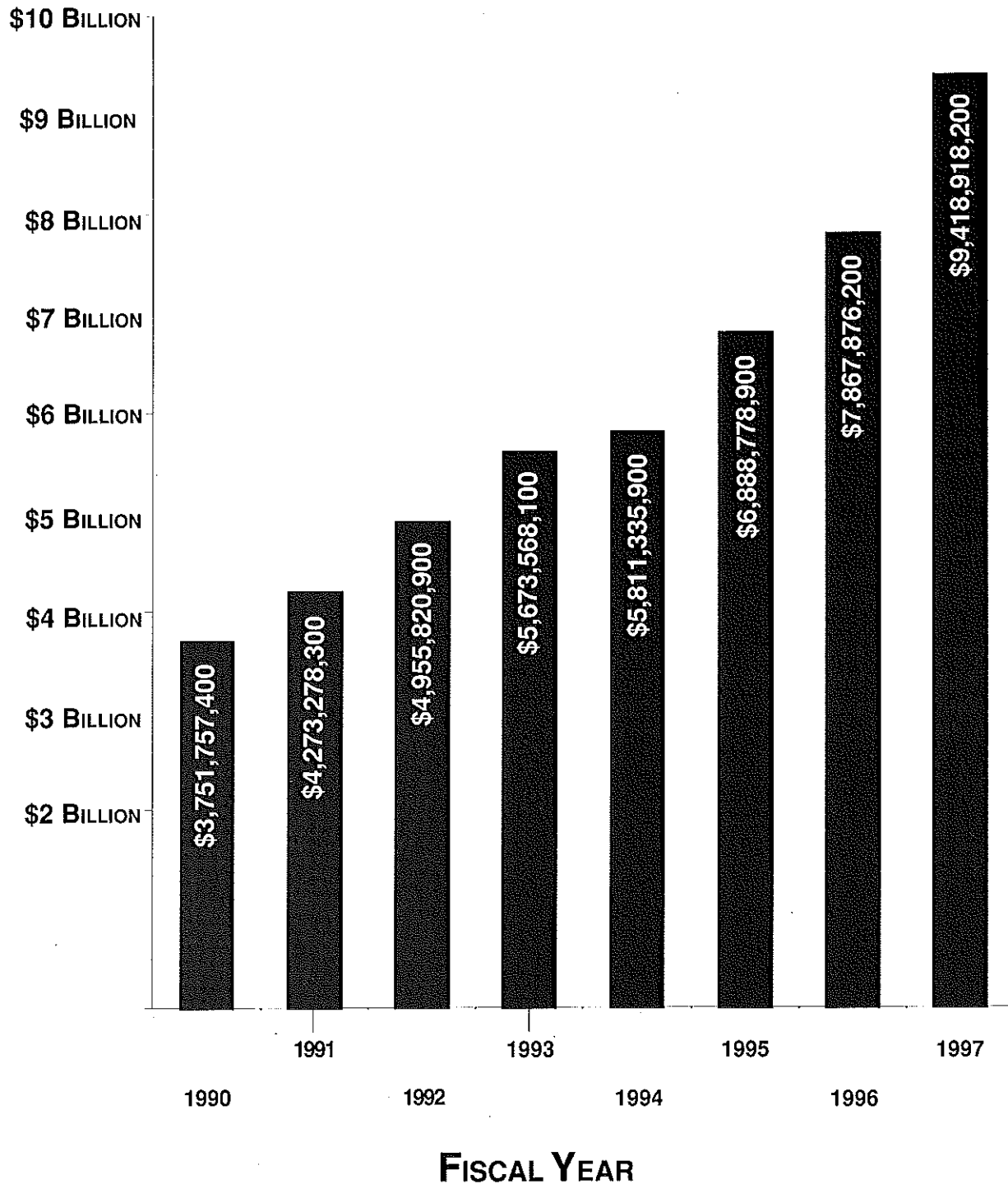


JUNE 30, 1997



INVESTMENT PORTFOLIO GROWTH

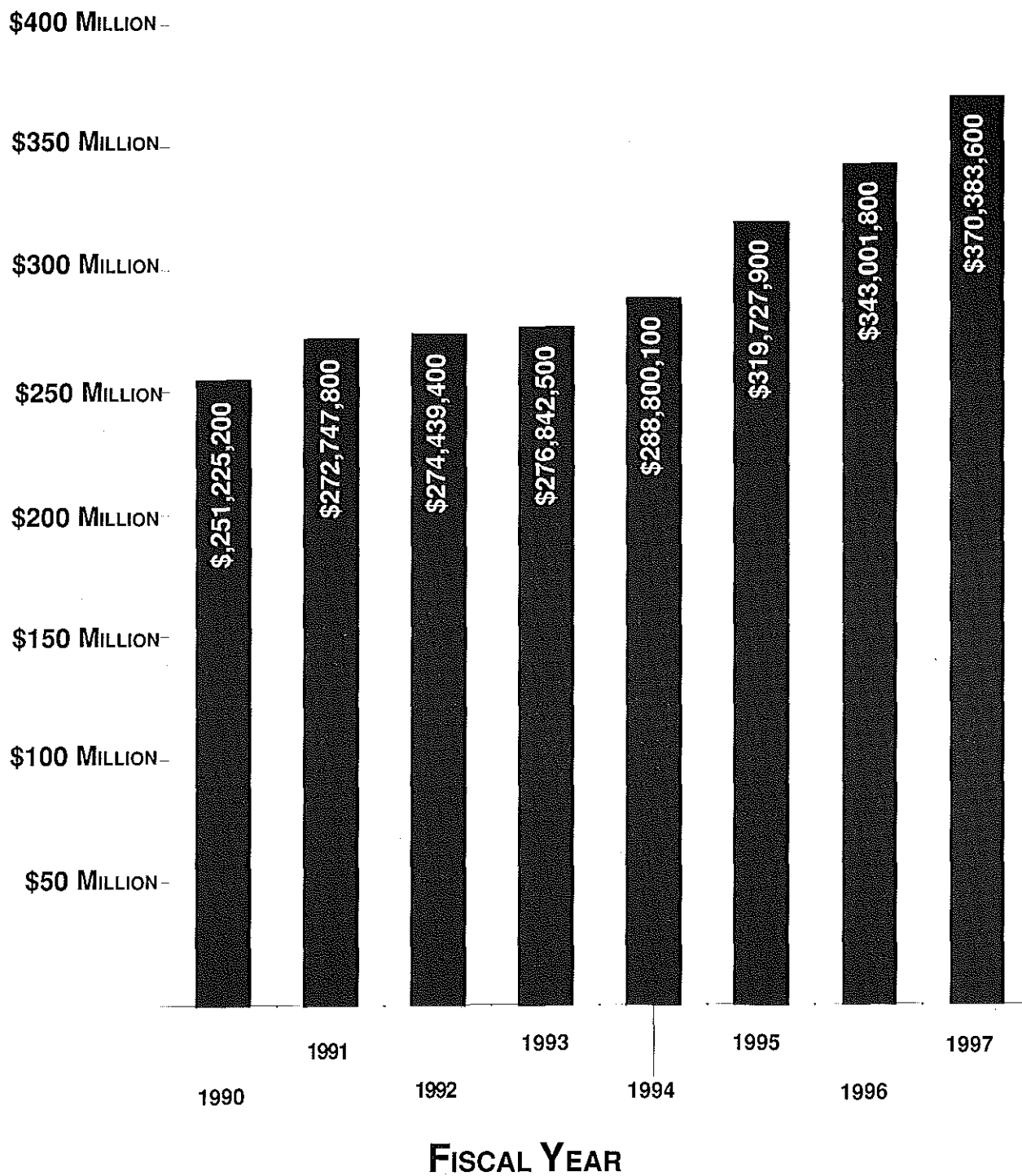
MARKET VALUE



INVESTMENT INCOME GROWTH

EXCLUDES AMORTIZATION

EXCLUDES NET GAIN



TOTAL RETURN ON KTRS INVESTMENTS*

PERCENTAGES

FISCAL YEAR	STANDARD & POOR'S 500 INDEX	KTRS STOCKS	LEHMAN BROTHERS GOVT./CORP. BOND INDEX	KTRS BONDS	KTRS PORTFOLIO	CONSUMER PRICE INDEX
1989-90	16.5	18.0	7.1	7.2	10.4	4.7
1990-91	7.4	11.4	10.2	10.5	9.6	4.7
1991-92	13.4	13.7	14.2	14.9	12.5	3.1
1992-93	13.6	13.3	13.2	13.2	12.1	3.0
1993-94	1.4	2.2	(1.5)	(.9)	.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
1996-97	34.7	33.1	7.8	7.8	19.6	2.3
Eight Year Annualized Rate	16.9	17.4	8.4	8.6	11.8	3.3

* Returns calculated in conformance with AIMR Performance Presentation Standards.

INVESTMENT SUMMARY

FAIR MARKET VALUE
06/30/97

SALES
REDEMPTIONS,
MATURITIES &
PAYDOWNS

TYPE OF INVESTMENT	FAIR VALUE 07/01/96	ACQUISITIONS	APPRECIATION (DEPRECIATION)	SALES REDEMPTIONS, MATURITIES & PAYDOWNS	FAIR VALUE 06/30/97
Short Term	632,000,000	44,643,690,000	0	44,836,390,000	439,300,000
Fixed Income	3,271,458,000	2,112,773,000	32,802,200	1,514,573,200	3,902,460,000
Equities	3,964,418,200	1,687,660,100	1,146,860,400	1,712,780,600	5,077,158,200
TOTAL	7,867,876,200	48,444,123,100	1,179,662,600	48,072,743,800	9,418,918,200

CONTRACTED INVESTMENT MANAGEMENT EXPENSES

(\$ THOUSANDS)

	ASSETS UNDER MANAGEMENT	EXPENSES	BASIS POINTS *
INVESTMENT MANAGER FEES			
Fixed Income Manager	\$ 866,565	\$ 320	3.7
Equity Managers	2,582,928	2,298	8.9
Balanced Manager	2,045,189	591	2.9
TOTALS	\$ 5,494,773	\$ 3,209	5.8
OTHER INVESTMENT SERVICES			
Custodian Services	\$ 9,418,918	\$ 324	0.3
Investment Consultant		40	
TOTAL		364	
GRAND TOTAL		\$ 3,573	

* One basis point is one hundredth of one percent or the equivalent of .0001.

TRANSACTION COMMISSIONS

INVESTMENT COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
Merrill Lynch, Goldman Sachs, Morgan Stanley, Paine Webber, Lazard Freres, Smith Barney, Donaldson Lufkin, J.C. Bradford, and 87 other Companies.	77,552,099	\$ 4,629,017.50	\$.0597

The commission rate on over-the-counter stocks is assumed to be \$.12 per share. Over-the-counter transactions have the effect of increasing the overall average commission per share. Exchange stocks are traded at more inexpensive rates. Investment companies usually provide investment research for brokerage clients. On occasion, investment companies direct third party research to active clients. The Retirement System received third party research through Merrill Lynch. Trading commissions of \$171,919.90 were associated with third party research obligations. The primary providers were: Vestek, Bloomberg, and Capital Management Science.

SCHEDULE OF INVESTMENTS

AS OF JUNE 30, 1997

INVESTMENT	PAR VALUE* OR REMAINING PRINCIPAL BALANCE	MARKET VALUE	PERCENTAGE OF MARKET VALUE
Repurchase Agreements	\$ 439,300,000.00	\$ 439,300,000.00	4.66%
Total Short Term	\$ 439,300,000.00	\$ 439,300,000.00	4.66%
Treasury Notes and Bonds	\$ 1,741,255,000.00	\$ 1,808,390,466.65	19.20%
Agencies	463,558,266.25	438,736,690.77	4.66%
GNMA (Single Family)	37,591,268.27	37,088,676.26	0.39%
Collateralized Mortgage Obligations	11,508,413.90	11,182,362.90	0.12%
Treasury Strip Bonds	323,380,080.00	173,073,029.65	1.84%
Other Miscellaneous	32,887.02	0.00	0.00%
Total U.S. Government Obligations	\$ 2,577,325,915.44	\$ 2,468,471,226.23	26.21%
Industrials	\$ 337,773,639.00	\$ 338,595,609.35	3.60%
Finance	826,812,042.55	830,100,728.33	8.81%
Utility Bonds (Except Telephone)	68,555,000.00	67,089,257.90	0.71%
Telephone Bonds	80,350,000.00	79,177,477.50	0.84%
Railroad Obligations	107,000.00	97,744.50	0.00%
Total Corporate Bonds	\$ 1,313,597,681.55	\$ 1,315,060,817.58	13.96%
FHA & VA Single Family Mortgages	\$ 1,343,024.58	\$ 1,310,979.98	0.01%
Project Mortgages (FHA & GNMA)	114,908,724.01	111,300,590.09	1.18%
State and Local Government Issues	6,220,000.00	6,316,451.15	0.07%
Total Other Fixed Income	\$ 122,471,748.59	\$ 118,928,021.22	1.26%
Subtotal (Fixed Income)	\$ 4,452,695,345.58	\$ 4,341,760,065.03	46.09%
Real Estate Equity	182,265,805.29	184,580,574.90	1.96%
Total Real Estate Equity	\$ 182,265,805.29	\$ 184,580,574.90	1.96%
Common Stocks 71,884,910.00 Shares	\$ 2,607,766,419.33	\$ 3,492,303,237.29	37.08%
Stock Index 25,358,504.00 Shares	720,367,938.43	1,400,274,312.64	14.87%
Total Stocks 97,243,414.00 Shares	\$ 3,328,134,357.76	\$ 4,892,577,549.93	51.95%
Subtotal (Equity)	\$ 3,510,400,163.05	\$ 5,077,158,124.83	53.91%
Total Investments, Income & Yield	\$ 7,963,095,508.63	\$ 9,418,918,189.86	100.00%

* In this asset display, par value represents the redemption value of bonds and the cost value of equities. Market value is a volatile measure that changes daily and represents the approximate transaction value of an investment on a particular day--in this case June 30, 1997. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.

INVESTMENT SECTION

DETAILED LISTING OF INVESTMENTS SHORT TERM INVESTMENTS

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
REPURCHASE AGREEMENTS:				
Repurchase Agreement	5.500	07/02/97	4,407,600.00	4,407,600.00
Repurchase Agreement	5.500	07/02/97	2,643,900.00	2,643,900.00
Repurchase Agreement	5.500	07/02/97	52,875,700.00	52,875,700.00
Repurchase Agreement	5.500	07/02/97	13,433,200.00	13,433,200.00
Repurchase Agreement	5.500	07/02/97	3,459,600.00	3,459,600.00
Repurchase Agreement	5.520	07/01/97	19,800.00	19,800.00
Repurchase Agreement	5.520	07/01/97	585,300.00	585,300.00
Repurchase Agreement	5.520	07/01/97	10,688,000.00	10,688,000.00
Repurchase Agreement	5.520	07/01/97	385,700.00	385,700.00
Repurchase Agreement	5.520	07/01/97	1,312,000.00	1,312,000.00
Repurchase Agreement	5.520	07/01/97	6,421,700.00	6,421,700.00
Repurchase Agreement	5.520	07/01/97	34,132,100.00	34,132,100.00
Repurchase Agreement	5.520	07/01/97	10,358,500.00	10,358,500.00
Repurchase Agreement	5.520	07/01/97	137,948,800.00	137,948,800.00
Repurchase Agreement	5.520	07/01/97	128,100.00	128,100.00
Repurchase Agreement	5.700	07/03/97	4,019,200.00	4,019,200.00
Repurchase Agreement	5.700	07/03/97	2,318,600.00	2,318,600.00
Repurchase Agreement	5.700	07/03/97	5,449,900.00	5,449,900.00
Repurchase Agreement	5.700	07/03/97	23,394,200.00	23,394,200.00
Repurchase Agreement	5.700	07/03/97	11,520,800.00	11,520,800.00
Repurchase Agreement	5.700	07/03/97	377,200.00	377,200.00
Repurchase Agreement	5.700	07/03/97	762,600.00	762,600.00
Repurchase Agreement	5.700	07/03/97	379,500.00	379,500.00
Repurchase Agreement	5.700	07/03/97	967,000.00	967,000.00
Repurchase Agreement	5.700	07/03/97	515,200.00	515,200.00
Repurchase Agreement	5.700	07/03/97	23,883,700.00	23,883,700.00
Repurchase Agreement	5.700	07/03/97	86,912,100.00	86,912,100.00

TOTAL SHORT TERM INVESTMENTS

\$ 439,300,000.00

U.S. GOVERNMENT OBLIGATIONS

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
TREASURY BONDS AND NOTES:				
U S Treasury Bonds	6.000	02/15/26	3,000,000.00	2,687,820.00
U S Treasury Bonds	6.000	02/15/26	13,000,000.00	11,647,220.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	5,000,000.00	4,633,600.00
U S Treasury Bonds	6.250	08/15/23	10,000,000.00	9,267,200.00
U S Treasury Bonds	6.250	08/15/23	7,000,000.00	6,487,040.00
U S Treasury Bonds	6.250	08/15/23	10,000,000.00	9,267,200.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	7,000,000.00	6,487,040.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	5,000,000.00	4,633,600.00
U S Treasury Bonds	6.250	08/15/23	15,000,000.00	13,900,800.00
U S Treasury Bonds	6.250	08/15/23	5,000,000.00	4,633,600.00

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<i><u>TREASURY BONDS AND NOTES (CONTINUED):</u></i>				
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	15,000,000.00	13,900,800.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	10,000,000.00	9,267,200.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	1,853,440.00
U S Treasury Bonds	6.250	08/15/23	9,500,000.00	8,803,840.00
U S Treasury Bonds	6.250	08/15/23	5,500,000.00	5,096,960.00
U S Treasury Bonds	6.750	08/15/26	3,000,000.00	2,973,750.00
U S Treasury Bonds	7.125	02/15/23	4,500,000.00	4,640,625.00
U S Treasury Bonds	7.125	02/15/23	1,000,000.00	1,031,250.00
U S Treasury Bonds	7.125	02/15/23	2,000,000.00	2,062,500.00
U S Treasury Bonds	7.250	05/15/16	10,000,000.00	10,435,900.00
U S Treasury Bonds	7.250	05/15/16	4,000,000.00	4,174,360.00
U S Treasury Bonds	7.250	05/15/16	3,000,000.00	3,130,770.00
U S Treasury Bonds	7.250	05/15/16	1,000,000.00	1,043,590.00
U S Treasury Bonds	7.250	05/15/16	3,000,000.00	3,130,770.00
U S Treasury Bonds	7.250	05/15/16	1,000,000.00	1,043,590.00
U S Treasury Bonds	7.250	05/15/16	2,500,000.00	2,608,975.00
U S Treasury Bonds	7.250	05/15/16	5,000,000.00	5,217,950.00
U S Treasury Bonds	7.250	05/15/16	8,000,000.00	8,348,720.00
U S Treasury Bonds	7.250	05/15/16	15,500,000.00	16,175,645.00
U S Treasury Bonds	7.500	11/15/16	25,000,000.00	26,750,000.00
U S Treasury Bonds	7.500	11/15/16	3,500,000.00	3,745,000.00
U S Treasury Bonds	7.500	11/15/16	5,000,000.00	5,350,000.00
U S Treasury Bonds	7.500	11/15/16	2,000,000.00	2,140,000.00
U S Treasury Bonds	7.500	11/15/16	5,000,000.00	5,350,000.00
U S Treasury Bonds	7.500	11/15/16	10,000,000.00	10,700,000.00
U S Treasury Bonds	7.500	11/15/16	5,000,000.00	5,350,000.00
U S Treasury Bonds	7.500	11/15/16	35,500,000.00	37,985,000.00
U S Treasury Bonds	7.500	11/15/16	2,300,000.00	2,461,000.00
U S Treasury Bonds	7.500	11/15/16	10,000,000.00	10,700,000.00
U S Treasury Bonds	7.500	11/15/16	3,000,000.00	3,210,000.00
U S Treasury Bonds	7.625	02/15/07	10,000,000.00	10,410,900.00
U S Treasury Bonds	7.625	02/15/07	15,000,000.00	15,616,350.00
U S Treasury Bonds	7.625	02/15/07	7,500,000.00	7,808,175.00
U S Treasury Bonds	7.625	02/15/07	25,000,000.00	26,027,250.00
U S Treasury Bonds	7.625	02/15/25	2,000,000.00	2,192,180.00
U S Treasury Bonds	7.875	11/15/07	2,000,000.00	2,130,620.00
U S Treasury Bonds	8.000	11/15/21	2,000,000.00	2,265,320.00
U S Treasury Bonds	8.125	08/15/19	10,000,000.00	11,423,400.00
U S Treasury Bonds	8.125	08/15/19	22,500,000.00	25,702,650.00
U S Treasury Bonds	8.125	08/15/21	14,400,000.00	16,512,768.00
U S Treasury Bonds	8.125	08/15/21	5,600,000.00	6,421,632.00
U S Treasury Bonds	8.125	08/15/21	9,000,000.00	10,320,480.00

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>TREASURY BONDS AND NOTES (CONTINUED):</u>				
U S Treasury Bonds	8.250	05/15/05	10,000,000.00	10,471,900.00
U S Treasury Bonds	8.250	05/15/05	5,000,000.00	5,235,950.00
U S Treasury Bonds	8.250	05/15/05	12,500,000.00	13,089,875.00
U S Treasury Bonds	8.500	02/15/20	7,180,000.00	8,517,275.00
U S Treasury Bonds	8.750	05/15/17	10,000,000.00	12,045,300.00
U S Treasury Bonds	8.750	11/15/08	1,500,000.00	1,664,055.00
U S Treasury Bonds	8.750	11/15/08	4,000,000.00	4,437,480.00
U S Treasury Bonds	8.875	02/15/19	12,475,000.00	15,283,871.00
U S Treasury Bonds	8.875	02/15/19	9,500,000.00	11,639,020.00
U S Treasury Bonds	8.875	02/15/19	7,375,000.00	9,035,555.00
U S Treasury Bonds	8.875	08/15/17	10,000,000.00	12,193,700.00
U S Treasury Bonds	8.875	08/15/17	10,000,000.00	12,193,700.00
U S Treasury Bonds	8.875	08/15/17	4,500,000.00	5,487,165.00
U S Treasury Bonds	8.875	08/15/17	1,295,000.00	1,579,084.15
U S Treasury Bonds	8.875	08/15/17	10,000,000.00	12,193,700.00
U S Treasury Bonds	9.125	05/15/18	9,300,000.00	11,629,371.00
U S Treasury Bonds	9.125	05/15/18	2,500,000.00	3,126,175.00
U S Treasury Bonds	9.250	02/15/16	8,000,000.00	10,020,000.00
U S Treasury Bonds	9.250	02/15/16	7,500,000.00	9,393,750.00
U S Treasury Bonds	10.750	08/15/05	8,000,000.00	10,098,720.00
U S Treasury Bonds	11.625	11/15/04	11,400,000.00	14,779,074.00
U S Treasury Bonds	11.625	11/15/04	2,500,000.00	3,241,025.00
U S Treasury Bonds	11.625	11/15/04	12,500,000.00	16,205,125.00
U S Treasury Bonds	11.625	11/15/04	2,500,000.00	3,241,025.00
U S Treasury Bonds	12.750	11/15/10	12,500,000.00	17,353,500.00
U S Treasury Bonds	12.750	11/15/10	12,250,000.00	17,006,430.00
U S Treasury Bonds	13.125	05/15/01	4,000,000.00	4,923,760.00
U S Treasury Bonds	14.000	11/15/11	13,200,000.00	19,905,204.00
U S Treasury Notes	5.125	02/28/98	2,000,000.00	1,992,500.00
U S Treasury Notes	5.125	12/31/98	2,000,000.00	1,976,880.00
U S Treasury Notes	5.125	12/31/98	5,000,000.00	4,942,200.00
U S Treasury Notes	5.250	01/31/01	15,000,000.00	14,514,900.00
U S Treasury Notes	5.250	07/31/98	15,000,000.00	14,908,650.00
U S Treasury Notes	5.250	07/31/98	2,000,000.00	1,987,820.00
U S Treasury Notes	5.250	07/31/98	27,000,000.00	26,835,570.00
U S Treasury Notes	5.500	04/15/00	20,000,000.00	19,637,400.00
U S Treasury Notes	5.500	04/15/00	10,000,000.00	9,818,700.00
U S Treasury Notes	5.500	11/15/98	19,000,000.00	18,890,180.00
U S Treasury Notes	5.500	11/15/98	23,000,000.00	22,867,060.00
U S Treasury Notes	5.500	11/15/98	18,000,000.00	17,895,960.00
U S Treasury Notes	5.500	12/31/00	15,000,000.00	14,627,400.00
U S Treasury Notes	5.500	12/31/00	8,000,000.00	7,801,280.00
U S Treasury Notes	5.500	12/31/00	8,000,000.00	7,801,280.00
U S Treasury Notes	5.625	02/15/06	2,000,000.00	1,879,680.00
U S Treasury Notes	5.625	02/15/06	15,000,000.00	14,097,600.00
U S Treasury Notes	5.625	11/30/98	10,000,000.00	9,956,200.00
U S Treasury Notes	5.625	11/30/98	15,000,000.00	14,934,300.00
U S Treasury Notes	5.750	08/15/03	10,000,000.00	9,662,500.00
U S Treasury Notes	5.750	08/15/03	5,000,000.00	4,831,250.00
U S Treasury Notes	5.750	08/15/03	12,000,000.00	11,595,000.00
U S Treasury Notes	5.750	08/15/03	21,000,000.00	20,291,250.00
U S Treasury Notes	5.750	08/15/03	2,750,000.00	2,657,187.50

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<i><u>TREASURY BONDS AND NOTES (CONTINUED):</u></i>				
U S Treasury Notes	5.750	08/15/03	7,000,000.00	6,763,750.00
U S Treasury Notes	5.750	08/15/03	18,000,000.00	17,392,500.00
U S Treasury Notes	5.750	10/31/00	2,500,000.00	2,460,925.00
U S Treasury Notes	5.750	10/31/00	10,000,000.00	9,843,700.00
U S Treasury Notes	5.875	02/15/04	3,000,000.00	2,909,070.00
U S Treasury Notes	5.875	02/15/04	1,500,000.00	1,454,535.00
U S Treasury Notes	5.875	02/15/04	2,000,000.00	1,939,380.00
U S Treasury Notes	5.875	02/15/04	34,000,000.00	32,969,460.00
U S Treasury Notes	5.875	11/15/05	1,000,000.00	957,340.00
U S Treasury Notes	5.875	11/15/05	25,000,000.00	23,933,500.00
U S Treasury Notes	5.875	11/15/05	15,000,000.00	14,360,100.00
U S Treasury Notes	5.875	11/15/05	12,000,000.00	11,488,080.00
U S Treasury Notes	5.875	11/15/99	5,000,000.00	4,969,550.00
U S Treasury Notes	6.000	10/15/99	2,000,000.00	1,996,560.00
U S Treasury Notes	6.000	10/15/99	3,000,000.00	2,994,840.00
U S Treasury Notes	6.125	07/31/00	12,000,000.00	11,964,360.00
U S Treasury Notes	6.125	12/31/01	50,000,000.00	49,523,500.00
U S Treasury Notes	6.250	02/15/03	3,000,000.00	2,978,430.00
U S Treasury Notes	6.250	02/15/03	4,000,000.00	3,971,240.00
U S Treasury Notes	6.250	02/15/03	2,000,000.00	1,985,620.00
U S Treasury Notes	6.250	02/15/03	8,000,000.00	7,942,480.00
U S Treasury Notes	6.250	02/15/03	15,000,000.00	14,892,150.00
U S Treasury Notes	6.250	04/30/01	15,000,000.00	14,964,900.00
U S Treasury Notes	6.250	08/31/00	25,000,000.00	24,988,250.00
U S Treasury Notes	6.250	10/31/01	3,000,000.00	2,987,340.00
U S Treasury Notes	6.375	01/15/00	25,000,000.00	25,132,750.00
U S Treasury Notes	6.375	01/15/00	4,500,000.00	4,523,895.00
U S Treasury Notes	6.375	01/15/00	21,000,000.00	21,111,510.00
U S Treasury Notes	6.375	01/15/00	26,000,000.00	26,138,060.00
U S Treasury Notes	6.375	01/15/00	8,000,000.00	8,042,480.00
U S Treasury Notes	6.375	08/15/02	12,000,000.00	12,003,720.00
U S Treasury Notes	6.375	08/15/02	7,000,000.00	7,002,170.00
U S Treasury Notes	6.375	08/15/02	2,000,000.00	2,000,620.00
U S Treasury Notes	6.375	08/15/02	3,000,000.00	3,000,930.00
U S Treasury Notes	6.375	09/30/01	5,000,000.00	5,002,350.00
U S Treasury Notes	6.500	05/15/05	2,000,000.00	1,997,820.00
U S Treasury Notes	6.500	05/15/05	2,000,000.00	1,997,820.00
U S Treasury Notes	6.500	05/31/01	1,000,000.00	1,005,940.00
U S Treasury Notes	6.500	08/15/05	10,000,000.00	9,979,700.00
U S Treasury Notes	6.500	08/15/05	7,500,000.00	7,484,775.00
U S Treasury Notes	6.500	08/15/05	2,000,000.00	1,995,940.00
U S Treasury Notes	6.500	08/31/01	10,000,000.00	10,051,600.00
U S Treasury Notes	6.500	10/15/06	10,000,000.00	9,965,600.00
U S Treasury Notes	6.750	04/30/00	10,000,000.00	10,132,800.00
U S Treasury Notes	6.750	04/30/00	2,000,000.00	2,026,560.00
U S Treasury Notes	6.750	05/31/99	10,000,000.00	10,118,700.00
U S Treasury Notes	6.750	05/31/99	10,000,000.00	10,118,700.00
U S Treasury Notes	6.750	05/31/99	6,000,000.00	6,071,220.00
U S Treasury Notes	6.750	05/31/99	2,000,000.00	2,023,740.00
U S Treasury Notes	6.750	06/30/99	25,000,000.00	25,312,500.00
U S Treasury Notes	6.875	05/15/06	1,000,000.00	1,021,560.00
U S Treasury Notes	6.875	05/15/06	2,000,000.00	2,043,120.00

INVESTMENT SECTION

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>TREASURY BONDS AND NOTES (CONTINUED):</u>				
U S Treasury Notes	6.875	07/31/99	6,500,000.00	6,595,485.00
U S Treasury Notes	6.875	07/31/99	9,000,000.00	9,132,210.00
U S Treasury Notes	7.000	04/15/99	15,000,000.00	15,241,350.00
U S Treasury Notes	7.250	05/15/04	8,000,000.00	8,343,760.00
U S Treasury Notes	7.500	02/15/05	15,000,000.00	15,878,850.00
U S Treasury Notes	7.500	02/15/05	30,000,000.00	31,757,700.00
U S Treasury Notes	7.500	05/15/02	12,500,000.00	13,087,875.00
U S Treasury Notes	7.500	05/15/02	15,500,000.00	16,228,965.00
U S Treasury Notes	7.500	11/15/01	2,000,000.00	2,085,320.00
U S Treasury Notes	7.500	11/15/01	4,700,000.00	4,900,502.00
U S Treasury Notes	7.750	01/31/00	50,000,000.00	51,828,000.00
U S Treasury Notes	7.750	02/15/01	4,000,000.00	4,185,000.00
U S Treasury Notes	7.750	11/30/99	15,000,000.00	15,525,000.00
U S Treasury Notes	7.750	11/30/99	38,130,000.00	39,464,550.00
U S Treasury Notes	8.000	08/15/99	500,000.00	518,515.00
U S Treasury Notes	8.500	02/15/00	6,500,000.00	6,855,485.00
U S Treasury Notes	8.500	02/15/00	2,000,000.00	2,109,380.00
U S Treasury Notes	8.875	11/15/98	25,000,000.00	25,949,250.00
U S Treasury Notes	8.875	11/15/98	500,000.00	518,985.00
U S Treasury Notes	8.875	11/15/98	14,400,000.00	14,946,768.00
U S Treasury Notes	9.125	05/15/99	3,250,000.00	3,423,160.00
U S Treasury Notes	9.125	05/15/99	7,490,000.00	7,889,067.20
U S Treasury Notes	9.125	05/15/99	4,260,000.00	4,486,972.80
TOTAL Treasury Bonds and Notes			1,741,255,000.00	1,808,390,466.65
<u>FEDERAL AGENCIES:</u>				
FHG 32 TG SER 32 PAC 11	7.000	01/25/21	12,000,000.00	12,018,720.00
FHG 32 TG SER 32 PAC 11	7.000	01/25/21	4,000,000.00	4,006,240.00
FHLB Notes	7.410	03/27/00	10,000,000.00	10,103,100.00
FHLB Notes	8.000	08/09/10	1,000,000.00	992,810.00
FHLMC Debs	5.690	01/24/01	15,000,000.00	14,606,250.00
FHLMC Debs	7.070	07/20/05	2,500,000.00	2,459,375.00
FHLMC Debs	8.530	02/02/05	5,000,000.00	5,218,750.00
FHLMC Freddie Mac Group 14-0527	8.000	10/01/08	3,257,601.72	3,347,250.92
FHLMC Mult Mtg Cfts Ser 53 CL 53-A	9.500	08/15/20	127,775.40	129,851.75
FHLMC Notes	6.070	11/20/98	10,000,000.00	9,982,800.00
FHLMC Notes	6.070	11/20/98	5,000,000.00	4,991,400.00
FHLMC Notes	7.000	09/16/99	10,000,000.00	10,020,300.00
FHLMC Notes	8.010	04/13/05	2,000,000.00	2,015,940.00
FHLMC Ser 149 F	8.500	08/15/21	4,174,455.00	4,427,510.46
FHLMC (Gold) Pool # E00408	6.500	12/01/10	13,071,498.61	12,875,426.13
FHLMC (Gold) Pool #W00067	6.420	12/01/05	7,874,740.80	7,682,833.37
FHLMC (Gold) Pool #W10001	6.420	12/01/05	8,921,000.00	8,692,443.98
FNMA	4.875	10/15/98	5,000,000.00	4,922,650.00
FNMA	6.900	03/10/04	3,000,000.00	2,950,320.00
FNMA	7.500	02/11/02	3,000,000.00	3,118,110.00
FNMA	8.250	11/01/22	2,000,000.00	1,975,620.00
FNMA	8.500	02/01/05	4,000,000.00	4,184,360.00
FNMA	8.500	02/01/05	10,000,000.00	10,460,900.00

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>FEDERAL AGENCIES (CONTINUED):</u>				
FNMA Debs	8.500	02/01/05	5,000,000.00	5,230,450.00
FNMA MTN	5.200	04/30/98	6,750,000.00	6,721,515.00
FNMA MTN	5.220	07/10/98	15,000,000.00	14,810,100.00
FNMA MTN	7.030	10/25/06	2,000,000.00	1,987,820.00
FNMA MTN	7.030	10/25/06	2,000,000.00	1,987,820.00
FNMA MTN	7.030	10/25/06	5,000,000.00	4,969,550.00
FNMA MTN	7.130	07/06/05	2,000,000.00	1,971,240.00
FNMA MTN	7.250	06/01/05	2,000,000.00	2,001,240.00
FNMA Notes	6.230	08/18/99	10,000,000.00	9,973,400.00
FNMA Pool # 124921	6.500	07/01/23	17,451,133.76	16,812,422.26
FNMA Pool # 190658	7.000	01/01/09	36,283,891.40	36,408,345.15
FNMA Pool # 250414	7.000	12/01/25	21,888,696.52	21,478,283.46
FNMA Pool # 266220	6.500	12/01/23	8,715,666.42	8,399,723.51
FNMA Pool # 303670	6.500	12/01/25	43,360,356.15	41,544,858.04
FNMA Pool # 303673	6.000	12/01/25	19,731,674.49	18,362,888.23
FNMA Pool # 331092	7.000	12/02/25	20,133,035.13	19,780,707.02
FNMA Pool # 340755 (Mtgs KY)	6.500	03/01/26	1,781,268.40	1,705,012.30
FNMA Pool # 340800 (Mtgs KY)	6.500	03/01/26	1,183,006.73	1,132,362.21
FNMA Pool # 343306 (Mtgs Ky)	6.500	04/01/26	1,998,386.63	1,912,835.70
FNMA Pool # 347255 (Mtgs Ky)	6.500	05/01/26	1,336,353.68	1,279,144.38
FNMA Pool # 347916 (Mtgs Ky)	7.000	06/01/26	1,188,766.02	1,165,917.94
FNMA Pool # 351248 (Mtgs Ky)	7.500	07/01/26	1,088,972.63	1,092,544.46
FNMA Pool # 360000	6.547	12/01/05	12,500,000.00	12,117,250.00
FNMA Pool # 375218 DVS (Mtgs Ky)	7.210	06/01/07	2,242,500.00	2,253,712.50
FNMA Remic Tr 1990-16-E	9.000	03/25/20	2,826,226.90	3,130,046.29
FNMA Remic Tr 1990-16-E	9.000	03/25/20	3,229,973.60	3,577,195.76
FNMA Remic Tr 1990-24 H	9.250	07/25/13	100,355.58	108,979.13
FNMA-CL Pool # 303223	7.000	11/01/24	9,840,930.68	9,696,465.82
FNR 1993-39 CL C TAC 11	7.000	01/25/20	10,000,000.00	9,846,800.00
FNR 1997-20 CL B	7.000	11/17/17	12,000,000.00	12,031,200.00
FNR 1997-20 CL B	7.000	11/17/17	4,000,000.00	4,010,400.00
RFCO Strips	0.000	04/15/30	10,000,000.00	1,096,900.00
RFCO Strips	0.000	04/15/30	10,000,000.00	1,096,900.00
Tennessee Valley Authority Bonds	6.250	08/01/99	15,000,000.00	14,978,100.00
TVA Strip Principal Notes	0.000	07/15/43	1,250,000.00	720,400.00
TVA Strip Principal Notes	0.000	07/15/43	750,000.00	432,240.00
TVA Strip Principal Notes	0.000	07/15/43	3,000,000.00	1,728,960.00
TOTAL Federal Agencies			463,558,266.25	438,736,690.77

INVESTMENT SECTION

U.S. GOVERNMENT OBLIGATIONS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>GNMA SINGLE FAMILY MORTGAGES</u>				
23 Mortgage Pool s	various	various	37,591,268.27	37,088,676.26
TOTAL GNMA Single Family Mortgages			37,591,268.27	37,088,676.26
<u>COLLATERALIZED MORTGAGE OBLIGATIONS</u>				
CMO Coll Mtg Sec Corp Ser 88-4 CLB	8.750	04/20/19	716,432.30	741,507.43
CMO Coll Mtg Sec Corp Ser 88-4 CLB	8.750	04/20/19	2,853,980.30	2,953,869.61
CMO FHLMC 1494 CL PJ	6.850	01/15/22	2,000,000.00	1,974,360.00
CMO FHLMC 1645 CL PD	4.500	09/15/08	4,000,000.00	3,557,480.00
CMO Merrill Lynch Trust 26 C	7.300	07/01/16	957,338.17	957,634.94
CMO Trust 43 Ser Y	8.200	05/20/04	980,663.13	997,510.92
TOTAL Collateralized Mortgage Obligations			11,508,413.90	11,182,362.90
<u>TREASURY STRIP BONDS</u>				
Call Treasury Corpus	0.000	02/15/10	2,210,000.00	1,323,900.50
Call Treasury Corpus	0.000	02/15/10	2,000,000.00	1,198,100.00
Call Treasury Corpus	0.000	02/15/10	2,000,000.00	1,198,100.00
Treasury Receipts	0.000	05/15/04	2,170,080.00	1,387,549.15
U S Treasury Principal Strips	0.000	05/15/20	45,000,000.00	9,225,000.00
U S Treasury Principal Strips	0.000	08/15/00	25,000,000.00	20,602,000.00
U S Treasury Principal Strips	0.000	11/15/01	25,000,000.00	18,985,000.00
U S Treasury Strip Bonds	0.000	02/15/07	80,000,000.00	42,504,800.00
U S Treasury Strip Bonds	0.000	02/15/07	10,000,000.00	5,313,100.00
U S Treasury Strip Bonds	0.000	02/15/08	15,000,000.00	7,420,800.00
U S Treasury Strip Bonds	0.000	05/15/08	10,000,000.00	4,864,000.00
U S Treasury Strip Bonds	0.000	05/15/09	3,000,000.00	1,899,630.00
U S Treasury Strip Bonds	0.000	05/15/09	2,000,000.00	1,266,420.00
U S Treasury Strip Bonds	0.000	05/15/09	3,000,000.00	1,357,020.00
U S Treasury Strip Bonds	0.000	08/15/14	3,000,000.00	926,550.00
U S Treasury Strip Bonds	0.000	11/15/04	43,000,000.00	26,736,970.00
U S Treasury Strip Bonds	0.000	11/15/05	1,000,000.00	579,690.00
U S Treasury Strip Bonds	0.000	11/15/11	15,000,000.00	7,688,550.00
U S Treasury Strip Bonds	0.000	02/15/07	35,000,000.00	18,595,850.00
TOTAL Treasury Strip Bonds			323,380,080.00	173,073,029.65
<u>OTHER MISCELLANEOUS</u>				
FHA Certificate of Claim	3.000	/ /	32,887.02	0.00
TOTAL Other Miscellaneous			32,887.02	0.00
TOTAL U.S. GOVERNMENT OBLIGATIONS			2,577,325,915.44	2,468,471,226.23

CORPORATE BONDS

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
INDUSTRIALS				
Abbott Laboratories Notes	6.800	05/15/05	4,000,000.00	3,973,520.00
Abbott Laboratories Notes	6.800	05/15/05	2,000,000.00	1,986,760.00
Allied-Signal Notes	9.120	03/08/99	3,500,000.00	3,643,465.00
Aluminum Co of America Notes	5.750	02/01/01	2,000,000.00	1,936,980.00
American Home Products Notes	7.700	02/15/00	3,000,000.00	3,086,670.00
American Home Products Notes	7.900	02/15/05	3,000,000.00	3,168,540.00
Arco Chemical Co Debs	9.900	11/01/00	2,000,000.00	2,187,420.00
Arco Chemical Co Debs	9.900	11/01/00	2,000,000.00	2,187,420.00
Baxter International Inc Notes	7.125	02/01/07	3,000,000.00	3,013,890.00
Becton Dickinson & Co Notes	6.900	10/01/06	2,000,000.00	1,998,840.00
Boeing Co Debs	7.250	06/15/25	1,000,000.00	984,630.00
Boeing Co Debs	8.100	11/15/06	1,000,000.00	1,081,440.00
Boeing Co Notes	6.350	06/15/03	500,000.00	489,440.00
Boeing Co Notes	6.350	06/15/03	2,750,000.00	2,691,920.00
Bristol Meyer Squibb Debs	6.800	11/15/26	2,000,000.00	1,914,920.00
Bristol Myers Squibb Debs	6.800	11/15/26	3,000,000.00	2,872,380.00
Browning-Ferris Inds Inc Sr Notes	6.375	01/15/08	1,500,000.00	1,414,260.00
Burlington Resources Inc Nts	9.625	06/15/00	3,000,000.00	3,230,490.00
Burlington Resources Inc Nts	9.625	06/15/00	2,000,000.00	2,153,660.00
Cargill Inc 144A Sr Notes	7.250	11/01/36	2,000,000.00	1,928,720.00
Chevron Corp Trust Fund Notes	8.110	12/01/04	10,500,000.00	10,993,290.00
Clorox Company Debs	8.800	07/15/01	2,000,000.00	2,144,100.00
Clorox Company Debs	8.800	07/15/01	1,000,000.00	1,072,050.00
Coca Cola Enterprises Debs	6.950	11/15/26	2,000,000.00	1,849,980.00
Columbia/HCA Healthcare Debs	7.050	12/01/27	10,000,000.00	9,294,500.00
Columbia/HCA Healthcare Notes	7.000	07/01/07	10,000,000.00	8,787,000.00
Corning Glass Works Debs	8.875	03/15/16	5,000,000.00	5,569,700.00
CPC International Inc Debs	7.250	12/15/26	5,000,000.00	4,898,450.00
CSC Enterprises Notes	6.500	11/15/01	18,500,000.00	18,339,605.00
Donnelley & Sons Debs	9.125	12/01/00	2,500,000.00	2,680,300.00
Dover Corp Notes	6.450	11/15/05	2,000,000.00	1,930,220.00
Dresser Industries Inc Notes	6.250	06/01/00	5,000,000.00	4,957,500.00
Dupont (El) deNemours Debs	6.000	12/01/01	4,000,000.00	3,888,600.00
Dupont (El) deNemours Debs	6.000	12/01/01	4,000,000.00	3,888,600.00
Dupont (El) deNemours Debs	6.000	12/01/01	8,000,000.00	7,777,200.00
Eaton Corp Debs	8.900	08/15/06	1,800,000.00	2,000,088.00
Electronic Data Systems 144A Notes	7.125	05/15/05	5,000,000.00	5,004,250.00
Electronic Data Systems 144A Notes	7.125	05/15/05	5,000,000.00	5,004,250.00
Emerson Electric Co Notes	6.300	11/01/05	1,000,000.00	965,020.00
Enron Oil & Gas Notes	6.700	11/15/06	1,000,000.00	975,090.00
Enron Oil & Gas Sr Notes	6.700	11/15/06	2,000,000.00	1,950,180.00
First Data Corp Mtn	6.820	09/18/01	2,000,000.00	2,001,340.00
First Data Corp Notes	6.750	07/15/05	2,000,000.00	1,967,360.00
Ford Motor Co Notes	7.250	10/01/08	2,000,000.00	2,010,900.00
Ford Motor Co Notes	8.875	04/01/06	3,045,000.00	3,364,298.70
Fortune Brands Inc Debs	7.875	01/15/23	2,000,000.00	2,059,460.00
Halliburton Co Notes	6.750	02/01/27	3,000,000.00	2,967,300.00
Hershey Foods Co Debs	8.800	02/15/21	2,000,000.00	2,301,460.00
Honeywell Inc Notes	6.750	03/15/02	3,000,000.00	3,003,090.00
IBM Corp Debs	7.000	10/30/25	1,000,000.00	947,040.00
IBM Corp Debs	7.000	10/30/25	1,000,000.00	947,040.00
IBM Corp Debs	7.000	10/30/25	1,000,000.00	947,040.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>INDUSTRIALS (CONTINUED)</u>				
IBM Corp Debs	7.000	10/30/25	1,000,000.00	947,040.00
IBM Corp Debs	7.000	10/30/25	3,000,000.00	2,841,120.00
IBM Corp Debs	7.000	10/30/25	14,775,000.00	13,992,516.00
IBM Corp Debs	7.000	10/30/25	8,000,000.00	7,576,320.00
IBM Corp Debs	7.000	10/30/25	2,000,000.00	1,894,080.00
IBM Corp Debs	7.500	06/15/13	1,000,000.00	1,025,240.00
Imcera Group Inc Notes	6.000	10/15/03	4,000,000.00	3,815,240.00
J C Penney Co Nts	6.375	09/15/00	2,000,000.00	1,983,540.00
Leggett & Platt Notes 144-A	7.185	04/24/02	10,000,000.00	10,123,000.00
Leggett & Platt Notes 144-A	7.185	04/24/02	4,000,000.00	4,049,200.00
Lowe's Companies Inc Notes	7.050	01/24/00	5,000,000.00	5,048,500.00
Lowe's Companies Notes	7.110	05/15/37	5,000,000.00	5,082,900.00
Marion Merrell Dow-ASOP Debs	9.110	08/01/05	3,848,014.00	4,110,487.03
Mead Corp Notes	6.600	03/01/02	1,000,000.00	993,220.00
Mobil Oil - ESOP Debs	9.170	02/29/00	4,460,625.00	4,642,395.47
New Times Mirror Inc Debs	7.500	07/01/23	5,000,000.00	5,038,450.00
Philip Morris Cos Notes	7.125	12/01/99	10,000,000.00	10,089,900.00
Philip Morris Cos Notes	9.000	05/15/98	6,000,000.00	6,135,360.00
Procter & Gamble Debs	8.000	10/26/29	5,000,000.00	5,390,950.00
Procter & Gamble Debs	8.700	08/01/01	3,000,000.00	3,209,550.00
Procter & Gamble-ESOP Debs	9.360	01/01/21	6,900,000.00	8,265,717.00
Sara Lee Corp Mtn	5.600	10/12/05	1,500,000.00	1,364,370.00
Sara Lee Corp Notes	6.000	12/05/05	2,000,000.00	1,865,820.00
Sara Lee Corp Notes	6.400	11/01/01	2,000,000.00	1,971,220.00
Sears Roebuck Co Notes	8.230	10/21/04	3,925,000.00	4,173,413.25
Sysco Corp Notes	7.000	05/01/06	2,000,000.00	2,005,400.00
Sysco Corp Sr Notes	7.000	05/01/06	1,500,000.00	1,504,050.00
Temple-Inland Mtn	9.000	04/20/98	3,375,000.00	3,449,958.75
Texas Instruments Inc Notes	6.875	07/15/00	3,000,000.00	3,024,120.00
Texas Instruments Inc Notes	6.875	07/15/00	1,500,000.00	1,512,060.00
Texas Instruments Inc Notes	6.875	07/15/00	2,000,000.00	2,016,080.00
Texas Instruments Inc Notes	6.875	07/15/00	1,500,000.00	1,512,060.00
Texas Instruments Inc Notes	6.875	07/15/00	2,000,000.00	2,016,080.00
Tribune Company Notes	5.950	02/17/04	3,895,000.00	3,675,205.15
Tribune Company Notes	5.950	02/17/04	11,000,000.00	10,379,270.00
Tribune Company Notes	6.250	11/10/26	5,000,000.00	4,905,300.00
United Technologies Corp Notes	9.320	02/05/21	3,000,000.00	3,554,520.00
Wal-Mart Stores Notes	5.875	10/15/05	3,000,000.00	2,806,500.00
Wal-Mart Stores Notes	6.500	06/01/03	2,000,000.00	1,970,400.00
Weyerhaeuser Co	7.950	03/15/25	1,000,000.00	1,038,530.00
Weyerhaeuser Company Debs	7.950	03/15/25	1,000,000.00	1,038,530.00
Weyerhaeuser Company Debs	7.950	03/15/25	3,000,000.00	3,115,590.00
WMX Technologies Inc Notes	7.125	06/15/01	1,000,000.00	1,010,740.00
TOTAL Industrials			337,773,639.00	338,595,609.35
<u>FINANCE</u>				
A T & T Capital Corp MTN	6.730	05/12/98	1,000,000.00	1,005,100.00
Aetna Services Inc Debs	6.970	08/15/36	2,000,000.00	2,024,140.00
Aetna Services Inc Notes	6.750	08/15/01	5,000,000.00	4,997,950.00
Aetna Services Inc Debs	6.970	08/15/36	6,000,000.00	6,072,420.00
American Express Cr Co Sr Notes	6.125	11/15/01	2,271,000.00	2,218,176.54
American Express Cr Co Sr Notes	6.500	08/01/00	1,250,000.00	1,248,112.50

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>FINANCE (CONTINUED)</u>				
Aon Corp Notes	6.875	10/01/99	3,000,000.00	3,022,530.00
Associates Corp NA Notes	6.375	07/15/02	5,500,000.00	5,401,550.00
Associates Corp NA Notes	7.500	05/15/99	7,000,000.00	7,137,340.00
Associates Corp NA Notes	9.125	04/01/00	7,500,000.00	7,976,625.00
Associates Corp Na Sr Notes	7.500	05/15/99	3,000,000.00	3,058,860.00
Associates Corp NA Sr Notes	5.250	03/30/00	2,000,000.00	1,934,840.00
Associates Corp NA Sr Notes	7.820	10/21/99	2,000,000.00	2,057,980.00
Avco Financial Services Sr Notes	5.500	05/01/98	2,050,000.00	2,042,251.00
Avco Financial Services Sr Notes	7.375	08/15/01	2,000,000.00	2,036,120.00
Banc One Cr Card Mstr Tr 95-B CIA	6.300	10/15/02	2,000,000.00	1,982,500.00
Bank One Corp Notes	7.600	05/01/07	5,000,000.00	5,139,650.00
Bankamerica Corp Notes	6.850	03/01/03	10,000,000.00	9,989,900.00
Bankamerica Corp Notes	7.125	05/12/05	7,000,000.00	7,005,950.00
Bankamerica Corp Notes	9.625	02/13/01	4,200,000.00	4,586,526.00
Bankers Trust - NY Sub Notes	8.250	05/01/05	3,000,000.00	3,181,110.00
Beneficial Corp Notes	6.575	12/16/02	5,000,000.00	4,921,850.00
Beneficial Finance Corp Notes	5.750	07/21/99	3,000,000.00	2,960,640.00
Beneficial Finance Corp Notes	5.750	07/21/99	7,000,000.00	6,908,160.00
Capita Equipment Rec Trust 96-1 A2	5.950	07/15/98	10,000,000.00	10,025,000.00
Capital Holding Corp MTN	7.820	06/23/04	2,500,000.00	2,572,725.00
Caterpillar Fin Asset Tr 97-A A 3	6.450	05/25/03	3,500,000.00	3,508,190.00
Caterpillar Fin Asset Tr 97-A A 3	6.450	05/25/03	3,000,000.00	2,999,370.00
Caterpillar Fin Asset Tr 97-A A 3	6.450	05/25/03	9,000,000.00	9,021,060.00
Caterpillar Finance Mtn	6.140	07/10/00	2,500,000.00	2,468,500.00
Caterpillar Finance Service Notes	6.950	10/10/00	3,000,000.00	3,026,190.00
Caterpillar Finance Service Notes	6.950	10/10/00	2,000,000.00	2,017,460.00
Chase Credit Card Master Trust	6.230	04/15/05	12,125,000.00	11,882,500.00
Chase Manhattan Corp Sub Notes	8.760	02/19/99	4,800,000.00	4,983,936.00
Chemical Bank Sub Notes	6.125	11/01/08	3,000,000.00	2,750,850.00
Chemical Bank Sub Notes	6.125	11/01/08	2,000,000.00	1,833,900.00
Chrysler Finance Corp Mtn	5.920	12/16/98	2,500,000.00	2,491,500.00
Chrysler Financial Corp Notes	6.440	06/16/99	12,000,000.00	12,010,200.00
Chrysler Financial Corp Notes	6.440	06/16/99	5,000,000.00	5,004,250.00
Chrysler Financial Corp Notes	8.420	02/01/99	1,000,000.00	1,032,410.00
Cit Group Holdings Sr Notes	5.875	12/28/98	5,000,000.00	4,975,700.00
CIT Group Holdings Sr Notes	6.250	10/25/99	4,000,000.00	3,985,560.00
CIT Group Holdings Sr Notes	6.625	09/13/99	10,000,000.00	10,069,300.00
Citicorp Debs	9.750	08/01/99	1,150,000.00	1,222,990.50
Citicorp Mtn	6.750	10/15/07	10,000,000.00	9,771,500.00
Citicorp Mtn	6.750	10/15/07	4,000,000.00	3,908,600.00
Citicorp Notes	7.125	09/01/05	20,000,000.00	20,041,800.00
Collge & Univ Facility LN TR 2 CLD	4.000	06/01/18	8,070,000.00	6,456,000.00
Commercial Credit Notes	6.625	11/15/06	3,000,000.00	2,924,040.00
Commercial Credit Sr Notes	6.200	11/15/01	5,000,000.00	4,900,750.00
Contimortgage HEL 97-3 A7	7.280	05/15/24	4,000,000.00	4,014,400.00
Contimortgage HEL 97-3 A7	7.280	05/15/24	12,000,000.00	12,043,200.00
Discover Card Master Trust 93-2 A	5.400	11/16/01	15,165,000.00	15,013,350.00
Discover Card Trust 1991-D Class A	8.000	10/16/00	20,000,000.00	20,356,200.00
Equicredit Hel 97-1 A-3	6.840	09/15/11	10,000,000.00	10,042,300.00
Equicredit Hel 97-1 A-3	6.840	09/15/11	2,800,000.00	2,811,844.00
First Chicago NBD Sub Notes	7.000	10/16/06	10,000,000.00	9,963,000.00
First Chicago NBD Sub Notes	7.000	10/16/06	3,500,000.00	3,487,050.00
First Deposit Master Trust 95-2	6.050	08/15/02	19,200,000.00	19,211,904.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>FINANCE (CONTINUED)</u>				
First Natl Bank of Boston Sub Notes	8.000	09/15/04	2,000,000.00	2,093,520.00
First Union Corp Notes	6.550	10/15/35	2,000,000.00	1,940,640.00
First Union Corp Notes	6.625	07/15/05	2,000,000.00	1,935,580.00
First Union Corp Sub Debs	6.550	10/15/35	1,000,000.00	970,320.00
First Union Corp Sub Debs	6.550	10/15/35	3,000,000.00	2,910,960.00
First Union Corp Sub Debs	6.550	10/15/35	4,875,000.00	4,730,310.00
First Union Corp Sub Notes	7.050	08/01/05	10,000,000.00	9,945,500.00
Florida Nb of FI Sub Notes	9.875	05/15/99	2,000,000.00	2,119,040.00
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	647,387.91	648,572.63
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	258,955.17	259,429.06
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	258,955.17	259,429.06
Ford Credit 1994-A Grantor Trust	6.350	05/15/99	647,387.91	648,572.63
Ford Credit 1994-B Grantor Trust	7.300	10/15/99	747,281.99	753,581.58
Ford Credit 1994-B Grantor Trust	7.300	10/15/99	498,187.90	502,387.62
Ford Credit Auto Lease Tr 96-1 A-2	5.800	05/15/99	24,000,000.00	23,924,880.00
Ford Motor Credit Corp Global Bond	7.000	09/25/01	2,000,000.00	2,016,880.00
Ford Motor Credit Mtn	7.450	07/12/99	4,000,000.00	4,076,280.00
Ford Motor Credit Mtn	7.900	05/17/99	8,000,000.00	8,213,600.00
Ford Motor Credit Mtn	8.210	03/16/99	1,000,000.00	1,030,520.00
Ford Motor Credit Mtn	8.210	03/16/99	3,500,000.00	3,606,820.00
Ford Motor Credit Notes	5.750	01/25/01	2,000,000.00	1,940,320.00
Ford Motor Credit Notes	5.750	01/25/01	3,000,000.00	2,910,480.00
Ford Motor Credit Notes	7.750	11/15/02	4,000,000.00	4,154,120.00
Ford Motor Credit Notes	8.000	01/15/99	5,400,000.00	5,534,568.00
Ford Motor Credit Notes	8.200	02/15/02	2,000,000.00	2,108,780.00
Ford Motor Credit Notes	9.030	12/30/09	1,400,000.00	1,537,326.00
General Electric Capital Corp Debs	8.700	02/15/03	9,000,000.00	9,807,030.00
General Electric Capital Corp MTN	9.190	07/16/09	3,000,000.00	3,580,680.00
General Electric Capital Corp Notes	6.290	12/15/07	2,000,000.00	1,964,760.00
General Electric Capital Corp Notes	6.290	12/15/07	3,000,000.00	2,947,140.00
General Electric Capital Corp Notes	8.100	12/03/01	5,000,000.00	5,295,950.00
General Electric Capital Sub Notes	7.500	08/21/35	2,000,000.00	2,045,040.00
General Electric Credit Corp Debs	5.500	11/01/01	4,000,000.00	3,816,880.00
GMAC 94-A Grantor Trust	6.300	06/15/99	1,325,233.59	1,326,055.23
GMAC 94-A Grantor Trust	6.300	06/15/99	265,046.72	265,211.05
GMAC 94-A Grantor Trust	6.300	06/15/99	662,616.79	663,027.61
GMAC Debs	8.625	06/15/99	4,000,000.00	4,161,080.00
GMAC Debs	8.625	06/15/99	6,000,000.00	6,241,620.00
GMAC Debs	9.375	04/01/00	1,250,000.00	1,333,587.50
GMAC Notes	5.625	02/15/01	2,000,000.00	1,930,900.00
GMAC Notes	5.625	02/15/01	1,000,000.00	965,450.00
GMAC Notes	5.950	02/12/99	4,000,000.00	3,981,880.00
GMAC Notes	6.750	03/15/03	2,000,000.00	1,991,140.00
GMAC Notes	6.850	04/17/04	2,000,000.00	2,007,280.00
GMAC Notes	7.000	03/01/00	1,000,000.00	1,009,800.00
GMAC Notes	7.500	07/22/99	9,000,000.00	9,181,350.00
GMAC Notes	7.500	07/22/99	1,500,000.00	1,530,225.00
Goldman Sachs Notes #144A Reg	7.875	01/15/03	14,000,000.00	14,577,920.00
Greentree Hil 97-A HEA-5	7.210	03/15/28	4,000,000.00	4,040,000.00
Greentree Hil 97-A HEA-5	7.210	03/15/28	10,000,000.00	10,100,000.00
Hartford Financial Svs Grp Debs	7.300	11/01/15	11,000,000.00	10,538,660.00
Household Fin Co Sr Notes	6.770	06/07/99	8,000,000.00	8,058,960.00
Household Finance Co Notes	6.700	06/15/02	3,000,000.00	2,984,400.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>FINANCE (CONTINUED)</u>				
Household Finance Co Notes	7.250	07/15/03	1,000,000.00	1,011,940.00
Household Finance Co Notes	7.250	07/15/03	4,000,000.00	4,047,760.00
Household Finance Co Sr Notes	6.870	10/01/99	4,000,000.00	4,031,520.00
IBM Corp Mtn	5.650	01/22/98	4,000,000.00	3,986,760.00
Ikon Capital Resources Mtn	5.980	11/23/98	3,000,000.00	2,992,020.00
International Lease Fin Mtn Ser-H	6.140	11/10/99	5,000,000.00	4,965,350.00
International Lease Finance Notes	6.050	11/18/99	6,000,000.00	5,945,820.00
International Lease Finance Notes	6.110	02/01/00	6,000,000.00	5,944,200.00
International Lease Finance Notes	6.330	11/15/00	2,000,000.00	1,980,200.00
International Lease Finance Notes	6.430	11/01/01	3,000,000.00	2,958,750.00
J P Morgan & Co Notes	7.250	10/01/10	2,000,000.00	1,940,460.00
J P Morgan & Co Notes	7.625	09/15/04	2,000,000.00	2,075,900.00
John Deere Capital Corp Mtn	5.720	01/22/01	4,350,000.00	4,221,501.00
John Deere Capital Corp Mtn	6.250	06/12/00	9,000,000.00	8,920,260.00
John Deere Capital Corp Mtn	8.360	01/21/02	3,000,000.00	3,181,050.00
John Deere Capital Corp Mtn	8.360	01/21/02	2,000,000.00	2,120,700.00
Liberty National Bank & Trust Notes	6.750	06/01/03	2,000,000.00	1,967,800.00
Liberty National Bank & Trust Notes	6.750	06/01/03	2,000,000.00	1,967,800.00
Manufacturers Hanover Corp Debs	8.500	02/15/99	1,750,000.00	1,809,062.50
MBNA Bank Corp MTN	7.300	08/17/98	6,000,000.00	6,078,780.00
Metropolitan Life 144-A Surplus Nts	7.800	11/01/25	12,000,000.00	11,980,680.00
Morgan Stanley Group Notes	5.625	03/01/99	1,000,000.00	989,350.00
National City Kentucky Sub Notes	6.300	02/15/11	2,000,000.00	1,828,000.00
Nationsbank Corp Notes	5.375	04/15/00	5,000,000.00	4,850,350.00
Nationsbank Corp Notes	5.375	04/15/00	1,300,000.00	1,261,091.00
Nationsbank Corp Notes	6.875	02/15/05	2,500,000.00	2,473,050.00
Nationsbank Corp Sub Notes	7.500	09/15/06	3,000,000.00	3,080,310.00
Nationwide CSN Trust Notes	9.875	02/15/25	14,000,000.00	15,403,780.00
Norwest Financial Inc Notes	7.200	05/01/07	3,000,000.00	3,031,920.00
Norwest Financial Inc Sr Notes	6.000	02/01/04	2,000,000.00	1,900,420.00
Nynex Capital Funding Mtn	8.140	11/01/99	5,000,000.00	5,174,200.00
Old Republic Intl Debs	7.000	06/15/07	2,000,000.00	1,984,980.00
Pitney Bowes Credit Corp Notes	6.800	10/01/01	2,000,000.00	2,006,860.00
PNC Student Loan Trust 97-2 CL A3	6.314	01/25/01	4,750,000.00	4,736,652.50
Premier Auto Trust 93-4	4.650	02/02/99	1,687,989.40	1,678,486.02
Premier Auto Trust 95-3	6.150	03/06/00	10,000,000.00	10,006,200.00
Premier Auto Trust 95-4 CI A4	6.000	05/06/00	22,000,000.00	21,979,320.00
Premier Auto Trust 96-2 CI A3	6.350	01/06/00	6,850,000.00	6,871,372.00
Sears Credit Acct Master Tr 96-4 A	6.450	10/16/06	7,500,000.00	7,450,725.00
Sears Roebuck Acceptance Corp Notes	5.960	12/07/00	1,000,000.00	978,270.00
Sears Roebuck Acceptance Corp Notes	6.220	03/25/99	1,000,000.00	998,760.00
Sears Roebuck Acceptance Corp Notes	6.250	01/15/02	10,000,000.00	9,772,100.00
Sears Roebuck Acceptance Corp Notes	6.500	06/15/00	3,000,000.00	2,990,490.00
Sears Roebuck Acceptance Corp Notes	7.070	09/17/01	3,000,000.00	3,033,630.00
Sears Roebuck Acceptance Mtn	6.110	10/26/98	2,030,000.00	2,030,284.20
Southtrust Bank Birmingham Notes	7.000	11/15/08	2,000,000.00	1,951,480.00
Standard Credit Card Trust 95-10 A	5.900	02/07/01	24,000,000.00	23,880,000.00
Standard Credit Card Trust 95-10 A	5.900	02/07/01	2,500,000.00	2,487,500.00
Standard Credit Card Trust 95-3 A	7.850	02/07/02	12,680,000.00	13,088,042.40
Star Bank Na - Cincinnati Sub Notes	6.375	03/01/04	3,000,000.00	2,898,900.00
Suntrust Banks Sub Notes	6.125	02/15/04	3,000,000.00	2,869,500.00
Torchmark Corp Debs	8.625	03/01/17	1,000,000.00	1,023,080.00
Travelers Group Inc Notes	6.875	06/01/25	2,000,000.00	1,983,820.00

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>FINANCE (CONTINUED)</u>				
Travelers Group Inc Notes	9.500	03/01/02	2,000,000.00	2,207,760.00
Travelers PPTY Gas Corp Sr Notes	6.750	04/15/01	8,705,000.00	8,687,938.20
Wachovia Bank Notes	6.605	10/01/25	2,000,000.00	1,970,920.00
Wisconsin Hsg & Economic Dev Auth	6.450	07/01/14	2,392,000.00	2,290,340.00
World Omni Lease 97-A A 3	6.850	06/25/03	12,000,000.00	12,093,720.00
Xerox Credit Corp Debs	10.000	04/01/99	3,000,000.00	3,172,560.00
TOTAL Corporate Bonds			826,812,042.55	830,100,728.33

UTILITY BONDS (EXCEPT TELEPHONE)

Citizens Utilities Co Debs	7.050	10/01/46	18,000,000.00	16,901,460.00
Consolidated Natural Gas Debs	8.750	06/01/99	7,300,000.00	7,599,008.00
Georgia Power Co 1st Mtg	5.500	04/01/98	10,000,000.00	9,959,600.00
Kentucky Utilities Co 1st Mtg	5.950	06/15/00	3,000,000.00	2,951,220.00
Kentucky Utilities Co 1st Mtg	5.950	06/15/00	500,000.00	491,870.00
Pacific Gas Elec 1st Ref Mtg QQ	6.625	06/01/00	1,000,000.00	995,670.00
Pacificorp 1st Mtg Mtn	6.050	04/17/00	3,000,000.00	2,957,670.00
Philadelphia Electric 1st Ref Mort	7.125	08/15/23	1,000,000.00	937,560.00
Piedmont Natural Gas Notes	7.500	10/09/26	2,000,000.00	1,966,760.00
Potomac Electric Power 1st Mtg	6.500	09/15/05	2,000,000.00	1,939,520.00
Potomac Electric Power 1st Mtg	6.500	09/15/05	3,000,000.00	2,909,280.00
Pub Ser Elec Gas 1st Ref Mtg	6.000	01/01/98	2,500,000.00	2,502,200.00
Pub Ser Elec Gas Debs	6.000	07/01/98	255,000.00	253,209.90
Southern California Edison Notes	5.875	01/15/01	2,000,000.00	1,949,140.00
Southern California Edison Notes	6.375	01/15/06	3,000,000.00	2,870,490.00
Union Electric Corp 1st Mtg	6.750	10/15/99	5,000,000.00	5,017,800.00
Wisconsin Electric Power Debs	6.625	11/15/06	5,000,000.00	4,886,800.00
TOTAL Utility Bonds			68,555,000.00	67,089,257.90

TELEPHONE BONDS

A T & T Corp Debs	6.000	08/01/00	1,000,000.00	981,610.00
A T & T Corp Notes	6.750	04/01/04	2,000,000.00	1,987,500.00
Ameritech Capital Debs	9.100	06/01/16	8,000,000.00	9,386,320.00
Bellsouth Telecommunications Debs	7.500	06/15/33	2,000,000.00	1,958,460.00
Central Telephone MTN	6.875	09/21/04	1,000,000.00	985,740.00
GTE California 1st Mtg	6.250	01/15/98	2,000,000.00	2,002,840.00
GTE Florida Inc Debs	6.310	12/15/02	4,550,000.00	4,461,775.50
Lucent Technologies Inc Notes	6.900	07/15/01	2,000,000.00	2,017,640.00
Lucent Technologies Inc Notes	7.250	07/15/06	10,000,000.00	10,207,500.00
New York Telephone Co Debs	6.700	11/01/23	21,000,000.00	18,902,520.00
Pacific Bell Telephone Debs	5.875	02/15/06	10,000,000.00	9,270,300.00
Rochester Telephone MTN	7.510	03/27/02	8,800,000.00	9,001,432.00
Southwestern Bell Telephone Notes	6.375	04/01/01	1,000,000.00	993,300.00
U S West Communications Debs	8.875	06/01/31	2,000,000.00	2,133,640.00
Winsonsin Bell Inc Debs	6.350	12/01/26	2,000,000.00	1,954,760.00
Wisconsin Bell Inc Debs	6.350	12/01/2	3,000,000.00	2,932,140.00
TOTAL Telephone Bonds			80,350,000.00	79,177,477.50

CORPORATE BONDS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>RAILROAD OBLIGATIONS</u>				
Virginia Southwestern Ry 1st Mtg	5.000	01/01/03	107,000.00	97,744.50
TOTAL Railroad Obligations			107,000.00	97,744.50
TOTAL CORPORATE BONDS			1,313,597,681.55	1,315,060,817.58

OTHER FIXED INCOME INVESTMENTS

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>SINGLE FAMILY MORTGAGES</u>				
FHA Mortgages	various		714,714.44	697,661.33
VA Mortgages	various		628,310.14	613,318.65
TOTAL Single Family Mortgages			1,343,024.58	1,310,979.98
<u>PROJECT MORTGAGES (FHA & GNMA)</u>				
Americana Apts KY 221D4	7.500	10/01/18	3,970,088.69	3,845,427.91
Bedford Commons KY 221D4	8.000	11/01/23	1,180,838.18	1,143,759.86
Bedford House KY 221D4	7.500	01/01/20	1,115,607.78	1,080,577.70
Beech Creek Apts KY 221D4	7.500	08/01/21	1,879,504.98	1,820,488.52
Belleville Manor Apts KY 221D4	7.500	11/01/19	573,188.27	555,190.16
Berrytown Apts KY 221D4	8.000	02/01/24	1,287,819.55	1,247,382.02
Bethany Circle Kings Daughters IN	8.375	03/01/02	772,263.80	748,014.72
Cambridge Square Apts KY 221D4	7.500	11/01/19	1,070,258.21	1,036,652.10
Carnaby Square Apts KY 221D4	7.500	06/01/19	1,097,842.35	1,063,370.10
Carrollton Village Apts KY 221D4	7.500	09/01/20	1,772,766.49	1,717,101.62
Carter Court Apts KY 221D4	7.500	09/01/20	1,169,442.53	1,132,722.03
Congregational Home Kan 231	5.250	07/01/04	703,469.23	681,380.30
Coolavin Apts KY 221D4	7.500	04/01/22	2,884,825.73	2,794,242.20
Denver Ed Sr Citzns 231	5.250	11/01/03	378,260.78	366,383.39
Dixie Apts KY 221D4	7.500	05/01/18	999,014.12	967,645.08
Ephraim McDowell Hosp KY	9.000	01/01/01	1,095,049.46	1,060,664.91
Ferndale Apts KY 221D4	7.500	08/01/23	3,432,747.91	3,324,959.63
Gainesway Village KY 221D4	7.500	02/01/19	1,446,988.59	1,401,553.15
Glenbrook Park KY 221D4	7.500	12/01/21	2,250,061.78	2,179,409.84
Grand Central Apts KY 221D4	7.500	03/01/25	2,149,315.01	2,081,826.52
Grandview Apts KY 223F	8.875	08/01/29	1,315,450.74	1,274,145.59
Greater Corbin Mnr KY 221D4	7.500	03/01/21	3,197,657.47	3,097,251.03
Hallmark Plaza KY 223F	8.500	06/01/11	914,829.31	886,103.67
Huntington Apts Ky 223F	7.500	08/01/28	2,376,838.91	2,302,206.17
Jackson Valley Apts KY 221D4	7.500	08/01/20	1,775,208.80	1,719,467.24
Jamestown Manor Ltd KY 221D4	7.500	02/01/22	1,396,057.92	1,352,221.70
Lakeview Estates KY 221D4	7.500	01/01/20	1,001,321.91	969,880.40
Lebanon Apts KY 221D4	7.500	02/01/20	1,076,660.88	1,042,853.73
Lighthouse Sq Apts KY 223F	7.600	01/01/27	4,617,483.49	4,472,494.51

OTHER FIXED INCOME INVESTMENTS (CONTINUED)

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
<u>PROJECT MORTGAGES (FHA & GNMA) CONTINUED . . .</u>				
Lin Meadows Homes KY 221D4	7.500	11/01/22	248,326.57	240,529.12
Locust Ridge KY 221D4	7.500	10/10/21	1,731,134.61	1,676,776.98
Longmont Christian Hsg 231	5.250	03/01/03	222,421.29	215,437.26
Madison Ave Apts KY 221D4	7.500	09/01/20	1,749,341.96	1,694,412.62
Manchester Heights Apts KY 221D4	7.500	06/01/19	1,092,887.23	1,058,570.57
Middletown Apts KY 221D4	7.500	02/01/18	922,948.86	893,968.27
Montgomery Square Apts KY 221D4	7.500	05/01/19	1,092,041.63	1,057,751.52
Mountain Manor, KY 232	8.950	12/01/35	4,223,181.55	4,090,573.65
Mt Lebanon Cedars KY 221D3	7.500	03/01/23	2,439,441.66	2,362,843.19
Oak Tree Villa Apts KY 221D4	7.500	05/01/23	3,220,641.64	3,119,513.49
Panorama West KY 236	8.500	12/01/12	375,291.18	363,507.04
Park Regency Apts KY 221D4	7.625	05/01/28	2,088,033.85	2,022,469.59
Pine Ridge Apts KY 221D4	7.500	09/01/18	732,851.54	709,840.00
Pinecreek Apts KY 221D4	7.500	10/01/17	502,164.86	486,396.88
Regency Park Apts KY 221D4	7.500	05/01/18	849,084.04	822,422.80
Regency Park BG KY 221D4	7.500	02/01/23	3,388,063.17	3,281,677.99
Ridgeway Apts KY 221D4	7.500	02/01/19	930,668.50	901,445.51
Rucker Village Apts KY 221D4	7.500	03/01/20	978,492.91	947,768.23
Salem Village I 232 ILL	7.750	03/01/16	869,669.23	842,361.62
Salem Village II 231 ILL	7.750	10/01/16	2,995,407.46	2,901,351.67
Sandefur Manor KY 221D4	7.500	01/01/20	849,581.13	822,904.28
Shepherdsville VLG KY 221D4	7.500	05/01/20	1,229,944.15	1,191,323.90
Shively Apts KY 221D4	7.500	10/01/21	2,208,341.87	2,138,999.94
Southside Manor KY 221D4	7.500	02/01/19	1,264,935.56	1,225,216.58
Southwind Apts KY 223F	8.750	03/15/35	2,239,763.55	2,169,434.97
Town Branch Apts KY 221D4	7.500	11/01/23	698,885.29	676,940.29
Tree Top Apts KY 221D4	7.500	11/01/20	1,027,658.18	995,389.71
Vernon Manor Ltd KY 221D4	7.500	11/01/22	835,074.46	808,853.12
Village Square Apts KY 223F	9.000	12/01/29	1,726,879.55	1,672,655.53
Walnut Hill Apts KY 221D4	7.500	05/01/19	1,466,879.83	1,420,819.80
Wessington House Apts TN 221D4	7.500	02/01/22	1,698,497.43	1,645,164.61
Westchester Circle KY 221D4	7.500	04/01/19	3,768,947.80	3,650,602.84
Westwood Apts KY 221D4	7.500	10/01/23	1,116,983.35	1,081,910.07
Wilderness Trail Mnr KY 221D4	7.500	03/01/23	5,265,723.71	5,100,379.99
Wildwood Apts KY 221D4	7.500	08/01/20	1,700,700.99	1,647,298.98
Willow Creek Apts KY 221D4	7.500	08/01/23	1,290,062.79	1,249,554.82
Woodsvew Apts KY 221D4	7.500	01/01/19	1,271,332.45	1,231,412.61
Yorktown Apts KY 223F	7.500	06/01/28	5,695,575.31	5,516,734.25
TOTAL Project Mortgages (FHA & GNMA)			114,908,724.01	111,300,590.09
<u>STATE AND LOCAL GOVERNMENT ISSUES</u>				
Ky Housing Corp Rev Bonds 96 Ser F	7.210	07/10/10	5,015,000.00	5,046,995.70
Ky Infrastructure Auth Bonds 1995-K	8.400	06/01/00	1,205,000.00	1,269,455.45
Total State and Local Government Issues			6,220,000.00	6,316,451.15
Total Other Fixed Income Investments			122,471,748.59	118,928,021.22
TOTAL FIXED INCOME INVESTMENTS			\$ 4,452,695,345.58	\$ 4,341,760,065.03

REAL ESTATE EQUITY

SECURITY	COUPON	MATURITY	PAR VALUE	MARKET VALUE
REAL ESTATE EQUITY				
K Mart Store Cold Springs KY	9.300	02/28/19	6,415,000.00	6,000,000.82
K Mart Store Terre Haute IN	9.100	08/31/19	12,509,615.00	11,550,002.43
K Mart Store Winchester KY	9.956	09/30/07	2,715,512.53	2,715,512.53
Kroger Revco Bowling Green KY	10.500	10/31/07	2,792,467.00	2,792,467.00
Kroger Revco Owensboro KY	10.500	11/30/07	2,232,400.00	2,232,400.00
Kroger Store Georgetown KY	10.600	12/31/08	2,179,400.00	2,185,999.22
Kroger Store Richmond KY	10.500	11/30/07	2,305,000.00	2,305,000.00
Lowe's Store Conroe TX	9.857	07/31/15	7,859,747.00	8,330,003.52
Lowe's Store Elizabethtown Ky	9.156	01/31/16	8,409,000.00	8,409,000.00
Lowe's Store Hamilton Oh	9.154	10/31/15	8,490,000.00	8,560,000.05
Lowe's Store Lafayette IN	9.276	07/31/14	7,600,000.00	7,589,998.40
Lowe's Store Marion IN	9.737	07/31/15	5,600,000.00	5,650,002.40
Lowe's Store Paducah KY	9.720	07/31/15	7,351,000.00	7,400,001.77
Lowe's Store Pikeville KY	9.838	08/31/14	5,530,000.00	5,849,998.98
Lowe's Store Sherman TX	9.841	07/31/15	8,726,000.00	8,769,996.49
Mercantile Warehouse L'ville KY	9.125	01/31/09	7,730,000.00	7,730,000.00
Office Building 477	8.277	06/30/97	1,351,426.76	1,351,426.76
Rite Aid Horse Cave KY	12.260	03/31/01	370,000.00	388,000.13
Rite Aid Liberty KY	12.250	01/30/02	397,700.00	515,000.02
Sam's Warehouse Paducah KY	10.611	01/31/09	3,600,000.00	3,600,000.00
Walgreen's Store Chattanooga TN	9.380	08/31/15	2,772,000.00	2,790,001.37
Walgreen's Store Chattanooga TN	9.400	07/31/15	2,313,000.00	2,334,998.94
Walgreen's Store Clarksville IN	9.160	07/31/14	3,403,460.00	3,375,000.27
Walgreen's Store East Ridge TN	9.633	09/30/15	2,283,800.00	2,329,998.99
Walgreen's Store Elizabethtown Ky	9.105	10/31/16	2,400,000.00	2,380,000.80
Walgreen's Store Jeff'ville IN	9.585	11/30/15	2,692,894.00	2,729,999.39
Walgreen's Store Knoxville TN	9.210	02/28/15	1,954,945.00	1,924,999.15
Walgreen's Store Knoxville TN	9.509	06/30/16	3,233,840.00	3,279,999.83
Walgreen's Store Nashville TN	9.380	12/31/14	2,588,000.00	2,580,000.49
Walgreen's Store Red Bank TN	9.278	02/28/17	3,018,000.00	3,064,999.31
Wal-Mart Store Hardinsburg KY	10.600	01/31/11	965,000.00	1,260,579.50
Wal-Mart Store Jefferson City TN	9.100	06/30/15	8,599,000.00	8,550,002.90
Wal-Mart Store Paris KY	11.000	01/31/09	1,200,000.00	1,567,560.00
Wal-Mart Store Princeton KY	9.770	07/08/11	2,913,682.00	2,913,682.00
Wal-Mart Store Shelbyville KY	11.000	01/31/09	1,600,000.00	2,090,080.00
Wal-Mart Store Vincennes In	9.148	03/26/16	11,920,000.00	11,920,000.00
Wal-Mart Store Williamstown KY	10.600	01/31/11	1,090,000.00	1,423,867.00
Winn Dixie Bullitt Cty KY #1669	9.270	01/31/15	3,013,000.00	3,049,999.64
Winn Dixie Leitchfield KY #1617	9.600	06/18/12	2,145,833.00	2,274,999.27
Winn Dixie Lexington KY #1614	9.600	06/18/12	3,639,167.00	3,859,998.93
Winn Dixie Lexington KY #1632	9.491	06/06/13	3,407,000.00	3,539,999.06
Winn Dixie Radcliff Ky # 1610	9.231	10/31/16	3,510,000.00	3,539,999.97
Winn Dixie Somerset KY #1602	9.600	06/18/12	3,090,479.00	3,274,999.14
Winn Dixie St Matthews KY #1659	9.600	06/18/12	4,348,437.00	4,599,998.43
Total Real Estate Equity			182,265,805.29	184,580,574.90

COMMON STOCKS

STOCK	NUMBER OF SHARES	ORIGINAL COST	MARKET VALUE
COMMON STOCKS			
3 Com Corp	50,000.000	2,526,565.00	2,250,000.00
360 Communications Co	68,166.000	1,578,027.12	1,167,342.75
A T & T Corp	200,000.000	9,400,505.48	7,012,400.00
Abbott Laboratories	550,000.000	16,890,102.95	36,712,500.00
Advanced Micro Devices	161,700.000	2,640,237.73	5,800,987.50
Aetna Inc	114,000.000	7,539,944.85	11,670,750.00
Air Express International CP	23,400.000	615,711.25	930,150.00
Air Products & Chemicals	350,000.000	20,164,623.36	28,437,500.00
Airtouch Communications	380,000.000	10,494,205.00	10,450,000.00
Albany Intl Corp Cl A	60,200.000	1,265,886.44	1,354,500.00
Allergan Inc	435,600.000	11,532,604.17	13,857,307.20
Allergan Ligand Retinoid	10,000.000	170,238.65	172,500.00
Alliance Pharmaceutical CP	42,800.000	587,126.26	430,653.60
Alliedsignal Inc	100,000.000	5,533,080.00	8,400,000.00
Allstate Corp	130,000.000	7,590,030.00	9,490,000.00
Alza Corp	229,200.000	5,863,566.02	6,646,800.00
Amerada Hess	70,000.000	3,392,229.17	3,889,340.00
American Exploration Co	95,500.000	1,256,894.79	1,396,687.50
American Express	260,000.000	11,119,771.00	19,370,000.00
American Gen Hospitality	63,800.000	1,754,784.34	1,579,050.00
American General Corp	200,000.000	8,189,100.00	9,550,000.00
American Home Products	277,000.000	15,268,032.40	21,190,500.00
American International Group	270,000.000	24,266,477.78	40,331,250.00
American Radio Systems Corp	35,200.000	1,306,342.27	1,403,600.00
Amerisource Health Corp Cl A	28,200.000	1,024,800.63	1,406,475.00
Ameritech Corp	190,000.000	11,252,962.60	12,908,220.00
Amoco Corp	170,000.000	14,827,823.00	14,779,460.00
AMP Inc	200,000.000	6,515,396.24	8,350,000.00
Amylin Pharmaceuticals Inc	61,400.000	621,893.05	844,250.00
Anheuser-Busch Co Inc	107,000.000	4,451,221.40	4,487,366.00
Aon Corp	458,175.000	12,602,582.53	23,710,556.25
Applied Extrusion Tech	28,300.000	300,435.75	332,525.00
Apria Healthcare Group Inc	57,300.000	1,078,314.00	1,006,302.60
Arbor Drugs Inc	107,000.000	1,863,022.25	2,153,375.00
Arch Communications Group	61,800.000	603,713.45	471,225.00
ASA Holdings Inc	72,000.000	1,523,946.26	2,061,000.00
Atlantic Richfield Co	440,000.000	27,067,511.29	31,020,000.00
Auspex Systems Inc	47,000.000	475,964.30	452,375.00
Autoimmune Inc	57,900.000	666,239.25	106,767.60
Automatic Data Processing Inc	550,100.000	20,926,158.68	25,854,700.00
Avant Corp	10,500.000	259,481.25	339,276.00
Avid Technology Inc	35,000.000	938,025.00	923,125.00
Ballard Medical Products	25,000.000	446,269.39	501,550.00
Banc One	344,000.000	11,956,869.50	16,662,672.00
Bancfirst Corp	39,500.000	916,739.42	1,323,250.00
Bancorpsouth Inc	4,400.000	126,955.50	127,600.00
Bankers Trust NY Corp	158,000.000	14,092,192.24	13,765,750.00
Bard (CR) Inc	142,300.000	3,859,756.75	5,167,197.60
Barrett Resources Corp	35,800.000	1,203,650.66	1,071,780.40
Baxter International Inc	50,000.000	2,460,500.00	2,615,600.00
Bay Networks Inc	50,000.000	2,401,250.00	1,318,750.00
Beckman Instruments	92,000.000	1,963,910.24	4,439,000.00
Bedford Property Investors	114,000.000	1,955,808.39	2,294,250.00
BellSouth	471,600.000	19,530,840.00	21,870,450.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	ORIGINAL COST	MARKET VALUE
COMMON STOCKS (CONTINUED)			
Beverly Enterprises Inc	570,000.000	8,102,111.50	9,262,500.00
BGS Systems Inc	9,100.000	228,637.50	250,250.00
Biomet Inc	95,700.000	1,648,661.75	1,782,412.50
Birmingham Steel	92,200.000	2,034,727.26	1,429,100.00
Bisys Group Inc	35,800.000	1,233,135.69	1,494,650.00
Boeing Co	80,000.000	3,177,400.00	4,244,960.00
Boole & Babbage Inc	42,225.000	704,554.40	897,281.25
Borg-Warner Automotive Inc	21,600.000	774,345.57	1,150,200.00
Boston Technology	92,100.000	1,354,745.37	2,722,660.20
Bostonfed Bancorp Inc	34,100.000	410,165.21	603,160.80
Bristol-Myers Squibb Co	746,000.000	31,095,083.98	60,426,000.00
Broad Natl Bancorp	31,100.000	400,575.00	552,025.00
Browning-Ferris Industries	638,800.000	16,896,191.22	21,240,100.00
BSB Bancorp Inc	6,100.000	175,467.60	233,325.00
Burlington Northern Santa Fe	298,300.000	23,635,673.13	26,809,712.50
C P Clare Corp	119,600.000	1,394,237.17	1,883,700.00
Cabot Corp	11,300.000	291,004.68	320,637.50
Calgon Carbon Corp	20,300.000	217,652.54	281,662.50
Cambrex Corp	7,300.000	224,521.18	289,262.50
Camco International Inc	5,200.000	160,977.27	284,700.00
Canandaigua Wine Co Cl A	31,900.000	918,090.00	1,084,600.00
Canandaigua Wine Co Cl B	2,600.000	90,060.00	93,275.00
Capital Re Corp	48,800.000	1,971,903.07	2,610,800.00
Caraustar Industries Inc	63,600.000	1,727,931.60	2,202,150.00
Carbide/Graphite Group	57,200.000	1,074,887.50	1,329,900.00
Catalytica Inc	22,000.000	147,474.20	259,864.00
Caterpillar Inc	150,000.000	11,687,862.00	16,106,250.00
Centerior Energy	193,500.000	1,962,343.48	2,164,878.00
Central & South West	626,000.000	13,780,766.95	13,302,500.00
Century Aluminum Company	186,200.000	2,765,128.13	2,723,175.00
Cephalon Inc	30,000.000	363,750.00	345,000.00
Chase Manhattan	329,640.000	25,401,191.32	31,995,517.68
Chateau Communities Inc	84,395.000	2,097,521.00	2,415,806.88
Chemfab Corp	9,200.000	130,495.00	193,200.00
Chevron Corp	100,000.000	6,864,380.00	7,393,800.00
Choice Hotels Intl Inc	149,600.000	1,164,545.38	2,533,924.80
Chrysler Corp	515,462.000	14,392,260.39	16,945,813.25
Chubb Corp	270,000.000	11,660,387.50	18,056,250.00
Church & Dwight Co Inc	15,100.000	380,779.14	403,925.00
Cigna Corp	129,900.000	15,652,446.63	23,057,250.00
Cilcorp Inc	22,700.000	926,391.65	934,967.60
Circon Corp	22,700.000	357,100.00	323,475.00
Cisco Systems	350,000.000	14,095,187.34	23,493,750.00
Citicorp	333,200.000	24,567,485.59	40,171,258.40
CMS Energy Corp	250,400.000	6,579,472.33	8,826,600.00
Coca Cola Co	185,000.000	4,877,012.20	12,580,000.00
Coca Cola Enterprises	366,300.000	3,663,692.80	8,424,900.00
Cognizant Corp	225,000.000	6,922,197.65	9,112,500.00
Collagen Corp	20,700.000	380,262.50	362,250.00
Columbia Banking System Inc	28,875.000	437,712.50	581,109.38
Columbia/HCA Healthcare	630,000.000	23,415,908.08	24,766,560.00
Comerica Inc	63,100.000	2,010,050.96	4,290,800.00
Commnet Cellular Inc	11,400.000	318,025.39	396,150.00
Community Bank System Inc	18,400.000	341,825.00	519,800.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	ORIGINAL COST	MARKET VALUE
<u>COMMON STOCKS (CONTINUED)</u>			
Compaq Computer	190,000.000	13,736,476.08	18,905,000.00
Compusa Inc	84,000.000	1,884,262.20	1,806,000.00
Computer Associates Int'l	309,500.000	12,930,332.00	17,235,436.00
Comverse Technology Inc	40,700.000	993,480.82	2,116,400.00
Consolidated Cigar Holdings Inc	76,300.000	1,871,546.98	2,117,325.00
Consolidated Edison Co of NY	206,000.000	4,761,760.86	6,064,228.00
Cooper Tire & Rubber	550,000.000	14,256,338.18	12,100,000.00
Corning Inc	377,200.000	11,417,976.42	20,981,750.00
Covance Inc	115,300.000	1,624,061.89	2,226,673.60
Covenant Transport Inc Cl A	30,400.000	415,007.98	497,800.00
CPB Inc	38,100.000	1,175,255.00	1,419,225.00
CPC International	284,000.000	18,779,413.12	26,216,608.00
Cracker Barrel Old Country Store	28,000.000	805,000.00	742,000.00
Culbro Corp	5,100.000	453,654.81	709,858.80
Cuno Incorporated	18,000.000	268,450.00	301,500.00
Curative Health Sources Inc	15,000.000	429,427.50	431,250.00
CVS Corp	142,900.000	5,141,383.84	7,323,625.00
Cytec Inds Inc	5,600.000	159,340.64	209,300.00
Darden Restaurants Inc	180,000.000	2,121,697.22	1,631,160.00
Data General	37,000.000	962,138.10	962,000.00
Datascope Corp	28,900.000	555,837.34	567,162.50
Dayton-Hudson	100,000.000	3,199,275.39	5,318,800.00
Dekalb Genetics Cl B	34,600.000	781,350.50	2,759,350.00
Desert Community Bank	4,200.000	60,900.00	81,900.00
Devon Energy Corporation	40,600.000	1,096,053.81	1,492,050.00
Dexter Corp	10,600.000	319,852.04	339,200.00
Dial Corp New	224,800.000	2,490,429.54	3,512,500.00
Dillard's Inc	398,000.000	11,677,766.40	13,780,750.00
Dover Corp	301,000.000	13,662,601.16	18,549,125.00
Dow Chemical Co	204,000.000	13,924,674.98	17,722,500.00
Downey Financial Corp	100,619.000	1,672,148.17	2,377,123.88
Dresser Industries	150,000.000	3,274,300.00	5,587,500.00
Dreyer's Grand Ice Cream Inc	300.000	10,087.50	11,850.00
DSP Communications Inc	31,100.000	215,877.08	342,100.00
Dun & Bradstreet Corp	525,000.000	12,817,244.22	13,781,250.00
Durco International Inc	31,500.000	835,887.13	921,375.00
Dynex Cap Inc	173,200.000	2,281,165.13	2,424,800.00
Eastman Chemical Co	111,000.000	5,787,997.18	7,048,500.00
Eastman Kodak	75,000.000	3,664,258.06	5,756,250.00
Electronic Data Systems Corp	320,000.000	14,500,196.00	13,180,160.00
EMC Corp	427,900.000	12,043,221.69	16,688,100.00
Emerson Electric	322,000.000	13,617,444.40	17,729,964.00
Englehard Corp	302,500.000	5,465,200.56	6,333,745.00
Ennis Business Forms	91,700.000	1,044,505.81	882,612.50
Enron Corp	360,400.000	12,926,634.54	14,708,644.80
Enstar Inc	46,633.000	373,064.00	291,456.25
Equitable Resources	57,200.000	1,732,223.34	1,623,050.00
Everest Reinsurance Hldgs	49,300.000	1,195,829.26	1,953,512.50
Exide Corp	30,000.000	625,500.75	658,140.00
Exxon Corp	1,206,000.000	55,760,159.40	73,867,500.00
Fannie Mae	470,000.000	14,362,650.00	20,503,750.00
Far East National Bank/Calif	1,400.000	20,259.13	21,350.00
Federal Express	332,900.000	13,902,986.03	19,266,587.50
Federal Realty	386,000.000	8,477,949.65	10,422,000.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	ORIGINAL COST	MARKET VALUE
COMMON STOCKS (CONTINUED)			
Federated Dept Stores Inc Del	275,300.000	8,616,866.12	9,566,675.00
Ferro Corp	8,400.000	233,942.75	311,320.80
Filenet Corp	56,200.000	1,719,375.40	814,900.00
First American Corp-Tenn	60,000.000	1,822,500.00	2,302,500.00
First Bank System	120,000.000	6,603,208.39	10,245,000.00
First Chicago NBD Corp	443,000.000	24,216,509.04	26,801,500.00
First Commerce Bcshts Inc-B	50,400.000	823,322.75	1,159,200.00
First Data Corp	639,300.000	19,738,654.84	28,089,563.40
First of America Bank Corp	45,000.000	1,639,980.00	2,058,750.00
First Security Corp/Del	75,000.000	1,846,252.50	2,048,400.00
First Union Corp	150,000.000	8,378,502.40	13,875,000.00
First Victoria Natl Bank/TX	15,500.000	379,425.00	403,000.00
First Virginia Bank	206,000.000	7,787,008.32	12,424,272.00
Forest Labs Inc	154,900.000	6,634,841.29	6,418,746.20
Foster Wheeler Corp	230,000.000	9,655,787.60	9,315,000.00
Frontier Insurance Group Inc	87,800.000	3,341,600.90	5,685,050.00
Fuller (HB) Co	6,700.000	293,270.00	368,500.00
Gannett Co	533,100.000	33,995,711.71	52,643,625.00
General Cable Corp	76,800.000	1,711,050.50	1,968,000.00
General Communication Cl A	42,900.000	245,544.38	343,200.00
General Electric Co	1,038,000.000	37,394,673.16	67,470,000.00
General Instrument Corp	731,900.000	19,237,919.10	18,480,475.00
General Mills	100,000.000	6,793,630.00	6,512,500.00
General Re Corp	77,000.000	7,612,896.00	14,014,000.00
Genuine Parts	506,400.000	11,464,585.30	17,154,300.00
Genzyme Corp General Division	91,000.000	1,893,369.33	2,525,250.00
Geon Co	58,700.000	1,223,552.56	1,188,675.00
Gerber Scientific Inc	25,000.000	409,661.85	493,750.00
Gilead Sciences Inc	19,000.000	643,625.00	524,875.00
Gillette Co	205,000.000	8,750,404.42	19,423,750.00
Goodyear Tire & Rubber	339,700.000	15,133,487.28	21,507,086.40
Granite Construction Inc	48,000.000	1,016,950.30	948,000.00
Greenfield Industries Inc/DE	41,100.000	1,097,274.22	1,109,700.00
GTE Corp	717,000.000	29,008,640.62	31,458,375.00
Haemonetics Corp/Mass	37,700.000	722,249.66	721,012.50
Hamilton Bancorp Inc	44,600.000	706,050.00	1,193,050.00
Hancock Holding Co	3,200.000	142,025.00	156,800.00
Hanmi Bank (Los Angeles CA)	30,368.000	386,000.00	531,440.00
Hanna (M.A.) Co	10,500.000	225,517.50	300,562.50
Harland John H Co	39,500.000	1,119,905.46	901,074.00
Harnischfeger Inds	101,100.000	4,110,396.64	4,195,650.00
Healthcare & Retirement Corp	168,200.000	4,348,289.62	5,613,675.00
Heinz (HJ) Co	370,000.000	12,949,389.20	17,066,250.00
Hewlett Packard Co	682,000.000	26,096,569.66	38,192,000.00
Hibernia Corp Cl A	125,000.000	1,631,250.00	1,742,250.00
Home Depot	250,000.000	12,824,830.00	17,250,000.00
Honeywell	80,000.000	5,868,498.00	6,070,000.00
Human Genome Sciences Inc	24,000.000	909,000.00	798,000.00
Humana Inc	70,000.000	1,293,600.00	1,618,750.00
Huntco Inc Cl A	59,900.000	1,068,669.15	853,575.00
Idec Pharmaceuticals Corp	30,000.000	591,575.00	727,500.00
Idex Corp	31,800.000	747,460.83	1,049,400.00
Ikos Systems Inc	92,200.000	1,960,403.65	1,970,775.00
Immunex Corp	38,300.000	620,062.50	1,388,375.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	ORIGINAL COST	MARKET VALUE
<u>COMMON STOCKS (CONTINUED)</u>			
Imperial Credit Industries	171,600.000	2,736,501.31	3,528,439.20
Imperial Credit Mortgage Hld	69,100.000	1,779,524.29	1,874,337.50
Informix Corp	121,000.000	2,055,625.30	1,089,000.00
Input/Output Inc	133,500.000	3,571,502.99	2,419,687.50
Integrated Device Tech Inc	101,900.000	1,055,035.50	1,069,950.00
Intel Corp	298,000.000	31,432,994.20	42,259,976.00
Intermedia Communications	22,000.000	636,250.00	712,250.00
International Business Machines	732,000.000	43,951,424.72	66,063,000.00
International Paper	338,000.000	12,472,509.55	16,413,956.00
Interpublic Group	114,000.000	4,078,737.98	6,989,568.00
Interra Financial Inc	4,000.000	173,199.27	167,752.00
Ionics Inc	5,400.000	255,865.00	245,700.00
Isomedix Inc	27,000.000	386,955.48	423,576.00
Jacobs Engineering Group Inc	93,500.000	2,207,070.29	2,512,812.50
Jacor Communications Inc	48,700.000	1,487,569.05	1,862,775.00
James River Corp	174,800.000	4,975,972.87	6,467,600.00
Jefferson-Pilot	283,500.000	10,086,612.94	19,809,562.50
Johnson & Johnson	384,000.000	15,930,281.69	24,720,000.00
Kellogg Co	207,000.000	15,638,652.90	17,724,375.00
Kimball International CI B	13,500.000	474,534.50	543,375.00
Kimberly-Clark Corp	826,000.000	30,986,458.60	41,093,500.00
Kinetic Concepts Inc	27,100.000	351,125.00	487,800.00
Kroger Co	123,400.000	2,354,421.12	3,578,600.00
Laboratory Corp of Amer Hldgs	160,000.000	612,732.00	430,080.00
Laboratory Corp of Amer Pfd Ser B	13,014.000	650,700.00	754,812.00
Larscom Inc CI A	48,890.000	600,125.86	525,567.50
Lattice Semiconductor Corp	20,200.000	643,806.25	1,141,300.00
La-Z-Boy Inc	12,700.000	418,767.86	457,200.00
Legg Mason Inc	24,400.000	761,194.15	1,313,012.80
Lennar Corp	42,200.000	1,032,339.52	1,347,783.60
LG&E Energy Corp	445,000.000	6,745,457.91	9,817,590.00
Ligand Pharmaceuticals	20,000.000	145,598.85	150,000.00
Lilly (Eli) & Co	296,000.000	19,725,109.60	32,356,352.00
Lockheed Martin	415,088.000	33,998,738.88	42,987,343.46
Lodgenet Entertainment Corp	103,600.000	1,349,214.25	1,036,000.00
Long Island Bancorp Inc	114,900.000	3,458,187.50	4,172,248.80
LTC Properties Inc	115,100.000	1,902,688.28	2,086,187.50
Lucent Technologies Inc	64,816.000	3,185,082.73	4,670,770.59
Lyondell Petrochemical	250,300.000	6,208,524.18	5,506,600.00
Magainin Pharmaceuticals Inc	44,400.000	399,463.50	321,900.00
Magellan Health Services Inc	29,500.000	621,082.59	870,250.00
Manor Care Inc	202,000.000	3,583,778.11	6,590,250.00
Martin Marietta Materials	65,128.000	871,566.56	2,108,519.00
Masco Corp	262,000.000	9,274,773.80	10,938,500.00
Mascotech Inc	107,200.000	1,523,626.33	2,237,800.00
Mattel Inc	943,550.000	24,943,867.19	31,962,756.25
Matthews Intl Corp CI A	42,400.000	1,280,691.80	1,547,600.00
Maxxim Medical Inc	21,100.000	335,081.76	366,612.50
May Dept Stores Co	110,000.000	3,240,258.08	5,197,500.00
MBNA Corp	145,000.000	5,369,877.56	5,310,625.00
McDonald & Co Investments	4,500.000	162,217.76	206,437.50
McDonald's Corp	400,000.000	20,140,376.00	19,324,800.00
McGrath Rentcorp	69,200.000	849,760.25	1,418,600.00
MCI Communications	100,000.000	2,284,370.00	3,828,100.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	ORIGINAL COST	MARKET VALUE
<u>COMMON STOCKS (CONTINUED)</u>			
Meditrust	286,000.000	8,797,202.50	11,404,250.00
Medpartners Inc	36,915.000	866,072.71	798,286.88
Medpartners Inc	400,812.000	5,211,662.50	8,667,559.50
Merck & Co	581,000.000	36,857,828.17	59,443,272.00
Mercury Interactive Corp	44,200.000	642,299.84	657,475.00
Metro Networks Inc	56,600.000	1,295,146.82	1,372,550.00
Michael Foods Inc	82,023.000	850,692.97	1,517,425.50
Microchip Technology Inc	24,400.000	641,191.00	725,900.00
Microsoft	261,000.000	14,834,197.38	32,983,875.00
Midwest Express Holdings	39,150.000	958,317.20	1,071,731.25
Minerals Technologies Inc	7,100.000	272,515.13	266,250.00
Minnesota Mining & Manufacturing	100,000.000	6,517,406.57	10,225,000.00
MMI Companies Inc	56,700.000	1,670,331.28	1,481,287.50
Mobil Corp	454,000.000	25,916,315.60	31,723,250.00
Mohawk Industries Inc	28,900.000	653,571.80	657,475.00
Molex Inc	87,890.000	1,403,100.00	3,207,985.00
Molten Metal Technology Inc	8,000.000	105,806.00	40,000.00
Mondavi Robert CI A	48,800.000	1,529,984.55	2,305,800.00
Morgan Keegan Inc	10,100.000	170,649.48	200,737.50
Morgan Stanley Dean Witter Discov	247,500.000	9,820,677.08	10,657,845.00
Morgan (JP) & Co	220,000.000	15,565,474.50	22,962,500.00
Mosinee Paper Corp	48,099.000	959,036.69	1,178,425.50
Motorola Inc	200,000.000	11,710,860.00	15,225,000.00
MovieFone Inc CI A	182,266.000	924,843.75	1,298,645.25
MS Carriers	10,000.000	219,694.00	251,250.00
Nabisco Holdings Corp CI A	459,000.000	16,466,008.93	18,302,625.00
Nalco Chemical	300,000.000	10,479,562.50	11,587,500.00
Nash Finch Co	44,300.000	780,727.50	980,137.50
National City Corp	230,000.000	9,198,461.76	12,075,000.00
National Service Industries	44,000.000	1,944,439.20	2,142,272.00
Nations Bank	580,000.000	28,441,170.20	37,445,960.00
Navistar International	58,300.000	580,812.10	1,005,675.00
Nellcor Puritan Bennett Inc	57,700.000	1,035,882.30	1,045,812.50
Network Appliance Inc	13,000.000	461,857.05	494,000.00
Nextel Communications	342,100.000	5,796,287.15	6,478,689.80
NL Industries	20,800.000	244,619.71	301,600.00
Norfolk Southern Corp	120,000.000	10,429,188.00	12,090,000.00
Northrop Gruman Corp	100,000.000	6,615,750.00	8,781,200.00
Northwestern Public Serv Co	44,200.000	712,909.29	950,300.00
Novell	180,000.000	4,046,850.00	1,248,840.00
NTL Inc	24,500.000	587,775.48	609,437.50
Nynex	685,000.000	30,919,309.04	39,429,970.00
Office Depot Inc	340,000.000	7,674,460.00	6,608,920.00
Officemax Inc	140,000.000	1,987,434.94	2,021,320.00
Old Republic Intl Corp	73,600.000	1,288,185.81	2,230,963.20
Oregon Metallurgical Corp	71,900.000	1,700,257.70	2,022,187.50
P G & E Corp	350,000.000	7,688,120.00	8,487,500.00
Paxar Corp	60,075.000	897,837.87	1,133,915.63
PECO Energy Co	339,000.000	7,497,216.85	7,119,000.00
Pegasus Communications Corp A	79,800.000	1,094,461.00	887,775.00
Pentair Inc	120,800.000	2,040,513.61	3,971,300.00
Penwest Ltd	11,100.000	241,310.93	374,625.00
Peoples Telephone Co Inc	117,200.000	390,183.73	402,933.60
Pepisco Inc	460,000.000	9,686,000.00	17,278,520.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	ORIGINAL COST	MARKET VALUE
<u>COMMON STOCKS (CONTINUED)</u>			
Pfizer Inc	400,000.000	22,501,507.89	47,800,000.00
Pharmacia-Upjohn Inc	287,000.000	11,208,506.29	9,973,250.00
Philip Morris Companies Inc	513,800.000	14,830,769.31	22,735,650.00
Physician Corp of America	59,900.000	778,618.75	381,862.50
Physio-Control Intl Corp	84,000.000	1,382,433.52	1,260,000.00
Piper Jaffray Companies Inc	9,600.000	174,737.57	196,800.00
Pitney-Bowes Inc	200,000.000	10,217,510.00	13,900,000.00
PJ America	11,900.000	230,712.50	202,300.00
Platinum Technology Inc	16,400.000	276,750.00	217,300.00
Policy Management Systems Cp	54,000.000	2,748,575.00	2,538,000.00
Policy Management Systems Cp	11,000.000	500,335.00	517,000.00
Polymer Group Inc	20,900.000	293,609.75	337,012.50
Precision Castparts Corp	25,600.000	1,144,658.00	1,526,400.00
Procter & Gamble	155,000.000	12,611,565.50	21,893,750.00
Public Service Co of N Mex	30,300.000	574,105.64	541,612.50
Public Service Co of NC	118,700.000	2,175,332.34	2,277,615.60
Pulitzer Publishing Co	8,700.000	408,239.43	461,100.00
Pure Atria Corp	35,000.000	494,665.50	494,375.00
Railtex Inc	50,600.000	904,964.88	910,800.00
Rambus Inc	36,200.000	1,007,705.27	1,683,300.00
Raytheon	277,000.000	13,601,995.14	14,127,000.00
Regions Financial Corp	720,000.000	14,814,559.90	22,770,000.00
Reinsurance Group of America	45,600.000	1,998,788.92	2,622,000.00
Responics Inc	32,000.000	647,000.00	676,000.00
Revlon Inc Cl A	10,000.000	465,649.00	518,130.00
Rhone-Poulenc Rorer	84,600.000	6,348,866.22	7,688,025.00
RJR Nabisco Holding Corp	71,290.000	2,349,814.50	2,352,570.00
Robbins & Myers Inc	17,500.000	468,482.50	568,750.00
Rollins Truck Leasing Corp	179,100.000	2,090,294.62	2,664,112.50
Rowan Companies Inc	89,500.000	1,293,007.50	2,522,826.00
Royal Dutch Petroleum Co	151,000.000	17,217,063.92	32,842,500.00
Safeco Corp	431,000.000	15,456,124.10	20,122,528.00
Sara Lee Corp	500,000.000	15,817,297.63	20,812,500.00
SBC Communications Inc	791,000.000	40,329,318.90	48,943,125.00
Schering-Plough	702,000.000	23,747,534.31	33,608,250.00
Schlumberger Ltd	150,000.000	9,666,178.04	18,750,000.00
Schulman (A) Inc	13,500.000	285,076.00	332,437.50
Seagate Technology Inc	60,800.000	1,985,380.91	2,143,200.00
Seagull Energy Corp	20,000.000	389,033.44	350,000.00
Sears Roebuck & Co	345,000.000	17,805,451.00	18,543,750.00
Shaw Industries	691,600.000	10,728,330.89	7,348,250.00
Sierra Pacific Resources	47,100.000	1,260,507.67	1,507,200.00
Smartalk Teleservices Inc	19,600.000	272,439.00	303,800.00
Southwestern Energy Company	72,400.000	1,021,582.13	941,200.00
Sports Authority Inc	80,150.000	1,732,083.52	1,557,955.70
SPS Technologies Inc	19,200.000	1,263,088.03	1,358,400.00
SPS Transaction Services Inc	30,700.000	484,622.88	567,950.00
ST John Knits Inc	10,000.000	494,568.89	536,250.00
Sterling Software Inc	32,200.000	1,012,726.40	1,006,250.00
Storage Dimension Inc	12,500.000	87,500.00	68,750.00
Stride Rite	77,400.000	1,075,728.42	996,525.00
Sunrise Medical Inc	44,700.000	684,357.00	676,087.50
Sunstone Hotel Investors Inc	147,500.000	1,646,276.65	2,138,750.00
Suntrust Banks	200,000.000	6,045,097.06	11,012,400.00

COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	ORIGINAL COST	MARKET VALUE
<u>COMMON STOCKS (CONTINUED)</u>			
Super Valu Stores	280,000.000	7,340,850.00	9,660,000.00
Swift Transportation Co Inc	55,900.000	1,155,138.25	1,649,050.00
Syncor Intl Corp-Del	18,500.000	166,492.50	194,250.00
Synopsys Inc	46,279.000	1,562,537.25	1,700,753.25
Sysco Corp	100,000.000	2,251,072.92	3,650,000.00
Systems & Computer Tech Corp	29,200.000	413,632.00	781,100.00
Temple-Inland	175,000.000	8,166,228.63	9,450,000.00
Tetra Technologies Inc	16,900.000	350,747.86	401,375.00
Texas Utilities Co	707,000.000	23,973,757.30	24,347,666.00
Thomas & Betts	152,000.000	5,198,085.00	7,989,424.00
Thornburg Mortgage Asset Corp	81,400.000	1,586,433.11	1,750,100.00
Timken Co	193,000.000	3,516,011.80	6,863,466.00
TNP Enterprises Inc	39,900.000	847,848.20	925,201.20
Toll Brothers Inc	55,000.000	1,044,176.16	1,010,625.00
Tommy Hilfiger Corp	65,300.000	3,279,121.61	2,624,276.40
Toys 'R' Us (Holding Co)	100,000.000	3,436,710.00	3,500,000.00
Trans World Airlines	150,000.000	1,061,911.03	1,284,300.00
Transport Corp of America	43,600.000	502,950.00	588,600.00
Tyson Foods Inc Cl A	405,450.000	7,850,029.84	7,754,231.25
U S Bancorp	139,300.000	3,764,457.31	8,932,612.50
Ultramar Diamond Shamrock Corp	257,600.000	7,344,278.50	8,404,200.00
Unicom Corp	352,093.000	9,263,171.79	7,834,069.25
Unifi Inc	270,000.000	8,915,694.09	10,091,250.00
Unifirst Corp	11,000.000	254,026.00	220,000.00
Union Pacific Corp	252,000.000	14,866,160.40	17,592,624.00
Unionbancorp Inc (Del)	35,600.000	434,896.50	453,900.00
United Technologies Corp	446,000.000	25,211,716.20	37,018,000.00
United Wisconsin Services	9,200.000	237,935.53	309,929.60
Unocal Corp	235,000.000	6,718,536.36	9,165,000.00
Urban Outfitters Inc	40,400.000	656,609.86	565,600.00
Urban Shopping Centers Inc	78,800.000	2,411,764.05	2,511,750.00
Vencor Inc	119,300.000	3,674,440.00	5,040,425.00
Vermont Fin Services Corp	81,900.000	2,954,575.90	3,849,300.00
Viad Corp	224,800.000	3,061,348.82	4,327,400.00
Videoserver Inc	95,400.000	2,465,910.33	1,264,050.00
VLSI Technology Inc	54,100.000	1,104,676.14	1,278,112.50
Vulcan Materials Co	185,000.000	8,124,087.50	14,522,500.00
Wabash National Corp	58,800.000	1,079,909.94	1,639,050.00
Wachovia Corp	500,000.000	24,808,944.85	29,156,000.00
Wal-Mart Stores	848,000.000	20,451,694.33	28,672,576.00
Warner-Lambert Co	178,000.000	8,586,536.27	22,116,500.00
Washington Gas Light Co	25,200.000	574,589.50	633,150.00
Waste Management Inc	405,159.000	13,287,737.88	13,015,732.88
Watts Industries Inc Cl A	63,900.000	1,268,808.40	1,533,600.00
Werner Enterprises Inc	61,100.000	997,700.50	1,183,812.50
Westcorp Inc	136,165.000	2,696,746.24	2,502,031.88
Westvaco Corp	54,450.000	1,284,536.99	1,711,799.10
Whirlpool Corp	240,000.000	10,455,326.84	13,094,880.00

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COMMON STOCKS (CONTINUED)

STOCK	NUMBER OF SHARES	ORIGINAL COST	MARKET VALUE
<u>COMMON STOCKS (CONTINUED)</u>			
Whitman Corp	185,000.000	4,603,470.20	4,440,000.00
Wyman-Gordon Co	50,500.000	1,110,893.91	1,363,500.00
Xerox Corp	653,000.000	35,248,592.88	51,505,375.00
York International Corp	391,700.000	17,976,417.72	18,018,200.00
TOTAL COMMON STOCKS	71,884,910.000	\$ 2,607,766,419.33	\$ 3,492,303,237.29
S & P 500 STOCK INDEX	25,358,504.000	\$ 720,367,938.43	\$ 1,400,274,312.64
TOTAL STOCKS	97,243,414.000	\$ 3,328,134,357.76	\$ 4,892,577,549.93
TOTAL EQUITY		\$ 3,510,400,163.05	\$ 5,077,158,124.83

TOTAL INVESTMENTS	\$ 7,963,095,508.63	\$ 9,418,918,189.86
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