

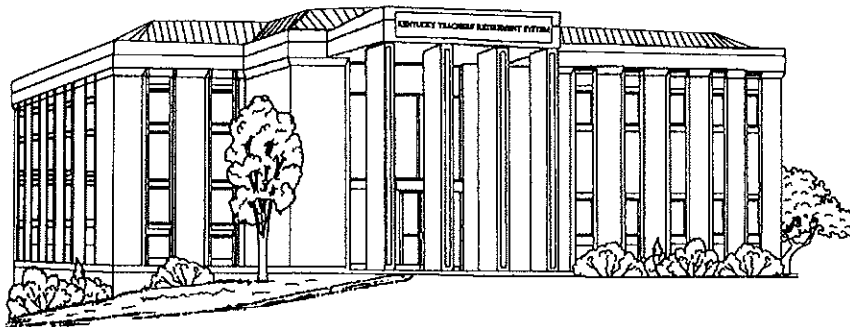
Comprehensive
Annual
Financial Report

TEACHERS'
RETIREMENT SYSTEM
OF THE
STATE OF KENTUCKY

*A Component Unit
of the Commonwealth of Kentucky*

For the
Fiscal Year Ended
June 30, 1998

The 58th Comprehensive Annual Financial Report



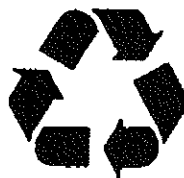
of the Teachers' Retirement System of the State of Kentucky

A Component Unit of the Commonwealth of Kentucky
Fiscal Year Ended June 30, 1998

**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

Kentucky Teachers' Retirement System
Fiscal Year Ended June 30, 1998

BOARD OF TRUSTEES

VIRGINIA MURRELL
CHAIRPERSON
SOMERSET

JUDITH R. GAMBILL
VICE CHAIRPERSON
ASHLAND

ROBERT M. CONLEY
PAINTSVILLE

ARTHUR GREEN
ELKTON

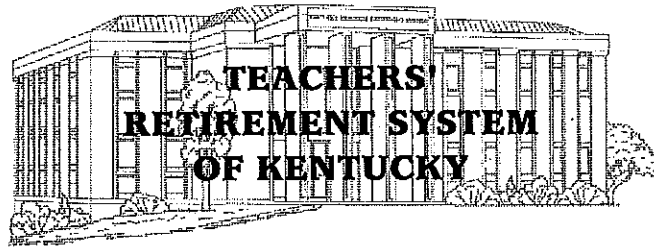
EARLE V. POWELL
FRANKFORT

J. KENNETH SHADOWEN
BENTON

BARBARA G. STERRETT
LEXINGTON

EX OFFICIO
WILMER S. CODY
CHIEF STATE SCHOOL
OFFICER

EX OFFICIO
JOHN KENNEDY
HAMILTON
STATE TREASURER



December 1, 1998

PAT N. MILLER
EXECUTIVE
SECRETARY
(502) 573-3266

Dear Members:

The 1998 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 1997-98 fiscal year with \$11.3 billion in assets. The active membership totaled 52,195 and the retired membership was 27,743 with an annual payroll of \$491.4 million.

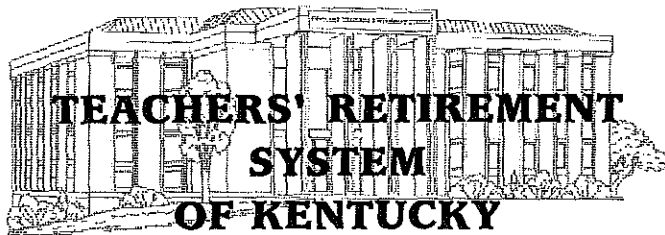
The Board of Trustees is totally committed to managing the retirement system funds in a prudent, professional manner. The retirement system is justly proud that the funding level of the system has shown continued improvement over the past twenty years. Every effort will be made to insure that the system 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



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

December 1, 1998

Dear Governor Patton:

It is my pleasure to submit the 58th 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, 1998.

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 Investment Section presents investment and portfolio performance. This includes the policies, summary, profile, and listings of the System's holdings.
- ◆ 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.

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. Total additions (contributions and net investment income) for the fiscal year were \$2.3 billion for the defined benefit plan, while the additions to the medical insurance plan and the tax-sheltered annuity plan were \$70.0 and \$57.6 million respectively. There were no 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 \$227.3 thousand, consisting primarily of refunds and benefits. The total expenses of the medical insurance plan were \$62.6 million. The majority of that amount is composed of health premiums and actual medical expenses. The defined benefit plan generated a total of \$504.7 million of expenses which are detailed as follows:

Expenses	(Millions)
Benefits	\$ 491.4
Refunds	9.4
Administration	3.9

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 1997-98 fiscal year. The portfolio's par value increased from \$7,963,095,509 to \$9,035,565,362. The growth of the portfolio primarily was due to investment income that included an unprecedented level of realized capital gains. Investment earnings exceeded \$1.8 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 \$1,416,471,991. The second largest earnings component, \$318,913,618, was generated in interest income earned on investments. Other income of \$101,990,796 was earned from dividends, rent, and securities lending.

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

KTRS Medical Insurance Plan

KTRS medical costs continue 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 pages 7 and 30 of this report.

National Recognition

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

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1998. 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 ten consecutive years (fiscal years ended 1988-1997). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

PPCC Achievement Award

The Public Pension Coordinating Council awarded a Certificate of Achievement to the Teachers' Retirement System of the State of Kentucky for 1998 for implementing and maintaining high professional standards in administering the affairs of the System. The award is based on compliance with principles judged to underlie exemplary retirement system achievements in the areas of benefits, actuarial valuation, financial reporting, investments and disclosure and are widely acknowledged to be marks of excellence for retirement systems.

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

Board of Trustees



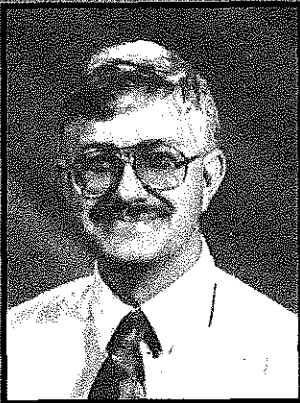
Virginia Murrell
Chairperson,
Retired Teacher Trustee
Somerset



Judith Gambill
Vice-Chairperson,
Teacher Trustee
Ashland



Robert Conley
Lay Trustee
Paintsville



Arthur Green
Teacher Trustee
Elkton



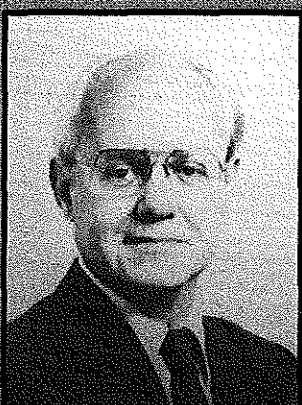
Earle Powell
Lay Trustee
Frankfort



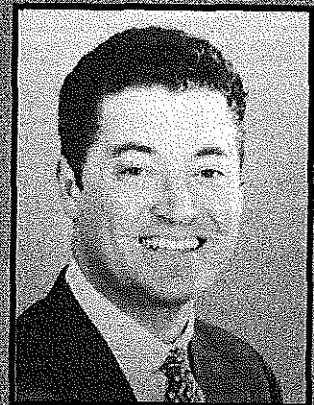
Kenneth Shadowen
Teacher Trustee
Benton



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

ACTUARY

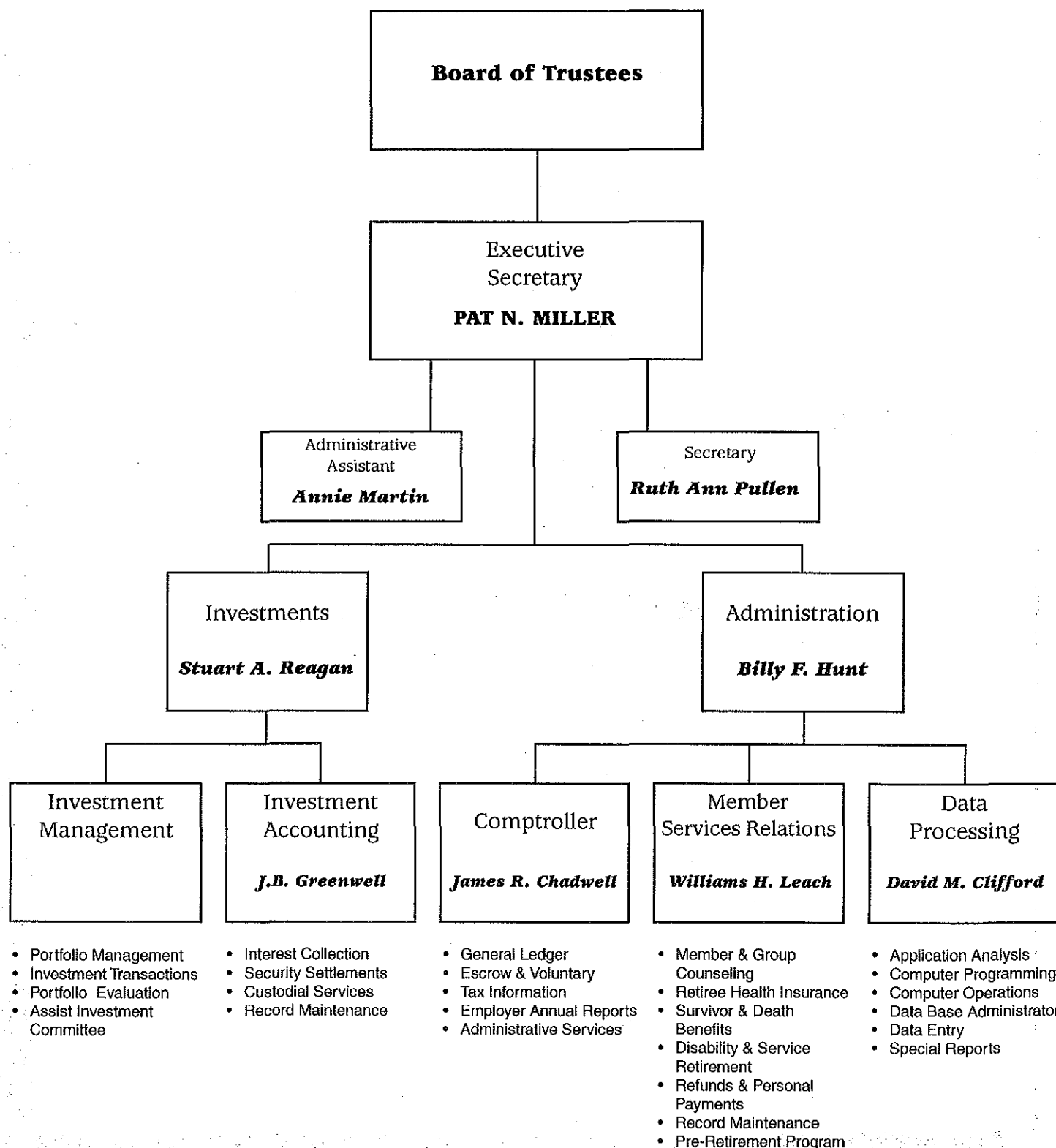
George B. Buck Consulting Actuaries, Inc.
Suite 1200
Galleria Parkway NW
Atlanta, Georgia 30339

AUDITOR

Charles T. Mitchell, LLP
201 West Main Street
P.O. Box 698
Frankfort, Kentucky 40601

** See page 30 of the Investment Section for investment consultants.*

Organizational Chart



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, 1997

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.



Douglas R. Ellsworth
President

Jeffrey L. Esser
Executive Director



**Public Pension Coordinating Council
Public Pension Principles
1998 Achievement Award**

Presented to

Kentucky Teachers' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)


Scott Engmann
Chairman

Financial Section

**Kentucky Teachers' Retirement System
Fiscal Year Ended June 30, 1998**

Independent Auditor's 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) 227-8005

|| 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

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the Teachers Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of June 30, 1998 and 1997 and the related statements of changes in plan net assets for the years then ended. These component unit financial statements are the responsibility of the Teachers Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Teachers Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, at June 30, 1998 and 1997, and the changes in its plan net assets for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note G 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules listed in the table of contents as of and for the year ended June 30, 1998 and 1997 have been subjected to the auditing procedures applied in our audits 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.

The financial section supporting 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, 1998 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.

October 13, 1998

Statements of Plan Net Assets

As of June 30, 1998 and 1997

	Defined Benefit Plan		Medical Insurance Plan		Tax-Sheltered Annuity Plan	
	1998	1997	1998	1997	1998	1997
ASSETS						
Cash	92,107	357,273	0	0	0	0
Prepaid expenses	178,463	192,497				
Receivables						
Contributions	21,704,229	22,431,826	1,759,104	1,825,675		
State of Kentucky	1,726,984	7,136,108				
Investment income	62,600,239	60,130,187				
Investment sales receivable	37,375,467					
Other receivables	1,836,890			1,320		
Total receivables	125,243,809	89,698,121	1,759,104	1,826,995	0	0
Investments, at fair value (See Note 4)						
Short term investments	817,703,421	403,032,905	36,029,754	34,623,511	866,825	1,643,584
Bonds and mortgages	4,329,155,142	3,902,460,065				
Common stock	5,854,494,676	4,892,577,550				
Real estate	185,680,495	184,580,575				
Total investments	11,187,033,734	9,382,651,095	36,029,754	34,623,511	866,825	1,643,584
Invested security lending collateral	518,488,858	691,254,778				
Fixed assets, at cost net of accumulated depreciation of \$1,234,412 (See Note 2)	2,583,161	2,745,252				
Total assets	11,833,620,132	10,166,899,016	37,788,858	36,450,506	866,825	1,643,584
LIABILITIES						
Liabilities						
Disbursements in excess of cash balance	656,811	3,784,144				
Accounts payable	1,583,245	1,378,722				607,028
Treasurer's unredeemed checks	9,011	4,341				
Insurance claims payable			3,747,882	10,645,361		
Compensated absences payable	409,373	402,664				
Unearned insurance premium receipts			105,019	66,520		
State of Kentucky			1,448,070	617,604		
Investment purchases payable	35,673,991					
Obligations under securities lending	518,488,858	691,254,778				
Total liabilities	556,821,289	696,824,649	5,300,971	11,329,485	0	607,028
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 24.)	11,276,798,843	9,470,074,367	32,487,887	25,121,021	866,825	1,036,556

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

Statements of Changes In Plan Net Assets

As of June 30, 1998 and 1997

	Defined Benefit Plan		Medical Insurance Plan		Tax-Sheltered Annuity Plan	
	1998	1997 as restated	1998	1997 as restated	1998	1997 as restated
ADDITIONS						
Contributions						
Employer	294,323,253	293,733,987	35,169,982	34,873,431		
Member	185,010,298	182,182,151	33,136,955	29,486,665		903,147
Total contributions	479,333,551	475,916,138	68,306,937	64,360,096	0	903,147
Investment income						
Net appreciation in fair value of investments	1,416,471,991	1,179,662,596				
Interest	317,206,961	263,788,216	1,649,075	1,422,219	57,582	1,950,799
Dividends	83,934,973	86,536,579				
Rental income, net	17,402,749	15,988,924				
Securities lending, gross earnings	27,213,136	27,199,676				
Gross investment income	1,862,229,810	1,573,175,991	1,649,075	\$1,422,219	57,582	1,950,799
Less investment expense	(3,543,336)	(3,572,854)				
Less securities lending expense	(26,560,062)	(26,502,818)				
Net Investment income	1,832,126,412	1,543,100,319	1,649,075	1,422,219	57,582	1,950,799
Total additions	2,311,459,963	2,019,016,457	69,956,012	65,782,315	57,582	2,853,946
DEDUCTIONS						
Benefits	491,348,382	431,506,143			94,282	91,149
Refunds of contributions	9,389,791	8,032,371	2,726	1,703	133,031	25,285,508
Insurance expenses			59,983,882	64,966,674		
Administrative expense	3,997,314	3,487,717	2,602,538	2,996,094		8,842
Total deductions	504,735,487	443,026,231	62,589,146	67,964,471	227,313	25,385,499
Net increase (decrease)	1,806,724,476	1,575,990,226	7,366,866	(2,182,156)	(169,731)	(22,531,553)
Net assets held in trust for pension benefits						
Beginning of year	9,470,074,367	7,894,084,141	25,121,021	27,303,177	1,036,556	23,568,109
Ending of year	11,276,798,843	9,470,074,367	32,487,887	25,121,021	866,825	1,036,556

Notes to Financial Statements

Year Ended June 30, 1998

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, 1998 a total of 201 employers participated in the plan. Employers are comprised of 176 local school districts, 5 universities, and 20 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	39,002
Non-vested	13,193
Inactive members, both vested and non-vested	4,670
Retirees and beneficiaries currently receiving benefits	<u>27,743</u>
Total members, retirees and beneficiaries	84,608

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 before age 60 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 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. BASIS OF ACCOUNTING**

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. CASH

KTRS has two cash accounts. At June 30, 1998, the pension cash account totaled (\$656,811) and the administrative expense fund cash account was \$92,107. Therefore, the carrying value of cash was (\$564,704) and the corresponding bank balance was \$4,916,803. The difference is primarily due to outstanding checks and items not yet processed by the bank.

C. FIXED ASSETS

Fixed assets are recorded at historical cost less straight line accumulated depreciation. The classes of fixed assets are furniture and equipment, the KTRS office building and land. Furniture, and equipment are depreciated over an average useful life of five to seven years. The office building is depreciated over forty years.

D. INVESTMENTS

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers.

Purchase and sales of debt securities, equity securities, and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Upon sale of investments, the difference between sales proceeds and cost is reflected in the statement of changes in plan net assets.

Investment expenses consist of investment manager and consultant fees along with fees for custodial services.

E. COMPENSATED ABSENCES

Expenses for accumulated vacation days and compensatory time earned by the System's employees are recorded when earned. Upon termination or retirement, employees of the system are paid for accumulated vacation time limited to 450 hours and accumulated compensatory time limited to 100 hours. As of June 30, 1998 accrued compensated absences were \$409,373.

F. RISK MANAGEMENT

Destruction of assets, theft, employee injuries and court challenges to administrative policy are among the various risks to which the system is exposed. In order to cover such risks the system carries appropriate insurance policies such as fire and tornado, employee bonds, fiduciary liability, worker's compensation and equipment insurance.

G. CHANGE IN ACCOUNTING PRINCIPLE

In fiscal year ended June 30, 1997, KTRS implemented Statement 25 of the Governmental Accounting Standards Board as required. Investments are now reported at fair value instead of book value. The cumulative effect for prior years of this change increased the investment assets by \$890,061,707. This adjustment is reflected in the 1997 beginning year balance of the net assets held in trust for benefits as restated.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED . . .)**H. OTHER RECEIVABLES**

KTRS now allows qualified purchases of service credit to be made by installment payments not to exceed a five year period. Revenue is recognized in full the initial year of the installment contract agreement. The June 30, 1998 installment contract receivable is \$1,836,890.

I. YEAR 2000 RESOURCES COMMITTED

In general, shortcomings in many computer systems and other electronic equipment make operations beyond the year 1999 troublesome. Most computer programs designate a year as a two digit number. Therefore, many programs will not be able to distinguish between the year 2000 and 1900. KTRS is addressing the year 2000 issue to ensure continued timeliness of providing benefits and collecting and investing contributions among other services. The following discloses the five stages necessary to implement a year 2000 compliant system and the level KTRS has reached in addressing the issue.

1. **AWARENESS STAGE** - Encompasses establishing a budget and project plan for dealing with the year 2000 issue. KTRS has completed this stage. It was decided to purchase a duplicate AS400 computer system (which cost \$48,000) in which to perform testing and compliance procedures. Therefore, current operations would not be interrupted during testing phases. Also, in the past fiscal year KTRS purchased software for \$6,100. KTRS is not yet year 2000 compliant.
2. **ASSESSMENT STAGE** - When the organization begins the actual process of identifying all of its systems (preparing an inventory) and individual components of the systems. KTRS has completed this stage. Most resources and time will be spent to ensure continued services of critical operations (payments of benefits, collecting contributions and investing funds).
3. **REMEDICATION STAGE** - When the organization actually makes changes to the systems. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant and the required system changes are made. KTRS is in this stage now. Technical issues are being addressed on the duplicate AS400 system.
4. **VALIDATION/TESTING STAGE** - When the organization determines that no errors were introduced during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested. KTRS has not yet arrived at this stage.
5. **IMPLEMENTATION STAGE** - When the tested year 2000 compliant system is ready for use. KTRS has not yet arrived at this stage.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the report amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. INCOME TAXES

The defined benefit plan is organized as a tax- exempt retirement plan under the Internal Revenue Code. The tax sheltered annuity plan is no longer continued and will be fully terminated when all life time annuities have expired. The system's management believes that it has operated the plans within the constraints imposed by federal tax law.

NOTE 3: CONTRIBUTIONS AND RESERVES**A. CONTRIBUTIONS**

Contribution rates are established by Kentucky Revised Statutes. Members are required to contribute 9.855% of their salaries to the System. University members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 6.16% of their salary to KTRS.

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

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

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

B. RESERVES**Member Reserve**

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

Employer Reserve

This fund was established by KRS 161.420 as the State Accumulation Fund and receives state appropriations to the Retirement System. The state matches an amount equal to member's contributions. State appropriations during the year are based on estimates of members' salaries. At year end when actual salaries are known, the required state matching is also realized by producing either a receivable from or a payable to the State of Kentucky. The net effect of under appropriations over the fiscal years 1998 and 1997 has generated a receivable due from the state.

Benefit Reserve

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

Unallocated Reserve

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

Administrative Expense Reserve

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

NOTE 4: 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 sixty percent (60 %) 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, 1998.

The KTRS bank balance consists of cash totaling \$4,916,803 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 and bonds are the types of securities that are lent. The System's securities sub-custodian, 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 or select Government agencies 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, 1998, 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.

Financial Section

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

Schedule of Investments

		<u>June 30, 1998</u>	<u>June 30, 1997</u>
Short Term Investments			
Repurchase Agreements (1)	\$	<u>854,600,000</u>	\$ <u>439,300,000</u>
Total Short Term Investments	\$	854,600,000	\$ 439,300,000
Bonds and Mortgages			
U.S. Government Obligations			
Treasury Notes & Bonds	\$	1,256,935,932	\$ 1,808,390,467
Agencies		820,197,358	438,736,691
GNMA (Single Family)		93,562,201	37,088,676
Other Miscellaneous		<u>165,202,376</u>	<u>184,255,392</u>
Total U.S. Government Obligations	\$	2,335,897,867	\$ 2,468,471,226
Corporate Bonds			
Industrial	\$	497,809,172	\$ 338,595,609
Finance		1,127,895,889	830,100,728
Utility Bonds (Except Telephone)		122,280,663	67,089,258
Telephone Bonds		103,989,349	79,177,478
Railroad Obligations		<u>102,097</u>	<u>97,745</u>
Total Corporate Bonds	\$	1,852,077,170	\$ 1,315,060,818
Other Fixed Income Investments			
FHA and VA Single Family Mortgages	\$	1,000,673	\$ 1,310,980
Project Mortgages (FHA & GNMA)		118,042,101	111,300,590
State and Local Government Issues		<u>22,137,331</u>	<u>6,316,451</u>
Total Other Investments	\$	141,180,105	\$ 118,928,021
Total Bonds and Mortgages	\$	4,329,155,142	\$ 3,902,460,065
Stocks	\$	5,854,494,676	\$ 4,892,577,550
Real Estate	\$	<u>185,680,495</u>	\$ <u>184,580,575</u>
Total Investments	\$	11,223,930,313	\$ 9,418,918,190

(1) Includes \$36,029,754 of Medical Insurance Fund investments and \$866,825 of Tax-Sheltered Annuity Plan investments for June 30, 1998. Does not include \$518,488,858 securities lending collateral.

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, 1998. 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 counter party'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.

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, 1998

		TOTAL FAIR VALUE
<u>Investments - Category 1</u>		
Repurchase Agreements (1)	\$	854,600,000
U.S. Government Obligations	\$	1,871,758,139
Corporate Bonds		1,847,070,319
State and Local Government Issues		22,137,331
Common Stocks		5,847,175,104
<u>Investments - Category 3</u>		
Securities Lending Short-Term Collateral	\$	518,488,858
SUBTOTAL	\$	10,961,229,751
<u>Investments - Not Categorized</u>		
Investments held by broker dealers under securities loans with cash collateral		
U.S. Government Obligations	\$	487,752,430
Corporate Bonds		7,319,573
Common Stocks		5,006,850
Other Government Guaranteed Fixed Income Investments		95,430,072
Real Estate		185,680,495
TOTAL	\$	11,742,419,171

(1) Includes \$36,029,754 of Medical Insurance Fund investments and \$866,825 of Tax-Sheltered Annuity Plan investments.

NOTE 5: MEDICAL INSURANCE PLAN & POST-EMPLOYMENT BENEFITS**A. PLAN DESCRIPTION**

In addition to the required pension benefits described in Note 1, Kentucky Revised Statute 161.675 allows KTRS to provide post-retirement 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 commercial insurance through a state insurance purchasing pool called 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. The system bears no risk for excess claims expenses under the commercial insurance coverage.

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, 1998, KTRS insurance covered 23,411 retirees and 5,806 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 post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement 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 1997-98 fiscal year, \$20 million was approved and transferred.

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

July 1, 1991 KTRS became self-insured assuming all liability for post-retirement 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 years ended June 30, 1998 and 1997.

	Fiscal Year 1998	Fiscal Year 1997
Beginning Unpaid Claims Liability	\$ 10,645,361	\$ 12,752,491
Claims Incurred		
Current Year	67,249,199	66,724,371
Decrease in Prior Years	(7,157,793)	(1,757,697)
Total Incurred Claims	\$ 60,091,406	\$ 64,966,674
Claims Paid		
Current Year	\$ 61,418,025	\$ 57,447,485
Prior Years	5,570,860	9,626,319
Total Payments	\$ 66,988,885	\$ 67,073,804
Ending Unpaid Claims Liability	\$ 3,747,882	\$ 10,645,361

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. Currently, the ninety members who are 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.

Required Supplemental Schedule 1
Schedule of Funding Progress
(dollar amounts in millions)

VALUATION YEAR JUNE 30	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITIES	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	a	b	(b-a)	(a/b)	c	[(b-a)/c]
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
1998	10,370.6	11,516.6	1,146.0	90.0	1,973.7	58.1

The amounts reported in this schedule of funding progress do not include assets or liabilities for post-employment 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
1993	\$ 280.4	100 %
1994	289.5	100 %
1995	298.4	100 %
1996	307.1	100 %
1997	328.6	100 %
1998	329.5	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, 1998, 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, 1997. 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, 1998 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 19 year period using an open amortization approach.

B. ASSUMPTIONS

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 1998, the most recent updated actuarial information include:

*	Assumed inflation rate	4.0 %
*	Assumed investment rate	7.5 %
*	Assumed projected salary increases	4.0 % - 8.1 %
*	Assumed post retirement benefit increase	1.5 %

Supporting Schedule 1
Schedule of Administrative Expenses
Year Ended June 30, 1998

ADMINISTRATIVE EXPENSES**YEAR ENDED
JUNE 30, 1998**

Salaries	\$ 2,876,449
Other Personnel Costs	4,810
Professional Services & Contracts	143,693
Utilities	24,658
Rentals	13,722
Maintenance	62,911
Postage & Related Services	199,694
Printing	94,458
Insurance	79,147
Miscellaneous Services	74,051
Telecommunications	26,044
Computer Services	8,386
Supplies	31,314
Depreciation	210,003
Travel	22,906
Dues & Subscriptions	13,490
Miscellaneous Commodities	28,802
Furniture, Fixtures, & Equipment not Capitalized	76,067
Compensated Absences	6,709
TOTAL ADMINISTRATIVE EXPENSES	\$ 3,997,314

Supporting Schedule 2

Schedule of Contracted Investment Management Expenses

Year Ended June 30, 1998

FIXED INCOME MANAGERS

National Asset Management Corporation	\$ 347,350	
Todd Investment Advisors	<u>277,263</u>	
Total Fixed Income Managers		\$ 624,613

EQUITY MANAGERS

Brinson Partners	\$ 900,000	
National Asset Management Corporation	247,286	
Todd Investment Advisors	322,737	
Wellington Management Company	<u>1,074,500</u>	
Total Equity Managers		\$ 2,544,523

CUSTODIAN

Farmers Bank		\$ 334,200
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CONSULTANT

Becker, Burke Associates		<u>\$ 40,000</u>
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TOTAL CONTRACTED INVESTMENT MANAGEMENT EXPENSES

\$ 3,543,336

Supporting Schedule 3

Schedule of Professional Fees

Year Ended June 30, 1998

PROFESSIONAL	NATURE OF SERVICE	YEAR ENDED JUNE 30, 1998
Charles T. Mitchell Company, LLP	Auditing Services	\$ 24,500
Buck Actuaries	Actuarial Services	73,638
Equifax	Investigative Services	16,248
Farmers Bank	Banking Service	28,357
Berwyn Group	Death Match Services	<u>950</u>
	TOTAL	<u><u>\$ 143,693</u></u>

Investment Section

Kentucky Teachers' Retirement System
Fiscal Year Ended June 30, 1998

Investment Section

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.

INVESTMENT COMMITTEE

Mr. Earle V. Powell Chairman
Mr. Robert M. Conley Vice-Chairman
Mr. Pat N. Miller Ex-Officio Member, Executive Secretary

EXECUTIVE INVESTMENT STAFF

Mr. Pat N. Miller Executive Secretary
Mr. Stuart A. Reagan, CFA Deputy Executive Secretary for Investments

PROFESSIONAL CONSULTANTS

Investment Advisors

Fixed Income and Equity Managers

Todd Investment Advisors
3160 National City Tower
Louisville, Kentucky 40202

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

Equity Managers

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

Wellington Management Company
75 State Street
Boston, Massachusetts 02109

Investment Consultant

Becker, Burke Associates, Inc.
Suite 1000
221 North LaSalle Street
Chicago, Illinois 60601

Investment Custodian

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

INVESTMENT 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
September 29, 1998

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 is adopted by the Board of Trustees and approved in the form of administrative regulation. 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 does not arbitrarily compromise security in order to enhance the prospects of return. The Investment Committee and the Board are mindful of the fund's liquidity and its capability at meeting both short and long term obligations. Asset allocation parameters follow:

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 60% 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 than what it was on June 30, 1998. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 1997-98 fiscal year, the market value of the stock position remained the same at 52% of assets. The portion of the portfolio in Government securities decreased from 26% to 21%. The cash position increased during the year, going from 5% to 8% 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 1997-98 as the System's principal investment counselor, providing assistance in the management of \$2.3 billion of stocks and bonds. National Asset Management, Brinson Partners, and Wellington Management Company also were retained during the 1997-98 fiscal year to provide investment counseling services. National Asset Management assisted in the management of approximately \$993 million in bonds, as well as managing about \$340 million in equity investments. Brinson Partners was responsible for managing approximately \$921 million in equities, and Wellington Management Company managed about \$1.4 billion in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about \$4.6 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. Four investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a \$11.2 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 1997-98 as the Custodian of Securities.

Investment Section

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 30.2% in the fiscal year ended June 30, 1998, after returning 34.7% in fiscal 1997 and 26.0% in fiscal 1996. The last few years have been a truly remarkable period for the U.S. Stock Market. The extraordinary gains can be attributed to declining inflation and interest rates along with a strong economy and rising corporate profitability.

Gross domestic product, adjusted for inflation, rose a healthy 3.6% over the fiscal year. Inflation continued to decline, with the Consumer Price Index rising only 1.7%. Long-term interest rates declined significantly in 1997-98, with the yield on the 30 year Treasury Bond ending the fiscal year at 5.63%, down from 6.78% a year earlier. The unemployment rate fell from 5.0% to 4.5%. Corporate profits, however, appear to have flattened out after rising strongly over the past few years. In the quarter ended June 30, 1998, corporate profits fell 1.5% from a year earlier. Corporate profits are being squeezed by rising employment costs, due to the tight labor market, and an inability to raise prices, due partially to competition from countries in Asia and elsewhere that have devalued their currencies in the past year.

The Lehman Government/Corporate Bond Index produced a total return of 11.3% in fiscal 1998, a generous 9.6 percentage points over CPI inflation of 1.7%. Long-term bonds sharply outperformed shorter-term bonds in the declining interest rate environment of fiscal 1998. Two effects were at work. First, longer-term bonds rise more in price than shorter-term bonds for a given yield decline. Second, long-term interest rates declined more than shorter-term rates over the fiscal year as the yield curve, or term structure of interest rates, "flattened". The Federal Reserve held the overnight Federal Funds rate at 5.50% over the entire fiscal year, which tended to keep short-term rates relatively high. The yield on the two-year Treasury declined a little over one-half percentage point from 6.06% to 5.48% during the fiscal year, while the yield on the thirty-year Treasury declined more than a full percentage point from 6.78% to 5.63%.

While a bond's term to maturity, or duration, was generally the primary determinant of its relative performance over the fiscal year, sector differences also mattered. Corporate bonds generally outperformed Government bonds due to their long average maturities and yield advantage. Mortgages underperformed in the declining interest rate environment due to prepayment concerns.

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 0.92. 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 33.0 compared to 28.0 for the index. Two factors attesting to the high quality of the portfolio were the high rate of growth in both earnings per share and dividends per share. The average earnings growth rate over the past five years for the KTRS stock portfolio was 18.3%. The average dividends growth rate for the past five years of the KTRS portfolio was 11.0%, compared to the index's growth rate of 4.1%. At the end of the 1997-98 fiscal year, the yield level for the KTRS portfolio stood at 1.5%, which was slightly higher than the index.

The stock position, apart from the stock index fund, began the 1997-98 fiscal year by being 37% of assets at market value, and by year-end, it constituted 33% of assets. In dollars, the value of the stock position increased from approximately \$3.5 billion to over \$3.7 billion in 1997-98. The stock index fund represented another \$2.1 billion that was invested in stocks at year end. Stock selections during 1997-98 affected a variety of market sectors. At the end of 1997-98, 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 commercial services sectors and overweightings in the consumer cyclical and transportation sectors.

On June 30, 1998, the System's entire bond portfolio had a duration of 6.9 years. Its yield to maturity was 6.1%. The current yield of the bond portfolio at the end of June was 5.9%, and the average coupon rate for the holdings was 6.7%. As of June 30, 1998, the average maturity of the fixed income portfolio was 12.3 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 69% of the fixed income investments, including short term cash equivalents, will mature by the end of 2010, 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 1997-98 year. The market value of the portfolio increased \$1.8 billion, or 19.2%, to a total of \$11.2 billion at year-end. The book value of the fund correspondingly increased 15.3% during the year. The System accumulated in excess of \$1.2 billion of investment income during 1997-98; this investment income total 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 6.5%. The "indicated dividend yield" on common stocks was 2.2%.

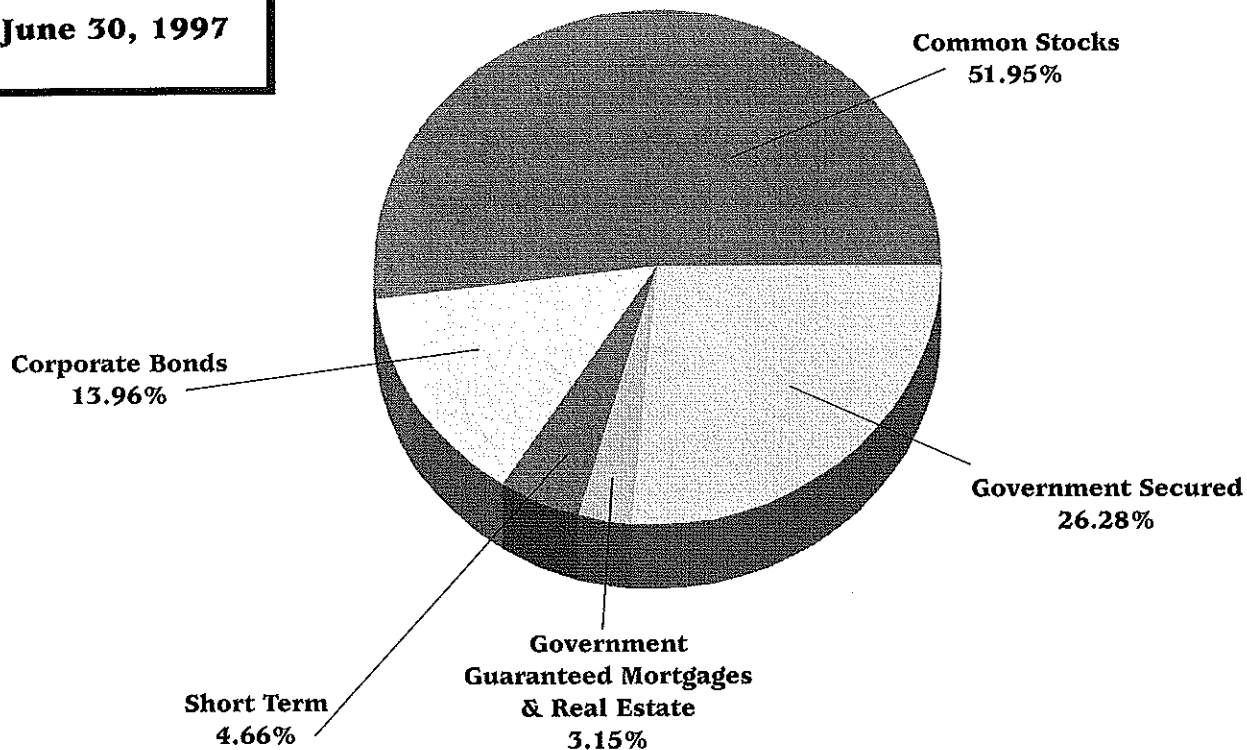
For the 1997-98 fiscal year, the total return earned by the System's stock position is slightly less than the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position earned a total return of 29.2% in 1997-98, while the stock index earned 30.2%. The ten year annualized returns for the years 1989 through 1998 are 19.0% for the System's stock position and 18.6% for the stock index. The System's bond position earned a ten year annualized total return of 9.3%. This is 0.2% better than the 9.1% earned by the Lehman Brothers Government/Corporate Bond Index. In 1997-98, the System's bonds earned a total return of 11.6%, while the Lehman Brothers Index earned 11.3%. The entire portfolio earned a total return in 1997-98 of 19.4%. The portfolio's ten year annualized rate of total return is 12.7%. The total return of the portfolio more than kept up with the rate of inflation and provided real growth. In 1997-98, the Consumer Price Index registered an inflation rate of 1.7%. The ten year annualized rate is 3.3%. The System conforms to "AIMR Performance Presentation Standards" in calculating portfolio returns.

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 ten years. Following the charts is a summary description of investments held at June 30, 1998. The pages thereafter provide a detailed listing of all investments held on June 30, 1998. The System annually produces a detailed investment report that is available on request.

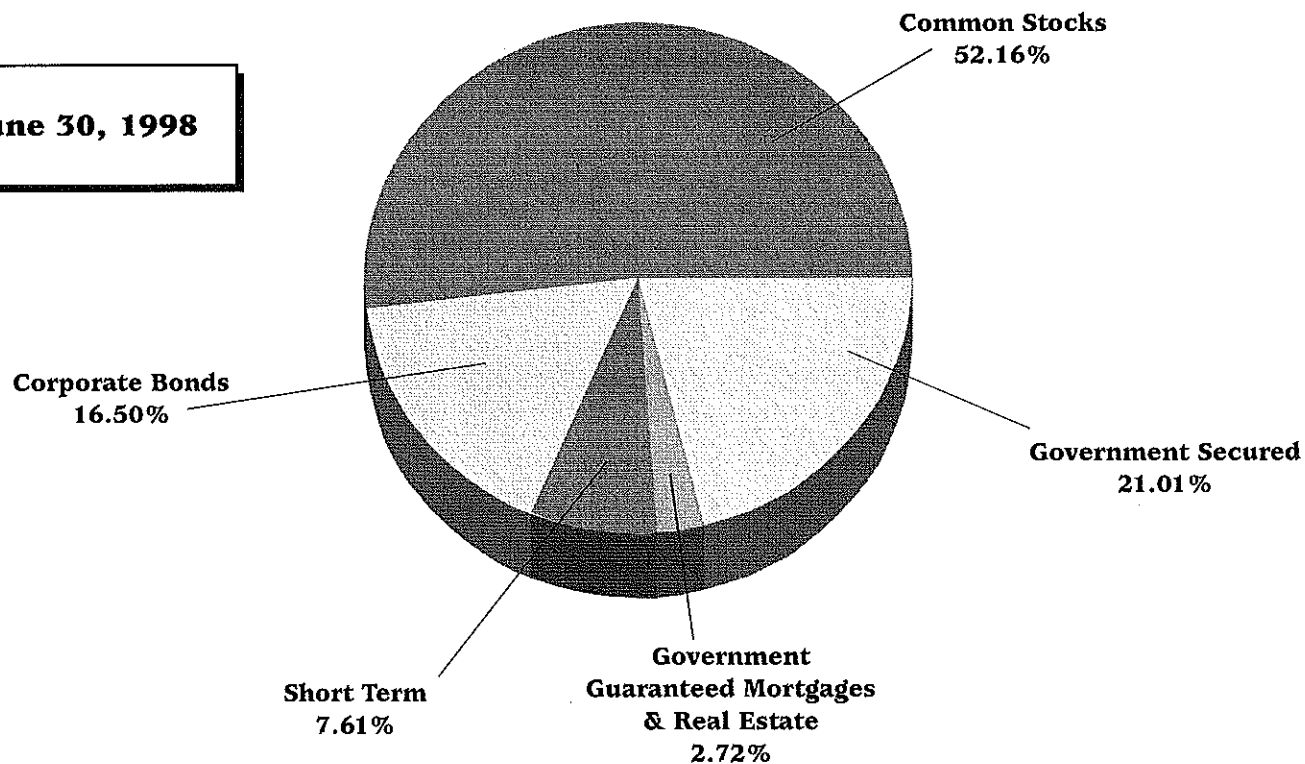
Distribution of Investments

Market Values

June 30, 1997

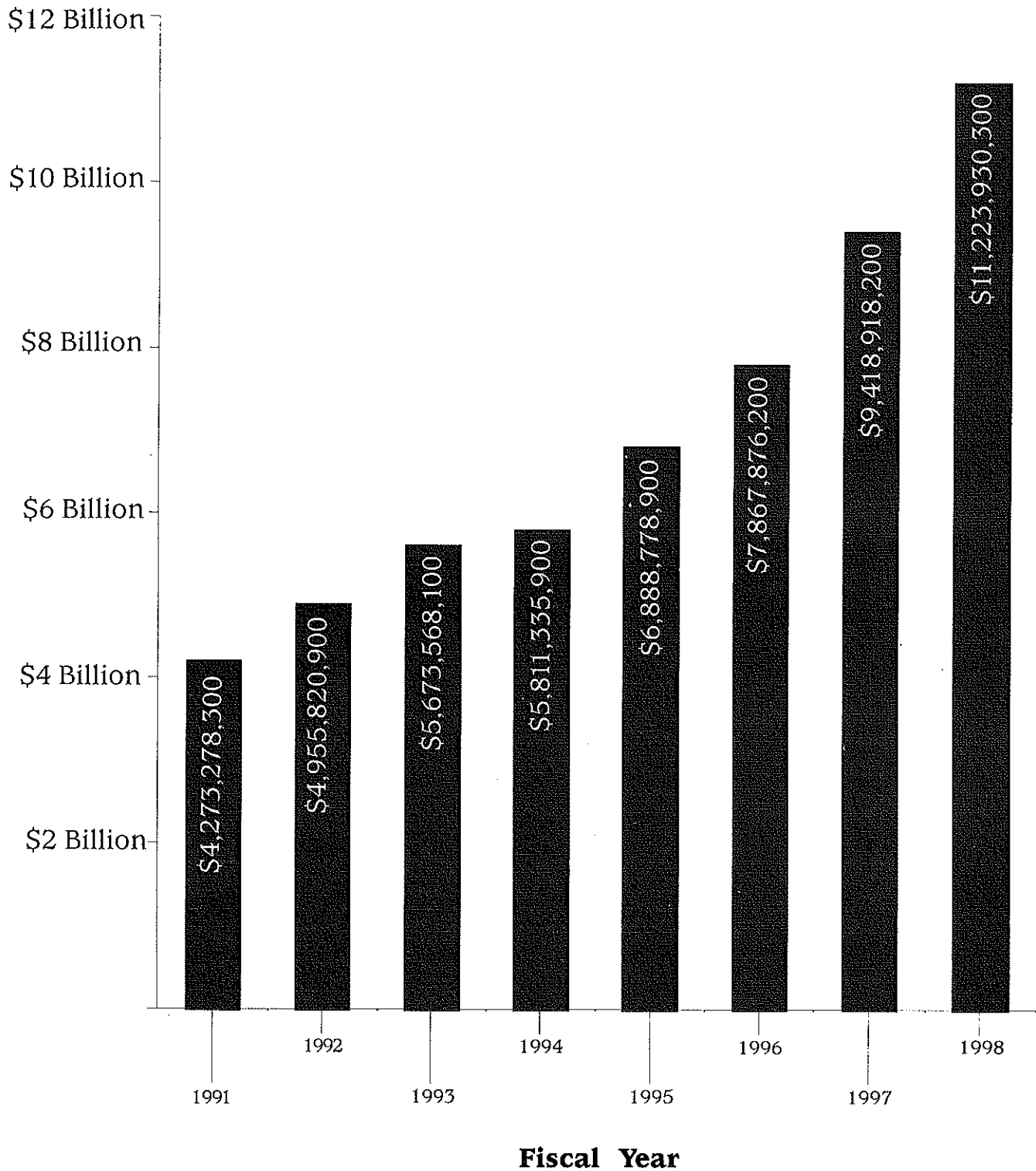


June 30, 1998



Investment Portfolio Growth

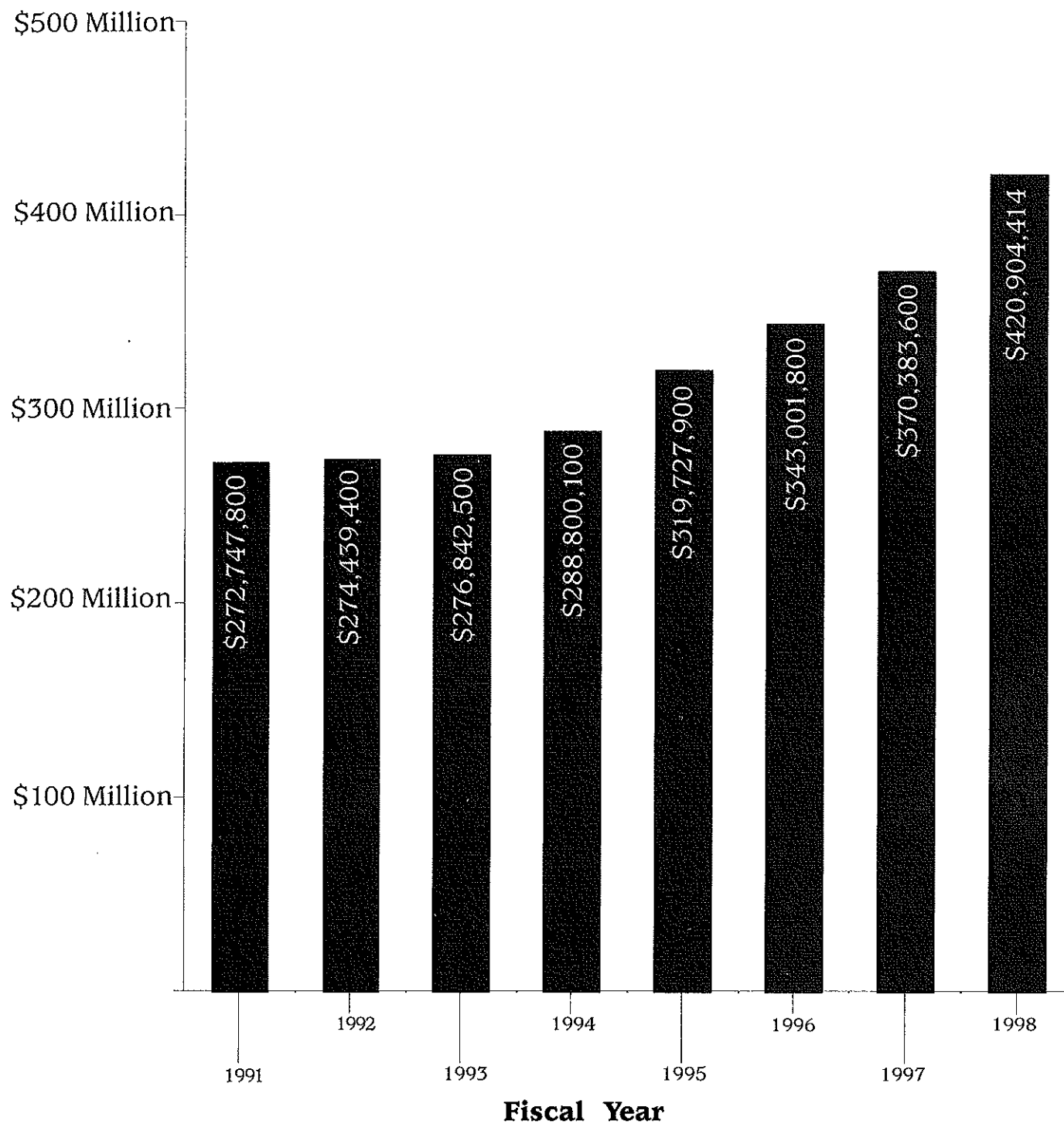
Market Values



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 Total Portfolio	Consumer Price Index
1988-89	20.5	21.3	12.3	12.3	13.8	5.2
1989-90	16.5	18.0	7.1	7.2	10.4	4.7
1990-91	7.4	11.4	10.2	10.5	9.6	4.7
1991-92	13.4	13.7	14.2	14.9	12.5	3.1
1992-93	13.6	13.3	13.2	13.2	12.1	3.0
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
1997-98	30.2	29.2	11.3	11.6	19.4	1.7
<hr/>						
Three Year Annualized Rate	30.3	29.2	7.9	7.9	17.4	2.2
Five Year Annualized Rate	23.1	22.5	6.9	7.0	13.8	2.5
Ten Year Annualized Rate	18.6	19.0	9.1	9.3	12.7	3.3

** Teachers' Retirement System of the State of Kentucky has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS). AIMR has not been involved with the preparation or review of this report.*

Investment Summary

**Fair Market Value
06/30/98**

Type of Investment	Fair Value 07/01/97	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/98
Short Term	439,300,000	78,234,810,000	0	77,819,510,000	854,600,000
Fixed Income	3,902,460,000	2,514,623,200	193,363,300	2,281,291,400	4,329,155,100
Equities	5,077,158,200	2,235,493,200	1,223,108,700	2,495,584,900	6,040,175,200
TOTAL	9,418,918,200	82,984,926,400	1,416,472,000	82,596,386,300	11,223,930,300

Contracted Investment Management Expenses

(\$ Thousands)

	Assets Under Management	Expenses	Basis Points *
INVESTMENT MANAGER FEES			
Fixed Income Managers	\$ 992,815	\$ 347	3.5
Equity Managers	2,633,135	2,222	8.4
Balanced Manager	<u>2,287,760</u>	<u>600</u>	2.6
TOTALS	\$ 5,913,710	\$ 3,169	5.4
OTHER INVESTMENT SERVICES			
Custodian Services	\$ 11,223,930	\$ 334	0.3
Investment Consultant		<u>40</u>	
TOTAL		374	
GRAND TOTAL		\$ 3,543	

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

Transaction Commissions

Companies	Shares Traded	Commissions	Commission Per Share
A B WATLEY	4,700	564.00	0.1200
A G EDWARDS	1,469,480	74,274.00	0.0505
ABN AMRO	215,000	20,232.00	0.0941
ADVEST	1,638,000	85,396.00	0.0521
ASIEL & CO	6,800	340.00	0.0500
AUTRANET INC	19,800	1,066.00	0.0538
B TRADE	32,300	646.00	0.0200
BAIRD PATRICK & CO	25,000	1,500.00	0.0600
BANK OF NEW YORK	9	0.00	0.0000
BEAR STEARNS	293,066	43,587.42	0.1487
BERNSTEIN, SANFORD & CO	45,100	2,706.00	0.0600
BLAIR WILLIAM	80,725	20,436.00	0.2532
BRIDGE TRADING	491,568	12,284.36	0.0250
BT ALEX BROWN	528,025	50,610.70	0.0958
CANTOR FITZGERALD	743,480	45,719.00	0.0615
CAPITAL INSTITUTIONAL SERVICES	231,200	12,313.00	0.0533
CONNING & CO	26,100	1,566.00	0.0600
COWEN	81,100	5,424.00	0.0669
CRUTTENDEN & CO	37,300	3,778.00	0.1013
CS FIRST BOSTON	380,600	55,608.00	0.1461
DAIN BOSWORTH	5,000	450.00	0.0900
DEUTSCHE MORGAN	345,880	27,808.80	0.0804
DONALDSON LUPKIN	3,475,500	244,842.00	0.0704
DRESDNER KLEINWORT	178,400	10,704.00	0.0600
E SHAW SEC	23,300	2,796.00	0.1200
EQUITABLE SEC	5,000	3,750.00	0.7500
EVEREN SEC	13,500	6,750.00	0.5000
FIRST ALBANY	22,100	2,652.00	0.1200
FOX-PITT KELTON INC	48,600	5,832.00	0.1200
FREIDMAN BILLINGS	59,300	3,558.00	0.0600
FURMAN SELZ	159,300	13,068.00	0.0820
GABELLI & CO	4,800	288.00	0.0600
GENESIS MERCHANT GROUP	5,000	3,750.00	0.7500
GOLDMAN SACHS	4,156,973	276,184.45	0.0664
GORDON HASKET & CO	20,900	1,254.00	0.0600
HAMBRECHT & QUIST	328,700	46,220.00	0.1406
HEFLIN	204,350	8,284.00	0.0405
HERZOG, HEINE, GEDULD	982,900	117,948.00	0.1200
HILLIARD LYONS	1,442,400	74,720.00	0.0518
HOEFER & ARNETT	43,200	6,801.00	0.1574

Investment Section**Transaction Commissions continued . . .**

Companies	Shares Traded	Commissions	Commission Per Share
HOENIG	7,000	350.00	0.0500
HOWE BARNES INVESTMENT	8,900	3,994.00	0.4488
HSBC JAMES CAPEL	409,400	24,564.00	0.0600
INGALLS & SNYDER	3,500	210.00	0.0600
INSTINET	1,142,266	22,532.32	0.0197
INTERSTATE	4,743,899	241,494.95	0.0509
INVESTMENT TECHNOLOGY	928,800	17,768.00	0.0191
ISI GROUP	36,000	9,000.00	0.2500
J C BRADFORD	4,867,026	252,711.31	0.0519
JEFFERIES	3,824,148	223,580.54	0.0585
JEROME P DUNLEVY	10,300	515.00	0.0500
JOHNSON LANE	15,000	7,200.00	0.4800
JONES & ASSOCIATES	716,900	39,503.00	0.0551
JOSEPH THAL LYON	14,300	1,716.00	0.1200
JP MORGAN	288,100	54,334.00	0.1886
KALB VOORHIS	494,650	9,893.00	0.0200
KEEFE BRUYETTE	150,000	19,788.00	0.1319
KNIGHT SEC	9,100	1,092.00	0.1200
LADENBURG THALMANN	1,600	192.00	0.1200
LANGEN MCALENNY	70,100	4,206.00	0.0600
LAZARD	4,302,300	272,824.00	0.0634
LEGG MASON	2,060,966	129,609.30	0.0629
LEHMAN BROTHERS	1,305,895	133,759.70	0.1024
LEXINGTON INVESTMENT	1,628,200	83,640.00	0.0514
MELVIN SEC	8,000	480.00	0.0600
MERRILL LYNCH	33,072,580	1,588,322.80	0.0480
MESIROW FINANCIAL	1,300	156.00	0.1200
MONTGOMERY	451,000	61,352.00	0.1360
MORGAN KEEGAN	15,000	8,250.00	0.5500
MORGAN STANLEY DEAN WITTER	5,409,513	348,057.13	0.0643
NATWEST INTL SEC	24,500	1,470.00	0.0600
NEEDHAM & CO	48,500	2,910.00	0.0600
OPPENHEIMER	282,165	26,937.90	0.0955
OTA LIMITED PARTNERS	20,400	1,224.00	0.0600
PAINE WEBBER	5,470,000	306,955.00	0.0561
PCS SECURITIES	90,600	9,350.00	0.1032
PIPER JAFFRAY	257,200	29,828.00	0.1160
PRUDENTIAL	425,359	58,712.54	0.1380
R W BAIRD	3,900	468.00	0.1200
RAYMOND JAMES & ASSOCIATES	11,300	1,356.00	0.1200

Transaction Commissions continued . . .

Companies	Shares Traded	Commissions	Commission Per Share
ROBERTSON STEPHENS	199,700	18,720.00	0.0937
ROBINSON HUMPHREY	166,000	19,464.00	0.1173
SALOMON SMITH BARNEY	3,642,120	304,592.20	0.0836
SANDLER O'NEILL	260,760	30,198.60	0.1158
SBC WARBURG	46,200	8,694.00	0.1882
SCHRODER WERTHEIM	74,700	37,963.00	0.5082
SCHWAB CHARLES	48,500	5,820.00	0.1200
SHERWOOD SEC	32,500	3,900.00	0.1200
SOUNDVIEW FINANCIAL	111,600	13,392.00	0.1200
STANDARD & POOR'S	25,700	1,285.00	0.0500
STEPHENS	67,300	8,076.00	0.1200
STIFEL NICOLAUS	11,300	1,160.00	0.1027
TROSTER SINGER	162,100	19,452.00	0.1200
TUCKER ANTHONY & R L	66,300	4,434.00	0.0669
UBS SEC	118,600	7,710.00	0.0650
UNTERBERG HARRIS	36,100	17,040.00	0.4720
VALUE INVESTING	37,000	9,250.00	0.2500
VECTOR SEC	2,000	240.00	0.1200
VOLPE WELTY & CO	14,200	1,704.00	0.1200
WARBURG SECURITIES	2,600	312.00	0.1200
WEEDEN	3,686,080	207,405.80	0.0563
WESSELS ARNOLD	34,000	4,080.00	0.1200
WHEAT	87,400	9,420.00	0.1078
Total	99,436,883	6,030,329.82	0.0606

Over-the-counter transactions and small capitalization stock transactions increase the overall average commission per share. The over-the-counter commission rate on medium to large capitalization stocks is assumed to be \$.12 per share. Small capitalization stock transactions can have even higher rates. Medium to large capitalization stocks are bought and sold at significantly less expensive rates, frequently \$.04 or \$.05 per share. 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. The research products cost \$219,188.64 for the 1997-98 fiscal year. The primary providers were: Bloomberg, Capital Management Science, Capital Resource Advisors, and Vestek.

Schedule of Investments

as of June 30, 1998

Investment	Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value
Repurchase Agreements	854,600,000.00	854,600,000.00	7.61 %
Total Short Term	854,600,000.00	854,600,000.00	7.61 %
Treasury Notes and Bonds	1,110,300,000.00	1,256,935,932.00	11.20 %
Agencies	810,194,931.82	820,197,357.78	7.31 %
GNMA (Single Family)	92,740,659.81	93,562,201.02	0.83 %
Collateralized Mortgage Obligations	76,017,221.50	76,608,723.28	0.68 %
Treasury Strip Bonds	143,980,080.00	88,593,653.25	0.79 %
Other Miscellaneous	32,887.02	0.00	0.00 %
Total U.S. Government Obligations	2,233,265,780.15	2,335,897,867.33	20.81 %
Industrials	473,359,601.57	497,809,171.85	4.43 %
Finance	1,104,786,119.05	1,127,895,889.21	10.05 %
Utility Bonds (Except Telephone)	120,655,000.00	122,280,662.50	1.09 %
Telephone Bonds	98,580,000.00	103,989,348.70	0.93 %
Railroad Obligations	107,000.00	102,097.26	0.00 %
Total Corporate Bonds	1,797,487,720.62	1,852,077,169.52	16.50 %
FHA & VA Single Family Mortgages	978,921.44	1,000,673.10	0.01 %
Project Mortgages (FHA & GNMA)	116,388,224.35	118,042,101.04	1.05 %
State and Local Government Issues	20,320,000.00	22,137,330.55	0.20 %
Total Other Fixed Income	137,687,145.79	141,180,104.69	1.26 %
Subtotal (Fixed Income)	5,023,040,646.56	5,183,755,141.54	46.18 %
Real Estate Equity	183,833,325.29	185,680,494.90	1.66 %
Total Real Estate Equity	183,833,325.29	185,680,494.90	1.66 %
Common Stocks	74,044,047.000 Shares	2,578,460,904.48	33.05 %
Stock Index	36,953,417.000 Shares	1,250,230,485.33	19.11 %
Total Stocks	110,997,464.000 Shares	3,828,691,389.81	52.16 %
Subtotal (Equity)	4,012,524,715.10	6,040,175,171.37	53.82 %
Total Investments, Income & Yield	9,035,565,361.66	11,223,930,312.91	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, 1998. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.

Detailed Listing of Investments

Short Term Investments

REPURCHASE AGREEMENTS	Coupon	Maturity	Par	Market Value
Repurchase Agreement	5.680	07/06/98	100,000,000.00	100,000,000.00
Repurchase Agreement	5.750	07/01/98	767,100.00	767,100.00
Repurchase Agreement	5.750	07/01/98	49,232,900.00	49,232,900.00
Repurchase Agreement	5.750	07/02/98	156,300.00	156,300.00
Repurchase Agreement	5.750	07/02/98	43,336,700.00	43,336,700.00
Repurchase Agreement	5.750	07/02/98	3,603,800.00	3,603,800.00
Repurchase Agreement	5.750	07/02/98	7,384,500.00	7,384,500.00
Repurchase Agreement	5.750	07/02/98	115,200.00	115,200.00
Repurchase Agreement	5.750	07/02/98	67,696,700.00	67,696,700.00
Repurchase Agreement	5.750	07/02/98	390,900.00	390,900.00
Repurchase Agreement	5.750	07/02/98	780,400.00	780,400.00
Repurchase Agreement	5.750	07/02/98	1,940,400.00	1,940,400.00
Repurchase Agreement	5.750	07/02/98	230,195,100.00	230,195,100.00
Repurchase Agreement	5.960	07/02/98	107,000,000.00	107,000,000.00
Repurchase Agreement	6.080	07/01/98	817,900.00	817,900.00
Repurchase Agreement	6.080	07/01/98	562,900.00	562,900.00
Repurchase Agreement	6.080	07/01/98	128,300.00	128,300.00
Repurchase Agreement	6.080	07/01/98	6,063,500.00	6,063,500.00
Repurchase Agreement	6.080	07/01/98	357,100.00	357,100.00
Repurchase Agreement	6.080	07/01/98	232,452,300.00	232,452,300.00
Repurchase Agreement	6.080	07/01/98	746,500.00	746,500.00
Repurchase Agreement	6.080	07/01/98	871,500.00	871,500.00
Total Repurchase Agreements			854,600,000.00	854,600,000.00
Total Short Term Investments			854,600,000.00	854,600,000.00

U.S. Government Obligations

TREASURY BONDS & NOTES	Coupon	Maturity	Par	Market Value
U S Treasury Bonds	6.000	02/15/26	2,000,000.00	2,080,620.00
U S Treasury Bonds	6.000	02/15/26	9,000,000.00	9,362,790.00
U S Treasury Bonds	6.000	02/15/26	3,000,000.00	3,120,930.00
U S Treasury Bonds	6.000	02/15/26	2,000,000.00	2,080,620.00
U S Treasury Bonds	6.000	02/15/26	2,000,000.00	2,080,620.00
U S Treasury Bonds	6.000	02/15/26	5,000,000.00	5,201,550.00
U S Treasury Bonds	6.000	02/15/26	3,000,000.00	3,120,930.00
U S Treasury Bonds	6.000	02/15/26	5,000,000.00	5,201,550.00
U S Treasury Bonds	6.000	02/15/26	2,000,000.00	2,080,620.00
U S Treasury Bonds	6.000	02/15/26	13,000,000.00	13,524,030.00
U S Treasury Bonds	6.000	02/15/26	8,000,000.00	8,322,480.00
U S Treasury Bonds	6.000	02/15/26	2,000,000.00	2,080,620.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	13,000,000.00	13,918,060.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	9,500,000.00	10,170,890.00
U S Treasury Bonds	6.250	08/15/23	10,000,000.00	10,706,200.00

Investment Section

U.S. Government Obligations continued . . .

TREASURY BONDS & NOTES continued . . .

	Coupon	Maturity	Par	Market Value
U S Treasury Bonds	6.250	08/15/23	7,000,000.00	7,494,340.00
U S Treasury Bonds	6.250	08/15/23	5,000,000.00	5,353,100.00
U S Treasury Bonds	6.250	08/15/23	5,000,000.00	5,353,100.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	7,000,000.00	7,494,340.00
U S Treasury Bonds	6.250	08/15/23	5,500,000.00	5,888,410.00
U S Treasury Bonds	6.250	08/15/23	5,000,000.00	5,353,100.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	15,000,000.00	16,059,300.00
U S Treasury Bonds	6.250	08/15/23	10,000,000.00	10,706,200.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.250	08/15/23	2,000,000.00	2,141,240.00
U S Treasury Bonds	6.500	11/15/26	5,000,000.00	5,552,350.00
U S Treasury Bonds	6.500	11/15/26	2,000,000.00	2,220,940.00
U S Treasury Bonds	6.625	02/15/27	4,500,000.00	5,081,490.00
U S Treasury Bonds	6.625	02/15/27	13,000,000.00	14,679,860.00
U S Treasury Bonds	6.625	02/15/27	11,000,000.00	12,421,420.00
U S Treasury Bonds	6.625	02/15/27	1,000,000.00	1,129,220.00
U S Treasury Bonds	6.750	08/15/26	18,000,000.00	20,607,120.00
U S Treasury Bonds	6.750	08/15/26	3,000,000.00	3,434,520.00
U S Treasury Bonds	7.125	02/15/23	1,000,000.00	1,182,970.00
U S Treasury Bonds	7.125	02/15/23	2,000,000.00	2,365,940.00
U S Treasury Bonds	7.125	02/15/23	4,500,000.00	5,323,365.00
U S Treasury Bonds	7.250	05/15/16	4,000,000.00	4,686,240.00
U S Treasury Bonds	7.250	05/15/16	1,000,000.00	1,171,560.00
U S Treasury Bonds	7.250	05/15/16	1,000,000.00	1,171,560.00
U S Treasury Bonds	7.250	05/15/16	5,000,000.00	5,857,800.00
U S Treasury Bonds	7.250	05/15/16	3,000,000.00	3,514,680.00
U S Treasury Bonds	7.250	05/15/16	6,500,000.00	7,615,140.00
U S Treasury Bonds	7.250	05/15/16	15,500,000.00	18,159,180.00
U S Treasury Bonds	7.250	05/15/16	2,500,000.00	2,928,900.00
U S Treasury Bonds	7.250	05/15/16	3,000,000.00	3,514,680.00
U S Treasury Bonds	7.250	08/15/22	3,000,000.00	3,589,680.00
U S Treasury Bonds	7.500	11/15/16	3,000,000.00	3,601,410.00
U S Treasury Bonds	7.500	11/15/16	1,500,000.00	1,800,705.00
U S Treasury Bonds	7.500	11/15/16	9,000,000.00	10,804,230.00
U S Treasury Bonds	7.500	11/15/16	5,000,000.00	6,002,350.00
U S Treasury Bonds	7.500	11/15/16	35,500,000.00	42,616,685.00
U S Treasury Bonds	7.500	11/15/16	2,000,000.00	2,400,940.00
U S Treasury Bonds	7.500	11/15/16	2,300,000.00	2,761,081.00
U S Treasury Bonds	7.500	11/15/16	25,000,000.00	30,011,750.00
U S Treasury Bonds	7.500	11/15/16	1,750,000.00	2,100,822.50
U S Treasury Bonds	7.500	11/15/16	14,000,000.00	16,806,580.00
U S Treasury Bonds	7.500	11/15/16	5,000,000.00	6,002,350.00
U S Treasury Bonds	7.500	11/15/16	10,000,000.00	12,004,700.00
U S Treasury Bonds	7.500	11/15/16	5,000,000.00	6,002,350.00
U S Treasury Bonds	7.500	11/15/16	3,500,000.00	4,201,645.00
U S Treasury Bonds	7.625	02/15/07	2,500,000.00	2,660,925.00

U.S. Government Obligations continued . . .**TREASURY BONDS & NOTES****continued . . .**

	Coupon	Maturity	Par	Market Value
U S Treasury Bonds	7.625	02/15/07	3,700,000.00	3,938,169.00
U S Treasury Bonds	7.625	02/15/07	4,000,000.00	4,257,480.00
U S Treasury Bonds	7.625	02/15/07	400,000.00	425,748.00
U S Treasury Bonds	7.625	02/15/25	2,000,000.00	2,518,120.00
U S Treasury Bonds	7.875	02/15/21	7,000,000.00	8,882,370.00
U S Treasury Bonds	7.875	02/15/21	9,000,000.00	11,420,190.00
U S Treasury Bonds	7.875	02/15/21	18,000,000.00	22,840,380.00
U S Treasury Bonds	7.875	02/15/21	1,700,000.00	2,157,147.00
U S Treasury Bonds	7.875	02/15/21	3,000,000.00	3,806,730.00
U S Treasury Bonds	7.875	02/15/21	13,500,000.00	17,130,285.00
U S Treasury Bonds	7.875	11/15/07	2,000,000.00	2,170,320.00
U S Treasury Bonds	8.000	11/15/21	2,000,000.00	2,578,120.00
U S Treasury Bonds	8.125	08/15/21	14,400,000.00	18,769,536.00
U S Treasury Bonds	8.125	08/15/21	5,600,000.00	7,299,264.00
U S Treasury Bonds	8.125	08/15/21	30,915,000.00	40,295,847.60
U S Treasury Bonds	8.125	08/15/21	8,000,000.00	10,427,520.00
U S Treasury Bonds	8.125	08/15/21	9,000,000.00	11,730,960.00
U S Treasury Bonds	8.125	08/15/21	7,600,000.00	9,906,144.00
U S Treasury Bonds	8.250	05/15/05	2,200,000.00	2,302,102.00
U S Treasury Bonds	8.500	02/15/20	7,800,000.00	10,454,418.00
U S Treasury Bonds	8.500	02/15/20	7,180,000.00	9,623,425.80
U S Treasury Bonds	8.750	05/15/17	10,000,000.00	13,467,200.00
U S Treasury Bonds	8.750	11/15/08	2,400,000.00	2,739,744.00
U S Treasury Bonds	8.750	11/15/08	7,700,000.00	8,790,012.00
U S Treasury Bonds	8.750	11/15/08	4,000,000.00	4,566,240.00
U S Treasury Bonds	8.750	11/15/08	9,400,000.00	10,730,664.00
U S Treasury Bonds	8.750	11/15/08	1,900,000.00	2,168,964.00
U S Treasury Bonds	8.875	02/15/19	7,375,000.00	10,157,882.50
U S Treasury Bonds	8.875	02/15/19	11,225,000.00	15,460,641.50
U S Treasury Bonds	8.875	08/15/17	7,000,000.00	9,542,960.00
U S Treasury Bonds	8.875	08/15/17	10,000,000.00	13,632,800.00
U S Treasury Bonds	8.875	08/15/17	10,000,000.00	13,632,800.00
U S Treasury Bonds	9.125	05/15/18	9,300,000.00	13,018,512.00
U S Treasury Bonds	9.125	05/15/18	2,500,000.00	3,499,600.00
U S Treasury Bonds	9.250	02/15/16	8,000,000.00	11,127,520.00
U S Treasury Bonds	11.625	11/15/04	2,500,000.00	3,305,850.00
U S Treasury Bonds	14.000	11/15/11	13,200,000.00	20,478,612.00
U S Treasury Notes	5.250	01/31/01	15,000,000.00	14,906,250.00
U S Treasury Notes	5.625	02/15/06	15,000,000.00	15,060,900.00
U S Treasury Notes	5.750	08/15/03	4,600,000.00	4,648,852.00
U S Treasury Notes	5.750	08/15/03	27,000,000.00	27,286,740.00
U S Treasury Notes	5.750	08/15/03	4,700,000.00	4,749,914.00
U S Treasury Notes	5.750	10/31/00	2,500,000.00	2,511,725.00
U S Treasury Notes	5.875	07/31/99	25,000,000.00	25,089,750.00
U S Treasury Notes	5.875	10/31/98	2,500,000.00	2,503,900.00
U S Treasury Notes	5.875	10/31/98	4,000,000.00	4,006,240.00
U S Treasury Notes	5.875	11/15/05	25,000,000.00	25,476,500.00
U S Treasury Notes	6.125	07/31/00	10,540,000.00	10,665,109.80
U S Treasury Notes	6.125	08/15/07	13,000,000.00	13,526,110.00
U S Treasury Notes	6.125	08/15/07	7,000,000.00	7,283,290.00
U S Treasury Notes	6.125	08/15/07	2,000,000.00	2,080,940.00
U S Treasury Notes	6.125	08/15/07	1,500,000.00	1,560,705.00
U S Treasury Notes	6.125	12/31/01	50,000,000.00	50,906,000.00
U S Treasury Notes	6.250	02/15/03	2,000,000.00	2,058,120.00
U S Treasury Notes	6.250	02/15/03	4,000,000.00	4,116,240.00

Investment Section**U.S. Government Obligations continued . . .****TREASURY BONDS & NOTES****continued . . .**

	Coupon	Maturity	Par	Market Value
U S Treasury Notes	6.250	02/15/03	3,000,000.00	3,087,180.00
U S Treasury Notes	6.250	04/30/01	500,000.00	509,295.00
U S Treasury Notes	6.250	06/30/02	5,200,000.00	5,330,832.00
U S Treasury Notes	6.250	10/31/01	1,000,000.00	1,020,780.00
U S Treasury Notes	6.375	01/15/00	26,000,000.00	26,316,940.00
U S Treasury Notes	6.375	01/15/00	8,000,000.00	8,097,520.00
U S Treasury Notes	6.375	01/15/00	4,500,000.00	4,554,855.00
U S Treasury Notes	6.375	01/15/00	21,000,000.00	21,255,990.00
U S Treasury Notes	6.375	01/15/00	25,000,000.00	25,304,750.00
U S Treasury Notes	6.375	03/31/01	8,000,000.00	8,170,000.00
U S Treasury Notes	6.375	08/15/02	7,000,000.00	7,214,340.00
U S Treasury Notes	6.375	08/15/02	2,000,000.00	2,061,240.00
U S Treasury Notes	6.500	05/15/05	2,000,000.00	2,110,940.00
U S Treasury Notes	6.500	05/31/01	1,000,000.00	1,025,620.00
U S Treasury Notes	6.500	10/15/06	32,000,000.00	33,979,840.00
U S Treasury Notes	6.625	06/30/01	14,715,000.00	15,144,972.30
U S Treasury Notes	6.625	06/30/01	4,500,000.00	4,631,490.00
U S Treasury Notes	6.750	04/30/00	2,000,000.00	2,042,180.00
U S Treasury Notes	6.750	05/31/99	2,000,000.00	2,021,560.00
U S Treasury Notes	6.875	05/15/06	9,000,000.00	9,745,290.00
U S Treasury Notes	7.250	05/15/04	8,000,000.00	8,680,000.00
U S Treasury Notes	7.500	02/15/05	10,000,000.00	11,068,700.00
U S Treasury Notes	7.750	02/15/01	4,000,000.00	4,214,360.00
U S Treasury Notes	8.500	02/15/00	6,500,000.00	6,795,555.00

Total Treasury Bonds and Notes**1,110,300,000.00****1,256,935,932.00****FEDERAL AGENCIES**

	Coupon	Maturity	Par	Market Value
Federal Farm Credit Bank MTN	5.980	12/10/01	10,000,000.00	10,079,700.00
Federal Farm Credit Bank Notes	5.800	10/10/00	10,000,000.00	10,028,100.00
FHG 32 TG SER 32 PAC 11	7.000	01/25/21	4,000,000.00	4,101,240.00
FHG 32 TG SER 32 PAC 11	7.000	01/25/21	12,000,000.00	12,303,720.00
FHLB Bonds	5.440	02/04/00	4,000,000.00	3,986,400.00
FHLB Bonds	5.530	02/18/00	2,500,000.00	2,494,925.00
FHLB Bonds	5.960	10/06/00	4,000,000.00	4,015,960.00
FHLB Bonds	6.615	03/05/08	2,000,000.00	1,986,260.00
FHLB Bonds	6.615	06/05/08	2,000,000.00	1,986,260.00
FHLB Bonds	6.800	07/26/02	8,500,000.00	8,614,240.00
FHLB Bonds	7.100	01/22/04	1,000,000.00	1,006,090.00
FHLB Bonds	7.360	07/14/04	20,000,000.00	20,218,800.00
FHLB Notes	5.980	07/23/99	4,800,000.00	4,816,512.00
FHLB Notes	5.980	10/06/00	11,000,000.00	11,072,160.00
FHLB Notes	6.750	04/05/04	12,000,000.00	12,579,360.00
FHLMC 1576 PE	6.000	09/15/05	9,619,345.00	9,631,369.18
FHLMC 1628 PG	6.150	08/15/19	5,000,000.00	5,016,350.00
FHLMC Bonds	6.700	01/05/07	28,000,000.00	29,570,520.00
FHLMC Debs	5.690	01/24/01	6,000,000.00	5,963,460.00
FHLMC Debs	6.943	03/21/07	3,000,000.00	3,212,340.00
FHLMC Debs	7.070	07/20/05	2,500,000.00	2,502,725.00
FHLMC Debs	7.090	11/24/06	8,100,000.00	8,179,704.00
FHLMC Debs	7.225	11/08/06	3,300,000.00	3,345,903.00
FHLMC Debs	7.440	09/20/06	5,000,000.00	5,220,300.00
FHLMC Debs	8.530	02/02/05	5,000,000.00	5,207,050.00
FHLMC Freddie Mac Group 14-0527	8.000	10/01/08	2,625,361.56	2,707,482.87

U.S. Government Obligations continued . . .

FEDERAL AGENCIES

continued . . .

	Coupon	Maturity	Par	Market Value
FHLMC Mult Mtg Ctfs Ser 53 CL 53-A	9.500	08/15/20	43,258.20	43,785.08
FHLMC Notes	7.256	09/17/01	4,400,000.00	4,415,796.00
FHLMC Notes	7.256	09/17/01	3,000,000.00	3,010,770.00
FHLMC Notes	7.256	09/17/01	2,300,000.00	2,308,257.00
FHLMC Notes	7.350	03/22/05	2,550,000.00	2,765,143.50
FHLMC REMIC 1487 CL F	6.000	11/15/20	5,640,000.00	5,631,145.20
FHLMC Remic Ser 1546 CL E	6.350	11/15/19	5,000,000.00	5,029,650.00
FHLMC Ser 149 F	8.500	08/15/21	4,174,455.00	4,488,833.21
FHLMC (Gold) Pool # E00210	7.000	05/01/08	4,612,088.40	4,714,338.40
FHLMC (Gold) Pool # E00408	6.500	12/01/10	11,346,792.84	11,474,444.26
FHLMC (Gold) Pool # W00067	6.420	12/01/05	7,783,701.60	7,958,834.89
FHLMC (Gold) Pool # W10001	6.420	12/01/05	8,921,000.00	9,121,722.50
FHR 1630 PG	5.750	04/15/20	5,000,000.00	4,971,850.00
FMHA #02 002 610657376 (Mtg KY)	7.750	05/22/12	1,197,201.63	1,226,054.19
FNMA	6.050	03/12/01	7,000,000.00	6,981,380.00
FNMA	6.700	08/10/01	12,000,000.00	12,106,920.00
FNMA	7.500	02/11/02	3,000,000.00	3,169,680.00
FNMA	8.250	11/01/22	2,000,000.00	2,016,880.00
FNMA	8.500	02/01/05	4,000,000.00	4,158,760.00
FNMA	8.500	02/01/05	10,000,000.00	10,396,900.00
FNMA Debs	7.550	03/27/07	1,300,000.00	1,331,083.00
FNMA Debs	7.550	03/27/07	6,200,000.00	6,348,242.00
FNMA Debs	7.550	03/27/07	5,000,000.00	5,119,550.00
FNMA MTN	5.370	02/07/01	6,500,000.00	6,445,140.00
FNMA MTN	5.780	10/10/00	5,000,000.00	5,012,500.00
FNMA MTN	5.800	06/07/00	18,900,000.00	18,899,244.00
FNMA MTN	5.860	11/07/00	14,000,000.00	14,063,420.00
FNMA MTN	6.010	08/16/99	9,000,000.00	9,035,190.00
FNMA MTN	6.210	11/07/07	4,000,000.00	4,102,480.00
FNMA MTN	6.210	11/07/07	5,000,000.00	5,128,100.00
FNMA MTN	6.210	11/07/07	4,500,000.00	4,615,290.00
FNMA MTN	6.210	11/07/07	3,250,000.00	3,333,265.00
FNMA MTN	6.820	08/23/05	5,000,000.00	5,291,400.00
FNMA MTN	7.150	04/11/07	9,800,000.00	10,660,538.00
FNMA MTN	7.150	08/27/12	14,000,000.00	14,424,340.00
FNMA MTN	7.160	06/26/07	8,265,000.00	8,417,406.60
FNMA MTN	7.375	03/28/05	2,345,000.00	2,546,881.05
FNMA MTN	7.920	03/30/05	8,000,000.00	8,278,720.00
FNMA MTN	7.030	10/25/06	5,000,000.00	5,160,950.00
FNMA MTN	7.030	10/25/06	2,000,000.00	2,064,380.00
FNMA MTN	7.030	10/25/06	2,000,000.00	2,064,380.00
FNMA MTN	7.130	07/06/05	2,000,000.00	2,001,880.00
FNMA MTN	7.250	06/01/05	2,000,000.00	2,046,880.00
FNMA Notes	5.250	01/15/03	4,000,000.00	3,926,240.00
FNMA Notes	5.625	03/15/01	10,000,000.00	9,984,400.00
FNMA Notes	5.750	02/15/08	36,500,000.00	36,328,815.00
FNMA Notes	5.750	02/15/08	3,000,000.00	2,985,930.00
FNMA Notes	6.570	08/22/07	10,000,000.00	10,510,900.00
FNMA Notes	7.000	01/28/04	8,000,000.00	8,118,720.00
FNMA Notes	7.020	08/28/07	10,000,000.00	10,153,100.00
FNMA Notes	7.030	10/25/06	2,500,000.00	2,580,475.00
FNMA Notes	7.030	10/25/06	2,000,000.00	2,064,380.00
FNMA Notes	7.280	05/23/07	7,000,000.00	7,305,130.00
FNMA Notes	7.500	04/24/07	6,000,000.00	6,173,460.00
FNMA Notes	7.550	06/10/04	10,700,000.00	10,867,134.00

U.S. Government Obligations continued . . .

FEDERAL AGENCIES

continued . . .

	Coupon	Maturity	Par	Market Value
FNMA Notes	7.850	09/10/04	3,600,000.00	3,683,232.00
FNMA Pool # 124921	6.500	07/01/23	15,656,620.84	15,676,191.62
FNMA Pool # 251725	6.000	04/01/08	1,857,777.57	1,807,246.02
FNMA Pool # 251752	6.500	05/01/28	2,276,567.92	2,272,287.97
FNMA Pool # 251764	6.000	05/01/08	8,226,347.75	8,002,591.09
FNMA Pool # 251765	6.500	04/01/08	3,274,970.39	3,260,626.02
FNMA Pool # 266220	6.500	12/01/23	8,323,512.42	8,337,579.16
FNMA Pool # 303670	6.500	12/01/25	39,565,774.26	39,504,051.65
FNMA Pool # 303673	6.000	12/01/25	18,290,181.04	17,850,119.28
FNMA Pool # 323119	7.000	03/01/05	9,793,941.78	9,968,371.88
FNMA Pool # 340755 (Mtgs KY)	6.500	03/01/26	1,616,810.18	1,613,770.58
FNMA Pool # 340800 (Mtgs KY)	6.500	03/01/26	1,076,076.16	1,074,053.14
FNMA Pool # 343306 (Mtgs KY)	6.500	04/01/26	1,681,360.83	1,678,199.87
FNMA Pool # 347255 (Mtgs KY)	6.500	05/01/26	1,063,885.11	1,061,885.01
FNMA Pool # 347916 (Mtgs KY)	7.000	06/01/26	781,592.80	792,707.05
FNMA Pool # 351248 (Mtgs KY)	7.500	07/01/26	851,588.66	873,806.61
FNMA Pool # 360000	6.547	12/01/05	12,500,000.00	12,517,500.00
FNMA Pool # 375218 DVS (Mtgs KY)	7.210	06/01/07	2,224,800.73	2,275,526.19
FNMA Pool # 251258	7.000	09/01/07	5,400,317.95	5,476,192.42
FNMA Pool # 251344	7.000	10/01/07	3,950,064.21	4,005,562.61
FNMA Pool # 251418	7.000	11/01/07	6,199,352.88	6,286,453.79
FNMA Pool # 251524	7.000	11/01/07	5,047,063.23	5,117,974.47
FNMA Pool # 251765	6.500	04/01/08	4,917,372.95	4,895,834.86
FNMA Pool # 313644	7.000	07/01/27	19,203,680.13	19,476,756.46
FNMA Pool # 420943	6.000	03/01/13	19,759,326.60	19,543,159.57
FNMA Remic Tr 1990-16-E	9.000	03/25/20	3,229,973.60	3,583,235.81
FNMA Remic Tr 1990-16-E	9.000	03/25/20	2,826,226.90	3,135,331.34
FNMA Remic Tr 1990-24 H	9.250	07/25/13	100,355.58	110,108.14
FNR 1993-39 CL C TAC 11	7.000	01/25/20	10,000,000.00	10,059,300.00
FNR 1994-72 CL E	6.000	11/25/17	5,000,000.00	4,993,750.00
FNR 1996-21 CL Pg	6.000	02/25/10	6,400,000.00	6,416,000.00
FNR 1997-20 CL B	7.000	11/17/17	11,119,638.84	11,216,935.68
FNR 1997-20 CL B	7.000	11/17/17	3,706,546.28	3,738,978.56
FNR 1997-56 CL Pd	6.500	05/18/22	5,000,000.00	5,037,500.00
SLMA Notes	6.050	09/14/00	10,000,000.00	10,064,100.00
Tennessee Valley Authority Bonds	6.250	08/01/99	8,000,000.00	8,041,120.00
TVA Strip Principal Notes	0.000	07/15/43	3,000,000.00	2,112,780.00
TVA Strip Principal Notes	0.000	07/15/43	750,000.00	528,195.00
TVA Strip Principal Notes	0.000	07/15/43	1,250,000.00	880,325.00
Total Federal Agencies			810,194,931.82	820,197,357.78

GNMA SINGLE FAMILY MORTGAGES

	Coupon	Maturity	Par	Market Value
28 Mortgage Pools	Various	Various	92,740,659.81	93,562,201.02
Total GNMA Single Family Mortgages			92,740,659.81	93,562,201.02

U.S. Government Obligations continued . . .**COLLATERALIZED MORTGAGE
OBLIGATIONS**

	Coupon	Maturity	Par	Market Value
CMO Coll Mtg Sec Corp Ser 88-4 CL B	8.750	04/20/19	2,213,543.26	2,343,588.93
CMO Coll Mtg Sec Corp Ser 88-4 CL B	8.750	04/20/19	555,663.94	588,309.20
CMO FHG 62 CL A	7.000	10/20/21	2,993,896.00	3,010,721.70
CMO FHG 62 CL A	7.000	10/20/21	8,981,688.00	9,032,165.09
CMO FHLMC 1494 CL PJ	6.850	01/15/22	2,000,000.00	2,043,120.00
CMO FHLMC 1645 CL PD	4.500	09/15/08	4,000,000.00	3,780,000.00
CMO FHR 1679 CL D	6.000	09/15/08	10,000,000.00	10,040,600.00
CMO FHR 1751 CL PE	7.625	07/15/19	3,000,000.00	3,035,610.00
CMO FNR 97-31 CL B	6.000	04/18/07	11,710,000.00	11,684,355.10
CMO FNR 97-42 CL H	7.000	12/17/19	4,000,000.00	4,067,160.00
CMO FULBBA 98-C2 A2	6.560	11/18/35	3,400,000.00	3,466,980.00
CMO FULBBA 98-C2 A2	6.560	11/18/35	10,000,000.00	10,197,000.00
CMO GNR 97-6 CL H	7.500	08/20/21	9,377,799.00	9,486,206.36
CMO GNR 97-6 CL H	7.500	08/20/21	3,125,933.00	3,162,068.79
CMO Trust 43 Ser Y	8.200	05/20/04	658,698.30	670,838.11
Total Collateralized Mortgage Obligations			76,017,221.50	76,608,723.28

TREASURY STRIP BONDS

	Coupon	Maturity	Par	Market Value
Call Treasury Corpus	0.000	02/15/10	2,000,000.00	1,379,340.00
Call Treasury Corpus	0.000	02/15/10	2,000,000.00	1,379,340.00
Call Treasury Corpus	0.000	02/15/10	2,210,000.00	1,524,170.70
Treasury Receipts	0.000	05/15/04	2,170,080.00	1,571,962.55
U S Treasury Principal Strips	0.000	11/15/01	25,000,000.00	20,778,750.00
U S Treasury Strip Bonds	0.000	02/15/08	7,000,000.00	4,100,390.00
U S Treasury Strip Bonds	0.000	05/15/08	8,900,000.00	5,132,096.00
U S Treasury Strip Bonds	0.000	05/15/09	3,000,000.00	2,152,200.00
U S Treasury Strip Bonds	0.000	05/15/09	3,000,000.00	1,633,500.00
U S Treasury Strip Bonds	0.000	05/15/09	2,000,000.00	1,434,800.00
U S Treasury Strip Bonds	0.000	05/15/23	24,700,000.00	6,074,224.00
U S Treasury Strip Bonds	0.000	08/15/14	3,000,000.00	1,200,780.00
U S Treasury Strip Bonds	0.000	11/15/04	43,000,000.00	30,345,960.00
U S Treasury Strip Bonds	0.000	11/15/05	1,000,000.00	667,440.00
U S Treasury Strip Bonds	0.000	11/15/11	15,000,000.00	9,218,700.00
Total Treasury Strip Bonds			143,980,080.00	88,593,653.25

OTHER MISCELLANEOUS

	Coupon	Maturity	Par	Market Value
FHA Certificate of Claim	3.000	/ /	32,887.02	0.00
Total Other Miscellaneous			32,887.02	0.00

TOTAL U.S.**GOVERNMENT OBLIGATIONS****2,233,265,780.15 2,335,897,867.33**

Corporate Bonds

INDUSTRIALS	Coupon	Maturity	Par	Market Value
Abbott Laboratories Notes	6.000	03/15/08	2,000,000.00	2,008,320.00
Abbott Laboratories Notes	6.800	05/15/05	4,000,000.00	4,201,600.00
Abbott Laboratories Notes	6.800	05/15/05	2,000,000.00	2,100,800.00
Allied-Signal Notes	9.120	03/08/99	3,500,000.00	3,570,805.00
Aluminum Co of America Notes	5.750	02/01/01	1,000,000.00	995,710.00
Aluminum Co of America Notes	6.125	06/15/05	5,000,000.00	5,006,850.00
American Home Products Notes	7.700	02/15/00	3,000,000.00	3,083,400.00
Amoco Company Notes	6.250	10/15/04	3,000,000.00	3,049,920.00
Amoco Company Notes	6.250	10/15/04	1,000,000.00	1,016,640.00
Archer Daniels Debs	8.875	04/15/11	5,000,000.00	6,169,400.00
Arco Chemical Co Debs	9.900	11/01/00	2,000,000.00	2,162,780.00
Arco Chemical Co Debs	9.900	11/01/00	2,000,000.00	2,162,780.00
Baxter International Inc Notes	7.125	02/01/07	3,000,000.00	3,187,410.00
Becton Dickinson & Co Notes	6.900	10/01/06	2,000,000.00	2,122,820.00
Boeing Co Debs	7.250	06/15/25	1,000,000.00	1,094,220.00
Boeing Co Debs	8.100	11/15/06	1,000,000.00	1,124,570.00
Boeing Co Notes	6.350	06/15/03	2,750,000.00	2,781,680.00
Boeing Co Notes	6.350	06/15/03	500,000.00	505,760.00
Bristol Myers Squibb Debs	6.800	11/15/26	3,000,000.00	3,241,680.00
Bristol Myers Squibb Debs	6.800	11/15/26	2,000,000.00	2,161,120.00
Browning-Ferris Inds Inc Sr Notes	6.375	01/15/08	1,500,000.00	1,508,550.00
Burlington Resources Inc Notes	9.625	06/15/00	2,000,000.00	2,132,520.00
Burlington Resources Inc Notes	9.625	06/15/00	3,000,000.00	3,198,780.00
Cargill Inc 144A Notes	6.150	02/25/08	3,000,000.00	3,031,380.00
Cargill Inc 144A Sr Notes	7.250	11/01/36	2,000,000.00	2,216,220.00
Chevron Corp Trust Fund Notes	8.110	12/01/04	9,660,000.00	10,300,747.80
Chrysler Corp Debs	7.450	03/01/27	10,000,000.00	11,094,800.00
Chrysler Corp Debs	7.450	03/01/27	4,000,000.00	4,437,920.00
Chrysler Corp Debs	7.450	03/02/27	2,400,000.00	2,662,752.00
Clorox Company Debs	8.800	07/15/01	2,000,000.00	2,154,760.00
Clorox Company Debs	8.800	07/15/01	1,000,000.00	1,077,380.00
Coca Cola Enterprises Debs	6.950	11/15/26	2,000,000.00	2,088,280.00
Coca Cola Enterprises Notes	6.625	08/01/04	5,000,000.00	5,155,850.00
Cooper Industries Inc Notes	5.880	02/20/03	3,000,000.00	2,993,820.00
Cooper Industries Inc Notes	5.880	02/20/03	2,000,000.00	1,995,880.00
CPC International Inc Debs	7.250	12/15/26	5,000,000.00	5,481,150.00
CSC Enterprises Notes	6.500	11/15/01	18,500,000.00	18,830,410.00
Dean Foods Co Debs	6.900	10/15/17	2,000,000.00	2,097,360.00
Dean Foods Co Debs	6.900	10/15/17	2,000,000.00	2,097,360.00
Donnelley & Sons Debs	9.125	12/01/00	2,500,000.00	2,671,775.00
Dover Corp Debs	6.650	06/01/28	3,000,000.00	3,055,590.00
Dover Corp Notes	6.450	11/15/05	2,000,000.00	2,035,580.00
Dresser Industries Inc Notes	6.250	06/01/00	5,000,000.00	5,034,600.00
Dupont (EI) deNemours Debs	6.000	12/01/01	8,000,000.00	7,949,280.00
Dupont (EI) deNemours Debs	6.000	12/01/01	4,000,000.00	3,974,640.00
Dupont (EI) deNemours Debs	6.000	12/01/01	4,000,000.00	3,974,640.00
Dupont (EI) deNemours Debs	8.250	09/15/06	12,000,000.00	13,647,120.00
Eaton Corp Debs	8.900	08/15/06	1,800,000.00	2,106,594.00
Electronic Data Systems 144A Notes	7.125	05/15/05	5,000,000.00	5,298,650.00
Electronic Data Systems 144A Notes	7.125	05/15/05	5,000,000.00	5,298,650.00
Emerson Electric Co Notes	6.300	11/01/05	1,000,000.00	1,014,840.00

Corporate Bonds continued . . .**INDUSTRIALS****continued . . .**

	Coupon	Maturity	Par	Market Value
Enron Oil & Gas Sr Notes	6.700	11/15/06	1,000,000.00	1,027,260.00
Enron Oil & Gas Sr Notes	6.700	11/15/06	2,000,000.00	2,054,520.00
First Data Corp MTN	6.820	09/18/01	2,000,000.00	2,052,220.00
First Data Corp Notes	6.750	07/15/05	2,000,000.00	2,068,240.00
First Data Corp Notes	6.820	09/18/01	4,000,000.00	4,104,440.00
Ford Motor Co Debs	7.400	11/01/46	4,000,000.00	4,398,320.00
Ford Motor Co Debs	7.400	11/01/46	12,000,000.00	13,194,960.00
Ford Motor Co Debs	7.400	11/01/46	10,000,000.00	10,995,800.00
Ford Motor Co Notes	7.250	10/01/08	2,000,000.00	2,139,260.00
Ford Motor Co Notes	8.875	04/01/06	3,045,000.00	3,534,148.80
Fortune Brands Inc Debs	7.875	01/15/23	2,000,000.00	2,021,820.00
Halliburton Co Notes	6.300	08/05/02	3,750,000.00	3,797,512.50
Halliburton Co Notes	6.750	02/01/27	3,000,000.00	3,150,060.00
Heinz (H J) Co Notes	6.875	01/15/03	1,000,000.00	1,031,120.00
Hershey Foods Co Debs	8.800	02/15/21	2,000,000.00	2,590,640.00
Honeywell Inc Notes	6.750	03/15/02	3,000,000.00	3,072,570.00
IBM Corp Debs	6.500	01/15/28	6,000,000.00	6,001,440.00
IBM Corp Debs	7.000	10/30/25	2,000,000.00	2,134,060.00
IBM Corp Debs	7.000	10/30/25	1,000,000.00	1,067,030.00
IBM Corp Debs	7.500	06/15/13	1,000,000.00	1,117,730.00
IBM Corp MTN	6.500	01/15/28	24,000,000.00	24,005,760.00
IBM Corp Notes	6.450	08/01/07	2,000,000.00	2,057,020.00
J C Penney Co Notes	6.375	09/15/00	2,000,000.00	2,021,540.00
Leggett & Platt Notes 144-A	7.185	04/24/02	10,000,000.00	10,371,000.00
Leggett & Platt Notes 144-A	7.185	04/24/02	4,000,000.00	4,148,400.00
Lowe's Companies Inc Notes	7.050	01/24/00	5,000,000.00	5,091,650.00
Lowe's Companies Notes	7.110	05/15/37	5,000,000.00	5,396,800.00
Marion Merrell Dow-ASOP Debs	9.110	08/01/05	3,490,820.32	3,796,616.18
Masco Corp Debs	6.625	04/15/18	8,000,000.00	8,058,080.00
Masco Corp Debs	6.625	04/15/18	4,000,000.00	4,029,040.00
Masco Corp Debs	6.625	04/15/18	1,850,000.00	1,863,431.00
Masco Corp Debs	6.625	04/15/18	2,000,000.00	2,014,520.00
Masco Corp Debs	6.625	04/15/18	4,000,000.00	4,029,040.00
McDonnell Douglas Notes	6.875	11/01/06	3,000,000.00	3,166,740.00
Mead Corp Notes	6.600	03/01/02	1,000,000.00	1,013,570.00
Merck & Co Sr Notes	6.400	03/01/28	8,000,000.00	8,217,280.00
Merck & Co Sr Notes	6.400	03/01/28	2,000,000.00	2,054,320.00
Minnesota Mining & Mfg Debs	6.375	02/15/28	2,000,000.00	2,009,680.00
Minnesota Mining & Mfg Debs	6.375	02/15/28	2,000,000.00	2,009,680.00
Mobil Oil - ESOP Debs	9.170	02/29/00	3,118,781.25	3,207,791.27
New Times Mirror Inc Debs	7.500	07/01/23	5,000,000.00	5,676,500.00
Pepsico Inc Notes	5.750	01/02/03	1,000,000.00	994,940.00
Pepsico Inc Notes	5.750	01/02/03	3,000,000.00	2,984,820.00
Philip Morris Cos Notes	7.125	12/01/99	10,000,000.00	10,142,700.00
PPG Industries Inc Notes	6.250	02/15/02	2,500,000.00	2,516,875.00
Procter & Gamble Debs	8.000	10/26/29	5,000,000.00	6,087,300.00
Procter & Gamble Debs	8.700	08/01/01	3,000,000.00	3,231,180.00
Procter & Gamble-ESOP Debs	9.360	01/01/21	6,900,000.00	9,120,489.00
Sara Lee Corp MTN	5.600	10/12/05	1,500,000.00	1,459,140.00
Sara Lee Corp MTN	6.000	01/15/08	3,000,000.00	2,983,380.00

Corporate Bonds continued . . .**INDUSTRIALS****continued . . .**

	Coupon	Maturity	Par	Market Value
Sara Lee Corp Notes	6.000	12/05/05	2,000,000.00	1,991,520.00
Sara Lee Corp Notes	6.400	11/01/01	2,000,000.00	2,028,920.00
Sysco Corp Sr Notes	7.000	05/01/06	1,500,000.00	1,590,990.00
Sysco Corp Sr Notes	7.000	05/01/06	2,000,000.00	2,121,320.00
Texas Instruments Inc Notes	6.875	07/15/00	3,000,000.00	3,055,650.00
Texas Instruments Inc Notes	6.875	07/15/00	1,500,000.00	1,527,825.00
Texas Instruments Inc Notes	6.875	07/15/00	2,000,000.00	2,037,100.00
Texas Instruments Inc Notes	6.875	07/15/00	1,500,000.00	1,527,825.00
Texas Instruments Inc Notes	6.875	07/15/00	2,000,000.00	2,037,100.00
The Gap Inc Notes	6.900	09/15/07	4,000,000.00	4,171,760.00
The Gap Inc Notes	6.900	09/15/07	12,000,000.00	12,515,280.00
The Gap Inc Notes	6.900	09/15/07	3,000,000.00	3,128,820.00
Tribune Company Notes	5.950	02/17/04	11,000,000.00	10,968,540.00
Tribune Company Notes	5.950	02/17/04	3,895,000.00	3,883,860.30
Tribune Company Notes	6.250	11/10/26	5,000,000.00	5,121,300.00
TRW Inc MTN	6.300	05/15/08	3,000,000.00	3,051,510.00
United Technologies Corp Notes	9.320	02/05/21	3,000,000.00	4,017,570.00
Wal-Mart Stores Notes	5.850	06/01/00	12,700,000.00	12,685,014.00
Wal-Mart Stores Notes	5.875	10/15/05	3,000,000.00	2,983,710.00
Warner Lambert Co Notes	5.750	01/15/03	3,000,000.00	2,976,480.00
Weyerhaeuser Company Debs	7.950	03/15/25	3,000,000.00	3,411,630.00
Weyerhaeuser Company Debs	7.950	03/15/25	1,000,000.00	1,137,210.00
Weyerhaeuser Company Debs	7.950	03/15/25	1,000,000.00	1,137,210.00
WMX Technologies Inc Notes	7.125	06/15/01	1,000,000.00	1,022,450.00
Total Industrials			473,359,601.57	497,809,171.85

FINANCE

	Coupon	Maturity	Par	Market Value
American Express Cr Co Sr Notes	6.125	11/15/01	2,271,000.00	2,275,405.74
American Express Cr Co Sr Notes	6.500	08/01/00	1,250,000.00	1,264,612.50
American Express Master Trust 97-1A	6.400	04/15/05	3,000,000.00	3,068,850.00
American Express Master Trust 97-1A	6.400	04/15/05	2,000,000.00	2,045,900.00
American Express Master Trust 97-1B	6.550	04/15/05	10,000,000.00	10,181,000.00
American Express Master Trust 97-1B	6.550	04/15/05	4,000,000.00	4,072,400.00
American Express Sr Unsub Notes	6.750	06/23/04	5,000,000.00	5,139,650.00
Ameritech Capital Funding Notes	6.150	01/15/08	4,000,000.00	3,979,920.00
Ameritech Capital Funding Notes	5.650	01/15/01	7,000,000.00	6,965,350.00
Aon Corp Notes	6.875	10/01/99	3,000,000.00	3,034,290.00
Associates Corp NA Notes	5.875	05/16/01	4,000,000.00	3,987,720.00
Associates Corp NA Notes	6.375	07/15/02	5,500,000.00	5,551,975.00
Associates Corp NA Notes	9.125	04/01/00	7,500,000.00	7,889,925.00
Associates Corp NA Sr Notes	5.250	03/30/00	2,000,000.00	1,978,860.00
Associates Corp NA Sr Notes	6.680	06/05/00	7,000,000.00	7,119,350.00
Associates Corp NA Sr Notes	7.500	05/15/99	7,000,000.00	7,095,130.00
Associates Corp NA Sr Notes	7.500	05/15/99	3,000,000.00	3,040,770.00
Associates Corp NA Sr Notes	7.820	10/21/99	2,000,000.00	2,052,700.00
Avco Financial Services Sr Notes	7.375	08/15/01	2,000,000.00	2,070,160.00
Banc One Auto Grantor Tr 97-B CL A	6.290	07/20/04	3,717,340.60	3,741,168.75

Corporate Bonds continued . . .**FINANCE****continued . . .**

	Coupon	Maturity	Par	Market Value
Banc One Auto Grantor Tr 97-B CL A	6.290	07/20/04	4,130,378.45	4,156,854.18
Banc One Cr Card Mstr Tr 95-B CL A	6.300	10/15/02	2,000,000.00	2,012,500.00
Bank One Corp Notes	7.600	05/01/07	5,000,000.00	5,425,500.00
Bankamerica Corp Notes	6.850	03/01/03	10,000,000.00	10,260,300.00
Bankamerica Corp Notes	7.125	05/12/05	7,000,000.00	7,358,470.00
Bankamerica Corp Notes	9.625	02/13/01	4,200,000.00	4,552,968.00
Bankers Trust - NY Sub Notes	8.250	05/01/05	3,000,000.00	3,301,050.00
Beneficial Finance Corp Notes	5.750	07/21/99	7,000,000.00	6,991,740.00
Beneficial Finance Corp Notes	5.750	07/21/99	3,000,000.00	2,996,460.00
Capital Holding Corp MTN	7.820	06/23/04	2,500,000.00	2,683,525.00
Caterpillar Fin Asset Tr 97-A A 3	6.450	05/25/03	3,000,000.00	3,015,000.00
Caterpillar Fin Asset Tr 97-A A 3	6.450	05/25/03	9,000,000.00	9,045,000.00
Caterpillar Fin Asset Tr 97-A A 3	6.450	05/25/03	3,500,000.00	3,517,500.00
Caterpillar Fin Asset Tr 97-B A3	6.160	09/25/03	3,000,000.00	3,001,860.00
Caterpillar Fin Asset Tr 97-B A3	6.160	09/25/03	2,000,000.00	2,001,240.00
Caterpillar Finance MTN	6.140	07/10/00	2,500,000.00	2,512,550.00
Caterpillar Finance Service Notes	6.950	10/10/00	3,000,000.00	3,069,540.00
Caterpillar Finance Service Notes	6.950	10/10/00	2,000,000.00	2,046,360.00
Chase Credit Card Master Trust	6.230	04/15/05	12,125,000.00	12,261,406.25
Chase Manhattan Auto Owner Tr 97-A	6.500	12/17/01	3,000,000.00	3,039,360.00
Chase Manhattan Auto Owner Tr 98-B	5.750	10/15/01	4,650,000.00	4,646,001.00
Chase Manhattan Auto Owner Tr 98-B	5.750	10/15/01	12,000,000.00	11,989,680.00
Chase Manhattan Auto Owner Tr 98-B	5.800	02/17/03	22,500,000.00	22,454,325.00
Chase Manhattan Corp Notes	6.375	04/01/08	12,000,000.00	12,019,920.00
Chase Manhattan Corp Notes	6.375	04/01/08	4,000,000.00	4,006,640.00
Chemical Bank Sub Notes	6.125	11/01/08	2,000,000.00	1,975,560.00
Chemical Bank Sub Notes	6.125	11/01/08	3,000,000.00	2,963,340.00
Chrysler Financial Corp MTN	5.760	01/16/01	2,000,000.00	1,989,640.00
Chrysler Financial Corp Notes	6.440	06/16/99	12,000,000.00	12,059,640.00
Chrysler Financial Corp Notes	6.440	06/16/99	5,000,000.00	5,024,850.00
Chrysler Financial Corp Notes	8.420	02/01/99	1,000,000.00	1,013,460.00
Cincinnati Financial Corp Debs	6.900	05/15/28	2,000,000.00	2,043,920.00
Cincinnati Financial Corp Debs	6.900	05/15/28	2,500,000.00	2,554,900.00
CIT Group Holdings Sr Notes	6.250	10/25/99	4,000,000.00	4,017,240.00
CIT Group Holdings Sr Notes	6.625	09/13/99	10,000,000.00	10,093,200.00
Citibank Credit Card Trust	6.350	08/15/02	3,000,000.00	3,038,310.00
Citibank Credit Card Trust 97-7 A	6.350	08/15/02	7,000,000.00	7,089,390.00
Citicorp Debs	9.750	08/01/99	1,150,000.00	1,194,171.50
Citicorp MTN	6.750	10/15/07	4,000,000.00	4,123,800.00
Citicorp MTN	6.750	10/15/07	10,000,000.00	10,309,500.00
Citicorp Notes	7.125	09/01/05	20,000,000.00	20,978,000.00
College & Univ Facility Ln Tr 2 CL D	4.000	06/01/18	10,000,000.00	8,662,500.00
College & Univ Facility Ln Tr 2 CL D	4.000	06/01/18	8,070,000.00	6,990,637.50
Commercial Credit Notes	6.625	11/15/06	3,000,000.00	3,073,200.00
Commercial Credit Sr Notes	6.200	11/15/01	5,000,000.00	5,019,350.00
Contimortgage HEL 97-3 A7	7.280	05/15/24	12,000,000.00	12,322,440.00
Contimortgage HEL 97-3 A7	7.280	05/15/24	4,000,000.00	4,107,480.00
Countrywide Funding Corp Notes	7.470	08/20/01	5,000,000.00	5,176,800.00
Countrywide Home Loans MTN	6.510	02/11/05	4,000,000.00	4,021,520.00
Countrywide Home Loans MTN	6.840	10/22/04	14,850,000.00	15,199,123.50

Corporate Bonds continued . . .**FINANCE****continued . . .**

	Coupon	Maturity	Par	Market Value
Countrywide Home Loans MTN	6.840	10/22/04	5,000,000.00	5,117,550.00
Discover Card Trust 1991-D CL A	8.000	10/16/00	20,000,000.00	20,043,600.00
First Bank Corp Master Tr 97-1 A	6.400	02/15/03	22,000,000.00	22,261,140.00
First Chicago NBD Sub Notes	7.000	10/16/06	3,500,000.00	3,683,995.00
First Chicago NBD Sub Notes	7.000	10/16/06	10,000,000.00	10,525,700.00
First Natl Bank of Boston Sub Notes	8.000	09/15/04	2,000,000.00	2,167,780.00
First NBC Credit Card 97-1 CL A	6.150	09/15/04	23,000,000.00	23,208,380.00
First Union Corp Notes	6.550	10/15/35	2,000,000.00	2,035,080.00
First Union Corp Notes	6.625	07/15/05	2,000,000.00	2,039,080.00
First Union Corp Sub Debs	6.550	10/15/35	1,000,000.00	1,017,540.00
First Union Corp Sub Notes	7.050	08/01/05	10,000,000.00	10,454,300.00
First USA Credit Card 97-6 CL A	6.420	03/17/05	4,000,000.00	4,075,000.00
First USA Credit Card 97-6 CL A	6.420	03/17/05	23,000,000.00	23,431,250.00
Florida NB of FL Sub Notes	9.875	05/15/99	2,000,000.00	2,064,720.00
Ford Credit Auto Owner Tr 98-B A3	5.850	10/15/01	15,000,000.00	14,981,250.00
Ford Credit Auto Owner Tr 98-B A3	5.850	10/15/01	5,000,000.00	4,993,750.00
Ford Credit Auto Owner Tr 98-B A3	5.850	10/15/01	5,000,000.00	4,993,750.00
Ford Motor Credit Corp Global Bonds	7.000	09/25/01	2,000,000.00	2,050,040.00
Ford Motor Credit MTN	7.450	07/12/99	4,000,000.00	4,060,880.00
Ford Motor Credit MTN	7.900	05/17/99	8,000,000.00	8,133,680.00
Ford Motor Credit MTN	8.210	03/16/99	1,000,000.00	1,015,020.00
Ford Motor Credit MTN	8.210	03/16/99	3,500,000.00	3,552,570.00
Ford Motor Credit Notes	5.750	01/25/01	2,000,000.00	1,986,960.00
Ford Motor Credit Notes	5.750	01/25/01	3,000,000.00	2,980,440.00
Ford Motor Credit Notes	7.750	11/15/02	4,000,000.00	4,249,640.00
Ford Motor Credit Notes	8.000	01/15/99	5,400,000.00	5,456,808.00
Ford Motor Credit Notes	8.200	02/15/02	2,000,000.00	2,127,000.00
Ford Motor Credit Notes	9.030	12/30/09	1,400,000.00	1,604,652.00
General Electric Capital Corp Debs	8.700	02/15/03	9,000,000.00	9,968,940.00
General Electric Capital Corp MTN	9.190	07/16/09	3,000,000.00	3,794,760.00
General Electric Capital Corp Notes	6.150	11/05/01	2,000,000.00	2,017,840.00
General Electric Capital Corp Notes	6.290	12/15/07	3,000,000.00	3,021,660.00
General Electric Capital Corp Notes	6.290	12/15/07	3,825,000.00	3,852,616.50
General Electric Capital Corp Notes	6.290	12/15/07	3,000,000.00	3,021,660.00
General Electric Capital Corp Notes	6.290	12/15/07	2,000,000.00	2,014,440.00
General Electric Capital Corp Notes	8.100	12/03/01	5,000,000.00	5,343,050.00
General Electric Capital Sub Notes	7.500	08/21/35	2,000,000.00	2,341,740.00
General Electric Credit Corp Debs	5.500	11/01/01	4,000,000.00	3,942,920.00
GMAC Debs	8.625	06/15/99	4,000,000.00	4,099,080.00
GMAC Debs	8.625	06/15/99	6,000,000.00	6,148,620.00
GMAC Debs	8.750	07/15/05	2,000,000.00	2,293,440.00
GMAC Debs	8.750	07/15/05	3,000,000.00	3,440,160.00
GMAC Debs	9.375	04/01/00	1,250,000.00	1,318,675.00
GMAC Notes	5.625	02/15/01	1,000,000.00	989,630.00
GMAC Notes	5.625	02/15/01	2,000,000.00	1,979,260.00
GMAC Notes	5.950	02/12/99	4,000,000.00	3,999,640.00
GMAC Notes	6.375	12/01/01	12,000,000.00	12,085,440.00
GMAC Notes	6.750	03/15/03	2,000,000.00	2,024,000.00
GMAC Notes	6.850	04/17/04	2,000,000.00	2,041,160.00
GMAC Notes	7.000	03/01/00	1,000,000.00	1,015,740.00

Corporate Bonds continued . . .**FINANCE
continued . . .**

	Coupon	Maturity	Par	Market Value
GMAC Notes	7.375	05/26/99	5,500,000.00	5,569,850.00
GMAC Notes	7.500	07/22/99	1,500,000.00	1,524,420.00
GMAC Notes	7.500	07/22/99	9,000,000.00	9,146,520.00
Goldman Sachs Notes #144A Reg	7.875	01/15/03	14,000,000.00	14,978,040.00
Greentree Financial 96-7 A-4	6.800	10/15/27	10,000,000.00	10,115,600.00
Greentree Financial 96-7 A-4	6.800	10/15/27	4,000,000.00	4,046,240.00
Greentree Financial 97-6 M1	7.210	01/15/29	11,750,000.00	12,095,097.50
Greentree Financial 97-6 M1	7.210	01/15/29	4,000,000.00	4,117,480.00
HAFMT 93-2 CL A	5.600	05/15/02	5,000,000.00	4,978,100.00
Hartford Financial Svs Grp Debs	7.300	11/01/15	11,000,000.00	11,782,980.00
Household Finance Co Notes	6.700	06/15/02	3,000,000.00	3,052,020.00
Household Finance Co Notes	7.250	07/15/03	1,000,000.00	1,044,320.00
Household Finance Co Notes	7.250	07/15/03	4,000,000.00	4,177,280.00
Household Finance Co Sr Notes	6.770	06/07/99	8,000,000.00	8,057,680.00
Household Finance Co Sr Notes	6.870	10/01/99	4,000,000.00	4,056,960.00
Household Finance Co Sr Unsub Notes	6.400	06/17/08	1,000,000.00	998,170.00
Ikon Capital Resources MTN	5.980	11/23/98	3,000,000.00	3,000,510.00
Ikon Capital Resources Notes	6.930	06/07/99	2,000,000.00	2,018,140.00
International Lease Fin MTN Ser-H	6.140	11/10/99	5,000,000.00	5,023,300.00
International Lease Finance Notes	6.050	11/18/99	6,000,000.00	6,021,300.00
International Lease Finance Notes	6.110	02/01/00	6,000,000.00	6,026,880.00
International Lease Finance Notes	6.150	08/01/00	10,000,000.00	10,040,500.00
International Lease Finance Notes	6.330	11/15/00	2,000,000.00	2,016,000.00
International Lease Finance Notes	6.430	11/01/01	3,000,000.00	3,038,010.00
J P Morgan & Co Notes	7.250	10/01/10	2,000,000.00	2,012,160.00
J P Morgan & Co Notes	7.625	09/15/04	2,000,000.00	2,139,520.00
J P Morgan & Co Sr Notes	6.125	10/02/00	4,000,000.00	4,034,960.00
John Deere Capital Corp MTN	5.720	01/22/01	4,350,000.00	4,337,298.00
John Deere Capital Corp MTN	5.850	01/15/01	4,000,000.00	3,988,520.00
John Deere Capital Corp MTN	6.250	06/12/00	9,000,000.00	9,066,420.00
John Deere Capital Corp MTN	8.360	01/21/02	3,000,000.00	3,235,050.00
John Deere Capital Corp MTN	8.360	01/21/02	2,000,000.00	2,156,700.00
Liberty National Bank & Trust Notes	6.750	06/01/03	2,000,000.00	2,056,140.00
Liberty National Bank & Trust Notes	6.750	06/01/03	2,000,000.00	2,056,140.00
Metris Master Trust 97-1 CL A	6.870	10/20/05	12,090,000.00	12,456,447.90
Metropolitan Life 144-A Surplus Notes	7.800	11/01/25	12,000,000.00	13,435,320.00
Morgan Stanley Group Notes	5.625	03/01/99	1,000,000.00	998,090.00
National City Kentucky Sub Notes	6.300	02/15/11	2,000,000.00	1,975,180.00
National City Kentucky Sub Notes	6.300	02/15/11	1,000,000.00	987,590.00
Nationsbank Corp Notes	5.375	04/15/00	5,000,000.00	4,954,600.00
Nationsbank Corp Notes	5.375	04/15/00	1,300,000.00	1,288,196.00
Nationsbank Corp Notes	6.875	02/15/05	2,500,000.00	2,578,475.00
Nationsbank Corp Sr Notes	5.750	03/15/01	2,000,000.00	1,988,660.00
Nationsbank Corp Sub Notes	6.600	05/15/10	4,500,000.00	4,576,905.00
Nationsbank Corp Sub Notes	6.600	05/15/10	2,000,000.00	2,034,180.00
Nationsbank Corp Sub Notes	6.600	05/15/10	5,000,000.00	5,085,450.00
Nationsbank Corp Sub Notes	7.500	09/15/06	10,000,000.00	10,814,400.00
Nationsbank Corp Sub Notes	7.500	09/15/06	3,000,000.00	3,244,320.00
Nationwide CSN Trust Notes	9.875	02/15/25	14,000,000.00	16,677,780.00

Corporate Bonds continued . . .

FINANCE

continued . . .

	Coupon	Maturity	Par	Market Value
Norwest Financial Inc MTN	6.050	11/19/99	2,000,000.00	2,003,560.00
Norwest Financial Inc Notes	7.200	05/01/07	3,000,000.00	3,212,820.00
Norwest Financial Inc Sr Notes	6.000	02/01/04	2,000,000.00	1,996,340.00
Nynex Capital Funding MTN	8.140	11/01/99	5,000,000.00	5,152,000.00
Old Republic Intl Debs	7.000	06/15/07	2,000,000.00	2,102,260.00
Pitney Bowes Credit Corp Notes	5.650	01/15/03	3,000,000.00	2,969,400.00
Pitney Bowes Credit Corp Notes	6.800	10/01/01	2,000,000.00	2,057,420.00
PNC Student Loan Trust 97-2 CL A3	6.314	01/25/01	4,750,000.00	4,780,447.50
Premier Auto Trust 93-4	4.650	02/02/99	213,607.60	213,473.03
Premier Auto Trust 97-1	6.250	08/06/01	5,000,000.00	5,018,750.00
Premier Auto Trust 97-1 CL A4	6.350	04/06/02	2,000,000.00	2,017,500.00
Premier Auto Trust 98-3 CL A3	5.880	12/08/01	3,000,000.00	2,994,360.00
Premier Auto Trust 98-3 CL A3	5.880	12/08/01	14,925,000.00	14,896,941.00
Premier Auto Trust 98-3 CL A3	5.880	12/08/01	5,000,000.00	4,990,600.00
Premier Auto Trust 98-3 CL A3	5.880	12/08/01	2,500,000.00	2,495,300.00
Premier Auto Trust 98-3 CL A4	5.960	10/08/02	28,380,000.00	28,464,288.60
Sears Credit Acct Master Tr 96-4 A	6.450	10/16/06	7,500,000.00	7,605,450.00
Sears Roebuck Acceptance Corp Notes	5.960	12/07/00	1,000,000.00	999,910.00
Sears Roebuck Acceptance Corp Notes	6.220	03/25/99	5,000,000.00	5,009,300.00
Sears Roebuck Acceptance Corp Notes	6.220	03/25/99	1,000,000.00	1,001,860.00
Sears Roebuck Acceptance Corp Notes	6.250	01/15/02	10,000,000.00	10,061,800.00
Sears Roebuck Acceptance Corp Notes	6.500	06/15/00	3,000,000.00	3,030,420.00
Sears Roebuck Acceptance Corp Notes	7.070	09/17/01	3,000,000.00	3,089,940.00
Southtrust Bank Birmingham Notes	6.565	12/15/27	2,000,000.00	2,059,220.00
Southtrust Bank Birmingham Notes	6.565	12/15/27	2,000,000.00	2,059,220.00
Southtrust Bank Birmingham Notes	7.000	11/15/08	2,000,000.00	2,109,140.00
Standard Credit Card Trust 95-3 A	7.850	02/07/02	12,680,000.00	13,044,550.00
Star Bank NA - Cincinnati Sub Notes	6.375	03/01/04	3,000,000.00	3,020,430.00
Star Bank NA Sub Notes	6.625	12/15/06	3,000,000.00	3,066,030.00
Suntrust Bank Inc Debs	6.000	01/15/28	6,000,000.00	5,905,020.00
Suntrust Banks Sub Notes	6.000	02/15/26	3,500,000.00	3,458,980.00
Texaco Capital Inc Notes	6.000	06/15/05	10,000,000.00	9,989,600.00
Travelers Group Inc Notes	6.875	06/01/25	2,000,000.00	2,104,000.00
Travelers Group Inc Notes	9.500	03/01/02	2,000,000.00	2,218,960.00
Travelers PPTY Cas Corp Sr Notes	6.750	04/15/01	8,705,000.00	8,866,042.50
Union Acceptance Corp	6.375	10/08/03	13,360,000.00	13,437,220.80
Wachovia Bank Notes	6.605	10/01/25	2,000,000.00	2,058,820.00
Wells Fargo & Co Sub Notes	6.250	04/15/08	3,000,000.00	2,967,270.00
World Omni Lease 97-A A 3	6.850	06/25/03	11,993,792.40	12,151,150.96
Xerox Credit Corp Debs	10.000	04/01/99	3,000,000.00	3,083,310.00

Total Finance Bonds

1,104,786,119.05 1,127,895,889.21

Corporate Bonds continued . . .**UTILITY BONDS****(EXCEPT TELEPHONE)**

	Coupon	Maturity	Par	Market Value
Atlanta Gas Light Notes	5.900	10/06/03	6,000,000.00	5,970,960.00
California Infrastructure 97-1 A5	6.190	08/25/05	3,600,000.00	3,627,360.00
California Infrastructure 97-1 A5	6.280	09/25/05	3,500,000.00	3,539,200.00
California Infrastructure PG&E-1	6.250	06/25/04	18,450,000.00	18,623,061.00
Citizens Utilities Co Debs	7.050	10/01/46	18,000,000.00	18,264,960.00
Consolidated Edison Inc Debs	6.150	07/01/08	10,000,000.00	9,977,200.00
Consolidated Natural Gas Debs	8.750	06/01/99	7,300,000.00	7,478,631.00
Kentucky Utilities Co 1st Mtg	5.950	06/15/00	3,000,000.00	3,005,580.00
Kentucky Utilities Co 1st Mtg	5.950	06/15/00	500,000.00	500,930.00
Louisville Gas & Electric 1st Mtg	6.000	08/15/03	4,050,000.00	4,058,950.50
National Rural Utilities Notes	6.000	01/15/04	5,000,000.00	4,958,750.00
National Rural Utilities Notes	6.240	11/19/01	2,000,000.00	2,019,480.00
Oklahoma Gas & Electric Notes	6.650	07/15/27	2,000,000.00	2,111,460.00
Pacific Gas Elec 1st Ref Mtg QQ	6.625	06/01/00	1,000,000.00	1,002,390.00
Pacificorp 1st Mtg MTN	6.050	04/17/00	3,000,000.00	3,007,920.00
Philadelphia Electric 1st Ref Mort	7.125	08/15/23	1,000,000.00	1,029,620.00
Piedmont Natural Gas Notes	7.500	10/09/26	2,000,000.00	2,263,780.00
Portland General Electric 1st Mtg	7.150	06/15/07	3,000,000.00	3,173,310.00
Potomac Electric Power 1st Mtg	6.500	09/15/05	2,000,000.00	2,046,460.00
Potomac Electric Power 1st Mtg	6.500	09/15/05	3,000,000.00	3,069,690.00
Pub Ser Elec Gas Debs	6.000	07/01/98	255,000.00	255,000.00
Southern California Edison Notes	5.875	01/15/01	2,000,000.00	1,999,720.00
Southern California Edison Notes	6.375	01/15/06	3,000,000.00	3,026,790.00
Texas Utilities Sr Notes Ser A	6.200	10/01/02	4,000,000.00	4,047,080.00
Texas Utilities Sr Notes Ser B	6.375	10/01/04	3,000,000.00	3,028,530.00
Union Electric Corp 1st Mtg	6.750	10/15/99	5,000,000.00	5,043,400.00
Wisconsin Electric Power Debs	6.625	11/15/06	5,000,000.00	5,150,450.00
Total Utility Bonds (Except Telephone)			120,655,000.00	122,280,662.50

TELEPHONE BONDS

	Coupon	Maturity	Par	Market Value
A T & T Corp Debs	6.000	08/01/00	1,000,000.00	998,180.00
A T & T Corp Notes	6.750	04/01/04	2,000,000.00	2,052,840.00
Ameritech Capital Bonds	6.300	10/15/04	4,000,000.00	4,045,640.00
Ameritech Capital Debs	9.100	06/01/16	8,000,000.00	10,245,280.00
Bellsouth Telecommunications Debs	7.000	10/01/25	4,850,000.00	5,194,204.50
Bellsouth Telecommunications Debs	7.000	10/01/25	5,000,000.00	5,354,850.00
Bellsouth Telecommunications Debs	7.500	06/15/33	2,000,000.00	2,115,280.00
Central Telephone MTN	6.875	09/21/04	1,000,000.00	1,037,320.00
GTE Florida Inc Debs	6.310	12/15/02	4,550,000.00	4,573,387.00
Lucent Technologies Inc Debs	6.500	01/15/28	5,000,000.00	5,047,250.00
Lucent Technologies Inc Notes	6.900	07/15/01	2,000,000.00	2,055,620.00
Lucent Technologies Inc Notes	7.250	07/15/06	3,000,000.00	3,227,280.00
New England Tel & Tel Bonds	6.300	12/16/12	9,000,000.00	9,090,090.00
Pacific Bell Telephone Debs	5.875	02/15/06	10,000,000.00	9,867,300.00
Rochester Telephone MTN	7.510	03/27/02	8,800,000.00	9,226,624.00
Southwestern Bell Telephone Debs	7.625	03/01/23	2,000,000.00	2,103,280.00

Corporate Bonds continued . . .**TELEPHONE BONDS
continued . . .**

	Coupon	Maturity	Par	Market Value
Southwestern Bell Telephone Debs	7.625	03/01/23	3,380,000.00	3,554,543.20
Southwestern Bell Telephone Notes	6.375	04/01/01	1,000,000.00	1,010,620.00
U S West Communications Debs	7.250	09/15/25	9,000,000.00	9,730,170.00
U S West Communications Debs	8.875	06/01/31	2,000,000.00	2,248,740.00
U S West Communications Notes	6.125	11/15/05	4,000,000.00	4,004,000.00
United Telephone Florida 1st Mtg	6.250	05/15/03	2,000,000.00	2,024,400.00
Wisconsin Bell Inc Debs	6.350	12/01/26	3,000,000.00	3,109,470.00
Wisconsin Bell Inc Debs	6.350	12/01/26	2,000,000.00	2,072,980.00
Total Telephone Bonds			98,580,000.00	103,989,348.70

RAILROAD OBLIGATIONS

	Coupon	Maturity	Par	Market Value
Virginia Southwestern Ry 1st Mtg	5.000	01/01/03	107,000.00	102,097.26
Total Railroad Obligations			107,000.00	102,097.26
TOTAL CORPORATE BONDS			1,797,487,720.62	1,852,077,169.52

Other Fixed Income Investments**SINGLE FAMILY MORTGAGES**

	Coupon	Maturity	Par	Market Value
FHA Mortgage	various		486,243.61	497,047.96
VA Mortgage	various		492,677.83	503,625.14
Total Single Family Mortgages			978,921.44	1,000,673.10

PROJECT MORTGAGES (FHA & FNMA)

	Coupon	Maturity	Par	Market Value
Americana Apts KY 221D4	7.500	10/01/18	3,891,632.12	3,946,932.21
Bedford Commons KY 221D4	8.000	11/01/23	1,166,735.81	1,183,315.13
Bedford House KY 221D4	7.500	01/01/20	1,095,974.04	1,111,547.83
Beech Creek Apts KY 221D4	7.500	08/01/21	1,847,753.09	1,874,009.66
Belleville Manor Apts KY 221D4	7.500	11/01/19	562,944.70	570,944.14
Berrytown Apts KY 221D4	8.000	02/01/24	1,273,342.69	1,291,436.89
Bethany Circle Kings Daughters IN	8.375	03/01/02	631,109.96	640,078.03
Cambridge Square Apts KY 221D4	7.500	11/01/19	1,050,989.73	1,065,924.29
Carnaby Square Apts KY 221D4	7.500	06/01/19	1,077,453.84	1,092,764.46
Carrollton Village Apts KY 221D4	7.500	09/01/20	1,742,733.11	1,767,497.35
Carter Court Apts KY 221D4	7.500	09/01/20	1,149,479.23	1,165,813.33

Other Fixed Income Investments continued . . .**PROJECT MORTGAGES****(FHA & FNMA) continued . . .**

	Coupon	Maturity	Par	Market Value
Congregational Home KAN 231	5.250	07/01/04	619,257.97	628,057.63
Coolavin Apts KY 221D4	7.500	04/01/22	2,839,161.49	2,879,505.97
Denver Ed Sr Citzns 231	5.250	11/01/03	327,343.43	331,994.98
Dixie Apts KY 221D4	7.500	05/01/18	978,481.70	992,385.92
Ephraim McDowell Hosp KY	9.000	01/01/01	816,402.58	828,003.66
Ferndale Apts KY 221D4	7.500	08/01/23	3,383,420.59	3,431,499.00
Five Star Hospitality KY	6.930	03/18/18	3,739,501.52	3,792,639.84
Gainesway Village KY 221D4	7.500	02/01/19	1,418,393.43	1,438,548.80
Glenbrook Park KY 221D4	7.500	12/01/21	2,209,852.65	2,241,254.66
Grand Central Apts KY 221D4	7.500	03/01/25	2,125,520.56	2,155,724.21
Grandview Apts KY 223F	8.875	08/01/29	1,308,540.84	1,327,135.21
Greater Corbin Mnr KY 221D4	7.500	03/01/21	3,143,484.91	3,188,153.83
Hallmark Plaza KY 223F	8.500	06/01/11	879,258.87	891,753.14
Huntington Apts Ky 223F	7.500	08/01/28	2,358,435.93	2,391,949.30
Jackson Valley Apts KY 221D4	7.500	08/01/20	1,743,485.09	1,768,260.01
Jamestown Manor Ltd KY 221D4	7.500	02/01/22	1,365,012.85	1,384,409.68
Lakeview Estates KY 221D4	7.500	01/01/20	983,290.07	997,262.62
Lebanon Apts KY 221D4	7.500	02/01/20	1,057,856.80	1,072,888.95
Lighthouse Sq Apts KY 223F	7.600	01/01/27	4,574,549.81	4,639,554.16
Lin Meadows Homes KY 221D4	7.500	11/01/22	244,725.56	248,203.11
Locust Ridge KY 221D4	7.500	10/10/21	1,705,127.84	1,729,357.71
Longmont Christian Hsg 231	5.250	03/01/03	188,388.89	191,065.90
Madison Ave Apts KY 221D4	7.500	09/01/20	1,717,735.38	1,742,144.40
Manchester Heights Apts KY 221D4	7.500	06/01/19	1,072,114.05	1,087,348.79
Middletown Apts KY 221D4	7.500	02/01/18	903,524.59	916,363.67
Montgomery Square Apts KY 221D4	7.500	05/01/19	1,071,284.54	1,086,507.49
Mountain Manor KY 232	8.950	12/01/35	4,211,917.36	4,271,768.71
Mt Lebanon Cedars KY 221D3	7.500	03/01/23	2,407,076.46	2,441,281.02
Oak Tree Villa Apts KY 221D4	7.500	05/01/23	3,182,196.54	3,227,415.55
Panorama West KY 236	8.500	12/01/12	362,842.05	367,998.04
Park Regency Apts KY 221D4	7.625	05/01/28	2,070,660.77	2,100,084.86
Pine Ridge Apts KY 221D4	7.500	09/01/18	717,224.55	727,416.31
Pinecreek Apts KY 221D4	7.500	10/01/17	491,254.82	498,235.55
Regency Park Apts KY 221D4	7.500	05/01/18	830,783.45	842,588.88
Regency Park BG KY 221D4	7.500	02/01/23	3,330,664.91	3,377,993.66
Ridgeway Apts KY 221D4	7.500	02/01/19	912,840.70	925,812.17
Rucker Village Apts KY 221D4	7.500	03/01/20	961,533.36	975,196.75
Salem Village I 232 ILL	7.750	03/01/16	848,173.87	860,226.42
Salem Village II 231 ILL	7.750	10/01/16	2,925,731.01	2,967,305.65
Sandefur Manor KY 221D4	7.500	01/01/20	834,629.73	846,489.82
Shepherdsville VLG KY 221D4	7.500	05/01/20	1,207,795.28	1,224,958.05
Shively Apts KY 221D4	7.500	10/01/21	2,174,416.64	2,205,315.10
Southside Manor KY 221D4	7.500	02/01/19	1,240,704.97	1,258,335.39
Southwind Apts KY 223F	8.750	03/15/35	2,228,323.43	2,259,987.91
Town Branch Apts KY 221D4	7.500	11/01/23	690,144.13	699,951.08
Tree Top Apts KY 221D4	7.500	11/01/20	1,010,894.31	1,025,259.12
Vernon Manor Ltd KY 221D4	7.500	11/01/22	822,985.70	834,680.33
Village Square Apts KY 223F	9.000	12/01/29	1,718,097.37	1,742,511.53
Walnut Hill Apts KY 221D4	7.500	05/01/19	1,438,561.93	1,459,003.90
Wessington House Apts TN 221D4	7.500	02/01/22	1,670,128.59	1,693,861.12

Investment Section**Other Fixed Income Investments continued . . .****PROJECT MORTGAGES****(FHA & FNMA) continued . . .**

	Coupon	Maturity	Par	Market Value
Westchester Circle KY 221D4	7.500	04/01/19	3,697,863.61	3,750,410.25
Westwood Apts KY 221D4	7.500	10/01/23	1,102,911.69	1,118,584.07
Wilderness Trail Mnr KY 221D4	7.500	03/01/23	5,195,925.45	5,269,759.55
Wildwood Apts KY 221D4	7.500	08/01/20	1,670,770.34	1,694,511.99
Willow Creek Apts KY 221D4	7.500	08/01/23	1,273,692.78	1,291,791.95
Woodview Apts KY 221D4	7.500	01/01/19	1,246,789.21	1,264,506.08
Yorktown Apts KY 223F	7.500	06/01/28	5,646,389.08	5,726,624.27

Total Project Mortgages (FHA & GNMA)**116,388,224.35****118,042,101.04****STATE & LOCAL GOVERNMENT
ISSUES**

	Coupon	Maturity	Par	Market Value
Ky Housing Corp Rev Bonds 96 Ser F	7.210	07/10/10	4,805,000.00	4,890,529.00
Ky Infrastructure Auth Bonds 1995-K	8.400	06/01/00	830,000.00	868,910.40
LA Public Facilities Auth Rev Bonds	6.650	08/01/15	1,385,000.00	1,389,141.15
New Jersey Economic Dev Auth Bonds	7.425	02/15/29	12,300,000.00	13,985,100.00
Warren Co Ky Industrial Bldg Rev Bonds	6.410	02/01/23	1,000,000.00	1,003,650.00

Total State and Local Government Issues**20,320,000.00****22,137,330.55****TOTAL OTHER FIXED INCOME INVESTMENTS****137,687,145.79****141,180,104.69****TOTAL FIXED INCOME INVESTMENTS****5,023,040,646.56****5,183,755,141.54**

REAL ESTATE EQUITY

REAL ESTATE EQUITY

	Coupon	Maturity	Original Cost	Market Value
K Mart Store Cold Springs KY	9.300	02/28/19	6,415,000.00	6,000,000.00
K Mart Store Terre Haute IN	9.100	08/31/19	12,509,615.00	11,550,000.00
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	2,186,000.00
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	8,330,000.00
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	8,560,000.00
Lowe's Store Lafayette IN	9.276	07/31/14	7,600,000.00	7,590,000.00
Lowe's Store Marion IN	9.737	07/31/15	5,582,420.00	5,650,000.00
Lowe's Store Paducah KY	9.720	07/31/15	7,351,000.00	7,400,000.00
Lowe's Store Pikeville KY	9.838	08/31/14	5,530,000.00	5,850,000.00
Lowe's Store Sherman TX	9.841	07/31/15	8,726,000.00	8,770,000.00
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	388,000.00
Rite Aid Liberty KY	12.250	01/30/02	397,700.00	515,000.00
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	2,790,000.00
Walgreen's Store Chattanooga TN	9.400	07/31/15	2,313,000.00	2,335,000.00
Walgreen's Store Clarksville IN	9.160	07/31/14	3,403,460.00	3,375,000.00
Walgreen's Store East Ridge TN	9.633	09/30/15	2,283,800.00	2,330,000.00
Walgreen's Store Elizabethtown KY	9.105	10/31/16	2,400,000.00	2,380,000.00
Walgreen's Store Jeff'ville IN	9.585	11/30/15	2,692,894.00	2,730,000.00
Walgreen's Store Knoxville TN	9.083	02/28/08	3,190,000.00	3,190,000.00
Walgreen's Store Knoxville TN	9.210	02/28/15	1,954,945.00	1,925,000.00
Walgreen's Store Knoxville TN	9.509	06/30/16	3,233,840.00	3,280,000.00
Walgreen's Store Nashville TN	9.380	12/31/14	2,588,000.00	2,580,000.00
Walgreen's Store Red Bank TN	9.278	02/28/17	3,018,000.00	3,065,000.00
Wal-Mart Store Hardinsburg KY	10.600	01/31/11	960,100.00	1,260,579.61
Wal-Mart Store Jefferson City TN	9.100	06/30/15	8,599,000.00	8,550,000.00
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 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	3,050,000.00
Winn Dixie Leitchfield KY #1617	9.600	06/18/12	2,145,833.00	2,275,000.00
Winn Dixie Lexington KY #1614	9.600	06/18/12	3,639,167.00	3,860,000.00
Winn Dixie Lexington KY #1632	9.491	06/06/13	3,407,000.00	3,540,000.00
Winn Dixie Radcliff KY #1610	9.231	10/31/16	3,510,000.00	3,540,000.00
Winn Dixie Somerset KY #1602	9.600	06/18/12	3,090,479.00	3,275,000.00
Winn Dixie St Matthews KY #1659	9.600	06/18/12	4,348,437.00	4,600,000.00
Total Real Estate Equity			183,833,325.29	185,680,494.90

Common Stocks

Common Stock	Shares	Original Cost	Market Value
3 Com Corp	130,000.000	5,643,115.00	3,989,375.00
800-JR Cigar Inc	12,800.000	322,542.89	252,800.00
A T & T Corp	200,000.000	9,400,505.48	11,425,000.00
Abbott Laboratories	1,157,100.000	22,808,897.87	47,441,100.00
ADAC Laboratories	26,600.000	612,176.72	598,500.00
Advanced Micro Devices	145,700.000	2,378,989.72	2,486,006.25
Aetna Inc	64,300.000	5,398,447.96	4,894,837.50
AFLAC Inc	175,920.000	5,433,305.20	5,332,575.00
Air Products & Chemicals	300,000.000	5,140,354.02	12,000,000.00
Airgas Inc	18,400.000	317,220.79	264,500.00
Airtouch Communications	230,000.000	6,351,755.66	13,440,625.00
Albany Intl Corp CL A	73,666.000	1,582,472.82	1,763,379.88
Allegheny Energy Inc	109,400.000	3,333,103.60	3,295,675.00
Allergan Inc	235,600.000	5,441,595.86	10,925,950.00
Allergan Specialty Therap-A	11,780.000	55,058.31	120,745.00
Alliance Pharmaceutical CP	51,700.000	663,707.51	216,493.75
AlliedSignal Inc	466,000.000	18,344,715.70	20,678,750.00
Altera Corp	160,200.000	6,274,287.83	4,735,912.50
Aluminum Co of America	60,890.000	4,256,063.14	4,014,934.38
Alza Corp	229,200.000	5,549,670.62	9,912,900.00
American Express	180,000.000	7,698,303.00	20,475,000.00
American General Corp	80,000.000	5,465,794.00	5,695,000.00
American Greetings	36,300.000	1,711,004.45	1,849,031.25
American Home Products	573,200.000	22,050,814.32	29,663,100.00
American International Group	408,800.000	29,555,575.85	59,684,800.00
American Tower Corp	36,200.000	779,982.32	902,737.50
Ameritech Corp	766,000.000	24,477,126.22	34,374,250.00
Amoco Corp	88,000.000	3,947,687.50	3,674,000.00
AMP Inc	200,000.000	6,934,568.99	6,875,000.00
Amylin Pharmaceuticals Inc	77,800.000	777,380.55	294,177.36
Annuity & Life Re (Hldgs)	60,800.000	1,362,716.66	1,345,200.00
Aon Corp	390,675.000	10,745,924.45	27,444,918.75
Apex Silver Mines Ltd	39,100.000	430,100.00	378,781.25
Applied Materials Inc	113,430.000	3,855,811.68	3,346,185.00
ASA Holdings Inc	92,200.000	2,329,864.74	4,575,425.00
ATL Ultrasound Inc	14,000.000	615,596.97	638,750.00
Atlantic Coast Airlines Holding	39,200.000	1,201,338.68	1,176,000.00
Atlantic Richfield Co	308,000.000	20,168,908.93	24,062,500.00
Atlas Air Inc	57,500.000	2,119,786.91	1,944,218.75
Atwood Oceanies Inc	26,300.000	1,466,346.54	1,047,068.75
Autoimmune Inc	70,400.000	698,557.25	180,400.00
Automatic Data Processing Inc	714,900.000	31,491,431.87	52,098,337.50
Avid Technology Inc	49,600.000	1,378,607.16	1,661,600.00
Axsys Technologies Inc	50,300.000	1,335,716.14	968,275.00
B A Merchant Services Inc A	46,000.000	816,390.51	928,625.00
Balance Bar Co	32,300.000	343,402.50	464,312.50
Banc One	384,220.000	14,120,725.93	21,444,278.75
Bancfirst Corp	43,500.000	1,123,946.25	2,022,750.00
Bankamerica Corp	100,000.000	8,027,560.00	8,650,000.00

Common Stocks continued . . .

Common Stock	Shares	Original Cost	Market Value
Bankers Trust Corp	151,000.000	14,353,730.72	17,525,437.50
Baxter International Inc	423,000.000	23,177,450.50	22,762,687.50
Bay Networks Inc	50,000.000	2,401,250.00	1,603,125.00
Beckman Coulter Inc	95,700.000	2,842,753.26	5,574,525.00
Bed Bath & Beyond Inc	31,200.000	1,548,210.00	1,616,550.00
Bell Atlantic Corp	736,400.000	24,883,139.23	33,598,250.00
BellSouth	421,400.000	18,510,314.92	28,286,475.00
Bergen Brunswig Corp CL A	48,300.000	1,437,311.67	2,227,837.50
Beringer Wine Estate - B	8,800.000	258,125.00	387,750.00
Bestfoods	514,000.000	16,130,928.36	29,844,125.00
Beverly Enterprises Inc	400,000.000	4,211,623.91	5,600,000.00
Biogen	87,000.000	2,912,620.80	4,263,000.00
Birmingham Steel	92,200.000	2,034,727.26	1,140,975.00
Bisys Group Inc	79,200.000	2,816,377.11	3,247,200.00
Block H&R	289,000.000	11,292,699.78	12,174,125.00
Boeing Co	120,000.000	5,350,962.52	5,347,500.00
Boole & Babbage Inc	74,037.000	931,023.20	1,767,633.38
Bostonfed Bancorp Inc	24,100.000	289,882.16	563,337.50
BRE Properties CL A	58,000.000	1,496,980.00	1,511,625.00
Breed Technologies Inc	30,700.000	721,637.62	470,093.75
Briggs & Stratton	32,500.000	1,672,808.30	1,216,718.75
Bristol-Myers Squibb Co	417,100.000	20,619,924.28	47,940,431.25
Broad Natl Bancorp	50,830.000	748,025.00	1,232,627.50
Burlington Inds Inc	20,100.000	322,989.75	282,656.25
Burlington Northern Santa Fe Corp	276,500.000	22,721,482.83	27,148,843.75
C P Clare Corp	129,100.000	1,528,529.67	1,226,450.00
Cabot Industrial Trust	28,300.000	566,000.00	604,912.50
Calgon Carbon Corp	21,400.000	232,238.00	212,662.50
Calpine Corp	34,100.000	713,577.25	688,393.75
Cambrex Corp	17,000.000	328,028.48	446,250.00
Campbell Soup	100,000.000	4,732,311.09	5,312,500.00
Capital Re Corp	51,400.000	2,197,367.23	3,681,525.00
Capstar Broadcasting Corp A	37,100.000	704,900.00	932,137.50
Caraustar Industries Inc	67,200.000	1,873,140.46	1,940,400.00
Carbide/Graphite Group	78,400.000	1,720,974.08	2,180,500.00
Catalytica Inc	16,066.000	106,222.32	315,295.25
Caterpillar Inc	100,000.000	3,895,954.00	5,290,620.00
Cellstar Corp	22,000.000	330,415.29	284,625.00
Central Hudson Gas & Electric	40,500.000	1,486,239.56	1,852,875.00
Central Newspapers CL A	50,500.000	3,636,416.34	3,522,375.00
Central & South West	276,000.000	6,075,865.30	7,417,500.00
Century Aluminum Company	156,300.000	2,353,728.45	2,305,425.00
Century Bancorp Inc CL A	8,800.000	152,149.96	183,700.00
Cephalon Inc	70,100.000	799,875.00	552,037.50
Champion Enterprises Inc	89,600.000	1,711,183.38	2,632,000.00
Champion International	179,600.000	9,124,164.76	8,834,075.00
Chart Industries	47,200.000	1,085,151.50	1,126,900.00
Chase Manhattan Corp	74,400.000	4,381,080.00	5,617,200.00
Chevron Corp	100,000.000	6,864,380.00	8,375,000.00
Chrysler Corp	340,462.000	9,506,069.81	19,193,545.25

Common Stocks continued . . .

Common Stock	Shares	Original Cost	Market Value
Chubb Corp	81,200.000	5,757,035.17	6,526,450.00
Cigna Corp	438,300.000	18,403,631.43	30,242,700.00
Cilcorp Inc	25,600.000	1,052,610.65	1,228,800.00
Cintas Corp	115,800.000	4,613,166.42	5,905,800.00
Circuit City Stores	330,000.000	11,941,355.85	15,468,750.00
Cisco Systems	683,430.000	25,649,333.41	62,918,274.38
Citicorp	350,470.000	30,497,444.64	52,307,647.50
CMS Energy Corp	285,400.000	7,828,447.33	12,557,600.00
Coca Cola Co	330,000.000	14,687,079.16	28,215,000.00
Cognizant Corp	205,000.000	6,505,165.15	12,915,000.00
Columbia Banking System Inc	50,662.000	566,487.50	1,006,907.25
Columbia/HCA Healthcare	220,000.000	8,891,950.00	6,407,500.00
Comair Holdings Inc	35,300.000	852,689.60	1,089,887.50
Comerica Inc	94,650.000	2,010,050.96	6,258,731.25
Commerce Bancshares Inc	92,070.000	3,735,950.55	4,494,166.88
Commercial Bankshares Inc	9,345.000	199,084.96	226,616.25
Commscope Inc	170,634.000	2,397,918.76	2,762,137.88
Community Bank System Inc	57,700.000	1,559,529.21	1,806,731.25
Compaq Computer	1,061,000.000	21,300,213.84	30,105,875.00
Computer Associates Int'l	429,750.000	13,495,660.56	23,877,984.38
Computer Learning Centers	64,900.000	1,443,162.94	1,614,387.50
Computer Sciences Corp	107,400.000	4,646,922.37	6,873,600.00
Comverse Technology Inc	129,565.000	3,993,862.75	6,721,184.38
Conagra Inc	171,500.000	5,613,247.79	5,434,406.25
Consolidated Cigar Holdings Inc	43,700.000	1,071,908.29	535,325.00
Consolidated Edison Inc	88,000.000	2,034,150.27	4,053,500.00
Consolidated Stores Corp	102,000.000	3,833,535.00	3,697,500.00
Corn Products Intl Inc	53,400.000	1,820,493.49	1,808,925.00
Corning Inc	522,500.000	18,817,544.51	18,156,875.00
Cotelligent Group Inc	70,600.000	1,518,047.00	1,623,800.00
Covance Inc	115,300.000	1,624,061.89	2,594,250.00
Covenant Transport Inc CL A	60,900.000	932,695.48	1,187,550.00
CPB Inc	82,600.000	1,309,756.53	1,548,750.00
Cross Timbers Oil Co	151,000.000	2,736,552.35	2,878,437.50
Crown Cork & Seal Co	105,000.000	5,037,781.10	4,987,500.00
CSX Corp	71,100.000	3,964,985.98	3,235,050.00
Cullen/Frost Bankers Inc	38,100.000	1,999,255.13	2,066,925.00
Cuno Incorporated	13,300.000	203,236.81	287,612.50
CVS Corp	100,000.000	2,838,880.00	3,893,750.00
Cytec Inds Inc	5,700.000	182,559.20	252,225.00
Dain Rauscher Corp	37,200.000	2,079,725.96	2,036,700.00
Datascope Corp	31,400.000	610,837.34	834,062.50
Dayton-Hudson	200,000.000	3,199,275.39	9,700,000.00
Dekalb Genetics CL B	52,900.000	642,638.81	5,005,662.50
Delco Remy Intl Inc	23,900.000	292,217.75	307,712.50
Delias Inc	35,900.000	832,876.25	560,937.50
Delta Airlines Inc	202,000.000	22,327,519.70	26,108,500.00
DePuy Inc	52,100.000	1,387,833.09	1,471,825.00
Desert Community Bank	9,200.000	178,400.00	294,400.00
Dial Corp New	116,800.000	1,293,959.83	3,029,500.00

Common Stocks continued . . .

Common Stock	Shares	Original Cost	Market Value
Dow Chemical Co	199,000.000	14,640,341.41	19,240,812.50
Dril Quip Inc	20,400.000	584,895.00	535,500.00
DT Industries Inc	24,900.000	846,318.88	603,825.00
Duane Reade Inc	6,700.000	110,550.00	201,000.00
Duke Power	202,000.000	9,309,291.20	11,968,500.00
Dun & Bradstreet Corp	193,000.000	4,950,700.18	6,948,000.00
DuPont (El) De Nemours	259,830.000	15,950,568.95	19,406,053.13
Easco Inc	108,200.000	1,396,110.64	1,088,762.50
Eastman Chemical Co	182,700.000	10,363,222.78	11,373,075.00
Eastman Kodak	75,000.000	3,664,258.06	5,479,687.50
Echlin Inc	33,500.000	1,174,175.00	1,643,593.75
Echostar Communications	91,300.000	1,661,581.03	2,196,906.25
EMC Corp	635,800.000	9,465,134.49	28,491,787.50
Emerson Electric	91,400.000	5,099,719.18	5,518,275.00
Englehard Corp	515,000.000	9,355,569.31	10,428,750.00
Enron Corp	239,200.000	8,579,497.73	12,931,750.00
Enstar Inc	46,633.000	373,064.00	297,285.38
Entergy Corp	580,000.000	14,232,029.12	16,675,000.00
Equitable Resources	65,400.000	1,971,903.34	1,994,700.00
Esterline Technologies Corp	67,400.000	1,214,327.43	1,406,975.00
Everest Reinsurance Hldgs	60,900.000	1,766,614.11	2,340,843.75
Exxon Corp	816,200.000	43,085,164.81	58,256,275.00
Fannie Mae	358,700.000	16,003,523.00	21,791,025.00
Far East National Bank/Calif	1,400.000	0.00	21,525.00
FDX Corp	419,000.000	21,274,524.15	26,292,250.00
Federal Realty	294,000.000	6,457,298.44	7,074,375.00
Ferro Corp	17,800.000	372,653.85	450,562.50
Fingerhut Companies Inc	21,600.000	694,936.80	712,800.00
First American Corp-Tenn	60,000.000	1,822,500.00	2,887,500.00
First Chicago NBD Corp	337,000.000	18,422,039.61	29,866,625.00
First Citizens Bankshares CL A	12,300.000	1,368,475.00	1,230,768.75
First Commerce Bcshs Inc-B	59,000.000	1,046,795.25	1,729,437.50
First Data Corp	926,300.000	30,894,033.94	30,857,368.75
First Security Corp/Del	112,500.000	1,846,252.50	2,408,197.50
First Union Corp	375,000.000	12,126,502.40	21,843,750.00
First Victoria Natl Bank/TX	14,900.000	366,767.51	599,725.00
First Virginia Bank	235,500.000	5,934,758.76	12,069,375.00
Firstenergy Corp	42,887.000	846,221.36	1,318,775.25
Fleetwood Enterprises	33,500.000	1,139,804.52	1,344,187.50
Flowserve Corp	48,700.000	1,361,034.76	1,199,237.50
Food Lion Class A	414,000.000	2,994,487.80	4,398,750.00
Ford Motor Co	175,000.000	8,072,299.54	10,325,000.00
Forest Labs Inc	203,800.000	4,364,689.01	7,285,850.00
Fort James Corp	262,800.000	8,299,028.87	11,727,450.00
Foster Wheeler Corp	230,000.000	9,655,787.60	4,930,625.00
Frontier Insurance Group Inc	178,860.000	3,094,215.93	4,035,528.75
Gadzooks Inc	35,500.000	809,138.75	978,468.75
Gannett Co	738,200.000	24,283,786.48	52,458,337.50
Gap (The)	225,000.000	8,100,195.00	13,823,437.50
General Cable Corp	103,200.000	1,642,106.47	2,979,900.00

Common Stocks continued . . .

Common Stock	Shares	Original Cost	Market Value
General Cigar Holding A	27,200.000	601,814.13	268,600.00
General Cigar Holding CL B	24,450.000	496,066.81	241,443.75
General Communication CL A	123,000.000	723,244.38	745,687.50
General Electric Co	1,013,160.000	44,495,392.62	92,070,915.00
General Instrument Corp	511,900.000	9,100,660.26	13,917,281.25
General Mills	100,000.000	6,793,630.00	6,825,000.00
General Semiconductor Inc	127,975.000	1,491,230.08	1,263,753.13
Genzyme Corp General Division	91,000.000	1,863,110.00	2,326,187.50
Geon Co	58,700.000	1,223,552.56	1,346,431.25
Georgia Pacific Corp	55,300.000	3,336,461.52	3,259,243.75
Georgia Pacific (Timber Group)	52,100.000	1,267,468.94	1,201,556.25
Gilead Sciences Inc	31,200.000	1,116,108.50	1,000,350.00
Gillette Co	100,000.000	4,699,950.00	5,687,500.00
Gleason Corp	20,800.000	530,146.75	585,000.00
Goodyear Tire & Rubber	316,700.000	14,624,704.61	20,407,356.25
Grace W R & Co New	14,100.000	285,030.09	240,581.25
Grove Property Trust	137,300.000	1,450,040.55	1,433,068.75
GTE Corp	545,000.000	22,049,803.54	30,315,625.00
Haemonetics Corp/Mass	41,200.000	785,251.41	659,200.00
Hanmi Bank (Los Angeles CA)	60,787.000	830,900.00	1,200,543.25
Harland John H Co	41,000.000	1,142,480.46	694,437.50
Harnischfeger Inds	167,100.000	6,702,332.44	4,731,018.75
Hawk Corp CL A	14,800.000	251,600.00	260,850.00
HB Fuller Co	4,800.000	301,200.00	266,100.00
Healthcare & Retirement Corp	100,200.000	2,590,360.40	3,951,637.50
Heinz (HJ) Co	396,000.000	15,197,709.19	22,225,500.00
Hewlett Packard Co	326,000.000	10,778,484.13	19,519,250.00
Hibbett Sporting Goods Inc	43,000.000	1,521,087.39	1,720,000.00
Hibernia Corp CL A	125,000.000	1,631,250.00	2,507,812.50
Home Depot	385,700.000	24,361,536.80	32,037,206.25
Honeywell	190,000.000	14,185,097.63	15,876,875.00
Hubbell Inc CL B	92,600.000	4,334,951.10	3,854,475.00
Human Genome Sciences Inc	31,400.000	1,172,750.00	1,120,587.50
Idec Pharmaceuticals Corp	39,300.000	892,977.72	926,006.25
Idex Corp	49,400.000	1,377,413.92	1,704,300.00
Idexx Laboratories Inc	65,300.000	1,079,325.14	1,624,337.50
Illinois Tool Works	120,000.000	6,181,865.00	8,002,500.00
IMC Global Inc	117,000.000	3,835,253.56	3,524,625.00
Imco Recycling Inc	11,800.000	212,208.00	218,300.00
Immunex Corp	48,000.000	1,113,144.43	3,180,000.00
Imperial Credit Industries	186,100.000	3,060,938.81	4,373,350.00
Informix Corp	121,000.000	2,055,625.30	956,650.20
Innkeepers USA Trust	216,100.000	3,228,445.95	2,728,262.50
Intel Corp	580,100.000	33,792,213.08	42,999,912.50
Intermedia Communications	40,400.000	806,589.76	1,694,275.00
Internet Corp	88,900.000	1,447,681.25	1,611,312.50
International Business Machines	535,500.000	32,560,058.12	61,482,093.75
International Paper	257,000.000	9,483,535.37	11,051,000.00
Interpublic Group Cos Inc	247,700.000	8,574,223.17	15,032,293.75
Ionics Inc	11,100.000	453,172.08	409,312.50

Common Stocks continued . . .

Common Stock	Shares	Original Cost	Market Value
Jacobs Engineering Group Inc	132,300.000	3,252,154.79	4,250,137.50
Jefferson Smurfit Corp	96,700.000	1,520,318.69	1,520,007.96
Johnson & Johnson	125,000.000	8,795,187.50	9,250,000.00
Kimberly Clark Corp	741,800.000	31,263,288.47	34,030,075.00
Kimco Realty Corp	82,300.000	2,721,812.68	3,374,300.00
L-3 Communications Holdings Inc	5,400.000	118,800.00	175,500.00
Laboratory Corp of Amer Hldgs	160,000.000	612,732.00	370,000.00
Laboratory Corp of Amer Pfd Ser B	14,188.000	650,700.00	709,400.00
Lafarge Corp	66,600.000	2,541,006.41	2,618,212.50
Lamar Advertising Co	29,100.000	983,030.65	1,043,962.50
La-Z-Boy Inc	22,600.000	873,444.93	1,276,900.00
Lear Corp	92,000.000	4,521,376.80	4,720,750.00
Legg Mason Inc	39,500.000	1,105,334.99	2,273,718.75
Lennar Corp	67,600.000	945,464.43	1,994,200.00
Level One Communications Inc	49,500.000	1,480,291.56	1,163,250.00
LG&E Energy Corp	339,000.000	5,138,674.68	9,174,187.50
Life Technologies Inc	16,300.000	563,978.00	511,412.50
Ligand Pharmaceuticals CL B	10,143.000	118,667.43	130,591.13
Ligand Pharmaceuticals Inc Wt	20,000.000	145,598.85	142,500.00
Lilly Industries Inc CL A	17,200.000	317,839.00	371,950.00
Lilly (Eli) & Co	475,000.000	16,635,623.85	31,468,750.00
Linear Technology Corp	61,260.000	4,127,661.63	3,694,743.75
Lockheed Martin	363,588.000	30,004,701.69	38,494,879.50
LTC Properties Inc	89,500.000	1,699,933.02	1,666,937.50
Lucent Technologies Inc	225,000.000	7,581,112.59	18,717,187.50
Lyondell Petrochemical	250,300.000	6,208,524.18	7,618,506.25
Macdermid Inc	6,300.000	255,528.00	177,975.00
Magainin Pharmaceuticals Inc	49,800.000	442,617.70	264,562.50
Magellan Health Services Inc	45,200.000	1,043,319.22	1,146,950.00
Manor Care Inc	110,500.000	1,960,433.08	4,247,343.75
Manpower Inc	118,480.000	4,849,976.26	3,398,895.00
Marsh & McLennan Inc	195,000.000	9,635,676.30	11,785,312.50
Martin Marietta Materials	65,128.000	871,566.56	2,930,760.00
Masco Corp	262,000.000	9,274,773.80	15,851,000.00
Matthews Intl Corp C LA	37,200.000	637,675.39	913,725.00
Maxim Integrated Products	121,400.000	4,153,678.47	3,846,862.50
May Dept Stores Co	85,000.000	2,503,835.79	5,567,500.00
MBNA Corp	416,500.000	10,877,569.26	13,770,531.25
McClatchy Co CL A	116,500.000	3,686,282.51	4,033,812.50
McDonald's Corp	100,000.000	5,115,896.67	6,900,000.00
Mcleodusa Inc	26,500.000	1,004,225.06	1,030,187.50
MDU Resources Group Inc	43,500.000	1,504,764.67	1,552,406.25
Meditrust Corp-Paired Stock	310,012.000	8,458,719.95	8,660,960.25
Medtronic Inc	125,000.000	5,925,090.00	7,968,750.00
Merck & Co	422,000.000	30,682,712.14	56,442,500.00
Mercury Interactive Corp	48,400.000	1,011,256.76	2,159,850.00
Mesaba Holdings Inc	46,700.000	1,016,506.38	1,074,100.00
Metromedia Fiber Network - A	28,900.000	522,030.81	1,347,462.50
Michael Foods Inc	41,323.000	428,577.18	1,213,863.13
Microchip Technology Inc	28,600.000	794,491.00	747,175.00

Common Stocks continued . . .

Common Stock	Shares	Original Cost	Market Value
Micron Electronics Inc	126,800.000	1,777,115.79	1,529,525.00
Microsoft	494,000.000	16,894,683.74	53,537,250.00
Midwest Banc Holdings Inc	6,600.000	99,000.00	115,500.00
Minerals Technologies Inc	7,200.000	281,459.82	366,300.00
Mobil Corp	457,300.000	28,192,780.81	35,040,612.50
Mobius Management Solutions	112,100.000	1,975,788.64	1,681,500.00
Mohawk Industries Inc	74,000.000	1,362,362.55	2,344,875.00
Molex Inc	109,862.000	1,403,100.00	2,746,550.00
Morgan Stanley Dean Witter & Co	210,000.000	8,332,695.71	19,188,750.00
Morgan (JP) & Co	190,000.000	14,299,449.95	22,241,875.00
Morton International Inc New	400,000.000	13,210,215.10	10,000,000.00
MS Carriers	22,200.000	526,661.91	602,175.00
Nabisco Holdings Corp CL A	459,000.000	16,466,008.93	16,552,687.50
Nash Finch Co	49,700.000	883,618.85	748,606.25
National Computer System Inc	51,600.000	880,728.13	1,238,400.00
National Service Industries	44,000.000	1,944,439.20	2,238,500.00
Nationsbank Corp	511,000.000	25,717,457.65	39,187,312.50
Nautica Enterprises Inc	17,500.000	501,245.15	469,218.75
Network Appliance Inc	31,400.000	605,005.50	1,222,637.50
Newell Co	147,600.000	6,191,374.51	7,352,325.00
Newpark Resources Inc	40,500.000	658,963.70	450,562.50
Nextel Communications Inc A	342,100.000	5,796,287.15	8,509,737.50
Noble Drilling Corp	200,000.000	6,023,860.00	4,812,500.00
Norfolk Southern Corp	207,000.000	6,209,265.60	6,171,187.50
Northrop Gruman Corp	100,000.000	6,615,750.00	10,312,500.00
Northwestern Corp	59,700.000	1,044,395.37	1,492,500.00
NTL Inc	27,300.000	724,215.69	1,460,550.00
Oak Industries Inc	69,500.000	2,142,448.79	2,458,562.50
Ocwen Financial Corp	224,600.000	5,846,199.16	6,036,125.00
Office Depot Inc	340,000.000	7,674,460.00	10,731,250.00
Omnipoint Corp	54,600.000	1,063,014.87	1,252,387.50
P G & E Corp	350,000.000	7,688,120.00	11,046,875.00
Parametric Technology Corp	400,000.000	9,344,936.25	10,850,000.00
PECO Energy Co	662,000.000	15,206,483.95	19,322,125.00
Pega Systems Inc	58,300.000	1,104,125.58	1,581,387.50
Penford Corp	11,300.000	272,075.40	341,825.00
Penney (JC)	225,000.000	14,078,592.12	16,270,312.50
Pentair Inc	120,800.000	2,040,513.61	5,134,000.00
Peoples Heritage Fin'l Group	44,800.000	1,035,410.31	1,058,400.00
Peoples Telephone Co Inc	51,300.000	171,121.99	160,312.50
Pepsico Inc	100,000.000	3,680,000.00	4,118,750.00
Perkin-Elmer Corp	14,500.000	882,693.75	901,718.75
Pfizer Inc	516,000.000	15,465,242.87	56,082,750.00
Pharmacia-Upjohn Inc	500,000.000	16,936,102.00	23,062,500.00
Philip Morris Companies Inc	620,700.000	20,447,814.89	24,440,062.50
Physio-Control Intl Corp	55,300.000	899,510.35	1,455,081.25
Pitney-Bowes Inc	72,200.000	3,070,663.52	3,474,625.00
PMC-Sierra Inc	26,300.000	1,147,103.43	1,232,812.50
PMI Group Inc	88,300.000	5,638,387.52	6,487,295.04
Policy Management Systems Corp	206,000.000	5,781,313.63	8,085,500.00

Common Stocks continued . . .

Common Stock	Shares	Original Cost	Market Value
Praxair Inc	275,290.000	12,594,051.94	12,887,013.13
Princeton National Bancorp	60,450.000	1,137,225.00	1,072,987.50
Procter & Gamble	198,620.000	9,676,234.39	18,086,833.75
Proffitt's Inc	36,600.000	1,508,083.50	1,477,725.00
PSS World Medical	87,000.000	1,313,747.22	1,272,375.00
Public Service Co of NC	144,300.000	2,710,396.13	3,138,525.00
Quaker Fabric Corp	40,200.000	679,137.50	580,387.50
Quest Diagnostics Inc	71,100.000	1,369,989.63	1,555,312.50
Rational Software Corp	119,800.000	1,721,546.94	1,826,950.00
Raytheon Co CL B	263,000.000	15,249,562.10	15,549,875.00
RCM Technologies Inc	8,600.000	171,528.52	174,687.50
Regal Beloit Corp	20,700.000	667,901.00	589,950.00
Regions Financial Corp	562,000.000	11,672,021.32	23,077,125.00
Reinsurance Group of America	71,400.000	2,224,923.12	4,221,525.00
RemedyTemp Inc CL A	45,600.000	1,255,567.44	1,325,250.00
Rental Service Corp	37,400.000	893,667.00	1,257,575.00
Responics Inc	34,700.000	716,187.50	540,018.75
Restoration Hardware Inc	7,400.000	140,600.00	185,925.00
Revlon Inc CL A	34,400.000	1,517,072.87	1,767,300.00
Reynolds & Reynolds	215,000.000	4,221,758.40	3,910,312.50
Robbins & Myers Inc	23,600.000	686,791.00	685,875.00
Rohm & Haas	100,000.000	10,475,812.68	10,387,500.00
Rollins Truck Leasing Corp	273,750.000	2,222,156.82	3,490,312.50
Rowan Companies Inc	84,700.000	1,379,747.88	1,646,356.25
Royal Dutch Petroleum Co	340,000.000	12,677,088.02	18,636,250.00
Sara Lee Corp	100,000.000	2,158,954.55	5,593,750.00
Sauer Inc	32,000.000	460,320.00	450,000.00
SBC Communications Inc	1,324,000.000	33,693,844.11	52,960,000.00
Schering-Plough Corp	284,690.000	11,791,841.89	26,084,721.25
Schlumberger Ltd	304,000.000	12,345,519.44	20,767,000.00
Seacoast Banking Corp FLA A	15,200.000	558,037.50	585,200.00
Seagate Technology Inc	199,800.000	5,452,958.31	4,770,225.00
Sears Roebuck & Co	427,300.000	23,735,858.13	26,092,006.25
Security Cap Group B-Warrants-98	3,158.000	0.00	1,085.72
Security Capital Group B	70,850.000	2,148,898.14	1,886,381.25
Security Capital Pacific TR	51,200.000	1,154,378.16	1,152,000.00
Sequent Computer Systems Inc	183,800.000	3,357,893.19	2,217,087.50
Sherwin-Williams	121,600.000	3,639,906.01	4,028,000.00
Sierra Pacific Resources	55,100.000	1,522,667.67	2,000,818.75
Sigma Aldrich Corp	189,800.000	7,010,377.65	6,666,725.00
Snyder Communications Inc	30,900.000	1,223,073.11	1,359,600.00
SPR Inc	28,200.000	784,485.82	877,725.00
Standard Products Co	24,900.000	743,951.01	700,312.50
Stein Mart Inc	133,700.000	1,590,491.30	1,804,950.00
Sterling Commerce Inc	11,300.000	475,278.00	548,050.00
Sterling Software Inc	117,500.000	2,152,105.41	3,473,593.75
Stoneridge Inc	26,800.000	464,738.00	494,125.00
Sunrise Medical Inc	40,800.000	624,648.00	612,000.00
Sunstone Hotel Investors Inc	146,800.000	1,638,463.81	1,954,275.00
Swift Transportation Co Inc	120,150.000	1,854,935.75	2,380,471.88

Common Stocks continued . . .

Common Stock	Shares	Original Cost	Market Value
Syncor Intl Corp-Del	18,500.000	166,492.50	319,125.00
Teco Energy Inc	250,000.000	6,542,923.26	6,703,125.00
Temple-Inland	175,000.000	8,166,228.63	9,428,125.00
Tenet Healthcare Corp	128,700.000	4,779,368.15	4,021,875.00
Teradyne Inc	115,100.000	4,587,678.32	3,078,925.00
Tesoro Petroleum Corp	107,500.000	1,713,259.75	1,726,718.75
Tetra Technologies Inc	22,000.000	461,485.37	363,000.00
Texaco Inc	257,500.000	14,663,180.78	15,369,531.25
Texas Utilities Co	326,000.000	11,134,595.39	13,569,750.00
Thomas & Betts	180,000.000	6,503,109.00	8,865,000.00
Timken Co	39,000.000	710,489.43	1,209,000.00
Titanium Metals Corp	93,000.000	2,154,668.91	2,051,812.50
TNP Enterprises Inc	62,300.000	1,463,612.73	1,923,512.50
Toll Brothers Inc	74,800.000	1,564,643.02	2,145,825.00
Toro Co	15,700.000	635,915.01	537,725.00
Toys 'R' Us (Holding Co)	100,000.000	3,436,710.00	2,343,750.00
Travelers Corp	294,800.000	14,292,409.00	17,872,250.00
Tyson Foods Inc CL A	453,450.000	8,812,093.84	9,834,196.88
U S Bancorp	637,313.000	11,759,229.16	27,404,459.00
U S Lec Corp CL A	33,700.000	618,633.76	703,487.50
U S Xpress Enterprises-A	45,300.000	937,647.50	758,775.00
Ultramar Diamond Shamrock Corp	350,480.000	10,590,575.25	11,062,025.00
Union Pacific Corp	342,000.000	21,060,978.40	15,048,000.00
Unionbancorp Inc (Del)	39,800.000	503,746.50	736,300.00
Uniphase Corp	39,900.000	2,126,891.25	2,504,969.88
United Natural Foods Inc	54,100.000	1,382,295.83	1,541,850.00
United Technologies Corp	542,000.000	34,639,101.94	50,135,000.00
United Wisconsin Services	27,500.000	774,328.03	780,312.50
Unova Inc	35,700.000	669,754.50	769,781.25
Urban Outfitters Inc	42,000.000	684,609.86	766,500.00
Urban Shopping Centers Inc	78,800.000	2,411,764.05	2,482,200.00
USX-Marathon Group	128,620.000	4,264,412.86	4,413,273.75
Valley National Bancorp	13,525.000	341,443.49	392,225.00
Varlen Crop	59,200.000	1,630,597.04	2,042,400.00
Vencor Inc	232,700.000	4,094,747.99	1,687,075.00
Ventas Inc	232,700.000	2,957,317.99	3,214,168.75
Vermont Fin Services Corp	115,200.000	2,077,943.50	3,160,800.00
Viad Corp	224,800.000	3,061,348.82	6,238,200.00
Viasat Inc	39,600.000	543,692.61	759,825.00
Videoserver Inc	98,300.000	1,897,199.53	1,204,175.00
Vista Bancorp Inc	50,050.000	916,287.50	1,113,612.50
Wabash National Corp	32,200.000	651,961.99	829,150.00
Wachovia Corp	262,000.000	16,019,615.98	22,139,000.00
Wal-Mart Stores	998,600.000	28,406,103.96	60,664,950.00
Warner-Lambert Co	300,000.000	4,823,896.78	20,812,500.00
Wausau-Mosinee Paper Corp	97,338.000	1,640,461.94	2,226,606.75
Werner Enterprises Inc	91,425.000	1,312,269.00	1,742,789.06
Western Digital Corp	97,900.000	1,063,283.18	1,156,443.75
Westvaco Corp	54,450.000	1,284,536.99	1,538,212.50
Whitman Corp	74,000.000	1,233,776.40	1,697,375.00

Common Stocks continued . . .

Common Stock	Shares	Original Cost	Market Value
Willamette Ind Inc	90,220.000	3,044,457.06	2,887,040.00
Witco Corp	35,000.000	1,579,826.50	1,023,750.00
Xerox Corp	387,000.000	21,213,941.40	39,328,875.00
Xilinx	136,000.000	4,755,488.80	4,624,000.00
York International Corp	141,700.000	6,762,237.72	6,172,806.25
Young & Rubicam Inc	34,700.000	926,892.00	1,110,400.00
Total Common Stock	74,044,047.000	2,578,460,904.48	3,709,822,374.05
S & P 500 Stock Index	36,953,417.000	1,250,230,485.33	2,144,672,302.42
TOTAL STOCKS	110,997,464.000	3,828,691,389.81	5,854,494,676.47
TOTAL EQUITY		4,012,524,715.10	6,040,175,171.37
TOTAL INVESTMENTS		9,035,565,361.66	11,223,930,312.91

Actuarial Section

**Kentucky Teachers' Retirement System
Fiscal Year Ended June 30, 1998**

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

February 10, 1998

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

Members of the Board:

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, 1997. The valuation indicates that combined member and State contributions at the rate of 18.50% of university members' salaries and 21.46% of non-university members' salaries are sufficient to support the benefits of the System. While not verifying the data at source, the actuary performed tests for consistency and reasonability.

The financing objective of the System is that contribution rates will remain relatively level over time as a percentage of payroll. The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. Modified market value of plan assets is used for actuarial valuation purposes - the book value of assets is adjusted to reflect the average ratio of market value to book value during the five years ending on the valuation date. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 4.5% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the trend information shown in the Schedule of Funding Progress in the Financial Section and Schedule A, Schedule B and Schedule C shown in the Actuarial Section.

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,



Edward A. Macdonald, ASA, MAAA, MCA
Principal and Consulting Actuary

Report of Actuary on the Valuation

Prepared as of June 30, 1997

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, 1997		June 30, 1996	
Number of active members		51,297		51,429
Annual salaries	\$	1,925,047	\$	1,877,888
Number of annuitants and beneficiaries		26,303		24,898
Annual allowances	\$	448,781	\$	399,282
Assets for valuation purposes	\$	8,789,911	\$	7,624,699
Unfunded actuarial accrued liability	\$	1,116,349	\$	1,294,190*
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	12.64 %	16.75 %	12.56 %	16.76 %
Accrued liability (balancing item)	5.86	4.71	5.94	4.70
Total	18.50 %	21.46 %	18.50 %	21.46 %
Accrued liability funding period	11 years		20 years	
* Does not include liabilities for minimum annuities and ad hoc increases granted after 1981 which are being funded through special appropriations.				

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 for the System. Comments on the valuation results as of June 30, 1997, 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 1997 Session of the Legislature and effective on the valuation date. Since the previous valuation, the System has been amended in order to reflect the onetime 3.0% cost-of-living 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, 1997 on the basis of which the valuation was prepared.

Group	Number	Annual Salaries (\$1,000)
Men	13,890	\$ 585,728
Women	37,407	1,339,319
Total	51,297	\$ 1,925,047

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 Number and Annual Retirement Allowances of
Annuitants and Beneficiaries on the Roll as of June 30, 1997**

Group	Number	Annual Retirement Allowances (\$1,000)
Service Retirements	22,604	\$ 406,332
Disability Retirements	1,395	22,501
Beneficiaries of Deceased Members	1,775	17,775
Total	25,774	\$ 446,608

* In addition, there are 529 beneficiaries entitled to term-certain only annuities totaling \$2,173,000 annually.

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

Section III - Assets

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

(a) Teachers' Savings Fund

The Teachers' Savings Fund is the fund to which are credited all contributions made by members together with regular interest thereon. When a member retires by reason of service or disability, the amount of the member's accumulated contributions are transferred from the Teachers' Savings Fund to the Allowance Reserve Fund. If a survivor's benefit becomes payable, the member's accumulated contributions are transferred from the Teachers' Savings Fund to the Allowance Reserve Fund. Refunds of accumulated member contributions upon withdrawal or death are also made from this Fund. The assets credited to the Teachers' Savings Fund on June 30, 1997 amounted to \$1,893,464,206.

(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, 1997 amounted to \$1,955,104,103.

(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, 1997 amounted to \$504,180,398.

(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, 1997 the assets credited to this Fund amounted to \$3,537,656,191.

(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, 1997 amounted to \$25,121,021. 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, 1997 amounted to \$2,443,667. 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, 1997 amounted to \$1,036,556. This amount was not included in the assets used for valuation purposes.

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Actuarial Section

- As of June 30, 1997, the total book value of assets held by the System amounted to \$7,919,006,142. The corresponding market value of assets was \$9,496,231,944. Of the total book value, \$7,890,404,898 was used for valuation purposes.
- 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 1.114 to the book value of assets resulted in a modified market value of \$8,789,911,056 to be used for valuation purposes, as shown in the following table.

Assets as of June 30, 1997

Fund	Assets for Valuation Purposes	Other Assets	Total Assets
Teachers' Savings	\$ 1,893,464,206		\$ 1,893,464,206
State Accumulation	1,955,104,103		1,955,104,103
Allowance Reserve	504,180,398		504,180,398
Guarantee	3,537,656,191		3,537,656,191
Medical Insurance		\$ 25,121,021	25,121,021
Expense		2,443,667	2,443,667
Voluntary Member Contribution		1,036,556	1,036,556
Total	\$ 7,890,404,898	\$ 28,601,244	\$ 7,919,006,142
Market Value Adjustment	x 1.114		
Modified Market Value	\$ 8,789,911,056		

Section IV - Comments on Valuation

- Schedule A of this report outlines the results of the actuarial valuation (amounts are \$1,000's). The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method which are described in Schedule B.
- The valuation shows that the System has an actuarial accrued liability of \$5,266,980 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 \$4,511,692 of which \$239,934 is for special appropriations remaining to be made toward funding minimum annuities and ad hoc increases granted after 1981. The liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is \$127,588. The total actuarial accrued liability of the System amounts to \$9,906,260. Against these liabilities, the System has present assets for valuation purposes of \$8,789,911. When this amount is deducted from the actuarial accrued liability of \$9,906,260, there remains \$1,116,349 as the unfunded actuarial accrued liability.
- The normal contribution rate is equal to the actuarial present value of benefits accruing during the current year divided by the annual active members' payroll. The normal contribution rate is determined to be 12.64 % of payroll for university members and 16.75 % 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.

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 12.64% of active university members' salaries are required to meet the cost of benefits currently accruing. The rate for non-university members is 16.75%. 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 5.86% for university members and 4.71% for non-university members. These rates are shown in the following table.

Actuarially Determined Contribution Rates

Rate	Percentage of Active Members' Salaries	
	University	Non-University
Normal	12.64 %	16.75 %
Accrued Liability (balancing)	5.86	4.71
Total	18.50 %	21.46 %

5. The unfunded actuarial accrued liability amounts to \$1,116,349,000 as of the valuation date. Accrued liability contributions at the rate of 5.86% of active university members' payroll and 4.71% of non-university members' payroll along with special appropriations amount of \$36,102,100 are sufficient to amortize the unfunded actuarial accrued liability over the 11 year period commencing June 30, 1997, based on the assumption that the payroll will increase by 4.5% annually.

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Section VI - Comments on Level of Funding

1. The benefit percentage for non-university members is 2% for service accrued through January 1, 1984 and 2½ % for service accrued after that date. The total net contribution rate is 21.46% 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 after 1981.
2. The valuation indicates that the present statutory contribution rates and special appropriations 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 20 years to 11 years.
3. The System has been operating on an actuarially sound basis. However, there are no excess assets or contributions available to provide additional benefits. Any further benefit improvements, including the ad hoc increases previously noted, should be accompanied by the additional contributions necessary to support the benefits.

Section VII - Accounting Information

1. Governmental Accounting Standards Board Statement No. 25 and 27 sets forth certain items of required supplementary 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, 1997**

Group	Number
Retirees and Beneficiaries currently receiving benefits	26,303
Terminated employees entitled to benefits but not yet receiving benefits	3,346
Active Plan Members:	<u>51,297</u>
TOTAL	80,946

2. Another such item is the schedule of funding progress as shown below.

Schedule of Funding Progress
(Dollar amount in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	(UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a) / c)
6/30/91	\$ 4,259,123	\$ 5,852,915	\$ 1,593,792	72.8%	\$1,522,497	104.7%
6/30/92	4,808,670	6,649,716	1,841,046	72.3	1,669,228	110.3
6/30/93	5,454,581	7,173,717	1,719,136	76.0	1,696,901	101.3
6/30/94	6,006,636	7,779,919	1,773,283	77.2	1,748,141	101.4
6/30/95	6,621,235	8,438,218	1,816,983	78.5	1,819,778	99.8
6/30/96	7,624,699	9,178,577	1,553,878	83.1	1,877,888	82.7
6/30/97	8,789,911	9,906,260	1,116,349	88.7	1,925,047	58.0

3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 1997. Additional information as of the latest actuarial valuation follows.

Valuation Date 06/30/97

Actuarial Cost Method Projected Unit Credit

Amortization Method Level Percent of Pay, Open

Remaining

Amortization Period 11 Years

Asset Valuation Method. 5-Year Smoothed Market

Actuarial Assumptions:

Investment Rate of Return*. 8.00%

Projected Salary Increases* 4.50 - 8.60%

Cost-of-Living Adjustment. 1.50% Annually

* Includes Inflation at 4.50%

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Schedule A
Results of the Valuation Prepared as of June 30, 1997
(\$1,000's)

1. ACTUARIAL ACCRUED LIABILITY

Present value of prospective benefits payable in respect of:

(a) Present active members:

• Service retirement benefits	\$ 4,977,118
• Disability retirement benefits	149,522
• Death and survivor benefits	58,443
• Refunds of member contributions	81,897

Total		\$ 5,266,980
-------	--	--------------

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

\$ 127,588

(c) Present annuitants and beneficiaries

• Service retirement benefits	\$ 4,135,762
• Disability retirement benefits	184,116
• Death and survivor benefits	191,814

Total		\$ 4,511,692
-------	--	--------------

(d) Total actuarial accrued liability

\$ 9,906,260

2. PRESENT ASSETS FOR VALUATION PURPOSES

8,789,911

**3. UNFUNDED ACTUARIAL ACCRUED LIABILITY
 [(1) MINUS (2)]**

\$ 1,116,349

4. NORMAL CONTRIBUTION RATE

	University	Non- University
(a) Actuarial present value of benefits accruing annually	\$ 17,980	\$ 298,621
(b) Annual payroll of active members	142,271	1,782,776
(c) Normal contribution rate [4(a) divided by 4(b)]	12.64%	16.75%

Schedule B

Outline of Actuarial Assumptions and Methods

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

Separations From Service: Representative values of the assumed annual rates of death, disability, withdrawal, service retirement and early retirement are as follows (Adopted 1995):

Annual Rate of . . .

AGE	DEATH %		DISABILITY %		WITHDRAWAL %		SERVICE RETIREMENT %		EARLY RETIREMENT %	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
20	.005%	.004%	.01	.01	7.16	5.66				
25	.014%	.008%	.01	.01	7.45	6.84				
30	.023%	.022%	.01	.01	6.46	6.30				
35	.046%	.035%	.05	.04	4.49	4.08				
40	.068%	.056%	.07	.09	3.11	2.61				
45	.091%	.065%	.10	.18	2.12	1.92				
50	.149%	.078%	.29	.29	1.58	1.57	10.00	10.00		
55	.308%	.100%	1.20	.60			17.00	17.00	4.00	5.00
60	.535%	.143%	.05	.25			20.00	20.00		
62	.626%	.161%	.03	.06			27.00	22.00		
65	.626%	.187%					45.00	35.00		
70	.808%						100.00	100.00		

* Is also assumed that an additional 15% of men and 20% of women will retire in their first year of eligibility if before age 60.

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Actuarial Section

Deaths After Retirement: Representative values of the assumed annual rates of death after service and disability retirement are as follows (Adopted 1983):

Annual Rate of Death After				
Age	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.

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, 1997. 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:

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- (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.

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:

Number of Children	Annual Allowance
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.

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Actuarial Section

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. Member contributions are picked up by the employer.

Solvency Test

(in millions of dollars)

Aggregate Accrued Liabilities For

Fiscal Year	(1)	(2)	(3)	Valuation Assets	Portion of Accrued Liabilities Covered by Assets		
	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portion)		(1)	(2)	(3)
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)	(2)	(3)	(4)
	Number of Active Members	Total Annual Payroll	Average Annual Pay	% 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)		
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

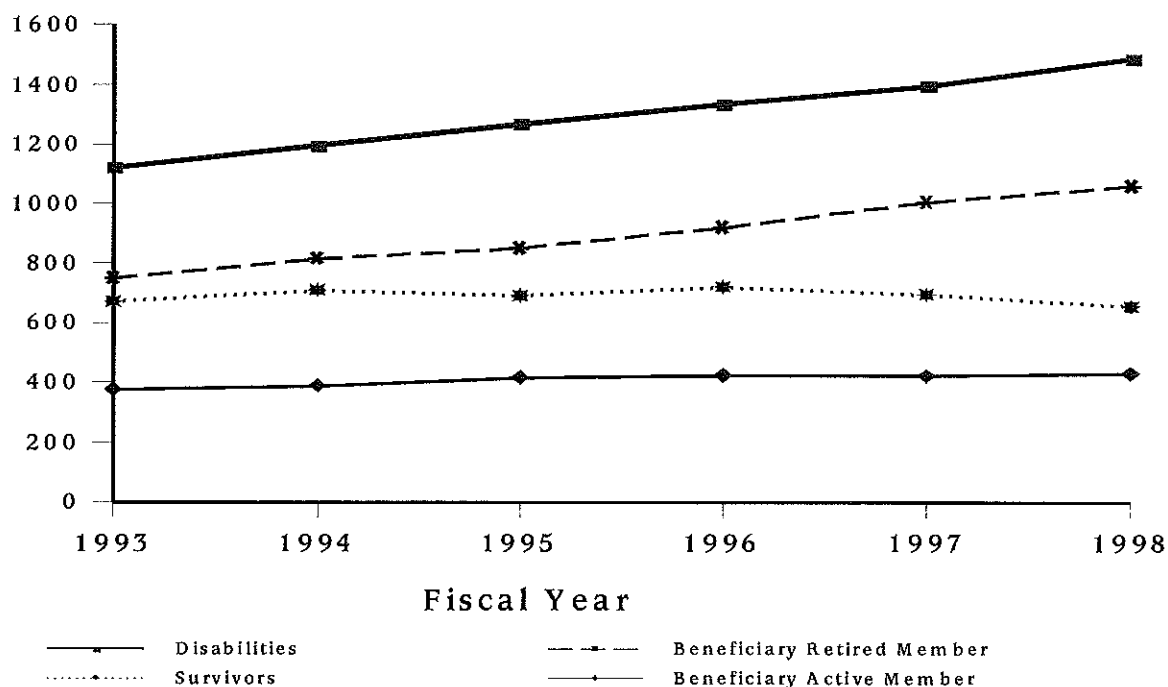
Year Ended June 30	Actuarial Accrued Liabilities	Valuation Assets	Unfunded Actuarial Accrued Liabilities (1) - (2)	Valuation Payroll	Assets as % of Liabilities (2) ÷ (1)	Unfunded Liabilities as % of Payroll (3) ÷ (4)
1993	6,852.7	5,454.6	1,398.1	1,696.9	79.6%	82.4%
1994	7,521.9	6,006.6	1,515.3	1,748.1	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).

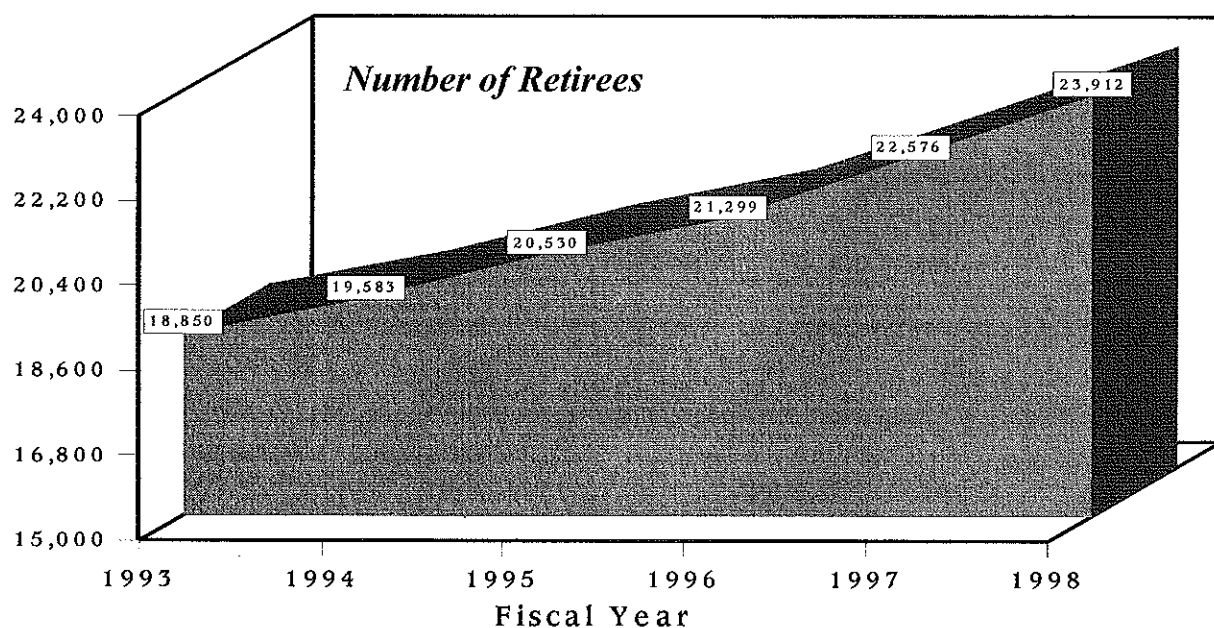
Statistical Section

Kentucky Teachers' Retirement System
Fiscal Year Ended June 30, 1998

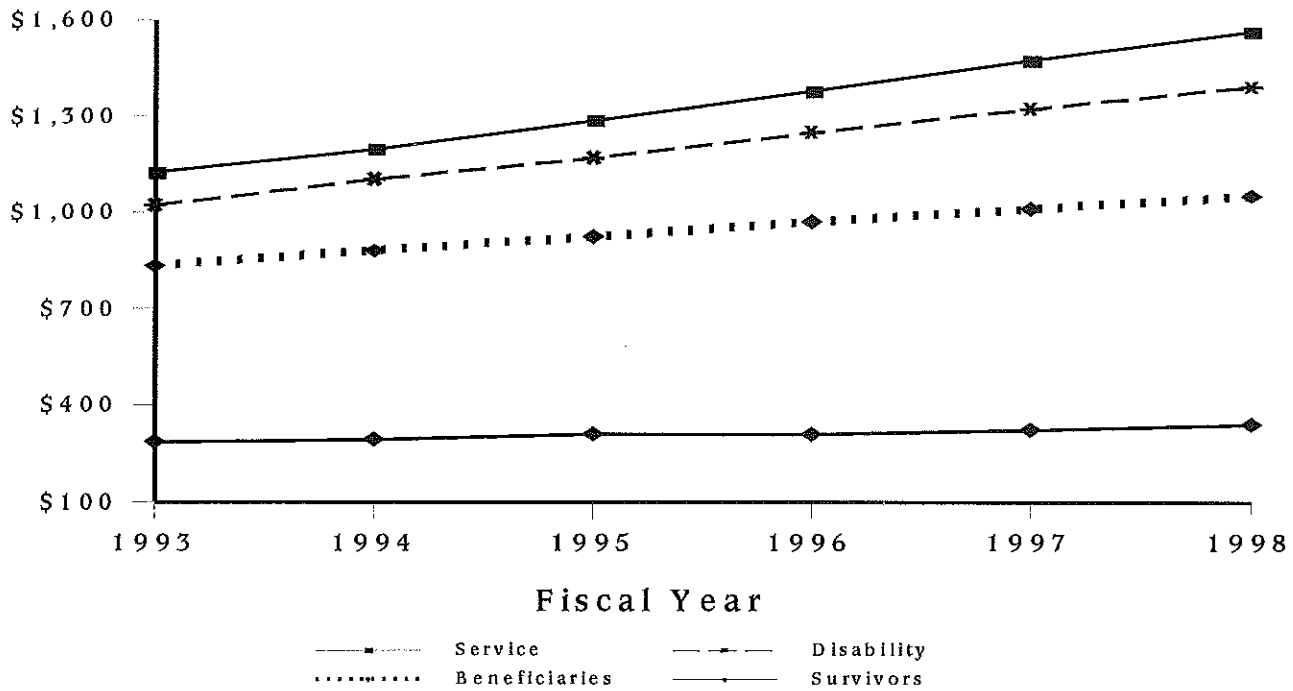
Growth in Annuitants (Except Service Retirements)



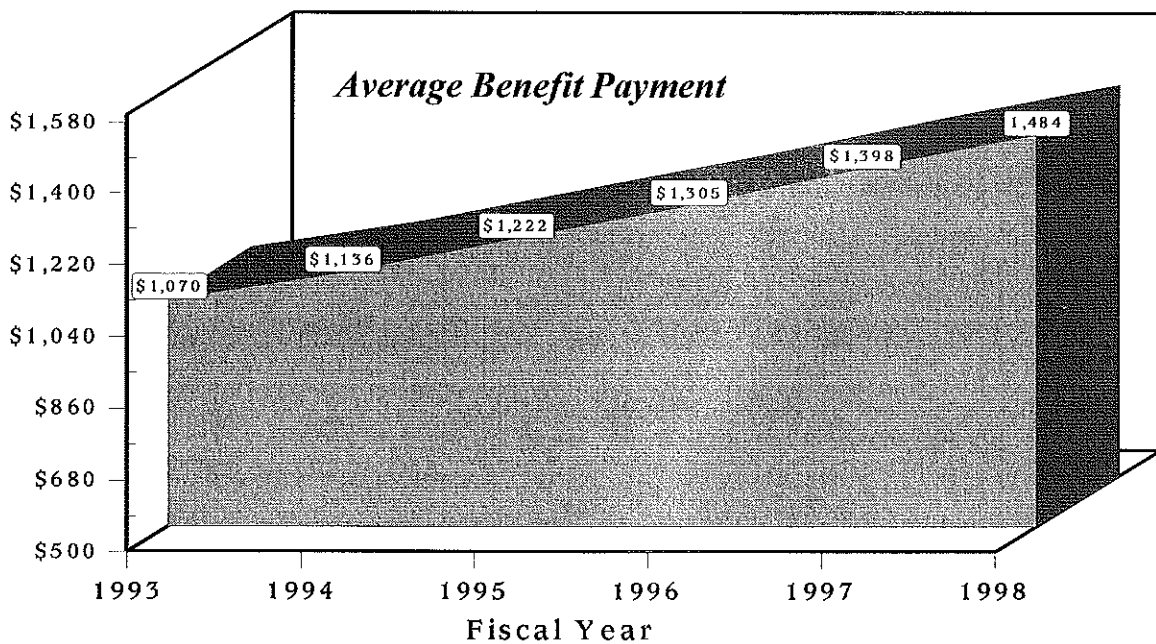
Growth in Service Retirement



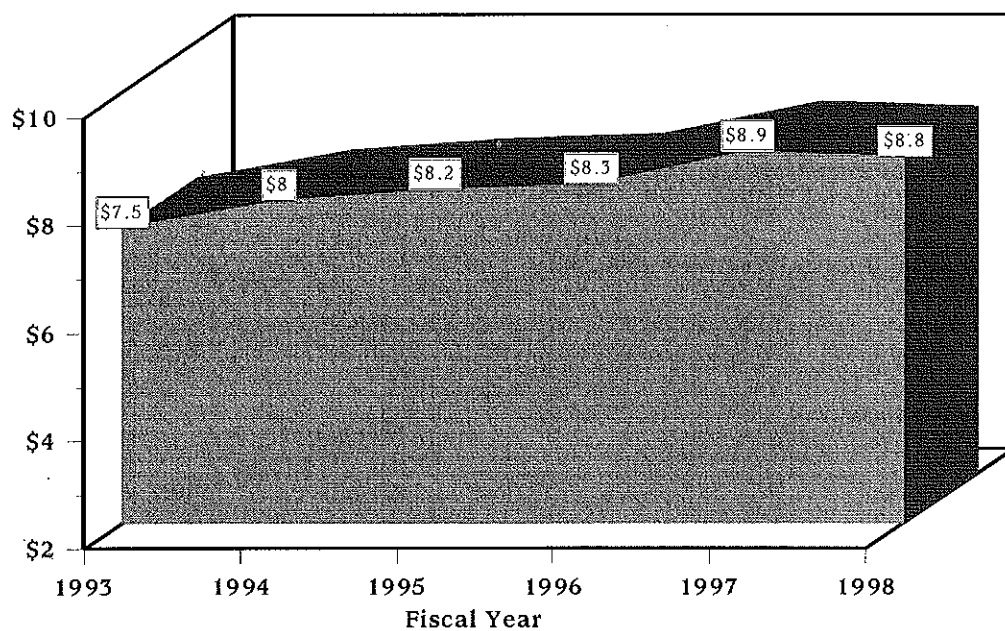
Average Monthly Benefit Payment (All Recipients)



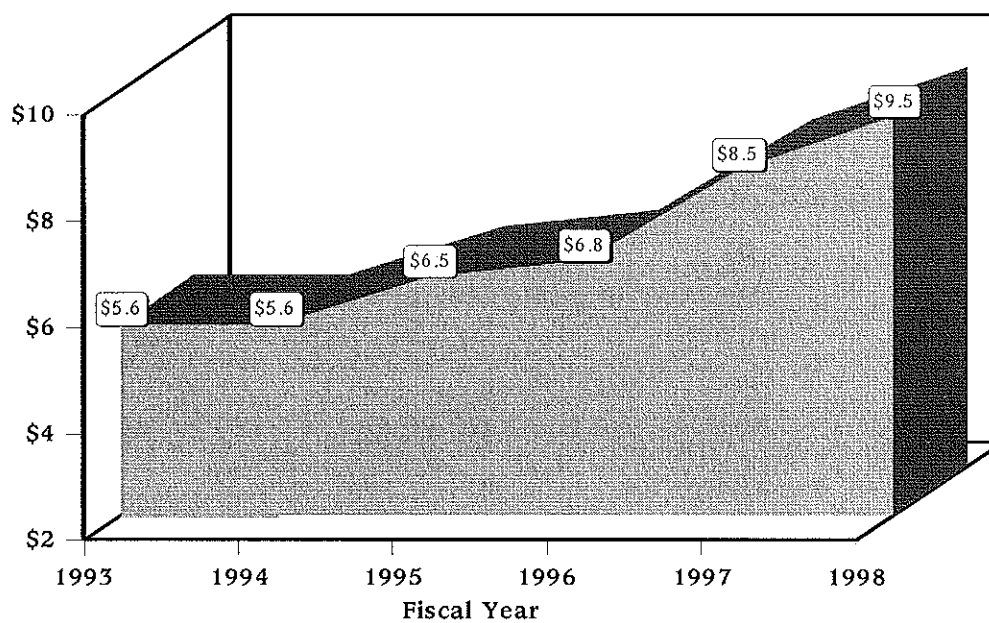
Average Monthly Benefit Payment



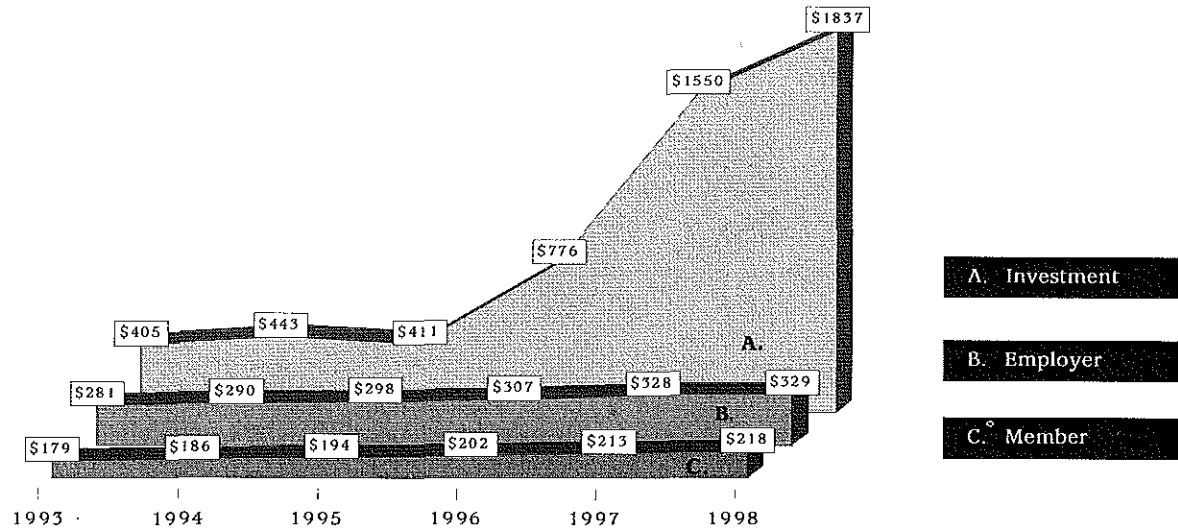
Average Sick Leave Payment



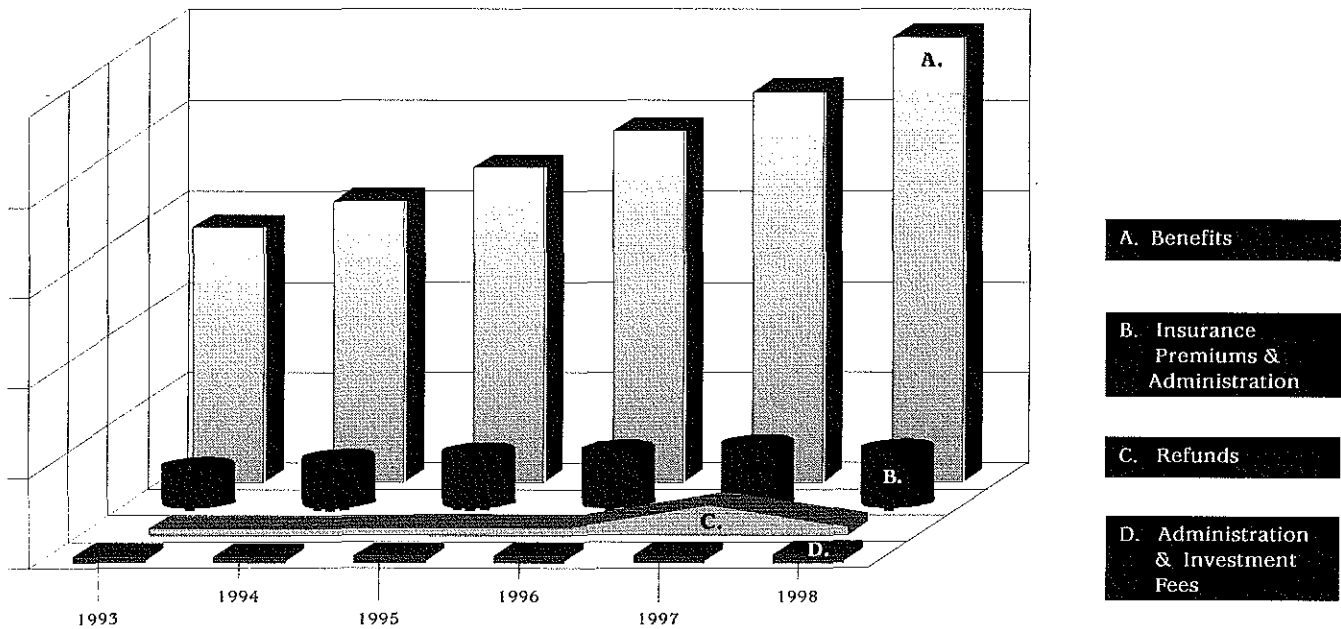
Summary of Personal Check Payments



Summary of Revenue by Source (In Millions of Dollars)



Summary of Expenses by Type



Year	Benefits	Insurance Premiums & Administration	Refunds	Administration & Investment Fees
1993	\$ 282,052,495	\$ 43,026,950	\$ 6,714,014	\$ 5,312,805
1994	311,200,036	51,882,393	6,690,665	5,624,631
1995	348,566,240	58,817,338	8,528,796	6,075,959
1996	388,760,547	61,607,051	8,418,031	6,808,958
1997	431,597,292	67,962,768	33,319,582	7,060,571
1998	491,442,664	62,586,420	9,525,548	7,540,650

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*
June 30, 1998	456,467,869	24,305,495	8,375,394	2,293,906	9,525,548

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

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)
1992-96	756,817,769	154,296,351	602,521,418	213,030,177	53,308,591	854,138,311	(14,751,875)
1996-97	206,462,720	41,264,724	165,197,996	58,543,960	24,728,591	243,977,468	(4,493,079)
1997-98	211,161,650	41,757,997	169,403,653	59,838,776	18,480,413	253,962,432	6,239,590

The state under-appropriation receivable at June 30, 1998 is \$278,914. This amount is comprised of the 1996-97 \$6,518,504 deficit, and the current year contribution over-appropriation of \$6,239,590.

- (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.

Summary of Fiscal Year 1997-98 Retiree Sick Leave Payments

*Note: A new actuarial rate became effective July 1, 1998.
Therefore, July retirees were calculated using the new rate.

ACTUARIAL RATE	OLD RATE	NEW RATE
Grand Total Members Retiring 1980		
Total members receiving sick leave payments	564	974
Total amount of sick leave payments @ 9.855 % contribution rate	\$ 4,341,661.59	\$ 9,222,743.98
Average payment per retiree	7,697.98	9,468.94
Total increase in final average salary base	868,332.32	1,844,548.80
Average increase in FAS	1,539.60	1,893.79
Total service credit of retirees	15,060.26	27,198.04
Average service credit of retirees	<u>26.70</u>	<u>27.92</u>
AVERAGE YEARLY ANNUITY	933.77	1,194.79
AVERAGE MONTHLY ANNUITY	77.81	99.57
ANTICIPATED LIFETIME PAYOUT OF ADDITIONAL ANNUITY	\$6,944,512.62	\$14,650,287.39

Funding of Additional Payout

Member contributions 9.855 % x Sick Leave Payment	\$ 427,870.75	\$ 908,901.42
State Contributions 13.105 % x Sick Leave Payment	<u>568,974.75</u>	<u>1,208,640.60</u>
TOTAL Member-State Contributions	996,845.49	2,117,542.01
OVER FUNDING		
Anticipated additional payout	\$ 6,944,512.62	\$14,650,287.39
Less total member & state contributions	<u>996,845.49</u>	<u>2,117,542.01</u>
Subtotal unfunded debt	\$ 5,947,667.13	\$12,532,745.38
Total debt	18,480,412.51	
Less current year appropriations	18,829,500.00	
TOTAL Overpayment	(\$ 349,087.49)	

Statistical Section



Additional Distribution Outside USA

- 1 Puerto Rico
- 2 Military APO
- 1 Mexico
- 2 Canada
- 1 Philippines
- 1 Switzerland
- 1 Turkey

TOTAL: Out of State 2,855
 TOTAL: Out of State Payments \$34,189,698
 TOTAL: Number of Payments 28,861
 GRAND TOTAL: Amount of Payments \$488,996,152

Distribution of Retirement Payments Statewide

as of June 30, 1998

County Name	Total Payments	Number of Recipients	County Name	Total Payments	Number of Recipients
Adair	\$ 2,188,731	142	Laurel	4,976,989	314
Allen	1,802,706	106	Lawrence	1,437,665	92
Anderson	1,548,189	101	Lee	1,071,578	71
Ballard	1,012,444	58	Leslie	1,704,836	118
Barren	4,125,579	247	Letcher	4,755,730	257
Bath	1,539,512	94	Lewis	2,131,386	123
Bell	5,248,539	308	Lincoln	3,263,049	187
Boone	6,630,610	344	Livingston	959,796	61
Bourbon	2,157,227	130	Logan	2,719,140	178
Boyd	6,310,172	361	Lyon	1,124,314	68
Boyle	3,678,498	212	Madison	12,067,114	665
Bracken	678,709	46	Magoffin	1,713,656	104
Breathitt	3,044,894	174	Marion	1,576,121	96
Breckinridge	1,790,316	108	Marshall	3,125,478	196
Bullitt	4,678,765	228	Martin	1,370,548	91
Butler	1,135,243	73	Mason	1,644,699	98
Caldwell	1,614,650	104	McCracken	7,814,177	445
Calloway	7,432,728	424	McCreary	2,920,095	150
Campbell	6,402,135	346	McLean	1,157,736	70
Carlisle	619,848	40	Meade	1,527,033	76
Carroll	814,926	48	Menifee	632,439	45
Carter	3,683,950	217	Mercer	2,421,318	164
Casey	1,846,745	124	Metcalf	1,492,230	88
Christian	5,416,128	318	Monroe	2,077,902	133
Clark	2,829,827	176	Montgomery	2,543,318	142
Clay	3,603,479	219	Morgan	1,864,018	114
Clinton	1,669,039	97	Muhlenberg	3,019,456	181
Crittenden	580,708	43	Nelson	3,437,661	193
Cumberland	996,197	60	Nicholas	473,448	34
Daviess	10,687,480	600	Ohio	2,033,805	127
Edmonson	1,011,336	65	Oldham	3,866,006	214
Elliott	656,267	41	Owen	817,722	54
Estill	1,096,758	70	Owsley	1,229,390	71
Fayette	26,063,380	1,437	Pendleton	1,335,541	84
Fleming	1,532,896	97	Perry	4,974,040	305
Floyd	8,058,047	454	Pike	12,627,530	695
Franklin	8,172,480	521	Powell	1,315,159	75
Fulton	1,033,978	64	Pulaski	7,438,483	445
Gallatin	339,626	24	Robertson	137,053	11
Garrard	1,323,495	83	Rockcastle	2,184,156	139
Grant	1,465,167	91	Rowan	5,610,450	303
Graves	3,352,354	224	Russell	2,196,922	138
Grayson	2,418,584	147	Scott	2,753,034	153
Green	1,540,453	89	Shelby	3,104,652	187
Greenup	4,503,828	255	Simpson	1,495,195	91
Hancock	923,136	47	Spencer	781,832	51
Hardin	7,229,138	404	Taylor	2,923,493	167
Harlan	6,018,986	328	Todd	1,173,279	77
Harrison	2,041,956	122	Trigg	1,313,338	81
Hart	1,638,195	88	Trimble	463,079	26
Henderson	3,923,154	226	Union	1,386,133	81
Henry	1,767,016	111	Warren	15,871,885	882
Hickman	303,436	24	Washington	1,165,694	73
Hopkins	5,227,263	308	Wayne	2,721,478	152
Jackson	1,380,877	99	Webster	1,447,729	94
Jefferson	73,207,627	3,808	Whitley	7,225,235	409
Jessamine	2,542,259	144	Wolfe	1,393,897	85
Johnson	4,162,313	242	Woodford	2,076,068	116
Kenton	8,106,918	453			
Knott	2,740,064	164			
Knox	3,383,111	197			
Larue	1,786,174	91			
			TOTAL		
			IN KENTUCKY	\$ 454,806,454	26,006

School Districts Electing to Pay for Sick Leave

Under KRS 161.155(8) for Fiscal Year 1997-98

County School District	Number of Members	Total Additional Compensation	County School District	Number of Members	Total Additional Compensation
Adair	14	\$ 93,905.72	Henderson	54	474,117.99
Allen	3	29,180.21	Henry	5	26,189.44
Anderson	7	50,340.75	Hickman	1	5,897.72
Ballard	5	46,558.31	Hopkins	16	154,131.52
Barren	6	58,730.39	Jackson	4	8,623.35
Bath	2	7,663.73	Jefferson	283	2,671,834.58
Bell	10	65,872.54	Jessamine	12	97,581.84
Boone	41	418,343.88	Johnson	3	39,303.49
Bourbon	12	129,850.64	Kenton	23	245,767.84
Boyd	10	63,694.88	Knott	4	28,897.51
Boyle	3	25,729.69	Knox	2	21,281.99
Bracken	3	19,732.92	Larue	5	59,527.25
Breathitt	2	18,349.98	Laurel	14	114,595.13
Breckinridge	9	59,760.14	Lawrence	3	15,095.99
Bullitt	10	54,489.20	Leslie	12	101,397.56
Butler	5	55,924.30	Letcher	12	62,784.17
Caldwell	5	45,743.79	Lewis	2	25,810.96
Calloway	5	46,154.64	Lincoln	3	34,019.08
Campbell	3	15,361.64	Livingston	3	24,649.01
Carroll	5	30,304.31	Logan	7	24,454.08
Carter	3	30,521.16	Lyon	3	21,180.73
Casey	3	16,028.71	Madison	19	152,143.39
Christian	22	208,091.73	Magoffin	3	5,606.29
Clark	10	90,224.45	Marion	7	77,096.09
Clay	12	81,844.15	Marshall	19	178,909.36
Crittenden	3	39,679.66	Martin	5	17,322.68
Cumberland	4	37,404.57	Mason	11	110,289.89
Daviess	22	251,782.03	McCracken	11	103,894.57
Edmonson	7	44,201.62	McCreary	2	4,480.47
Elliott	8	75,767.62	Meade	10	104,108.58
Estill	7	58,470.52	Menifee	1	8,751.19
Fayette	87	848,413.57	Mercer	2	13,072.45
Fleming	11	87,937.39	Metcalfe	3	22,440.99
Floyd	21	165,707.26	Monroe	4	53,058.77
Franklin	13	121,403.06	Montgomery	3	12,795.23
Fulton	2	21,662.81	Morgan	3	4,319.54
Gallatin	2	5,930.09	Muhlenberg	9	63,512.63
Garrard	5	53,241.10	Nelson	16	156,080.68
Grant	11	156,101.38	Nicholas	3	40,077.83
Graves	12	93,856.71	Ohio	6	18,416.95
Grayson	8	69,963.77	Oldham	9	61,111.31
Green	2	11,773.52	Owsley	3	23,695.69
Greenup	16	144,912.34	Pendleton	6	40,143.37
Hancock	2	30,773.92	Perry	4	40,273.37
Hardin	26	262,016.84	Pike	44	298,499.56
Harlan	2	14,406.69	Powell	3	10,595.22
Harrison	10	81,612.68	Pulaski	13	102,445.16
Hart	7	58,557.70	Robertson	1	8,718.82

School Districts Electing to Pay for Sick Leave continued . . .

County School District	Number of Members	Total Additional Compensation
Rockcastle	9	51,869.50
Rowan	7	49,114.66
Russell	10	81,632.77
Scott	4	47,786.60
Shelby	10	60,597.38
Simpson	8	95,830.14
Spencer	4	54,451.95
Taylor	4	36,997.97
Todd	2	12,697.82
Trigg	10	75,575.95
Trimble	2	16,165.50
Union	9	66,525.32
Warren	26	222,180.72
Washington	7	57,173.21
Wayne	5	43,991.38
Webster	2	11,577.78
Whitley	5	23,434.00
Wolfe	11	90,297.61
Woodford	10	55,400.92

City School Districts

City School District	Number of Members	Total Additional Compensation
Anchorage	1	\$ 30,116.69
Ashland	10	96,644.85
Bardstown	3	7,604.46
Berea	1	7,845.46
Bowling Green	9	96,414.61
Burgin	2	19,154.34
Campbellsville	4	21,554.64
Caverna	2	19,409.03
Cloverport	1	12,732.72
Covington	16	105,259.67
Danville	7	97,151.49
Dayton	2	34,507.96
Elizabethtown	4	31,751.70
Eminence	4	18,911.72
Erlanger-Elsmere	5	23,416.54
Fairview	2	21,113.45
Fort Thomas	5	14,235.41
Frankfort	3	42,724.81
Glasgow	7	83,758.90
Harlan	6	32,242.71
Harrodsburg	4	15,427.49

City School District	Number of Members	Total Additional Compensation
Jenkins	3	22,282.30
Ludlow	2	55,224.65
Mayfield	7	55,404.16
Middlesboro	5	39,741.66
Monticello	1	11,574.02
Murray	7	60,094.77
Newport	11	160,792.70
Owensboro	23	217,544.19
Paducah	12	111,433.08
Paintsville	2	19,559.72
Paris	2	15,921.56
Pikeville	1	3,682.70
Providence	1	5,205.99
Raceland	1	585.69
Russell	10	129,239.16
Russellville	3	24,409.34
Science Hill	1	11,412.68
Somerset	4	35,688.19
Walton-Verona	2	17,298.02
West Point	1	5,538.91
Williamsburg	1	1,685.95
Williamstown	1	19,981.84
KEA President	1	8,163.88
KY Valley Edu Cooperative	4	59,680.26

**TOTAL
FOR
ALL DISTRICTS**

Number of Members

1,538

Total Additional Compensation

\$13,564,405.57

Schedule of KTRS Annuitants by Type of Benefit

as of June 30, 1998

Amount of Monthly Benefit (\$)	Numbers of Annuitants	Type of Retirement*				
		1	2	3	4	5
1 - 200	1,477	637	10	565	59	206
201 - 400	1,208	1,015	9	61	123	0
401 - 600	1,342	982	146	8	206	0
601 - 800	1,636	1,293	127	0	206	0
801 - 1,000	2,762	2,379	150	0	233	0
1,001 - 1,200	2,390	2,098	137	0	155	0
1,201 - 1,400	2,298	2,041	155	1	101	0
1,401 - 1,600	2,491	2,206	155	2	128	0
1,601 - 1,800	2,732	2,410	236	6	80	0
1,801 - 2,000	2,655	2,432	157	3	63	0
Over 2,000	6,752	6,419	202	8	123	0
TOTALS	27,743	23,912	1,484	654	1,487	206

*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, 1998

By Age			By Service		
Age	Male	Female	Years of Service	Male	Female
20-24	234	973	Less than 1	377	1,029
25-29	1,647	5136	1-4	3,164	8,896
30-34	1,711	4994	5-9	2,714	8,217
35-39	1,736	5390	10-14	2,089	6,868
40-44	2,191	6988	15-19	1,551	4,830
45-49	3,285	9082	20-24	2,178	5,928
50-54	2,571	5706	25-29	2,214	4,661
55-59	1,272	2658	30-34	743	1,148
60-64	414	626	35 or more	127	131
65-69	81	124			
Over 70	15	31			
TOTAL	15,157	41,708	TOTAL	15,157	41,708

KTRS Schedule of Participating Employers

School Districts: County Schools

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

School Districts: 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. Education and Humanities Cabinet
2. Labor Cabinet*
3. Legislative Research Commission*
4. Workforce Development Cabinet
5. Cabinet for Families and Children*
6. 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.