

SERS

**Comprehensive Annual Financial Report
for the year ended June 30, 1997**



School Employees Retirement System of Ohio

Mission Statement

The mission of VITA is to enhance the well being and financial security of our members, retirees and beneficiaries through health programs and services, which are soundly financed, prudently administered and delivered with a focus on understanding and responsiveness.



Comprehensive Annual

FINANCIAL REPORT

for the year ended June 30, 1997

Prepared by SERS Staff

Thomas R. Anderson
Executive Director

Joel E. Sofranko
Director of Finance

The School Employees Retirement Board of Ohio



Seated: Judy Kelley, Barbara Overholser, Betty Montgomery (Attorney General).
Standing: Earl Martin (Auditor Representative), Barbara Miller, Tom Anderson, Mary Kasunic and Jeannie Knox.

President: Barbara Overholser, Columbus, Ohio
Term Expires June 30, 1997.

Vice President: Judy Kelley, Akron, Ohio
Term Expires June 30, 1997.

Employee-Member: Jeannie Knox, Cincinnati, Ohio
Term Expires June 30, 1999.

Employee Member: Barbara Miller, Malvern, Ohio
Term Expires June 30, 2000.

Retiree-Member: Mary Kasunic, Wickliffe, Ohio
Term Expires June 30, 2000.

ExOfficio Member: Betty Montgomery
Attorney General

ExOfficio Member: Jim Petro
Auditor of State

Thomas R. Anderson
Executive Director

Directors
Robert E. Hartsook
*Deputy Director /
Member Services*

Paul M. Kubinsky
Investments

Joel E. Sofranko
Finance

Teresa R. Woolley
*Management
Information Services*

Organizational Chart

**School Employees
Retirement Board**

Executive Director
Thomas R. Anderson

**Deputy Director/
Director**
Member Services
Robert E. Hartsook

Director
Investments
Paul M. Kubinsky

Director
Finance
Joel E. Sofranko

Director
**Management
Information
Services**
Teresa R. Woolley

Professional Consultants

Medical Advisor

Dr. Robert J. Atwell - Columbus, Ohio

Independent Accountants

Coopers & Lybrand L.L.P. - Columbus, Ohio

Actuaries

Gabriel, Roeder, Smith & Co. - Northport, New York

Investment Consultants & Managers

See page 33

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

School Employees
Retirement System of
Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1996

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



Linda K. Savitsky
President

Jeffrey L. Esser
Executive Director

School Employees Retirement System

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THOMAS R. ANDERSON
Executive Director

ROBERT E. HARTSOOK
*Deputy Director and
Member Services*

JIMMIE L. KINNAN
General Counsel

PAUL M. KUBINSKY
Investments

JOEL E. SOFRANKO
Finance

TERESA R. WOOLLEY
MIS

December 15, 1997

Dear President and Members of the Retirement Board:

We are pleased to submit to you the Comprehensive Annual Financial Report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 1997. The report provides information about the financial operations of the System, including management's stewardship of the funds entrusted to the System and compliance with all legal requirements placed on the System. The management of SERS has responsibility for the accuracy of the contents and the completeness and fairness of the presentation. Our internal accounting controls are designed to ensure the security of member and employer contributions, to assure responsible safeguarding of our assets and to provide a degree of reliability to all our financial records.

The report is divided into six sections:

- the Introductory Section which contains a Letter of Transmittal, along with the identification of the administrative organization, Certificate of Achievement for Excellence in Financial Reporting and a summary of federal and state legislation affecting the System over the past year;
- the Financial Section which contains an independent accountants' report from our certified public accountants, Coopers & Lybrand L.L.P., and the financial statements of the System;
- the Investment Section which includes the investment report and schedules of portfolio activity for the past year; and
- the Actuarial Section which contains a letter expressing the opinion of our consulting actuaries, Gabriel, Roeder, Smith & Company and results of their annual actuarial valuation;
- the Statistical Section which includes significant data pertaining to the System;
- the Plan Summary Section which provides a concise explanation of the various benefit plans which we provide to our members.

SERS is a cost-sharing multiple-employer public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of the Ohio public schools who are not required to possess a certificate in order to perform their duties. Benefits provided to participants in SERS include age and service retirement, disability benefits, survivor benefits, death benefits and post-retirement health care benefits. For a more complete description of employees eligible for membership in SERS, as well as benefits provided upon retirement, disability or death, please see the Plan Summary section on page 73.

Major Initiatives

SERS adopted Governmental Accounting Standards Board Statement 25 *Financial Reporting for Defined Benefit Pension Plans* and Statement 26 *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans* for fiscal year 1997. Our financial reporting now includes separate statements of plan net assets and changes in plan net assets for pension and health care benefits. Also, investments are reported at fair value in the financial statements instead of cost and investment income includes unrealized gains and losses in the fair value of the portfolio. For more information on the changes brought about by these two statements, please see Note 3 of the Notes to Financial Statements in the Financial Section.

S.B. 82 replaced the "legal list" of investment securities with a "prudent person" standard, giving SERS greater flexibility in choosing investments while emphasizing the joint aims of protecting principal and maximizing income. S.B. 82 also requires Ohio public retirement systems to maintain an amortization period for unfunded pension liabilities of not longer than thirty years and to provide an actuarial report annually to the General Assembly. SERS supported this bill, which became effective March 1997. As a result of this change, the investment staff, the Board and our investment consultant, Frank Russell Co., evaluated our asset allocation. We have modified our asset allocation to increase the amount invested in international equities, including two percent which may be invested in emerging markets. Allocations for venture capital and short-term investments were reduced. These changes became effective on July 1, 1997.

We conducted investment manager searches in an effort to add managers for specific areas of the portfolio. We have added five managers for the real estate portfolio, a REIT manager, an emerging markets manager, and two Ohio-based money managers for the domestic equities and fixed income portfolios.

Months of planning throughout 1997 culminated in SERS' first pre-retirement education program. Its target audience is retirees five to ten years away from retirement. The day long program provides attendees with materials and presentations from an attorney, a financial planner and SERS staff members. Emphasis is placed on SERS benefits and how they may be integrated with or affected by other benefits. The program held in Columbus was very well received and we will be on the road this fall to present it to members in northeast and southwest Ohio.

Sixtieth Anniversary

On each page of this annual report you will find the phrase "60 Years of Service". The origin of SERS has its roots in the Cleveland Custodians' Pension Law. Enacted in 1925, it authorized pension plans for custodians at the option of the school employer. Only the Cleveland School Board adopted such a plan for its custodians, which was later absorbed by SERS. During the 1930's, the Ohio Association of School Business Officials and the Cleveland Welfare Association, a group of school attendance officers, lobbied for a state pension plan to include all non-teaching school employees. Legislation signed by the governor on April 13, 1937 created the School Employees Retirement System. The first board of the

The purpose of the School Employees Retirement System is to improve the personnel, increase the efficiency and morale of public school service, provide a measure of economic security for employees retiring because of advanced age or disability, and to aid in attracting and retaining well qualified persons in public school service.

—From the 1939 Member Handbook

retirement system was composed of the head of the State Teachers Retirement System, representatives of the Attorney General and State Auditor offices and two elected members. The Board appointed Thomas O'Keefe as the executive director, who along with two employees comprised the first staff of SERS.

At its inception SERS was authorized to pay service and disability benefits. In fact, the System paid disability benefits that first year, a total of \$827.88 to sixteen disability recipients. In 1951, survivor benefits were added and in 1974 health care benefits were made available to retirees. Over the years, contribution rates and benefit formulas have increased. Members were given the opportunity to purchase service credit, including active military time. Cost of living raises as well several ad hoc increases have been added to retirees' benefits over the years.

	<u>1937</u>	<u>1997</u>
Employees	3	106
Members	10,000	103,739
Retirees	16	54,554
Assets	\$492,000	\$6.3 billion
Contribution Rates		
Member	4%	9%
Employers	4%	14%
Benefits	\$828	\$410 million

As expected, SERS has changed in every measurable way over the past sixty years. But one thing has remained constant: the dedication of SERS' Board and staff to providing the best possible service and benefits to all SERS' members and retirees.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SERS for its comprehensive annual financial report for the fiscal year ended June 30, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. SERS has received a Certificate of Achievement for the last twelve consecutive years (fiscal years ended 1985-1996). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

Investments

SERS invests accumulated funds to maximize both current income yield and long-term appreciation. The primary objective of our investment policy is to assure that the System meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to maximize total return on assets while operating within prudent parameters of risk, to protect principal from severe depreciation during adverse market conditions and to achieve investment results competitive with those of

the broad market. Details of portfolio composition, rates of return and information concerning our investment policy and operations are provided on pages 27 through 59 of this report.

The fair value of the investments of the System was \$6,263 million at June 30, 1997, an increase of \$940 million from the previous year. Our portfolio returned 19.0% for the year ended June 30, 1997, slightly underperforming our policy benchmark of 20.1%.

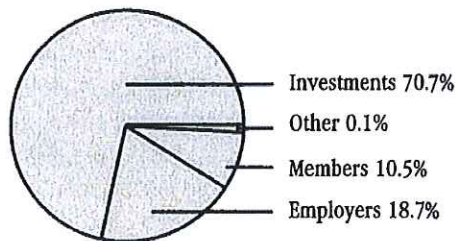
Financial Highlights

The financing of retirement and health care benefits is derived from employee and employer contributions and through investment earnings. Contributions and investment income for fiscal year 1997 totaled \$1,389,357,415. This amount includes realized and unrealized investment gains and losses. The employee and employer contribution rates during fiscal 1997 remained unchanged from the prior year at 9% and 14%, respectively.

Additions to Plan Net Assets

(millions of dollars)

Member Contributions	\$ 146.2
Employer Contributions	259.3
Investment Earnings	981.9
Other	2.0
Total	\$1,389.4

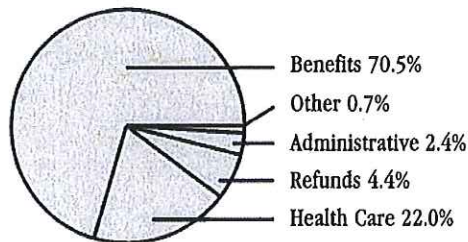


Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits. Included in the total expenses for 1997 were benefit payments, refunds of contributions due to member terminations or deaths, transfers to other Ohio Systems to provide benefits for those members who had membership in more than one system, and administrative expenses. Expenses for fiscal year 1997 totaled \$443,632,009, an increase of 7.6% over fiscal 1996 expenses. Health care expense increased 8.0% versus last year's increase of 2.1%. The major component of this increase came from higher costs and usage of the mail order prescription drug plan.

Deductions from Plan Net Assets

(millions of dollars)

Retirement Payments	\$312.9
Health Care Payments.....	97.4
Refunds	19.6
Administrative Expenses	10.8
Other	2.9
Total	\$443.6



Funding and Reserves

Funds are derived from the excess of revenues over expenses, and are accumulated by SERS in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of

funding, the larger the accumulation of assets and the greater the investment income potential. Net income for the fiscal year 1997 resulted in an increase in the fund balance of \$946 million.

Fiscal Year	Funding Period (in years)	Ratio of Assets to AAL
1992	40	71%
1993	40	73%
1994	40	73%
1995	35	74%
1996	34	78%
1997	30	85%

The actuarial valuation for funding purposes, dated June 30, 1997, reflects an unfunded accrued liability for pension benefits of \$983 million. This liability represents the difference between the computed actuarial accrued liability to be paid members and retirees and total valuation assets for basic benefits. As depicted in the accompanying chart, we have reduced our funding period significantly and increased our ratio of assets to actuarial accrued liabilities. This is the result of the Board's focus on

sound financing principles, prudent investments and firm control of costs.

The employer contribution rate of 14% is allocated by Board policy to cover the normal cost and amortization of the unfunded actuarial accrued liabilities for basic pension benefits; the remainder goes toward the funding of post-retirement health care benefits. To provide additional funding for health care benefits, employers pay a surcharge for members whose salary is less than a minimum amount. In 1995, the Board adopted pay-as-you-go funding of health care benefits and designated a minimum reserve for health care expenses to be maintained at 125% of annual health care expenses. At June 30, 1997 the health care reserve stands at 150% of the \$97.4 million recorded in health care expenses for the fiscal year.

Additional information regarding funding is provided within the Actuarial Section (pages 61 to 68) of this report.

Acknowledgements

The preparation of this report is the combined effort of the System's staff under the direction of the Retirement Board. It will be mailed to all employer members of SERS and other interested parties. Summary financial information will be distributed to active and retired SERS membership.

The cooperation of SERS' employers contributes significantly to the success of SERS and is greatly appreciated. We would also like to express our gratitude to the Board, the staff, consultants and others who help ensure the successful operation of the School Employees Retirement System.

Respectfully submitted,



Thomas R. Anderson
Executive Director



Joel E. Sofranko, CPA
Director of Finance

State Legislation

During the past year, the Ohio General Assembly has considered various legislation which would impact SERS. The following significant legislation was passed:

H.B. 365 (Effective 9/27/96)

This legislation changes the cost of living adjustment (COLA) calculation. Under prior law, a 3% COLA was granted in those years when the increase in the CPI (plus the retiree's banked points) equalled or exceeded 3%. Under this legislation, a COLA equal to any increase in the CPI for the year (plus the retiree's banked points) not to exceed 3% will be granted each year.

H.B. 450 (Effective 10/29/96)

This legislation conformed SERS' military service credit statutes to the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA). The legislation also changed the calculation of interest charged on the purchase of military service credit for non-interrupted public service.

H.B. 586 (Effective 3/31/97)

This legislation establishes an alternative retirement program for the purpose of providing academic/administrative employees of public institutions of higher education three or more retirement plans as alternatives to participating in a state retirement system. Under the legislation, an employee of a public institution of higher education may, not later than 90 days after the date of employment or 120 days after commencement of the alternative retirement program, make an irrevocable election to participate in an alternative retirement plan offered by the public institution of higher education. Each public institution of higher education which employs an electing employee shall contribute to the applicable state retirement system, on behalf of the employee, an amount equal to 6% of the employee's compensation to lessen any negative financial impact caused by the alternative retirement plan upon the state retirement system. As of November 30, 1997, no

institution of higher education had established an alternative retirement program.

H.B. 668 (Effective 12/6/96)

This legislation provides that where a member of SERS is convicted of a sexual offense committed in the context of employment, the court may order restitution and the restitution may be paid from the individual's retirement system benefits upon the court issuing a withholding order.

S. B. 82 (Effective 3/6/97)

This legislation replaces SERS' "legal list" investment authority with a "prudent person" standard of authority. The legislation also requires SERS to attain and maintain a 30-year amortization period for unfunded accrued pension liabilities and to provide an annual actuarial report to the General Assembly.

In addition to these enacted bills, SERS has been monitoring the following pending bills:

H.B. 239

This legislation provides for payment, under certain circumstances, of survivor benefits to children of a deceased member of the PERS, SERS, or STRS who was the obligor under a support order. This bill prohibits the spouse from electing a refund of contributions where the obligor was under a support order. The bill also contains a provision that would require spousal consent for a member to chose a retirement plan of payment that would provide less than a 50% benefit to a surviving spouse. As of November 30, 1997, the bill was pending in the House Health and Retirement Subcommittee.

Proposed Disability Reform

Although no bill has been introduced, the Joint Legislative Committee to Study Ohio's Public Retirement Plans has been holding hearings on a draft bill to reform the disability programs of the five state retirement systems. As of November 30, 1997 the draft bill includes the following provisions: that a disability benefit appli-

cant agree to medical treatment, as found necessary, as a condition of receiving disability retirement; that SERS provide an annual report of its disability experience by employer; that a disability benefit be offset by a Workers' Compensation award for the same injury; and that the spousal remarriage penalty be repealed.

Federal Legislation

The impact of Congressional and federal regulatory activities upon SERS has increased during recent years. SERS monitors activities on the federal level and, when necessary, contacts appropriate Congressional representatives and regulatory agencies in a effort to educate them as to the impact of their activities on SERS and its members and beneficiaries. Significant activities on the federal level over the past year include the following:

Taxation: Section 415

H.R. 3448 (Effective 8/20/96). This legislation amends Section 415 of the Internal Revenue Code to lessen its impact on public retirement systems. The legislation enacts a uniform definition of "compensation", exempts governmental plan benefits from the 100% of compensation limitation, authorizes governmental plans to establish excess plans and provides that governmental plan disability retirement and survivor benefits are not subject to Section 415.

Non-Discrimination

H.R. 2014 (Effective 8/8/97). This legislation exempts governmental plans from the non-discrimination requirements of the Internal Revenue Code (IRC). It also amends

IRC section 415(c) to afford members of governmental plans relief from provisions limiting purchases of service credit.

Social Security Offset and Windfall

H.R. 2273. This legislation, introduced on July 25, 1997 by Congressman Jefferson, would change the formula for calculation of the Social Security Offset. The legislation provides that the reduction in Social Security benefits that is required in the case of spouses who are also receiving certain government pensions shall be equal to the amount by which the combined monthly benefit before reduction exceeds \$1,200. Where combined SERS and spousal Social Security benefits are \$1,200 or less, there would be no reduction in the retirant's Social Security benefit. As of November 30, 1997 the bill was pending in the Ways and Means Committee.

H.R. 2549. This legislation, introduced on September 25, 1997 by Congressman Frank, would restrict the application of the Social Security Windfall Benefit Elimination provision. Where an individual's combined monthly benefit from Social Security and a governmental pension plan is \$2000 or less, there would be no reduction.

Public Employee Pension Liability Act of 1995

H.R. 510. This legislation, introduced on February 4, 1997 by Congressman Andrews, which is a new version of PEPPRA or PERISA, would establish a federal cause of action for failure of state/local employee pension plans to meet the terms of their plans. The bill would also create a Qualified Review Board to evaluate changes in employer contributions and other changes which affect pension plans.

SERS

Years of Service

Financial Section

Report of Independent Accountants

Coopers & Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

Report of Independent Accountants

Members of the Retirement Board
School Employees Retirement System of Ohio
Columbus, Ohio

We have audited the accompanying combining statement of plan net assets of School Employees Retirement System of Ohio as of June 30, 1997, and the related combining statement of changes in plan net assets for the year then ended. These financial statements and schedules are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of School Employees Retirement System of Ohio as of June 30, 1997 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 3, School Employees Retirement System of Ohio has implemented the provisions of Governmental Accounting Standards Board Statements (GASB) No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and GASB No. 26, Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.

In accordance with Government Auditing Standards, we have also issued a report dated December 12, 1997 on our consideration of the System's internal control structure and a report dated December 12, 1997 on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of administrative expenses and summary of investment expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedule of funding progress for the year ended June 30, 1992 was reported upon by other auditors, whose report stated that the schedule was fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Columbus, Ohio
December 12, 1997

Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P. is a member of Coopers & Lybrand International, a limited liability association incorporated in Switzerland.

**School Employees Retirement System
Combining Statement of Plan Net Assets
As of June 30, 1997**

Assets:	Pensions	Postemployment Healthcare	Total
Cash (note 5)	\$ 8,864,378	\$ 136,519	\$ 9,000,897
Receivables:			
Contributions:			
Employers (note 4)	73,952,643	68,379,232	142,331,875
Employees (note 4)	11,079,415		11,079,415
State of Ohio subsidies	415,110		415,110
Accrued investment income	23,041,507	354,857	23,396,364
Investment sale proceeds	54,377,329	837,453	55,214,782
Total receivables	162,866,004	69,571,542	232,437,546
Investments, at fair value (note 2)	6,167,757,976	94,988,249	6,262,746,225
Property and equipment, at cost (note 6)	11,218,613	172,775	11,391,388
Less accumulated depreciation	5,330,791	82,098	5,412,889
	5,887,822	90,677	5,978,499
Other assets (note 7)	2,699,425	41,573	2,740,998
Total assets	6,348,075,605	164,828,560	6,512,904,165
Liabilities:			
Accounts payable and accrued expenses (note 9)	3,052,489	47,011	3,099,500
Investment commitments payable	121,624,943	1,873,117	123,498,060
Health care benefits incurred and unpaid		16,487,970	16,487,970
Other liabilities (note 7)	2,379,006	36,639	2,415,645
Total liabilities	127,056,438	18,444,737	145,501,175
Net assets held in trust for pension and postemployment healthcare benefits	\$ 6,221,019,167	\$ 146,383,823	\$ 6,367,402,990

(A Schedule of Funding Progress is presented on page 23).

See notes to financial statements.

**School Employees Retirement System
Combining Statement of Changes In Plan Net Assets
For the year ended June 30, 1997**

Additions:	Pensions	Postemployment Healthcare	Total
Contributions:			
Employers (note 4)	\$ 161,950,878	\$ 97,292,477	\$ 259,243,355
Employees (note 4)	146,156,369		146,156,369
State of Ohio subsidies	415,110		415,110
Transfers from other Ohio systems	1,611,439		1,611,439
Total contributions	<u>310,133,796</u>	<u>97,292,477</u>	<u>407,426,273</u>
Investment income:			
Net appreciation in fair value of investments	806,471,517	8,998,655	815,470,172
Interest and dividends	136,713,821	1,525,461	138,239,282
Real estate income	38,254,550	426,846	38,681,396
	<u>981,439,888</u>	<u>10,950,962</u>	<u>992,390,850</u>
Less investment expenses	10,344,286	115,422	10,459,708
Net investment income	<u>971,095,602</u>	<u>10,835,540</u>	<u>981,931,142</u>
Total additions	<u>1,281,229,398</u>	<u>108,128,017</u>	<u>1,389,357,415</u>
Deductions:			
Benefits:			
Retirement	260,069,372		260,069,372
Disability	37,135,003		37,135,003
Survivor	14,918,620		14,918,620
Health care		97,429,197	97,429,197
Death	785,805		785,805
Total benefits	<u>312,908,800</u>	<u>97,429,197</u>	<u>410,337,997</u>
Refund of employee contributions	19,618,499		19,618,499
Administrative expenses	10,692,599	119,308	10,811,907
Transfers to other Ohio systems	2,863,606		2,863,606
Total deductions	<u>346,083,504</u>	<u>97,548,505</u>	<u>443,632,009</u>
Net increase	<u>935,145,894</u>	<u>10,579,512</u>	<u>945,725,406</u>
Net assets held in trust for pension and postemployment healthcare benefits:			
Balance, beginning of year (as restated) (note 3)	5,285,873,273	135,804,311	5,421,677,584
Balance, end of year	<u>\$ 6,221,019,167</u>	<u>\$ 146,383,823</u>	<u>\$ 6,367,402,990</u>

See notes to financial statements.

**School Employees Retirement System
Notes To Financial Statements
June 30, 1997**

1. Description of the System

Organization - The School Employees Retirement System of Ohio (SERS) is a cost-sharing multiple-employer public employee retirement system established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of Ohio public schools who are not required to possess a certificate in order to perform their duties.

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. SERS does not have financial accountability over any entities. SERS is not considered part of the State of Ohio financial reporting entity. Responsibility for the organization and administration of SERS is vested in the Retirement Board. The Retirement Board is the governing body of SERS. It is comprised of four elected employee-members, one elected retiree-member and two statutory members.

Employer and employee membership data as of June 30, 1997 follows:

Employer Members

Local	371
City	193
County	67
Village	49
Vocational	52
Technical	10
College.....	2
Other	5
Total.....	<u>749</u>

Employee Members

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>61,447</u>
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Current Employees

Vested	62,871
Non-vested	<u>40,868</u>
Total.....	<u>103,739</u>

Benefits - Members are eligible for retirement benefits based upon age and service credit as follows: age 60 and earning 5 years of service credit; between ages 55 and 60 and earning 25 years of service credit; or earning 30 years of service credit at any age. The benefit is equal to 2.1% of the member's final average salary, or a minimum of \$86, multiplied by the number of years of credited service. Members are eligible for disability benefits after completion of 5 years of service. Qualified dependents of a deceased member are eligible for monthly survivor benefits. Death benefits of \$500 are payable upon the death of a retiree to a designated beneficiary.

Members with credited service in the State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) are eligible to receive transferred credited service and funds from either or both of those systems. Any service which is not concurrent with service within SERS will be included in the determination of retirement benefits. Similarly, a member with credited service and funds in SERS may transfer such service to STRS or PERS upon retirement.

Retirees of any of the five state retirement systems must contribute to SERS if they are employed in a non-certificated position in the public schools. These contributions are credited to a separate money purchase annuity payable after age 65 in either monthly payments, if the monthly amount is \$25 or more, or in a lump sum.

Prior to July 1, 1986, all members receiving a benefit from SERS were eligible to receive health care benefits.

Notes To Financial Statements (Continued)

Members who retire effective July 1, 1986 or later must have at least ten or more years of service credit to qualify for the health care benefits. Effective August 1, 1989, 1) members retiring with more than 10 but less than 25 years of service credit were required to pay from 25% to 75% of the health insurance premium and 2) the SERS portion of spouse and dependent health insurance premiums was reduced from 50% to 30%.

2. Summary of Significant Accounting Policies

Basis of Accounting - SERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

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." Fixed income securities and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying country. Securities which are not traded on a national security exchange including real estate, venture capital and foreign exchange contracts, are valued by the respective fund manager or independent appraisers. Short term securities are valued at amortized cost, which approximates fair value.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those expenses directly related to SERS' investment operations, as well as the administrative expenses of SERS' investment department.

Office Building, Equipment and Fixtures

(Non-Investment Assets) - Office building, equipment and fixtures are capitalized at cost when acquired. Improvements which increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation has been provided using the straight-line method over the following useful lives:

Description	Estimated Lives (years)
Furniture and equipment	3-10
Building and improvements	40

Federal Income Tax Status - SERS is a qualified entity under Section 501(a) of the Internal Revenue Code and is therefore exempt from federal income taxes.

Health Care Benefits Incurred and Unpaid - Amounts accrued for health care benefits payable are based upon estimates furnished by the claims administrator. Such estimates have been developed from prior claims experience.

3. Changes in Accounting Policies

In fiscal 1997, SERS adopted Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*.

Under GASB Statement No. 25, the two required financial statements are the statement of plan net assets and the statement of changes in plan net assets. Statement No. 25 also requires that investments be carried at their fair value. As a result of implementation, there was an increase in net assets of \$539,503,680 at July 1, 1996 over the amount previously reported.

GASB Statements 25 and 26 require that financial statement information for pension and postemployment

Notes To Financial Statements (Continued)

healthcare benefits be presented in separate columns of combining financial statements. To meet this requirement, plan assets and liabilities not specifically identifiable to a plan were proportionately split between the pension and postemployment healthcare plans.

4. Contributions

The Ohio Revised Code requires contributions by active members and their employers. Contribution rates are established by the Retirement Board within the allowable rates established by the Ohio Revised Code. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Active members and their employers are required to contribute 9% and 14%, respectively, of active member payroll.

The current employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. For fiscal year 1997, the allocation of the employer contribution rate to basic retirement benefits has been established as the rate necessary to cover normal cost, plus an amortization of the unfunded actuarial accrued liabilities over a 30-year period. The employer contribution rate (14%) is allocated 9.79% to basic benefits and the remaining 4.21% is allocated to health care benefits.

During fiscal year 1995, the Retirement Board discontinued the advance-funding of health care benefits on an actuarially-determined basis, and adopted pay-as-you-go funding of health care. The minimum reserve for health care benefits equals 125 percent of annual health care expenses. Thus the target level for 1997 is \$121.8 million, but the actual balance is \$146.4 million.

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to \$222.1 million and \$142.8 million, respectively, in 1997. For basic benefits, the employer contributions consisted of \$69.4 million for normal cost and \$94.2 million for amortization of the

unfunded actuarial accrued liability. Employee contributions are applied to normal cost.

The health care surcharge on employers is collected for employees earning less than an actuarially-determined minimum pay, pro-rated according to service credit earned. For fiscal year 1997, the minimum has been established as \$12,400. The surcharge accrued for fiscal year 1997 included in contribution revenue from employers in the Combining Statement of Changes in Plan Net Assets is \$28.0 million.

5. Cash Deposits and Investments

Cash Deposits - By statute, the Treasurer of the State of Ohio (Treasurer) serves as custodian for all SERS deposits. Deposits are classified into three categories of credit risk to give an indication of the level of risk assumed by SERS. Category 1 includes deposits insured or collateralized with securities held by SERS or its agent in the name of SERS. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Treasurer. Category 3 includes deposits which are uncollateralized.

As of June 30, 1997, the carrying amount of SERS' deposits was \$9,000,897 and the bank balance was \$11,010,147. Of the bank balance, \$100,000 was insured by the Federal Deposit Insurance Corporation. The remaining bank balance was uncollateralized. The carrying amount of deposits is separately displayed on the balance sheet as "Cash".

Investments - The Retirement Board (the Board) has the responsibility to invest available funds of the System, in accordance with applicable state law and the guidelines set forth by the Board. SERS does not hold investments in any one organization representing five percent or more of plan net assets.

Effective March 6, 1997, S.B. 82 amended O.R.C 3309.15 and directs the Board to invest funds of the System fol-

Notes To Financial Statements (Continued)

lowing the "prudent person standard." This fiduciary standard dictates that the Board consider the probable safety of investments, avoid speculative investments, and invest as persons of prudence, discretion, and intelligence would manage their own affairs. The Board accomplishes this through a combination of internal and external investment professionals. Prior to S.B. 82, the Board was limited to a "legal list" of specific types of assets with minimal flexibility.

In accordance with Statement No. 3 of the Governmental Accounting Standards Board, SERS' investments are categorized to give an indication of the level of risk assumed by SERS at year-end. Category 1 includes investments that are insured or registered, with securities held by the Treasurer or custodial agent bank in SERS' name.

Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in SERS' name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent, but not in SERS' name.

In accordance with a contractual relationship between the Treasurer and a custodial agent bank, all securities subject to categorization are Category 1 investments held in book entry form in a unique account so as to be identified at all times as the possession of SERS. Direct mortgage loans, commingled stock funds, real estate funds, and venture capital funds are investments which by their nature are not categorized for level of risk purposes.

The following investment summary identifies the level of risk assumed by SERS as of June 30, 1997:

Category 1	Carrying Value	Fair Value
U.S. government obligations and U.S. government agency obligations	\$ 977,585,054	\$ 983,817,397
Collateralized mortgage obligations	290,077,060	291,211,126
Corporate bonds & notes	375,559,614	373,924,711
Canadian bonds	16,396,193	16,575,688
Common & preferred stock	905,988,115	1,089,945,870
Commercial paper	90,305,077	90,305,077
Repurchase agreement	842,000	842,000
U.S. agency discount notes	89,767,741	89,767,741
Total Category 1 Investments	<u>2,746,520,854</u>	<u>2,936,389,610</u>
Non-Categorized		
Real estate	550,430,072	561,625,400
Stock commingled funds	1,808,436,678	2,710,048,288
Venture capital	28,740,353	28,740,353
Direct mortgage loan	25,942,574	25,942,574
Total Non-categorized Investments	<u>2,413,549,677</u>	<u>3,326,356,615</u>
Total Investments	<u>\$ 5,160,070,531</u>	<u>\$ 6,262,746,225</u>

Notes To Financial Statements (Continued)

Foreign Currency Contracts - Forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into foreign currency contracts to hedge the foreign currency movements of assets held in the underlying funds. The System hedges 50% of the value of its assets in these funds to minimize the volatility of the underlying currency movements. As of June 30, 1997, SERS had outstanding contracts in the amount of \$427,851,948 which had a maturity date of July 28, 1997 and net gains on rejoined contracts of \$16,881,169 for the year. The System is exposed to credit loss in the event of non-performance by the other party to the contracts, however, the System does not anticipate non-performance by the counterparty.

Derivatives - The Ohio Revised Code authorizes SERS to invest in various types of instruments. The System has investments in mortgage-backed, asset-backed, interest-only strips, principal-only strips and adjustable-rate securities. These securities serve to maximize yields and to offset volatility in the Fund due to interest rate fluctuations. The System is exposed to market risk in the event of changing interest rates, security prices, and principal values of these individual securities. The System is also exposed to credit risk in the event that sufficient collateral is not maintained by the issuers of the asset-backed securities in case of default, however, SERS is not aware of any such instance. The fair value of these securities totaled \$841.2 million at June 30, 1997, representing 13.4% of the fair value of all investments.

6. Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30, 1997 follows:

Land	\$ 1,178,055
Building and improvements	4,268,349
Furniture and equipment	5,944,984
	<u>11,391,388</u>
Less accumulated depreciation	5,412,889
	<u>\$ 5,978,499</u>

7. Deferred Compensation

Employees of SERS may elect to participate in the **Ohio Public Employees Deferred Compensation Program** (Program), created in accordance with Internal Revenue Code Section 457. Under the Program, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon is not subject to income taxes until actually received by the employee.

As of June 30, 1997, the market value of investments in the Program totaled \$2,415,645 and has been included in other assets. Under the terms of the Program agreement, these monies are subject to the claims of SERS' general creditors. Accordingly, this amount is reflected as an asset along with a corresponding liability to the employees

Notes To Financial Statements (Continued)

participating in the Program. Participating employees are general creditors of SERS with no preferential claim to the deferred funds. Investments in the Program are held by the Program's agent in SERS' name.

8. *Defined Benefit Pension Plan*

SERS contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit plan. Under the authority granted by Section 145 of the Ohio Revised Code, PERS provides retirement, disability and survivor benefits for the public employees of Ohio. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing PERS, 277 East Town Street, Columbus, Ohio 43215.

Plan members are required to contribute 8.5% of earnable salary and employers are required to contribute at an actuarially determined rate. The current rate for miscellaneous employers is 13.55% of annual covered payroll. The contribution requirements for employees and employers are established and may be amended within statutory limits by the PERS Board. The payroll for employees covered by PERS for the year ended June 30, 1997 was \$4,149,295; SERS' total payroll was \$4,523,970. SERS' contributions to PERS for the years ending June 30, 1997, 1996 and 1995 were \$562,230, \$556,142 and \$564,658, respectively, equal to the required contributions for each year.

In addition to pension benefits, PERS provides postemployment health care benefits, in accordance with state statutes, to all employees who retire with 10 or more years of qualifying Ohio service credit and to disability recipients. At December 31, 1996, the plan had approximately 369,000 active participants.

A portion of each employer's contribution to PERS is set aside for the advanced funding of postemployment health care. Of the 13.55% of employee payroll contributed by

SERS to PERS, 5.11%, or approximately \$212,000, was the portion used to fund health care. Statutory rates equal the actuarially determined contribution requirements.

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 1995 valuation (most recent available) were (a) investment rate of return of 7.75%, (b) investments valued at book value plus or minus realized or unrealized investment gains and losses amortized at 25% per annum over a four-year period. (c) no change in the number of active employees, (d) base pay rate increases of 5.25% and annual pay increases over and above the 5.25% base increase ranging from 0% to 5.1%, and (e) health care increases of 5.25% annually.

Net assets held in trust at December 31, 1996 for post-employment health care benefits were \$7.3 billion. Unfunded actuarial accrual liabilities for local and miscellaneous employers are amortized over a period of 34 years for 1995 (the most recent valuation).

9. *Compensated Absences*

As of June 30, 1997, \$353,375 was accrued for unused vacation and sick leave for SERS' employees. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled or deceased after five years of service are entitled to receive payment for a percentage of unused sick leave.

10. *Contingent Liabilities*

SERS is a party in various litigation. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on SERS' financial position.

Required Supplementary Information

Schedule of Funding Progress* (In Millions)

<u>Valuation Year</u>	<u>Actuarial Accrued Liabilities (AAL)</u>	<u>Valuation Assets</u>	<u>Unfunded Actuarial Accrued Liabilities (UAAL)</u>	<u>Ratio of Assets to AAL</u>	<u>Active Member Payroll</u>	<u>UAAL as a % of Active Member Payroll</u>
1992	\$4,693	\$3,330	\$1,363	71%	\$1,244	110%
1993	5,052	3,673	1,379	73	1,313	105
1994	5,381	3,952	1,429	73	1,361	105
1995	5,839	4,310	1,529	74	1,430	107
1996	6,184	4,766	1,418	77	1,476	96
1996**	6,129	4,778	1,351	78	1,476	92
1997***	6,504	5,521	983	85	1,552	63

* The amounts reported in this schedule do not include assets or liabilities for postemployment healthcare benefits.

** Revised assumptions and asset valuation method.

*** Revised asset valuation method.

Schedule of Employer Contributions*

<u>Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
1992	\$113,268,331	100%
1993	117,959,733	100
1994	119,849,473	100
1995	128,603,843	100
1996	150,103,657	100
1997	144,487,949	100

*The amounts reported in this schedule do not include contributions for postemployment healthcare benefits.

Notes To Required Supplementary Schedules

1. *Description of Schedule of Funding Progress*

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. Laws governing the System require that these unfunded accrued liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

The Schedule of Funding Progress includes two ratios that provide information about whether the financial strength of the System is improving or deteriorating over time. An improvement is indicated when the funded ratio (assets expressed as a percentage of the actuarial accrued liability) is increasing and the ratio of the unfunded actuarial liability to payroll is decreasing.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date: June 30, 1997

Actuarial cost method: Entry age normal

Amortization method: Level percent of payroll contributions

Remaining amortization period: 24 Years

Asset valuation method: 4-Year smoothed market

Actuarial Assumptions:

Investment rate of return* - 8.25%

Projected salary increases* - 5.25% to 9.25%

Cost of living adjustments - 3% simple

*Includes inflation at 4.25%

Administrative Expenses*

For the year ended June 30, 1997

Personnel Services:

Salaries.....	\$ 4,523,970
Retirement contributions.....	562,230
Insurance	484,236
Total personnel services.....	<u>5,570,436</u>

Professional Services:

Medical	422,898
Technical and actuarial.....	505,595
Auditing	68,558
Employee training.....	178,124
Total professional services.....	<u>1,175,175</u>

Communications:

Postage	472,356
Telephone	53,237
Retirement counselling services	9,702
Printing and publications.....	251,489
Total communications.....	<u>786,784</u>

Other Services:

Computer support services	2,152,499
Equipment repairs and maintenance	42,411
Building occupancy and maintenance	668,818
Supplies.....	101,769
Transportation and travel	176,863
Equipment rental.....	92,808
Surety bonds and insurance	86,982
Memberships and subscriptions.....	67,659
Retirement study commission.....	37,768
Miscellaneous	30,371
Total other services.....	<u>3,457,948</u>
Total administrative expenses before depreciation.....	<u>10,990,343</u>

Depreciation (Non-Investment):

Furniture and equipment.....	649,215
Building.....	112,172
Total depreciation.....	<u>761,387</u>
Total administrative expenses	<u>\$ 11,751,730</u>

*Includes investment related administrative expenses.

**Summary of Investment Expenses
For the year ended June 30, 1997**

Description of Expense	Assets Under Management	Fees
Domestic equity	\$ 2,860,675,499	\$ 3,012,355
Domestic fixed income	1,707,499,161	2,450,698
Global equity	970,542,161	1,075,575
Real estate	587,567,974	1,930,514
Total investment management fees.....		<u>8,469,142</u>
Custodial fees		357,016
Investment consultant fees		685,065
Other investment expenses		8,662
Investment department administrative expenses (see note 2)		939,823
Total other investment expenses.....		<u>1,990,566</u>
Total investment expenses.....		<u>\$ 10,459,708</u>



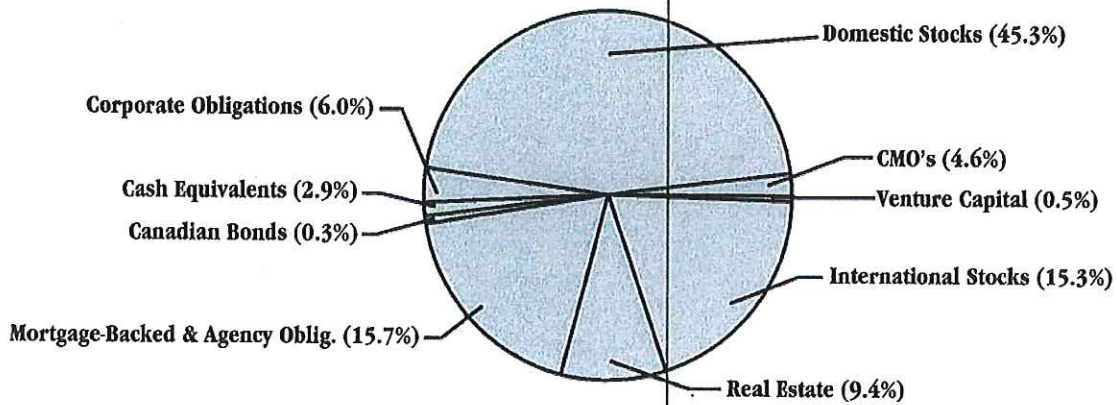
SPFRS

Years of Service

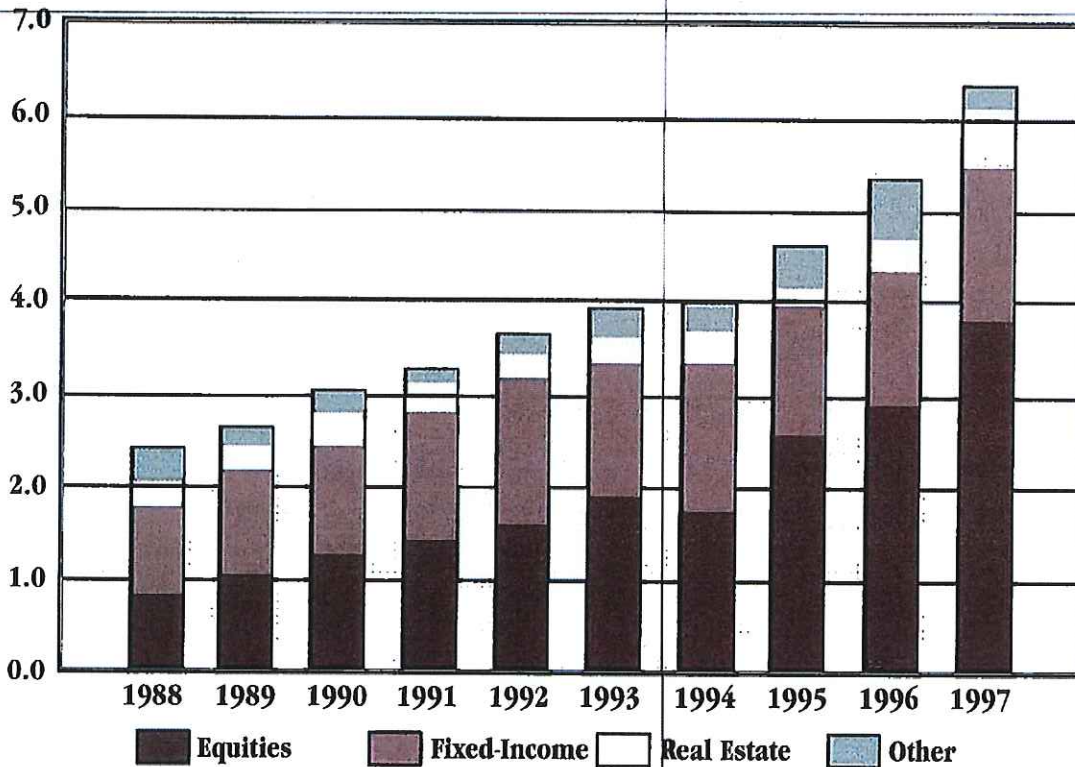
Investment Section

Investment Section

Investment Distribution at Fair Value as of June 30, 1997



Ten Year Investment Comparison at Fair Value (in billions)



Investment Report

Introduction

The Ohio Revised Code and Board-adopted policies govern the investment program of SERS. During the year, the governing state statute was modified to adopt a "prudent person" provision for investment activities.

Furthermore, state statutes require that SERS' Board and its fiduciaries discharge their duties solely in the interest of the fund's participants and beneficiaries. Board policy specifically outlines diversification methods, return expectations, and risk levels that SERS fiduciaries should adhere to when managing the System's assets.

Accomplishments

During the past fiscal year, two major goals were set. The first goal was for SERS staff, investment consultant and the Board to review SERS' assets and liabilities for possible revisions to individual asset classes. A review of Ohio-based money managers for possible additions to our portfolio was the second goal.

Both goals were accomplished. In the first instance, our asset allocation was modified to increase the amount invested in non-US equities from ten to fifteen percent of the investment portfolio. Two percent of this exposure may be invested in non-US emerging markets. Venture capital was reduced from two to one percent of the portfolio. Short-term investments were reduced from five to one percent of the portfolio. Additionally, the allowable ranges for investing for equities, fixed income, and venture capital were narrowed. These policy changes became effective on July 1, 1997.

A review of Ohio-based money managers led to the selection of Oak Associates, an Akron-based US Equity manager, and Johnson Investment Counsel, a Cincinnati-based Fixed Income manager. Funding occurred in January 1997.

In addition to these two goals, other major efforts were undertaken during the year:

- Nearly doubling the size of the real estate portfolio to slightly below the Board's long-term target with the selection of five new managers and increased funding for current managers.
- In addition to the Ohio-based manager search, concluded searches for a specified REIT manager (Real Estate) and an emerging markets manager (non-US Equity). These managers were subsequently funded in July 1997.

Asset Allocation

As mentioned earlier, the SERS staff, investment consultant and Board were involved in the selection of five additional advisors for the real estate portfolio and an additional assignment for a non-US international money manager in emerging market investing. Nearly 60% of the US Equity and non-US Equity continues to be passively invested through index funds.

As of June 30, 1997, the portfolio was diversified in the following manner:

- US Equity was 45.6% of the Fund compared to our 45% target
- Non-US Equity was 15.5% of the Fund compared to our 15% target
- US Fixed-Income was 27.3% of the Fund compared to our 28% target
- Real Estate was 9.4% of the Fund compared to our 10% target
- Venture Capital was 0.5% of the Fund compared to our 1% target, and
- Short term assets were 1.7% of the Fund compared to our 1% target.

Based on the current holdings, the fund is at or near the long-term allocations set by the Board for each asset class.

Equities

Our well-diversified investments of the SERS US equity and non-US equity portfolios are designed to limit risk

Investment Report (Continued)

from a specific company or economic region. Different equity managers are hired with mandates for specific style characteristics.

These styles include growth and value stocks as well as large, medium, and small capitalization companies. By having various styles, under-performance in one area may be balanced by better than expected performance elsewhere. For international managers, the approach is augmented by a regional or country expertise.

Both US and non-US equity portfolios earned excellent returns for fiscal year 1997. The US equity portfolio returned 29.6% for the year compared to the benchmark Russell 3000 return of 30.6%. For three years the return equals 26.6%; for five years the return equals 18.3%.

The non-US equity portfolio returned 17.1% for the year compared to the benchmark Morgan Stanley Capital International, Europe, Australia, and Far East (MSCI-EAFE) Index of 17.7% (50% US \$ Hedged). Because this portfolio is newer, no three or five year returns have been established.

Fixed Income

The fixed income investments are managed to provide diversification against equities. While all of our managers have a broad U.S. market mandate, individual management firms have been chosen based on their differing approaches to this mandate. Consequently, within the portfolio there exists some style diversification which would soften the impact of varying market trends.

Performance of the portfolio has been above the benchmark index, the Shearson Lehman Aggregate. For the fiscal year ending June 1997, the portfolio returned 8.5% versus the index return of 8.2%. For three years the return equals 8.3%; for five years the return equals 6.5%. On June 30, 1997, the fixed income portfolio had an average maturity of 11.5 years and an effective duration of 4.8 years. The benchmark had an average maturity of 8.6 years and an effective duration of 4.7 years.

Compared to the index sector composition, the SERS fixed income portfolio was underweight in treasury and

agency securities, and overweight in mortgage-backed, corporate and asset-backed securities. The portfolio had a yield to maturity of 6.49% with an average coupon of 6.96%. The average quality of the portfolio was AAA rated, matching the index rating.

Real Estate

SERS had nearly \$600 million invested in real estate through commingled funds and separate accounts at June 30, 1997. The NCREIF Property Index, a national barometer of real estate performance, mirrored the continued improvement in the real estate market with one-year returns increasing to 10.1% in fiscal year 1997 from 8.2% in fiscal year 1996.

The one-year return from real estate held by SERS was 12.2%, exceeding the benchmark NCREIF Property index by 210 basis points. For three years, the return equals 11.3%; for five years the return equals 7.3%, putting SERS in the top quartile of real estate investment returns for each of these time periods.

Much of the recent improvement has been led by the office sector, particularly suburban markets. The western region, with California leading the way, showed strong increases in returns for most property types.

Improved market fundamentals and heavy capital flows from private, public, and institutional investors have contributed to the continued improvement in real estate. While some markets have begun to show signs of new building, many believe that the current real estate cycle will remain healthy for the next several years.

Venture Capital

With assets at \$28.8 million, venture capital is not a large percentage of the portfolio. Returns for fiscal year ending June 30, 1997 were a negative 24.5%. The make-up of the portfolio contributed to the loss - several investments are near the end of their expected holding period and others are in the early stages of investing. In both cases, positive returns are difficult to generate. Even though the results for the past fiscal year were disap-

Investment Report (Continued)

pointing, our results of 39.0% and 37.2% for the past three and five year periods, respectively, have been outstanding.

During the next year we expect to examine the feasibility of widening the focus of this area to all alternative investments, including other private equity, natural resources, and private debt instruments.

Fund Strategy

The main theme of our strategy for the next fiscal year will be to continue to maximize the return to the Fund with an acceptable level of risk. By diversifying with different asset classes and different approaches within each asset class, we can continue to exceed the actuarial earn-

ing rate needed to meet future liabilities over the long-term.

During the next fiscal year, the staff will commence a search in the equity area for active small capitalization managers. In the past we have only invested in this class through passive indexes because of restrictive statutes which were updated in 1996.

Understanding the risks and rewards of investing in alternative asset classes will be the second large focus for the coming year. A recommendation will be presented to the Board prior to the end of the fiscal year. The recommendation will include what percentage, if any, should be allocated to alternative investments and secondly, the structure of how the investing should be done.

**Schedule of Investment Results
For the years ended June 30**

Annualized Rates of Return

	1997	1996	1995	1994	1993	3-Year	5-Year	10-Year
Stock domestic								
SERS	29.6%	25.0%	24.8%	1.3%	12.7%	26.6%	18.3%	13.8%
Standard & Poor's 500	34.8	26.1	26.1	1.4	13.6	28.9	19.8	14.6
Russell 3000 Index	30.6	26.0	24.9	1.0	16.0	27.1	19.2	14.2
Stock international								
SERS	17.1	22.2	-	-	-	-	-	-
MSCI-EAFE 50% U.S. \$ Hedged Index	17.7	22.2	-	-	-	11.9	13.7	-
Fixed-income								
SERS	8.5	5.2	11.3	(2.5)	10.4	8.3	6.5	8.8
Lehman Bros. Aggregate	8.2	5.0	12.5	(1.3)	11.8	8.5	7.1	8.8
Real estate								
SERS	12.2	10.8	10.6	7.2	(3.9)	11.3	7.3	3.8
NCREIF(one quarter in arrears)	10.1	8.2	7.9	4.5	(3.3)	8.4	4.6	4.2
Short-term								
SERS	5.5	5.8	5.5	3.5	3.3	5.6	4.7	6.1
Salomon Bros. 30 Day Treas. Bill	4.9	5.2	4.8	3.1	2.9	5.0	4.2	5.2
Venture capital								
SERS	(24.5)	116.6	64.3	49.9	20.6	39.0	37.2	16.0
Standard & Poor's 500 + 500 bp	39.8	31.1	31.1	6.4	21.0	33.9	24.8	19.6
Total portfolio								
SERS	19.0%	16.8%	16.6%	0.6%	9.7%	17.5%	12.4%	10.6%
*Policy Benchmark	20.1%	16.4%	16.0%	1.0%	9.4%	17.6%	12.4%	10.5%

Source: Frank Russell Company

All returns are reported gross of fees, using a time-weighted rate of return based on the market rate of return, in accordance with the Association for Investment Management and Research (AIMR) standards.

*Policy Benchmark (45% of Russell 3000, 15% MSCI-EAFE (50% Hedged), 1% S&P 500+500 BP, 28% Lehman Brothers Aggregate, 10% NCREIF Property (1 qtr in arrears), 1% Salomon Bros. 30 day T-bill)

Investment Section

Investment Summary as of June 30, 1997

Portfolio Type	Fair Value	% Of Total Fair Value	Policy	Policy Range
U.S. Equity	\$2,860,675,499	45.6%	45.0%	42-48%
Non-U.S. Equity	970,542,161	15.5	15.0	10-16
Fixed Income	1,707,499,161	27.3	28.0	25-31
Real Estate	587,567,974	9.4	10.0	5-15
Venture Capital	28,740,353	0.5	1.0	0-3
Short Term	107,721,077	1.7	1.0	0-3
Total	\$6,262,746,225	100.0%	100.0%	

Largest Stock Holdings (By Fair Value) as of June 30, 1997

Description	Shares	Fair Value
1) Bristol-Myers Squibb Co.	233,500	\$18,913,500
2) Philip Morris Cos., Inc.	372,400	16,478,700
3) Intel Corp.	115,300	16,350,981
4) Chase Manhattan Corp.	167,100	16,219,144
5) Coca-Cola Co.	193,600	13,164,800
6) PepsiCo, Inc.	348,200	13,079,263
7) Ford Motor Co.	321,400	12,213,200
8) American International Group, Inc.	74,600	11,143,375
9) Hewlett Packard Co.	198,400	11,110,400
10) Monsanto Co.	256,800	11,058,450

Largest Fixed-Income Holdings (By Fair Value) as of June 30, 1997

Description	Rating	Coupon	Date	Par Value	Fair Value
1) Federal Home Loan Bank	AAA	5.500	07/01/97	\$66,753,000	\$66,753,000
2) Treasury Note	AAA	6.500	05/31/02	65,200,000	65,464,712
3) Treasury Bond	AAA	7.500	11/15/16	51,320,000	54,840,039
4) Treasury Note Inflation Adjusted	AAA	3.375	01/15/07	53,450,959	52,164,929
5) Treasury Bond	AAA	6.625	02/15/27	36,700,000	35,908,748
6) Treasury Note	AAA	7.750	01/31/00	30,880,000	32,004,341
7) Treasury Note	AAA	6.250	08/31/00	29,000,000	28,981,730
8) Treasury Note	AAA	5.750	08/15/03	25,000,000	24,140,500
9) GNMA I 345931	AAA	6.500	02/15/24	23,328,067	22,502,953
10) Treasury Bond	AAA	6.000	02/15/26	23,061,000	20,639,595

Investment Consultants & Money Managers

Investment Consultants

Frank Russell Company - Tacoma, Washington
Ronald Karp Associates - Sicklerville, New Jersey

Investment Managers - Equities

Brandywine Asset Management, Inc. -
Wilmington, Delaware
Chancellor LTG Asset Management - New York, New York
Equinox Capital Management, Inc. - New York, New York
Gardner Lewis - Chadds Ford, Pennsylvania
Lincoln Capital Management Company - Chicago, Illinois
Mackay Shield Financial Corp. - New York, New York
Oak Associates - Akron, Ohio
Oechsle International Advisors - Boston, Massachusetts
~~Sanford Bernstein - New York, New York~~

State Street Global Advisors - Boston, Massachusetts

Investment Manager - Foreign Currency

State Street Global Advisors - Boston, Massachusetts

Investment Managers - Venture Capital

Alpha Capital Partners, Limited - Dayton, Ohio
Blue Chip Venture Company - Cincinnati, Ohio
Brantley Venture Partners, L.P. - Cleveland, Ohio
Cardinal Development Fund - Columbus, Ohio
CID Equity Partners - Indianapolis, Indiana
Morgenthaler Venture Partners - Cleveland, Ohio
Primus Venture Partners - Cleveland, Ohio

Investment Managers - Fixed-Income

Dodge & Cox Investment Managers -
San Francisco, California
Johnson Investment Counsel, Inc. - Cincinnati, Ohio
J.P. Morgan Investment Management, Inc. -
New York, New York
Sanford Bernstein - New York, New York
Western Asset Management Company -
Pasadena, California

Investment Managers - Real Estate

Allegis Realty Investors LLC - Hartford, Connecticut
CIGNA Investment Management - Hartford, Connecticut
J.P. Morgan Investment Management, Inc. -
New York, New York

K/B Opportunity Fund - Newport Beach, California
LaSalle Partners Limited - Chicago, Illinois
L & B Real Estate Counsel - Dallas, Texas
Phoenix Realty Advisors, Inc. - Hartford, Connecticut
Sentinel Real Estate Corp. - New York, New York
ERE Yarmouth - New York, New York

Master Custodians

Huntington National Bank - Columbus, Ohio
Bank of New York - New York, New York

Summary Schedule of Brokers' Fees

For the year ended June 30, 1997

Brokerage fees on investment transactions for the fiscal year ended June 30, 1997 were \$1,605,199. A list of the brokers receiving these fees during the year follows.

Broker Name	Fees Paid (\$)	# Of Shares Traded	Avg. Cost Per Share
Merrill Lynch & Co.....	\$ 309,020	6,334,983	\$0.049
Warburg, S.G. & Co.	236,460	16,127,758	0.015
Morgan Stanley & Co.	141,601	8,663,805	0.016
Paine Webber, Inc.....	114,542	2,081,671	0.055
Bear, Stearns Companies, Inc.....	82,813	1,528,200	0.054
Union Bank Of Switzerland	78,203	10,988,480	0.007
Donaldson, Lufkin & Jenrette, Inc	58,496	1,153,899	0.051
Salomon Brothers	55,726	2,410,370	0.023
Goldman Sachs & Co.	55,114	3,930,151	0.014
Lehman Brothers	34,599	1,048,068	0.033
Lewco Securities Corp.	28,152	495,500	0.057
Prudential Securities Inc.....	27,255	507,133	0.054
Capel, James & Co.	24,918	990,502	0.025
Smith Barney Inc.....	23,793	562,800	0.042
J.P. Morgan Securities Inc.....	20,942	321,288	0.065
CS First Boston Corp.....	20,908	512,107	0.041
Ernst & Co.....	19,898	338,900	0.059
Sanford C. Bernstein & Co., Inc.....	17,139	295,742	0.058
UBS Securities	15,971	317,100	0.050
Cantor Fitzgerald & Co.....	11,534	362,400	0.032
Oppenheimer & Co., Inc.....	11,428	200,500	0.057
Jefferies & Co.	10,971	216,900	0.051
Hoare Govette LTD.....	10,664	627,409	0.017
Barclays Global Investors.....	10,651	604,500	0.018
Fidelity Capital Markets.....	10,351	516,826	0.020
Cowen & Co.....	10,252	187,000	0.055
Brokers' fees less than \$10,000 each	163,798	5,104,335	0.032
Grand Total	<u>\$1,605,199</u>	<u>66,428,327</u>	<u>\$0.024</u>

SERS participates in a Commission Recapture Program directed by Frank Russell Company. During the fiscal year SERS received \$722,256 in rebates under this program.

Investment Portfolio

As of June 30, 1997

Combined Fixed-Income Portfolio

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
Foreign Obligations						
Ontario Province	AA3	8.000	10/17/01	\$ 5,000,000	\$ 5,320,037	\$ 5,241,000
Quebec Hydro	A2	7.500	04/01/16	2,000,000	1,959,228	1,981,780
Quebec Hydro	A2	8.050	07/07/24	3,600,000	3,920,457	3,902,328
Quebec Hydro	A2	9.500	11/15/30	4,500,000	5,196,471	5,450,580
Total Foreign Obligations				\$ 15,100,000	\$ 16,396,193	\$ 16,575,688
Corporate Obligations						
American General Finance	A2	8.125	08/15/09	\$ 250,000	\$ 269,724	\$ 265,480
Anheuser Busch Company	A1	8.750	12/01/99	10,000,000	10,246,550	10,501,000
Associates Corporation	AA3	5.750	10/15/03	10,000,000	9,752,006	9,417,300
Associates Corporation	AA3	7.250	09/01/99	3,750,000	3,838,229	3,810,900
Associates Corporation	AA3	7.600	12/17/02	7,000,000	7,000,000	7,231,210
Associates Corporation	AA3	7.650	12/23/02	5,000,000	5,000,000	5,176,500
Baltimore Gas & Electric Company	A1	5.500	04/15/04	5,000,000	4,818,604	4,585,250
Bank One Corporation	A1	7.250	08/01/02	13,390,000	13,619,347	13,624,727
BankAmerica Capital II	AA3	8.000	12/15/26	12,500,000	12,602,285	12,669,750
Bear Stearns & Company	A2	7.625	09/15/99	1,842,000	1,899,727	1,885,932
Chesapeake & Potomac Tel.	AA2	8.300	08/01/31	3,375,000	3,975,985	3,771,158
Citicorp Capital Trust I	AA3	7.933	02/15/27	4,500,000	4,501,391	4,505,940
Coca-Cola Company	AA3	7.875	09/15/98	6,000,000	6,057,449	6,119,580
Comerica Bank	A2	6.875	03/01/08	250,000	241,644	242,035
CONRAIL	BAA2	9.750	06/15/20	8,000,000	10,029,913	9,796,720
Countrywide Capital	A3	8.000	12/15/26	700,000	702,806	699,153
Dayton Hudson Corporation	BBB1	8.875	04/01/22	3,000,000	3,308,235	3,373,350
Dayton Hudson Corporation	BBB1	9.700	06/15/21	6,250,000	7,555,774	7,538,813
First Union Corporation	A2	7.500	07/15/06	250,000	255,406	256,133
Ford Holdings	A1	9.250	03/01/00	6,000,000	5,945,966	6,385,320
Ford Motor Company	A1	9.950	02/15/32	10,500,000	13,322,388	13,508,985
Ford Motor Credit Company	A1	6.800	04/23/01	10,000,000	9,880,867	10,017,100
Ford Motor Credit Company	A1	6.900	06/05/00	5,000,000	5,021,333	5,036,700
Ford Motor Credit Company	A1	8.375	01/15/00	3,575,000	3,757,687	3,729,333
General Electric Capital Corporation	AAA	8.500	07/24/08	2,250,000	2,559,954	2,517,210
General Electric Capital Corporation	AAA	8.875	05/15/09	9,500,000	11,129,275	10,866,385
General Motors Acceptance Corporation	A3	0.000	06/15/15	10,300,000	2,928,355	2,914,900
General Motors Acceptance Corporation	A3	6.875	07/15/01	11,000,000	10,888,524	11,044,110
General Motors Acceptance Corporation	A3	7.125	05/01/03	4,000,000	4,070,878	4,043,520
General Motors Acceptance Corporation	A3	8.625	06/15/99	3,535,000	3,701,571	3,677,354
General Motors Acceptance Corporation	A3	8.875	06/01/10	11,500,000	13,505,694	13,108,045
General Motors Corporation	A3	7.400	09/01/25	5,500,000	5,289,686	5,403,365
General Telephone of California	A1	6.750	03/15/04	250,000	248,771	248,315
Golden West Financial	A3	6.700	07/01/02	4,500,000	4,482,895	4,456,890
GTE Corporation	A3	7.900	02/01/27	7,000,000	7,000,000	7,055,300
Honeywell, Incorporated	A2	7.125	04/15/08	250,000	251,926	251,243
Household Finance Company	A2	6.375	06/30/00	3,895,000	3,914,456	3,868,436
Inter-American Dev. Bank	AAA	7.125	03/15/23	10,000,000	9,551,742	9,531,400
International Business Machines Corp.	A1	6.375	06/15/00	250,000	249,824	249,188
ITT Hartford	A2	6.375	11/01/02	1,500,000	1,488,832	1,468,035
ITT Hartford	A	8.300	12/01/01	7,000,000	7,349,990	7,357,280
J.C. Penney & Company	A2	5.375	11/15/98	6,000,000	5,948,391	5,930,820
J.P. Morgan Cap Trust	AA2	7.540	01/15/27	5,000,000	4,844,403	4,783,850
J.P. Morgan Cap Trust II	AA	7.950	02/01/27	700,000	700,000	700,714

Investment Section

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
Corporate Obligations (Continued)						
Loews Corporation	A1	7.625	06/01/23	\$ 6,000,000	\$ 5,717,943	\$ 5,709,360
May Department Stores	A2	7.625	08/15/13	5,750,000	5,939,860	5,825,153
May Department Stores	A2	7.875	08/15/36	2,500,000	2,465,628	2,523,050
May Department Stores	A2	8.125	08/15/35	5,000,000	5,355,526	5,114,250
NBD Bancorp	A2	7.125	05/15/07	250,000	250,585	249,383
Norfolk Southern	BAA1	7.700	05/15/17	3,500,000	3,495,724	3,579,030
Norwest Corporation	AA3	6.200	12/01/05	5,000,000	4,993,235	4,746,600
Norwest Corporation	AA3	6.500	06/01/05	6,950,000	6,825,222	6,717,106
Pacific Bell	A1	5.875	02/15/06	5,000,000	4,504,336	4,635,150
PepsiCo, Incorporated	A1	7.625	11/01/98	12,000,000	12,110,656	12,210,360
PepsiCo, Incorporated	A1	7.750	10/01/98	20,000,000	20,362,809	20,371,200
Ralston Purina Company	BAA1	7.750	10/01/15	8,050,000	8,107,261	8,161,090
Sears Roebuck Acceptance	A2	7.110	06/19/01	5,000,000	5,123,072	4,990,600
Sherwin-Williams Company	A2	6.850	02/01/07	250,000	251,990	247,458
Smith Barney Holdings	A2	7.000	05/15/00	4,000,000	4,077,448	4,038,560
Southern New England Telecom.	A1	6.500	08/15/00	3,700,000	3,728,055	3,683,757
Star Bank	A3	6.625	12/15/06	250,000	245,534	240,313
Swiss Bank Corp - NY	AA2	7.750	09/01/26	4,250,000	4,161,849	4,338,740
Texas Instruments	A3	6.125	02/01/06	250,000	236,040	235,035
Union Electric Company	A1	6.875	08/01/04	8,000,000	8,521,986	7,991,200
Union Electric Company	A1	7.650	07/15/03	7,000,000	7,459,212	7,294,980
Walt Disney Company	A2	5.800	10/27/08	5,550,000	5,288,551	5,034,294
Walt Disney Company	A1	7.550	07/15/93	7,500,000	7,705,725	7,469,850
Warner Lambert	A1	6.625	09/15/02	250,000	245,719	249,410
Wisconsin Electric Power	AA2	7.250	08/01/04	1,000,000	998,275	1,019,070
WMX Technologies Incorporated	A3	6.250	10/15/00	3,675,000	3,678,890	3,624,983
Total Corporate Obligations				<u>\$ 370,737,000</u>	<u>\$ 375,559,614</u>	<u>\$ 373,924,711</u>
Collateralized Mortgage Obligations						
Asset Sec. Corporation 1995-MD4 CLA1	AAA	7.100	08/13/29	\$ 3,598,919	\$ 3,494,217	\$ 3,639,497
Asset Sec. Corporation 1996-D2 A1	AAA	6.920	02/14/29	6,643,009	6,468,912	6,631,522
Asset Sec. Corporation 1996-D3 A1 A	AAA	7.010	10/13/26	549,615	555,978	556,485
Asset Sec. Corporation 1996-MD6A1B	AAA	6.880	11/13/26	3,500,000	3,530,209	3,498,355
Asset Sec. Corporation 1997-D4 A1 D	AAA	7.490	04/14/27	6,700,000	6,723,345	6,909,375
Banc One Auto Trust Ser 1996-A A	AAA	6.100	10/15/02	1,375,703	1,375,412	1,376,556
Banc One Auto Trust Ser 1996-B A	AAA	6.550	02/15/03	1,221,497	1,221,497	1,227,213
Boatmens Auto Trust Ser 1995-A A3	AAA	6.100	05/15/00	3,866,614	3,860,501	3,873,845
Caterpillar Finl. Asset Trust 1996-A A3	AAA	6.300	07/25/02	3,100,000	3,100,000	3,112,183
Chase 1994-G AP PO	AAA	0.000	04/25/25	1,573,389	1,107,607	909,088
Chase 1994-H AP PO	AAA	0.000	06/25/25	2,100,687	1,298,757	1,238,145
Chase Man. Auto Owner Trust 1996-C A3	AAA	5.950	11/15/00	5,000,000	4,997,976	4,973,400
CMC Securities Corporation 1993-FA2	AAA	6.750	11/25/23	760,000	760,891	760,891
Contimortgage Home Eq Trust 1997-3 A3	AAA	6.680	05/15/12	3,600,000	3,609,060	3,606,750
Copelco Capital Fund Corp. 1996-A A	AAA	6.340	07/20/04	2,773,026	2,771,453	2,797,401
CS First Boston Mort. Sec. 1997-C1 A1B	AAA	7.150	06/20/29	3,000,000	3,045,000	3,045,000
Discover Card Trust 1991-D A	AAA	8.000	10/16/00	5,000,000	5,122,206	5,089,050
Drexel X 3 PO	AAA	0.000	12/01/18	2,534,073	2,142,300	1,926,681
FHLB Series CS-03	AAA	6.465	12/20/03	250,000	247,661	243,984
FHLB Series DJ-03	AAA	6.625	12/23/03	250,000	248,092	245,625
FHLMC 1693-H	AAA	6.000	12/15/08	20,000,000	18,858,456	19,025,000
FHLMC CMO Series L-5	AAA	7.900	05/01/01	2,177,314	2,177,314	2,198,390

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
Collateralized Mortgage Obligations (Continued)						
FHLMC CMO Series M-6	AAA	8.800	12/01/15	\$ 4,173,780	\$ 4,119,046	\$ 4,298,993
FHLMC GMC Series D-1979	AAA	12.450	09/15/09	2,330,186	2,265,638	2,345,478
FHLMC PC 1473-HA	AAA	7.000	01/15/08	11,000,000	10,937,331	11,010,230
FHLMC STRIP 140 B 10	AAA	9.500	09/01/21	2,483,537	673,659	784,624
FHLMC Structured Note T-4 A1	AAA	7.625	08/25/22	6,618,597	6,672,540	6,705,466
First Plus 1997-2 A1	AAA	6.340	04/10/23	1,265,350	1,265,323	1,264,946
First Plus 1997-2 A2	AAA	6.310	04/10/23	2,900,000	2,899,764	2,899,072
First Union - Lehn Comm 1997-C1 A3	AAA	7.380	04/18/29	1,700,000	1,716,603	1,735,054
FNMA CMO SER.G946 Class PY	AAA	7.750	05/17/24	775,000	811,606	787,834
FNMA CTF 1992-4 H	AAA	7.500	02/25/07	17,000,000	17,115,217	17,276,250
FNMA 1992-110 J	AAA	7.000	12/25/06	9,358,000	9,329,266	9,319,913
FNMA 1992-166J	AAA	7.000	05/25/07	11,000,000	10,839,202	11,003,410
FNMA 1993-103 Class PV	AAA	7.000	02/25/14	1,135,934	71,351	37,315
FNMA 1993-78 G	AAA	6.500	11/25/07	4,917,000	4,795,405	4,832,477
FNMA CMO Series 1993-215 H	AAA	9.000	08/25/17	1,622,191	1,687,318	1,696,699
FNMA CMO Series 1993-23	AAA	7.500	03/25/23	2,126,739	2,102,401	2,057,923
FNMA G-16 CL A PO	AAA	0.000	06/15/21	665,014	549,000	481,092
FNMA G-2 CL B PO	AAA	0.000	02/25/20	1,914,492	1,554,009	1,438,855
FNMA-ACBS 1997-M2 Z	AAA	7.350	01/17/37	1,498,185	1,360,225	1,432,864
GNMA CMO Series 1984-2 E	AAA	7.875	04/25/08	9,649,075	9,813,561	9,799,793
Green Tree Financial Corp. 1995-10 A2	AAA	5.800	02/15/27	4,770,695	4,695,529	4,758,821
Green Tree Financial Corp. 1995-8 A2	AAA	6.150	01/15/26	4,413,848	4,412,273	4,417,472
Green Tree Financial Corp. 1995-9 A2	AAA	6.000	01/15/27	5,229,537	5,243,954	5,226,242
Green Tree Financial Corp. 1996-A A1	AAA	5.550	02/15/18	3,742,999	3,739,448	3,697,568
Greentree Home Imp. 1996-D HEA 1	AAA	6.500	09/15/27	1,502,548	1,502,548	1,506,770
GSBA (504) Series 1997-20E	AAA	7.300	05/01/17	5,000,000	5,000,000	5,000,000
Health Care Receivables (144A) 1996-1 A	AAA	7.200	07/01/00	1,100,000	1,100,000	1,112,210
Housing Securities 1994-3 A4	AAA	7.250	11/25/17	1,705,000	1,707,335	1,708,632
Lehman FHA Hil 1996-3 A-7	AAA	7.710	08/25/17	4,336,781	4,336,533	4,391,425
Merrill Lynch Mtg. Inv., Inc. 1996-C2 A3	AAA	6.960	11/21/28	11,600,000	11,711,918	11,529,240
Merrill Lynch Mtg. Inv., Inc. 1997-C1 A2	AAA	7.030	06/18/29	5,000,000	5,047,580	5,021,090
Newcourt Receiv. Asset Trust SE 1996-2	AAA	6.870	09/20/04	622,988	622,981	623,461
Newcourt Receiv. Asset Trust SE 1996-3	AAA	6.240	12/20/04	840,741	840,668	837,510
Nomura Asset 1996-MD5 A1B	AAA	7.120	04/13/36	2,700,000	2,697,684	2,715,606
PNC Student Ln Trust 1 1997-2 A-4	AAA	6.446	01/25/02	5,000,000	5,000,000	4,982,810
PRU-BACHE CMO 14-H 10	AAA	1,204.650	03/20/21	32,627	1,050,256	1,210,192
PRU-BACHE CMO 4-B PO	AAA	0.000	09/01/18	1,492,593	1,149,031	1,139,027
Resolution Trust Co. 1992-16B5 ARM	AAA	6.904	06/25/24	7,967,665	7,910,667	8,007,844
Resolution Trust Co. 1992-9 A5 ARM	AAA	7.051	04/25/22	2,264,405	2,264,405	2,252,403
Resolution Trust Co. 1992-9B3 ARM	AAA	6.714	09/25/30	3,081,474	3,045,552	2,962,023
Resolution Trust Co. 1994-1 M3 ARM	AAA	7.971	09/25/29	4,838,332	4,910,181	4,957,597
SLMA 1996-3 B	AAA	6.181	10/25/11	5,500,000	5,500,000	5,504,950
SLMA 1997-1 A2 ABS T3	AAA	5.840	01/25/10	6,000,000	5,982,891	5,988,720
The Money Store Auto Trust 1996-2	AAA	6.435	06/20/03	975,000	975,196	966,908
The Money Store Home Equity -1996-D A3	AAA	6.295	11/15/11	3,600,000	3,599,919	3,591,000
Union Acceptance Corporation 1996-C A2	AAA	6.510	11/08/02	4,500,000	4,495,497	4,505,625
Union Pacific Equipment Trust 1994-A	AAA	7.750	07/01/12	4,584,356	4,652,566	4,768,692
VA Vendee Mtg Trust 1994-1 2D	AAA	6.500	05/15/13	18,150,000	17,522,912	17,724,564
VA Vendee Mtg Trust 1997-1 C2	AAA	7.500	09/15/17	2,000,000	2,064,227	2,010,000
Total Collateralized Mortgage Obligations				\$ 296,258,515	\$ 290,077,060	\$ 291,211,126

Investment Section

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
U.S. Government Agencies						
FHLMC	AAA	5.950	01/19/06	\$ 500,000	\$ 475,484	\$ 473,280
FNMA	AAA	7.550	04/22/02	500,000	522,160	520,000
FNMA	AAA	8.250	12/18/00	500,000	530,722	526,955
FNMA	AAA	8.450	07/12/99	500,000	521,792	520,935
RBFCO Strip Principal	AAA	0.000	10/15/20	8,300,000	1,613,239	1,608,706
Total U.S. Government Agencies				\$ 10,300,000	\$ 3,663,397	\$ 3,649,876
U.S. Government Obligations						
Treasury Bond	AAA	6.000	02/15/26	\$ 23,061,000	\$ 20,283,289	\$ 20,639,595
Treasury Bond	AAA	6.500	11/15/26	16,648,000	15,726,133	15,966,431
Treasury Bond	AAA	6.500	08/15/05	500,000	500,594	498,595
Treasury Bond	AAA	6.625	02/15/27	36,700,000	35,868,644	35,908,748
Treasury Bond	AAA	7.125	02/15/23	4,260,000	4,272,837	4,387,800
Treasury Bond	AAA	7.500	11/15/16	51,320,000	54,672,526	54,840,039
Treasury Bond	AAA	8.500	02/15/20	8,750,000	10,240,350	10,366,038
Treasury Bond	AAA	8.750	05/15/17	1,410,000	1,817,058	1,696,399
Treasury Bond	AAA	8.750	08/15/20	185,000	239,208	224,805
Treasury Bond	AAA	13.750	08/15/04	4,490,000	6,435,669	6,318,957
Treasury Note	AAA	4.750	09/30/98	300,000	295,889	295,923
Treasury Note	AAA	5.125	06/30/98	300,000	298,058	298,125
Treasury Note	AAA	5.250	01/31/01	11,535,000	11,218,772	11,151,115
Treasury Note	AAA	5.750	08/15/03	25,000,000	24,208,480	24,140,500
Treasury Note	AAA	5.875	02/15/04	500,000	484,792	484,455
Treasury Note	AAA	5.875	02/15/00	4,620,000	4,546,632	4,583,179
Treasury Note	AAA	5.875	01/31/99	5,970,000	5,944,935	5,957,881
Treasury Note	AAA	6.250	02/15/03	500,000	497,297	521,015
Treasury Note	AAA	6.375	04/30/99	18,043,000	18,075,303	18,138,808
Treasury Note	AAA	6.375	09/30/01	4,385,000	4,328,116	4,385,702
Treasury Note	AAA	6.500	10/15/06	250,000	249,548	248,945
Treasury Note	AAA	6.500	05/31/02	65,200,000	65,205,949	65,464,712
Treasury Note	AAA	6.875	05/15/06	500,000	511,568	510,390
Treasury Note	AAA	7.000	07/15/06	12,500,000	12,494,490	12,859,375
Treasury Note	AAA	7.250	02/15/98	14,695,000	14,820,473	14,830,488
Treasury Note	AAA	7.500	11/15/01	250,000	262,435	260,508
Treasury Note	AAA	7.500	02/15/05	1,760,000	1,822,238	1,862,291
Treasury Note	AAA	7.750	01/31/00	30,880,000	31,666,558	32,004,341
Treasury Note	AAA	7.750	02/15/01	300,000	314,492	313,734
Treasury Note	AAA	7.875	11/15/04	14,000,000	14,765,922	15,109,080
Treasury Note	AAA	7.875	08/15/01	3,000,000	3,199,595	3,161,730
Treasury Note	AAA	8.500	02/15/00	300,000	316,927	316,407
Treasury Note	AAA	9.125	05/15/99	10,000,000	10,612,170	10,529,700
Treasury Note	AAA	9.250	08/15/98	5,100,000	5,273,151	5,282,478
Treasury Note Inflation Adjusted	AAA	3.375	01/15/07	53,450,959	52,747,817	52,164,929
Treasury Note Series N-2000	AAA	6.125	07/31/00	17,800,000	17,669,908	17,738,768
Treasury Notes	AAA	5.875	11/15/99	1,505,000	1,505,167	1,495,353
Treasury Notes	AAA	6.250	08/31/00	29,000,000	28,956,071	28,981,730
Treasury Strips	AAA	0.000	05/15/99	8,465,000	7,627,397	7,568,387
Total U.S. Government Obligations				\$ 487,432,959	\$ 489,976,458	\$ 491,507,456
U.S. Government Mortgage-Backed						
Federal Farm Credit G-02	AAA	6.710	03/25/02	\$ 250,000	\$ 248,773	\$ 248,175
FHLMC E20037	AAA	7.000	07/01/08	13,466,704	13,539,061	13,531,208
FHLMC C80398	AAA	6.500	05/01/26	967,381	895,061	928,192
FHLMC D64097	AAA	8.500	01/01/23	11,784,485	12,195,790	12,371,440

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
U.S. Government Mortgage-Backed (Continued)						
FHLMC E00190	AAA	7.000	02/01/08	\$ 6,599,938	\$ 6,631,962	\$ 6,628,714
FHLMC Gold C90041	AAA	6.500	11/01/13	4,213,274	4,255,764	4,125,511
FHLMC Gold D1-6930	AAA	7.500	03/01/22	1,897,607	1,860,632	1,902,769
FHLMC Gold D1-9553	AAA	8.000	05/01/22	1,147,527	1,149,654	1,187,919
FHLMC Gold D70745	AAA	7.000	08/01/24	1,964,998	1,900,952	1,943,962
FHLMC Gold D78534	AAA	8.000	02/01/27	4,894,607	5,031,656	5,012,958
FHLMC Gold G10067	AAA	7.000	01/01/08	19,284,500	19,555,530	19,368,581
FHLMC Gold G10482	AAA	7.000	03/01/11	238,016	238,349	238,511
FHLMC Gold W20002	AAA	6.775	11/15/03	377,616	383,887	377,728
FHLMC Gold TBA	AAA	7.500	07/21/27	7,790,000	7,763,222	7,763,222
FHLMC Gold TBA	AAA	8.000	08/13/27	2,205,000	2,255,991	2,261,499
FHLMC MUL-FAM220022	AAA	9.250	06/01/02	6,420,116	6,402,899	7,090,184
FHLMC MUL-FAM490011	AAA	10.000	09/01/97	1,046,812	1,046,836	1,082,142
FHLMC PC 160080	AAA	10.500	05/01/09	36,221	36,221	39,378
FHLMC PC 170034	AAA	12.000	07/01/10	6,818	6,818	7,734
FHLMC PC 170068	AAA	12.500	10/01/12	4,712	4,712	5,440
FHLMC PC 170072	AAA	14.000	12/01/12	34,522	34,522	40,090
FHLMC PC 170073	AAA	12.500	01/01/13	853	853	984
FHLMC PC 170077	AAA	12.500	04/01/13	7,170	7,170	8,338
FHLMC PC 170091	AAA	12.500	01/01/14	489	489	562
FHLMC PC 181528	AAA	13.000	08/01/10	15,951	15,951	18,644
FHLMC PC 186771	AAA	9.250	06/01/11	1,539,734	1,539,240	1,634,258
FHLMC PC 218421	AAA	9.000	07/01/02	308,392	308,392	320,453
FHLMC PC 280327	AAA	9.000	09/01/16	285,578	284,820	303,013
FHLMC PC 282425	AAA	9.000	12/01/16	295,154	294,369	313,356
FHLMC PC 290357	AAA	9.500	01/01/17	962,678	962,671	1,035,361
FHLMC PC A01569	AAA	9.000	11/01/19	2,117,132	2,233,130	2,262,495
FHLMC Pool C00349	AAA	7.000	04/01/24	4,876,552	4,750,550	4,815,156
FHLMC Pool D53306	AAA	7.000	05/01/24	4,736,070	4,614,686	4,679,427
FHLMC Pool D66768	AAA	7.000	09/01/24	7,422,302	7,218,112	7,343,255
FHLMC Pool D70628	AAA	6.500	04/01/26	11,446,864	10,593,534	10,983,152
FHLMC Series 12A	AAA	9.250	11/15/19	823,817	822,846	862,684
FHLMC Series 1A	AAA	10.150	04/15/06	960,552	960,552	961,176
FHLMC Structured Note	AAA	6.830	03/20/04	250,000	249,362	247,500
FHLMC TBA	AAA	7.500	08/13/27	7,695,000	7,728,666	7,745,497
FNMA 166598	AAA	8.000	06/01/07	145,474	150,224	149,743
FNMA 250192	AAA	8.000	01/01/10	364,235	376,346	375,596
FNMA 250407	AAA	7.000	08/01/25	605,650	600,122	596,450
FNMA 298945	AAA	8.000	12/01/09	145,845	150,653	150,255
FNMA 303252	AAA	8.000	04/01/10	128,563	132,834	132,694
FNMA 309030	AAA	8.000	04/01/10	117,131	120,993	120,785
FNMA 315762	AAA	8.000	07/01/10	123,201	127,269	127,044
FNMA 318841	AAA	7.000	08/01/25	189,545	187,815	186,666
FNMA 318985	AAA	7.000	08/01/25	185,850	184,153	183,026
FNMA 319000	AAA	7.000	09/01/25	180,337	178,692	177,598
FNMA 319035	AAA	7.000	09/01/25	183,657	181,981	180,867
FNMA 319152	AAA	7.000	11/01/25	597,723	592,206	588,645
FNMA 319699	AAA	7.000	08/01/25	189,516	187,787	186,638
FNMA 320545	AAA	7.000	12/01/25	580,405	575,047	569,766
FNMA 320881	AAA	7.000	08/01/25	202,744	200,894	199,663
FNMA 322062	AAA	7.000	11/01/25	197,623	195,819	194,622
FNMA 322189	AAA	7.000	12/01/25	206,846	204,958	203,704

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
U.S. Government Mortgage-Backed (Continued)						
FNMA 322556	AAA	7.000	11/01/25	\$ 205,357	\$ 203,482	\$ 202,237
FNMA 322768	AAA	7.000	09/01/25	605,371	599,846	594,274
FNMA 324192	AAA	7.000	09/01/25	607,847	602,297	598,614
FNMA 324645	AAA	7.000	10/01/25	173,102	171,513	170,473
FNMA 324964	AAA	7.000	10/01/25	171,347	169,783	168,744
FNMA 324967	AAA	7.000	10/01/25	180,044	178,399	177,308
FNMA 325221	AAA	7.000	10/01/25	594,650	589,180	585,618
FNMA 325286	AAA	7.000	11/01/25	161,518	160,014	158,557
FNMA 325868	AAA	7.000	10/01/25	170,458	168,875	167,869
FNMA 327349	AAA	7.000	11/01/25	169,120	167,557	166,551
FNMA 327625	AAA	7.000	11/01/25	606,442	600,906	597,230
FNMA 328067	AAA	7.000	12/01/25	198,547	196,689	194,908
FNMA 328720	AAA	7.000	11/01/25	211,471	209,539	208,259
FNMA 330895	AAA	7.000	12/01/25	195,577	193,792	191,992
FNMA 331445	AAA	7.000	12/01/25	194,593	192,816	191,026
FNMA 331586	AAA	7.000	12/01/25	597,968	592,510	587,007
FNMA 331773	AAA	7.000	12/01/25	603,269	597,761	594,105
FNMA 332086	AAA	7.000	12/01/25	574,972	569,725	564,433
FNMA 332115	AAA	7.000	12/01/25	497,195	492,657	488,082
FNMA 332342	AAA	7.000	12/01/25	225,384	223,326	221,961
FNMA 364183	AAA	8.000	11/01/06	25,545	26,381	26,083
FNMA 368818	AAA	8.000	01/01/27	2,375,707	2,426,103	2,430,181
FNMA 368820	AAA	7.500	01/01/27	9,771,455	9,837,639	9,798,033
FNMA 50578	AAA	8.000	04/01/07	143,014	147,742	147,211
FNMA 52603	AAA	8.000	06/01/02	144,571	149,561	146,809
FNMA 55952	AAA	8.000	07/01/02	122,230	126,063	124,123
FNMA 73733	AAA	7.060	11/01/03	442,562	449,526	443,682
FNMA 73737	AAA	7.175	11/01/06	427,698	429,584	429,477
FNMA 73789	AAA	6.850	12/01/03	378,129	384,958	375,040
FNMA 73795	AAA	6.770	12/01/03	378,121	384,869	375,033
FNMA 190506	AAA	6.500	12/01/08	16,605,211	16,445,360	16,400,303
FNMA 190534	AAA	6.000	12/01/08	164,396	160,631	160,384
FNMA 190544	AAA	9.000	09/01/22	2,098,809	2,210,750	2,242,494
FNMA 2160	AAA	8.000	05/01/09	2,488,319	2,565,800	2,568,692
FNMA 250515	AAA	7.000	04/01/26	1,467,928	1,424,774	1,441,021
FNMA 269803	AAA	6.000	06/01/09	24,301	23,747	23,658
FNMA 271156	AAA	6.000	02/01/09	17,897	17,468	17,424
FNMA 313076	AAA	6.000	08/01/11	15,721,010	15,168,318	15,168,318
FNMA 334097	AAA	6.000	03/01/09	12,673,114	12,631,978	12,190,902
FNMA 335520	AAA	7.000	01/01/26	831,622	807,330	816,378
FNMA 340470	AAA	7.000	04/01/26	400,812	389,099	393,466
FNMA 343205	AAA	7.000	05/01/26	313,753	304,560	308,001
FNMA 345951	AAA	7.000	03/01/26	327,913	318,334	321,902
FNMA 345967	AAA	7.000	05/01/26	322,131	312,720	316,226
FNMA 346130	AAA	7.000	05/01/26	402,917	391,140	395,531
FNMA 346165	AAA	7.000	05/01/26	223,777	217,236	219,675
FNMA 346176	AAA	7.000	06/01/26	331,198	321,321	325,127
FNMA 349473	AAA	7.500	09/01/26	4,917,207	4,882,770	4,938,252
FNMA 351585	AAA	7.000	02/01/25	6,829,434	6,535,183	6,756,564
FNMA 354218	AAA	7.000	08/01/26	223,462	216,928	219,366
FNMA 354237	AAA	7.000	08/01/26	991,743	962,753	973,564
FNMA 354387	AAA	7.000	08/01/26	390,841	379,414	383,676

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
U.S. Government Mortgage-Backed (Continued)						
FNMA 356085	AAA	8.000	09/01/26	\$ 7,930,879	\$ 7,974,338	\$ 8,120,190
FNMA 358465	AAA	7.500	09/01/26	3,861,808	3,764,554	3,878,337
FNMA 358468	AAA	8.000	09/01/26	5,586,967	5,569,916	5,720,328
FNMA 376672	AAA	7.000	07/01/27	990,000	963,084	963,084
FNMA 378675	AAA	7.000	05/01/27	990,001	963,085	963,085
FNMA 394045	AAA	6.000	06/01/12	995,000	960,020	960,020
FNMA 44027	AAA	7.000	12/01/07	9,312,770	9,390,848	9,342,012
FNMA 73565	AAA	7.310	07/01/03	368,060	372,356	373,180
FNMA 73576	AAA	7.285	07/01/03	368,045	371,634	373,165
FNMA ARM 233671	AAA	8.375	09/01/23	1,775,877	1,775,877	1,861,900
FNMA DUS 73426	AAA	6.980	04/01/06	373,654	372,680	369,331
FNMA DUS 73582	AAA	7.500	07/01/06	377,171	386,329	383,100
FNMA TBA	AAA	7.000	07/01/27	3,500,000	3,410,313	3,438,750
GNMA1 032863	AAA	9.500	08/15/09	232,414	232,414	250,606
GNMA1 032864	AAA	9.500	09/15/09	196,249	196,249	211,609
GNMA1 032959	AAA	9.500	07/15/09	158,082	158,082	169,961
GNMA1 033699	AAA	9.500	08/15/09	436,741	436,741	470,925
GNMA1 034019	AAA	9.500	08/15/09	473,707	473,707	510,785
GNMA1 034705	AAA	9.500	10/15/09	1,252,530	1,251,153	1,350,566
GNMA1 036450	AAA	9.500	12/15/09	139,856	139,856	150,803
GNMA1 036624	AAA	9.500	10/15/09	468,746	468,746	503,968
GNMA1 038349	AAA	10.000	12/15/09	194,830	194,830	211,862
GNMA1 038528	AAA	11.000	03/15/10	160,493	160,493	178,702
GNMA1 040175	AAA	11.000	02/15/10	120,229	120,229	133,402
GNMA1 040176	AAA	11.000	03/15/10	90,268	90,268	100,159
GNMA1 040968	AAA	13.500	10/15/10	126,077	126,077	149,710
GNMA1 040971	AAA	11.500	02/15/11	165,035	165,035	187,014
GNMA1 040972	AAA	11.000	07/15/10	35,100	35,100	39,082
GNMA1 041478	AAA	12.500	07/15/10	72,705	72,705	84,340
GNMA1 042146	AAA	10.000	11/15/09	97,533	97,533	106,380
GNMA1 042574	AAA	11.000	08/15/10	108,555	108,555	120,450
GNMA1 043009	AAA	11.000	07/15/10	68,033	68,033	75,488
GNMA1 043813	AAA	11.000	07/15/10	40,575	40,575	44,842
GNMA1 044824	AAA	11.000	09/15/10	124,138	124,138	138,223
GNMA1 045462	AAA	11.500	10/15/10	136,688	136,688	153,760
GNMA1 054010	AAA	13.000	01/15/12	44,993	44,993	53,077
GNMA1 055762	AAA	14.000	06/15/12	42,383	42,383	51,005
GNMA1 066664	AAA	11.500	04/15/13	13,431	13,431	14,578
GNMA1 066991	AAA	11.500	04/15/13	69,691	69,691	78,394
GNMA1 068255	AAA	11.500	06/15/13	55,455	55,455	63,035
GNMA1 068256	AAA	11.500	05/15/13	32,350	32,350	36,772
GNMA1 090974	AAA	9.500	10/15/09	99,346	99,346	109,157
GNMA1 091572	AAA	9.500	12/15/09	42,771	42,771	46,994
GNMA1 091592	AAA	9.000	05/15/09	206,655	206,655	222,929
GNMA1 091806	AAA	9.500	10/15/09	55,934	55,934	61,457
GNMA1 149589	AAA	9.000	09/15/16	33,430	35,704	35,931
GNMA1 151254	AAA	9.000	01/15/17	4,551,415	4,550,896	4,888,311
GNMA1 155672	AAA	9.000	05/15/16	32,268	34,459	34,631
GNMA1 156028	AAA	9.000	05/15/16	236,208	252,084	253,693
GNMA1 159109	AAA	9.000	07/15/16	237,236	253,181	254,796
GNMA1 161171	AAA	9.000	06/15/16	26,662	28,470	28,615
GNMA1 161450	AAA	9.000	07/15/16	29,890	31,918	32,101

Investment Section

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
U.S. Government Mortgage-Backed (Continued)						
GNMA1 164008	AAA	9.000	05/15/16	\$ 298,226	\$ 318,277	\$ 320,301
GNMA1 164466	AAA	9.000	10/15/16	31,702	34,043	34,048
GNMA1 164470	AAA	9.000	11/15/16	96,002	102,458	103,109
GNMA1 172710	AAA	9.000	07/15/16	9,145	11,311	9,814
GNMA1 172908	AAA	9.000	09/15/16	1,441,423	1,440,403	1,548,117
GNMA1 173302	AAA	9.000	07/15/16	110,191	110,191	118,262
GNMA1 176802	AAA	9.000	09/15/16	310,774	331,683	333,534
GNMA1 176971	AAA	9.000	12/15/16	27,982	30,389	30,076
GNMA1 178428	AAA	9.000	12/15/16	34,301	36,632	36,787
GNMA1 178794	AAA	9.000	09/15/16	31,739	33,908	34,063
GNMA1 180282	AAA	9.000	09/15/16	29,846	31,871	32,055
GNMA1 181683	AAA	9.000	11/15/16	31,964	34,132	34,355
GNMA1 182624	AAA	9.000	12/15/16	295,913	316,072	317,816
GNMA1 184078	AAA	7.500	08/15/23	110,512	106,665	111,561
GNMA1 186202	AAA	9.000	12/15/16	32,326	34,518	34,744
GNMA1 187441	AAA	9.000	11/15/16	237,549	253,552	254,763
GNMA1 190921	AAA	9.000	12/15/16	282,497	302,114	303,407
GNMA1 192773	AAA	8.500	06/15/17	2,764,410	2,763,206	2,920,350
GNMA1 198760	AAA	9.000	06/15/17	34,152	36,469	36,706
GNMA1 200530	AAA	8.500	05/15/17	2,222,681	2,218,794	2,348,552
GNMA1 217524	AAA	9.000	06/15/17	400,694	430,354	430,666
GNMA1 219150	AAA	9.000	09/15/17	419,215	447,429	450,245
GNMA1 225887	AAA	9.000	06/15/17	236,436	252,332	254,122
GNMA1 226787	AAA	9.000	09/15/17	34,048	36,360	36,568
GNMA1 230130	AAA	9.000	07/15/17	34,553	36,897	37,138
GNMA1 234567	AAA	9.000	10/15/17	33,467	35,739	35,944
GNMA1 264229	AAA	7.500	10/15/23	432,867	417,622	437,459
GNMA1 272827	AAA	10.000	03/15/19	1,159,323	1,153,806	1,277,018
GNMA1 282726	AAA	9.000	02/15/20	2,486,705	2,610,828	2,664,157
GNMA1 333091	AAA	7.500	06/15/23	424,815	410,142	428,846
GNMA1 333099	AAA	7.500	07/15/23	373,866	360,947	377,414
GNMA1 334656	AAA	7.500	06/15/23	241,217	232,881	243,505
GNMA1 335233	AAA	7.000	01/15/24	258,722	251,544	255,842
GNMA1 335315	AAA	7.000	05/15/24	533,632	514,246	527,192
GNMA1 336137	AAA	7.500	03/15/23	201,125	194,173	203,034
GNMA1 336173	AAA	7.500	04/15/23	403,130	389,198	407,407
GNMA1 337293	AAA	7.500	01/15/23	6,568,874	6,585,620	6,638,570
GNMA1 337451	AAA	7.500	05/15/23	359,276	346,685	362,686
GNMA1 338882	AAA	7.500	02/15/23	264,529	254,761	267,039
GNMA1 340217	AAA	7.500	07/15/23	141,940	137,035	143,287
GNMA1 340655	AAA	7.500	02/15/23	279,462	287,358	282,428
GNMA1 340904	AAA	7.500	06/15/23	89,270	86,185	90,218
GNMA1 342022	AAA	7.500	05/15/23	341,653	329,844	345,277
GNMA1 342527	AAA	7.500	02/15/23	375,929	362,837	379,917
GNMA1 343095	AAA	7.500	03/15/23	416,117	401,738	420,065
GNMA1 345931	AAA	6.500	02/15/24	23,328,067	23,326,002	22,502,953
GNMA1 346067	AAA	7.500	12/15/23	142,389	146,329	143,740
GNMA1 346694	AAA	7.500	08/15/23	380,101	366,967	383,709
GNMA1 348036	AAA	7.500	04/15/23	353,355	341,143	356,709
GNMA1 348096	AAA	7.500	06/15/23	369,329	356,446	372,834
GNMA1 348544	AAA	7.500	04/15/23	394,293	380,642	398,035
GNMA1 349401	AAA	7.500	06/15/23	362,498	349,970	365,939

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
U.S. Government Mortgage-Backed (Continued)						
GNMA1 349972	AAA	7.500	02/15/23	\$ 417,373	\$ 402,950	\$ 421,334
GNMA1 351154	AAA	7.500	08/15/23	364,736	352,130	368,196
GNMA1 351424	AAA	6.500	02/15/24	549,488	508,530	530,053
GNMA1 351441	AAA	7.000	02/15/24	187,935	181,106	185,666
GNMA1 352096	AAA	7.500	07/15/23	14,295,643	14,115,647	14,431,308
GNMA1 352158	AAA	7.500	05/15/23	351,714	339,414	355,052
GNMA1 352542	AAA	7.000	01/15/24	251,510	254,467	248,475
GNMA1 352919	AAA	7.000	07/15/24	768,526	740,586	759,972
GNMA1 354665	AAA	6.500	10/15/23	5,366,215	4,963,614	5,182,583
GNMA1 354667	AAA	7.500	10/15/23	351,216	338,981	354,548
GNMA1 354745	AAA	7.500	01/15/24	402,150	388,100	405,965
GNMA1 354810	AAA	7.500	04/15/24	290,387	280,311	292,870
GNMA1 355374	AAA	7.500	12/15/21	280,958	271,213	284,572
GNMA1 356066	AAA	7.500	08/15/23	158,875	153,383	160,383
GNMA1 356154	AAA	7.500	11/15/23	287,989	277,236	290,722
GNMA1 356280	AAA	7.500	04/15/23	344,785	332,872	348,056
GNMA1 356536	AAA	7.000	02/15/24	35,162	33,884	34,737
GNMA1 356986	AAA	7.500	07/15/23	384,275	370,991	387,922
GNMA1 357215	AAA	7.500	06/15/23	485,178	468,228	489,782
GNMA1 358207	AAA	7.500	08/15/23	383,820	370,394	387,893
GNMA1 358367	AAA	7.500	06/15/23	376,716	363,194	380,713
GNMA1 358604	AAA	7.500	08/15/23	421,044	406,496	425,040
GNMA1 359079	AAA	7.500	06/15/23	349,714	337,627	353,032
GNMA1 359228	AAA	7.000	01/15/24	426,182	410,701	421,438
GNMA1 359796	AAA	7.500	07/15/23	307,739	297,103	311,004
GNMA1 359938	AAA	7.500	11/15/23	431,749	416,688	435,846
GNMA1 359962	AAA	7.000	01/15/24	528,755	535,053	523,198
GNMA1 359964	AAA	7.500	12/15/23	560,607	576,563	565,928
GNMA1 360065	AAA	7.500	10/15/23	270,066	260,309	272,933
GNMA1 360320	AAA	7.500	07/15/23	267,953	258,693	270,496
GNMA1 360385	AAA	7.500	08/15/23	275,152	265,645	277,763
GNMA1 360774	AAA	7.000	02/15/24	454,919	460,269	449,856
GNMA1 360822	AAA	7.000	03/15/24	356,234	360,424	352,490
GNMA1 360838	AAA	7.500	04/15/24	302,748	292,286	305,622
GNMA1 360841	AAA	7.500	04/15/24	113,582	109,657	114,659
GNMA1 361439	AAA	7.500	06/15/24	258,477	265,636	260,688
GNMA1 361588	AAA	7.875	07/15/31	8,858,900	8,912,704	8,934,643
GNMA1 361655	AAA	7.500	08/15/23	304,815	294,283	307,422
GNMA1 362003	AAA	7.500	08/15/23	347,074	335,079	350,367
GNMA1 362121	AAA	7.500	10/15/23	423,776	408,912	427,797
GNMA1 362394	AAA	7.000	04/15/24	265,644	268,871	262,437
GNMA1 363222	AAA	7.500	07/15/23	360,063	347,463	363,883
GNMA1 363237	AAA	7.500	08/15/23	275,416	265,896	278,338
GNMA1 365795	AAA	7.500	09/15/23	335,668	323,808	339,230
GNMA1 367532	AAA	7.000	03/15/24	243,782	236,829	241,069
GNMA1 368581	AAA	6.500	03/15/24	631,435	584,491	609,101
GNMA1 368627	AAA	7.000	03/15/24	23,137	22,297	22,859
GNMA1 368865	AAA	6.500	12/15/23	857,449	799,799	827,120
GNMA1 371006	AAA	7.000	01/15/24	410,782	395,577	406,210
GNMA1 371284	AAA	6.500	05/15/24	2,701,858	2,518,069	2,606,292
GNMA1 371697	AAA	7.000	03/15/24	23,080	22,232	22,824
GNMA1 374130	AAA	7.000	02/15/24	328,738	316,796	325,079

Investment Section

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
U.S. Government Mortgage-Backed (Continued)						
GNMA1 374694	AAA	7.500	12/15/23	\$ 335,721	\$ 345,010	\$ 338,907
GNMA1 374869	AAA	7.000	01/15/24	579,521	558,324	573,430
GNMA1 374888	AAA	6.500	01/15/24	374,289	348,535	361,481
GNMA1 375208	AAA	7.000	02/15/24	117,241	112,982	115,826
GNMA1 375573	AAA	7.000	01/15/24	154,895	156,717	153,171
GNMA1 375895	AAA	7.000	01/15/24	397,197	401,866	392,776
GNMA1 378336	AAA	6.500	01/15/24	377,736	349,598	364,375
GNMA1 378419	AAA	7.000	02/15/24	441,644	425,599	436,729
GNMA1 378581	AAA	7.000	02/15/24	112,045	113,363	110,692
GNMA1 380338	AAA	7.000	01/15/24	395,589	400,239	391,186
GNMA1 382156	AAA	7.000	01/15/24	7,659,151	7,748,390	7,573,905
GNMA1 382298	AAA	7.000	03/15/24	39,735	40,202	39,255
GNMA1 382662	AAA	7.500	09/15/24	432,234	417,296	436,336
GNMA1 382869	AAA	7.000	02/15/24	67,836	68,655	67,018
GNMA1 385440	AAA	7.000	02/15/24	346,735	333,869	342,550
GNMA1 385444	AAA	7.000	02/15/24	219,138	211,000	216,700
GNMA1 386038	AAA	7.000	06/15/24	156,302	158,141	154,415
GNMA1 386166	AAA	7.000	02/15/24	369,495	355,588	365,382
GNMA1 386846	AAA	7.000	05/15/24	62,750	63,488	61,993
GNMA1 387311	AAA	7.000	03/15/24	78,119	79,038	77,250
GNMA1 387482	AAA	7.000	04/15/24	383,573	388,085	378,943
GNMA1 389244	AAA	7.500	04/15/24	351,144	339,012	354,146
GNMA1 389964	AAA	7.000	05/15/24	317,228	321,015	313,400
GNMA1 390005	AAA	7.000	04/15/24	122,142	123,609	120,782
GNMA1 390659	AAA	7.000	04/15/24	495,234	501,057	489,256
GNMA1 392426	AAA	8.000	07/15/24	3,070,914	3,184,206	3,161,444
GNMA1 394266	AAA	7.000	03/15/24	404,636	409,394	400,133
GNMA1 400839	AAA	7.000	06/15/24	347,582	351,696	343,386
GNMA1 401160	AAA	7.500	10/15/24	241,674	233,325	243,740
GNMA1 407824	AAA	7.000	12/15/25	48,887	49,463	48,067
GNMA1 412852	AAA	7.000	04/15/26	123,204	119,759	121,139
GNMA1 414951	AAA	7.000	12/15/25	64,223	64,980	63,146
GNMA1 417768	AAA	7.000	08/15/25	82,415	83,387	81,343
GNMA1 431632	AAA	8.000	12/15/26	3,939,941	4,043,431	4,035,209
GNMA1 433317	AAA	8.000	12/15/26	3,406,896	3,496,284	3,489,276
GNMA1 780074	AAA	9.000	12/15/22	2,048,535	2,163,373	2,194,718
GNMA1 780091	AAA	9.000	11/15/17	7,172,628	7,667,706	7,562,605
GNMA1 780119	AAA	9.000	12/15/19	1,719,677	1,810,936	1,845,351
GNMA1 780258	AAA	7.500	07/15/07	12,175,721	12,523,739	12,406,953
GNMA1 780277	AAA	9.000	10/15/21	2,690,418	2,836,464	2,882,405
GNMA1 780340	AAA	9.000	11/15/17	1,669,130	1,782,846	1,759,880
GNMA1 436525	AAA	8.000	11/15/26	1,834,735	1,876,566	1,879,100
GNMA11 000079	AAA	12.000	02/20/14	94,818	94,818	109,111
GNMA11 000088	AAA	12.500	12/20/14	44,352	44,352	51,642
GNMA11 000476	AAA	10.000	01/20/16	2,453	2,453	2,681
GNMA11 001254	AAA	9.500	09/20/19	524,420	522,619	564,602
GNMA11 001871	AAA	9.000	09/20/24	3,381,897	3,394,027	3,571,486
GNMA11 101379	AAA	12.000	08/20/13	50,656	50,656	58,435
GNMA11 102789	AAA	12.500	12/20/13	127,946	127,946	148,976
GNMA11 104329	AAA	12.500	11/20/13	49,622	49,622	57,778
GNMA11 104972	AAA	12.500	10/20/13	123,390	123,390	143,672
GNMA11 105679	AAA	12.500	12/20/13	48,425	48,426	55,838

Investment Portfolio (Continued)

Combined Fixed-Income Portfolio (Continued)

Description	Rating	Coupon	Mature Date	Par Value	Book Value	Fair Value
U.S. Government Mortgage-Backed (Continued)						
GNMA11 105680	AAA	12.500	10/20/13	\$ 52,800	\$ 52,800	\$ 61,480
GNMA11 106186	AAA	12.500	12/20/13	127,929	127,929	148,957
GNMA11 106469	AAA	12.500	07/20/14	126,320	126,320	147,084
GNMA11 106834	AAA	12.500	11/20/13	23,674	23,674	27,565
GNMA11 106835	AAA	12.500	11/20/13	114,167	114,167	132,933
GNMA11 123115	AAA	12.500	12/20/14	69,533	69,533	80,962
GNMA11 2247	AAA	7.000	07/20/26	13,459,653	12,890,677	13,179,288
GNMA11 8869	AAA	6.875	11/20/21	7,696,908	7,892,435	7,908,573
GNMA118660 ARM	AAA	7.125	07/20/25	2,365,221	2,393,148	2,434,333
GNMA11 8685 ARM	AAA	7.125	08/20/25	2,437,107	2,467,038	2,504,518
GNMA118703 ARM	AAA	7.125	09/20/25	4,930,625	4,998,837	5,073,909
GNMA11 ARM 28998	AAA	7.125	06/20/22	1,603,214	1,650,242	1,654,325
GNMA TBA	AAA	8.000	07/01/26	3,600,000	3,682,125	3,692,250
GNMA TBA	AAA	8.000	07/21/27	3,490,000	3,553,256	3,579,431
GNMA TBA	AAA	8.000	07/21/27	3,440,000	3,502,350	3,528,150
GNMA TBA	AAA	8.000	07/21/27	14,110,000	14,365,744	14,471,569
Total U.S. Government Mortgage-Backed				\$ 484,627,941	\$ 483,945,199	\$ 488,660,065
Total Combined Fixed-Income Portfolio				\$ 1,664,456,415	\$ 1,659,617,921	\$ 1,665,528,922

Cash Equivalents						
Abbott Laboratories	P-1	5.450	07/29/97	\$ 2,844,000	\$ 2,831,945	\$ 2,831,945
Abbott Laboratories	P-1	5.470	07/09/97	5,000,000	4,993,922	4,993,922
Abbott Laboratories	P-1	5.470	07/23/97	2,658,000	2,649,115	2,649,115
Associates Corporation of North America	P-1	5.480	07/18/97	3,250,000	3,241,554	3,241,554
Associates Corporation of North America	P-1	5.510	07/15/97	4,509,000	4,499,338	4,499,338
Banc One Corporation	P-1	5.530	08/01/97	5,636,000	5,609,162	5,609,162
BellSouth Telecommunication, Incorporated	P-1	5.500	07/16/97	3,668,000	3,659,594	3,659,594
Coca-Cola Company	P-1	5.440	07/07/97	8,975,000	8,966,846	8,966,846
Coca-Cola Company	P-1	5.440	07/22/97	2,442,000	2,434,251	2,434,251
Coca-Cola Company	P-1	5.440	07/08/97	6,594,000	6,586,972	6,586,972
Federal Home Loan Bank	AAA	5.500	07/01/97	66,753,000	66,753,000	66,753,000
Ford Motor Credit Corporation	P-1	5.490	07/03/97	10,174,000	10,170,886	10,170,886
General Electric Capital Corporation	P-1	5.490	07/02/97	6,663,000	6,661,985	6,661,985
General Electric Capital Corporation	P-1	5.580	07/11/97	5,003,000	4,995,245	4,995,245
Great Lakes Chemical Corporation	P-1	5.530	07/21/97	3,000,000	2,990,783	2,990,783
Norwest Corporation	P-1	5.480	07/17/97	4,366,000	4,355,366	4,355,366
PepsiCo, Incorporated	P-1	5.470	07/10/97	3,581,000	3,576,099	3,576,099
PepsiCo, Incorporated	P-1	5.500	07/14/97	3,095,000	3,088,853	3,088,853
PepsiCo, Incorporated	P-1	5.500	07/28/97	6,629,000	6,601,594	6,601,594
Pitney Bowes Credit Corporation	P-1	5.500	07/24/97	2,400,000	2,391,567	2,391,567
Repurchase Agreement - J.P. Morgan	AAA	6.050	07/01/97	842,000	842,000	842,000
U. S. Treasury Bill	AAA	5.350	06/25/98	8,910,000	8,434,639	8,434,639
U. S. Treasury Bill	AAA	5.390	03/05/98	15,140,000	14,580,102	14,580,102
Total Cash Equivalents				\$ 182,132,000	\$ 180,914,818	\$ 180,914,818

Investment Portfolio (Continued)

Combined Stock Portfolio

Description	Shares	Book Value	Fair Value
Common & Preferred Stocks - Domestic			
3 COM Corp.	59,500	\$ 2,756,218	\$ 2,677,500
AT&T Corp.	168,500	6,303,225	5,908,031
Aetna, Inc.	95,500	7,264,711	9,776,813
Ahmanson (HF) & Co.	110,300	3,210,445	4,763,581
Allegiance Corp.	52,000	1,460,121	1,417,000
Allstate Corp.	129,700	5,243,870	9,468,100
Altera Corp.	55,600	1,687,652	2,807,800
Alumax, Inc.	58,000	1,995,532	2,211,250
Ambac, Inc.	38,400	2,137,571	2,932,800
Amdahl Corp.	62,700	757,489	552,544
Amerada Hess Corp.	118,000	6,470,216	6,556,375
American General Corp.	23,800	838,645	1,136,450
American Home Products Corp.	135,000	7,742,274	10,327,500
American International Group, Inc.	74,600	7,231,368	11,143,375
American Standard Companies, Inc.	29,800	971,174	1,333,550
Amoco Corp.	51,100	3,770,967	4,442,506
AMR Corp.	68,800	6,034,766	6,364,000
Apache Corp.	16,900	561,339	549,250
Applied Materials, Inc.	35,000	1,238,125	2,478,438
Archer Daniels Midland Co.	252,020	4,625,754	5,922,470
Ascend Communications, Inc.	20,000	1,281,876	787,500
Ashland, Inc.	24,300	1,135,923	1,126,913
Aspect Telecommunications	40,000	1,198,750	890,000
Atlantic Richfield Co.	100,800	6,203,353	7,106,400
Atmel Corp.	37,000	1,232,000	1,036,000
Automatic Data Processing, Inc.	147,400	5,861,239	6,927,800
Banc One Corp.	225,500	9,329,806	10,922,656
Bankamerica Corp.	98,400	3,854,488	6,352,950
BankBoston Corp.	16,100	812,004	1,165,238
Bankers Trust NY Corp.	22,700	1,659,881	1,977,738
Barnett Banks, Inc.	36,700	1,162,499	1,926,750
Baxter International, Inc.	80,700	3,306,400	4,221,619
Bell Atlantic Corp.	53,100	3,755,470	4,028,963
Beneficial Corp.	22,000	1,537,611	1,563,375
Beverly Enterprises, Inc.	76,100	898,741	1,236,625
Black & Decker Corp.	36,000	1,176,300	1,338,750
Boeing Co.	157,400	6,852,456	8,352,038
Bowater, Inc.	81,500	3,303,647	3,769,375
Brinker International, Inc.	94,700	1,631,172	1,349,475
Bristol-Myers Squibb Co.	233,500	10,536,881	18,913,500
Browning Ferris Industries, Inc.	66,700	1,878,063	2,217,775
Burlington Industries, Inc.	78,200	988,948	938,400
Burlington Northern, Inc.	14,700	1,173,155	1,321,163
Campbell Soup Co.	62,800	2,588,982	3,140,000
Cardinal Health, Inc.	47,550	2,112,849	2,722,238
Cascade Communications	20,000	523,760	552,500
Caterpillar, Inc.	69,400	5,005,739	7,451,825
Ceridian Corp.	31,600	1,156,851	1,335,100
Chase Manhattan Corp.	167,100	13,081,649	16,219,144
Chelsea GCA Realty, Inc.	18,100	521,461	687,800
Chubb Corp.	131,800	6,322,687	8,814,125
Cisco Systems, Inc.	153,300	9,129,854	10,290,263
Citicorp	12,000	1,224,720	1,446,750
Coastal Corp.	40,000	1,649,160	2,127,500

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Fair Value
Common & Preferred Stocks - Domestic (Continued)			
Coca-Cola Co.	193,600	\$ 9,017,863	\$ 13,164,800
Coca-Cola Enterprises, Inc.	40,500	488,113	931,500
Colgate-Palmolive Co.	36,400	1,929,116	2,375,100
Colonial Properties TR	32,800	858,196	963,500
Columbia/HCA Healthcare	204,600	7,203,726	8,043,338
Compaq Computer Corp.	64,600	5,281,647	6,427,700
CSX Corp.	43,300	1,980,788	2,403,150
Cyprus Amax Minerals Co.	49,300	1,139,972	1,207,850
Dana Corp.	34,700	1,149,520	1,318,600
Dayton Hudson Corp.	99,100	3,263,504	5,270,881
Dean Witter Discover & Co.	141,400	4,119,375	6,089,038
Deere & Co.	20,700	873,605	1,135,913
Delta Air Lines, Inc.	29,600	2,116,785	2,445,700
Disney, Walt Holding Co.	42,100	2,591,850	3,378,525
Dow Chemical Co.	41,500	3,319,877	3,605,313
DSC Communications Corp.	31,600	542,661	703,100
Eastman Chemical Co.	17,200	968,349	1,092,200
Eastman Kodak Co.	88,000	6,907,821	6,754,000
Echlin, Inc.	72,200	2,363,225	2,599,200
Edison International	282,700	5,708,696	7,032,163
Enron Oil & Gas Co.	22,300	553,140	404,188
Entergy Corp.	171,500	4,758,735	4,716,250
Equitable Companies	30,100	991,572	1,000,825
Equitable Resources, Inc.	64,100	1,897,857	1,818,838
Evans Withycombe Residential	4,900	100,220	101,675
Everest Reinsurance Holdings	26,900	653,810	1,065,913
Exxon Corp.	123,600	5,645,370	7,570,500
Federal National Mortgage Association	141,700	4,533,764	6,181,663
Federated Department Stores, Inc.	66,000	2,175,630	2,293,500
First Chicago NBD Corp.	64,600	2,780,877	3,908,300
First Data Corp.	71,200	2,649,626	3,128,350
FMC Corp.	23,400	1,566,800	1,858,838
Ford Motor Co.	321,400	10,743,932	12,213,200
Fort James Corp.	133,000	3,505,880	4,921,000
Foster Wheeler Corp.	98,300	3,727,476	3,981,150
Foundation Health Systems, Inc.	108,600	3,378,124	3,291,938
Fruit of the Loom, Inc.	13,800	328,761	427,800
General Electric Co.	91,200	3,661,997	5,928,000
General Motors Corp.	63,400	3,657,619	3,534,550
Geon Co.	35,400	1,011,024	716,850
Georgia Gulf Corp.	52,000	1,475,700	1,511,250
Georgia Pacific Corp.	25,000	1,932,875	2,134,375
Gillette Co.	77,400	4,788,025	7,333,650
Goodyear Tire & Rubber Co.	30,500	1,574,461	1,931,031
GPU, Inc.	30,400	1,062,761	1,090,600
Great Atlantic & Pacific Tea, Inc.	43,200	1,179,884	1,174,500
Great Lakes Chemical Corp.	37,300	1,768,686	1,953,588
Green Tree Financial Corp.	14,500	466,245	516,563
Guidant Corp.	12,100	594,386	1,028,500
Hartford Life	5,400	152,550	202,500
Hasbro, Inc.	138,750	3,724,291	3,937,031
Healthcare Compare Corp.	26,100	1,209,937	1,366,988
Hewlett Packard Co.	198,400	11,004,270	11,110,400
Honeywell, Inc.	20,100	1,090,181	1,525,088

Investment Section

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Fair Value
Common & Preferred Stocks - Domestic (Continued)			
Household International, Inc.	57,700	\$ 4,568,642	\$ 6,776,144
IBP, Inc.	128,300	3,540,022	2,982,975
Illinois Central Corp.	55,600	1,646,312	1,942,525
Illinois Tool Works, Inc.	43,600	1,528,841	2,177,275
IMC Global, Inc.	70,300	2,675,027	2,460,500
Intel Corp.	115,300	10,569,206	16,350,981
International Business Machines	105,200	5,998,978	9,494,300
John Alden Financial Corp.	23,300	483,092	487,844
Johnson & Johnson	64,500	3,049,303	4,152,188
Kilroy Realty Corp.	10,300	236,900	260,075
Lexmark International Group A	19,300	512,496	586,238
Lilly, Ely & Co.	11,100	1,213,224	1,213,369
Linear Technology Corp.	29,000	1,306,293	1,500,750
Litton Industries, Inc.	36,800	1,750,824	1,777,900
Long Island Lighting Co.	87,900	1,558,865	2,021,700
Louisiana Land & Explor.	47,500	2,540,317	2,713,438
Lowes Cos., Inc.	91,800	3,250,342	3,408,075
LTV Corp.	102,600	1,237,356	1,462,050
Lyondell Petrochemical Co.	95,000	2,446,892	2,090,000
Mapco, Inc.	50,900	1,482,560	1,603,350
Mark IV Industries, Inc.	74,130	1,569,436	1,779,120
Mattel, Inc.	100,900	2,755,023	3,417,988
Maxim Integrated Products, Inc.	23,000	1,035,375	1,308,125
May Department Stores Co.	61,000	2,941,697	2,882,250
MBNA Corp.	27,000	973,620	988,875
MCI Communications Corp.	136,000	3,966,547	5,206,250
Mead Corp.	77,300	4,464,523	4,811,925
Merck & Co., Inc.	18,000	1,486,080	1,841,625
Microsoft Corp.	36,200	4,180,040	4,574,775
Mobil Corp.	91,000	5,489,687	6,358,625
Molex, Inc.	29,625	712,938	1,033,172
Monsanto Co.	256,800	9,085,752	11,058,450
Morgan JP & Co., Inc.	11,400	1,088,395	1,189,875
Murphy Oil Corp.	26,600	1,135,642	1,296,750
NatlonsBank, Corp.	111,286	4,534,779	7,184,902
Niagara Mohawk Power Corp.	191,100	1,647,387	1,636,294
Norwest Corp.	52,400	1,938,637	2,947,500
Nynex Corp.	83,000	3,931,311	4,777,688
Oasis Residential, Inc.	25,200	581,835	592,200
Occidental Pete Corp.	132,100	3,515,580	3,310,756
Oracle Corp.	86,400	3,178,869	4,352,400
Oryx Energy Co.	27,600	601,456	583,050
Owens Illinois, Inc.	79,400	1,995,675	2,461,400
Pacific Gas & Electric Co.	183,600	4,173,809	4,452,300
Pacific Corp.	104,800	2,140,738	2,305,600
Parker & Parsley Pete Co.	33,900	817,308	1,199,213
Peco Energy Co.	160,900	3,861,890	3,378,900
Penney JC, Inc.	85,000	4,337,662	4,435,938
PepsiCo, Inc.	348,200	11,713,935	13,079,263
Pfizer, Inc.	90,200	6,509,981	10,778,900
Phelps Dodge Corp.	9,200	559,472	783,725
Philip Morris Cos., Inc.	372,400	12,316,810	16,478,700
Pinnacle West Capital Corp.	34,900	978,091	1,049,181

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Fair Value
Common & Preferred Stocks - Domestic (Continued)			
PMI Group, Inc.	26,900	\$ 1,478,499	\$ 1,677,888
PNC Bank Corp.	36,200	1,088,390	1,511,350
Potomac Electric Power Co.	117,100	3,094,293	2,707,938
PPG Industries, Inc.	44,800	2,441,194	2,604,000
Premark International, Inc.	63,000	1,059,030	1,685,250
Prentiss Properties Trust-SBI	14,100	338,352	361,294
Procter & Gamble Co.	70,600	6,447,816	9,972,250
Quintiles Transnational Corp.	17,000	939,250	1,183,625
Rayonier, Inc.	23,700	879,186	996,881
Reader's Digest Association CL-A	20,200	547,813	580,750
Reebok International LTD	34,500	1,051,804	1,619,344
Reliance Group Holdings, Inc.	81,400	676,434	966,625
Reynolds Metals Co.	55,500	3,470,376	3,954,375
RJR Nabisco Holdings Corp.	160,200	4,921,883	5,286,600
Ryder System, Inc.	93,800	2,816,837	3,095,400
Salomon, Inc.	84,400	3,924,870	4,694,750
Sara Lee Corp.	82,000	2,710,104	3,413,250
SBC Communications, Inc.	146,710	7,245,601	9,077,681
Schering Plough Corp.	105,000	3,055,425	5,026,875
Seagate Technology	74,200	2,269,688	2,615,550
Seagull Energy Corp.	86,500	1,784,458	1,513,750
Sears Roebuck & Co.	136,700	6,693,120	7,347,625
Service Corp. International	49,900	1,438,844	1,640,463
Springs Industries, Inc.	32,700	1,484,216	1,724,925
Storage Technology Corp.	43,100	1,781,124	1,944,888
Sun Microsystems, Inc.	55,000	1,528,120	2,047,031
Synopsys, Inc.	25,000	835,000	918,750
Temple-Inland, Inc.	57,100	2,881,892	3,083,400
Tenneco, Inc.	78,400	3,368,773	3,542,700
Texaco, Inc.	44,000	3,691,996	4,785,000
Texas Utilities Co.	69,000	2,317,053	2,376,188
TIG Holdings, Inc.	56,000	1,570,880	1,750,000
Toys-R-Us, Inc.	80,300	2,276,760	2,810,500
Transamerica Corp.	53,000	4,283,786	4,958,813
Travelers Group, Inc.	34,633	1,065,858	2,184,044
Tribune Co.	95,000	3,481,637	4,565,938
Tupperware Corp.	48,500	1,612,962	1,758,125
US West, Inc.	102,500	3,423,094	3,862,969
Union Pacific Corp.	30,000	1,412,485	2,094,375
Unocal Corp.	72,500	2,556,729	2,827,500
UST, Inc.	90,000	2,758,192	2,514,375
USX-Marathon Group	78,700	2,275,986	2,272,463
Valero Energy Corp.	18,400	654,302	667,000
Viacom, Inc.	41,000	1,600,423	1,230,000
Wal-Mart Stores, Inc.	144,900	4,376,367	4,899,431
Warnaco Group, Inc.	31,500	912,949	1,004,063
Wells Fargo & Co.	4,900	1,187,524	1,320,550
Whirlpool Corp.	93,300	5,213,915	5,090,681
Worldcom, Inc.	148,700	4,287,571	4,758,400
WR Grace & Co.	101,300	5,302,499	5,584,163
Xerox Corp.	32,200	1,743,062	2,539,775
Xilinx, Inc.	50,900	1,772,522	2,497,281
Xylan Corp.	32,000	904,250	544,000
Total Common & Preferred Stocks - Domestic	16,000,304	\$ 633,311,658	\$ 774,536,778

Investment Section

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Fair Value
Common & Preferred Stocks - Foreign			
<u>Australia</u>			
Ancor LTD-ORD	111,000	\$ 717,406	\$ 736,312
Boral Limited	88,000	220,846	276,614
Broken Hill Proprietary Co.	149,834	1,965,565	2,200,504
Burns, Philip & Co.	180,000	310,250	333,783
News Corp.	260,755	1,292,247	1,248,138
Pacific Magazines & Prin.	239,000	591,035	652,173
Sydney Harbour Casino	543,560	736,768	852,250
Westfield Trust	714,000	1,333,871	1,463,940
WMC Limited	526,276	3,405,004	3,312,502
Total Australia	2,812,425	\$ 10,572,992	\$ 11,076,216
<u>Austria</u>			
Brau-Union	2,800	\$ 169,360	\$ 168,495
Credit Anstalt Stamm	10,500	664,621	612,191
Osterr Brau-Beteil Stamm	2,800	172,040	165,303
Voest Alpine Stahl AG	26,550	967,823	1,200,972
Wienerberger Baustoff	4,300	792,971	882,025
Total Austria	46,950	\$ 2,766,815	\$ 3,028,986
<u>Canada</u>			
Barrick Gold Corp.	27,900	\$ 755,805	\$ 610,313
Canadian Imperial Bank	57,800	1,348,971	1,456,484
Dofasco, Inc.	154,000	2,459,657	2,916,023
Dominion Textile, Inc.	47,000	254,659	275,665
Imasco LTD	15,700	440,900	454,735
Inco LTD	68,400	2,169,151	2,056,275
National Bank of Canada	96,000	794,278	1,202,585
Nova Scotia Power, Inc.	144,000	1,377,091	1,485,853
Saskatchewan Wheat Pool B	32,000	335,684	393,910
Suncor, Inc.	78,000	1,405,344	2,091,375
Torstar Corp. B	38,000	800,540	1,183,179
Total Canada	758,800	\$ 12,142,080	\$ 14,126,397
<u>Finland</u>			
Enso Oy R	83,000	\$ 706,266	\$ 767,717
Kesko Ord	22,300	352,370	314,556
Pohjola B	15,000	264,656	445,137
Sampo A	4,200	258,176	408,717
Tamro Oy AB-ORD	64,000	412,310	443,981
Valmet Oy	14,000	244,235	242,262
Total Finland	202,500	\$ 2,238,013	\$ 2,622,370
<u>France</u>			
Accor	2,465	\$ 370,344	\$ 368,981
Alcatel Alsthom	26,645	2,455,558	3,335,783
Assurance General France	7,981	239,426	254,951
Cie Generale - Warrant	15,400	9,267	9,221
Compagnie Bancaire	1,327	152,155	169,292
Credit Nationaunatexis	14,070	881,792	799,125
Elf Aquitaine	13,500	1,066,172	1,455,886
Eridanla Beghin-Say	5,700	908,873	853,222
Generale Eaux (CIE)	36,952	4,034,279	4,733,008

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Fair Value
Common & Preferred Stocks - Foreign (Continued)			
France (Continued)			
Lafarge-Bearer	7,100	\$ 455,171	\$ 441,418
Lyonaise Des Ex	15,240	1,539,955	1,534,656
Renault	52,076	1,257,351	1,317,204
Sefimeg	7,900	545,289	503,921
Sidel	16,124	1,069,584	1,247,925
Simco	7,600	641,649	602,426
Societe Generale	8,662	967,988	966,554
Television Francaise FF10	16,600	1,655,696	1,482,422
Total SA-B Ser	20,037	1,520,704	2,024,526
Usinor Sacilor	71,500	1,063,155	1,289,188
Vallourec	8,700	353,315	531,421
Total France	355,579	\$ 21,187,723	\$ 23,921,130
Germany			
BASF AG	43,500	\$ 1,370,939	\$ 1,603,676
Commerzbank AG	40,000	959,330	1,141,217
Daimler Benz	70,473	4,287,079	5,729,068
Dresdner Bank AG-ORD	29,600	812,508	1,036,124
Dyckerhoff Vorzug AG-PRF	650	240,140	234,975
Grohe (Friedrich) Vorzug	2,250	667,015	702,519
Herlitz ORD	1,000	105,911	103,695
Herlitz Vorzug	1,000	101,864	96,247
Hoechst	102,996	3,692,060	4,360,573
IKB Deutsch Industrie Bank AG	51,500	1,023,713	1,017,900
Man Stamm	600	146,394	186,651
Man Vorzug	1,800	348,957	455,799
Mannesmann	5,363	1,956,737	2,393,448
Merck KGAA	5,600	211,359	243,826
Metro AG (Preferred)	5,400	363,850	436,825
RWE AG-ORD	20,000	717,082	859,350
RWE AG-ORD Non VTG/PREF.	10,500	309,235	366,040
Siemens AG	18,400	968,347	1,101,045
Suedzucker AG-Vorzug	250	108,294	133,915
Yeba	18,600	1,019,580	1,049,610
Wella ORDS	600	329,464	402,176
Wella Vorzug	300	167,580	202,463
Total Germany	430,382	\$ 19,907,438	\$ 23,857,142
Hong Kong			
Hang Seng Bank	90,700	\$ 918,505	\$ 1,293,885
Hutchison Whampoa	246,000	1,591,425	2,127,826
New World Developments	304,000	1,450,730	1,813,184
Sun Hungkai Properties	168,000	1,645,847	2,022,481
Total Hong Kong	808,700	\$ 5,606,507	\$ 7,257,376
Italy			
Banca Commerciale ORD	235,000	\$ 458,133	\$ 500,977
Banca Pop. Bergamco-C.V.	46,000	680,763	681,298
Banca Popolare Di Milano	141,000	681,231	845,710
Banco Ambrosiano Venet-RNC	142,000	247,324	207,387
INI	296,000	1,307,005	1,677,776
Fiat SPA	1,138,361	3,683,080	4,102,730

Investment Section

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description

Shares Book Value Fair Value

Common & Preferred Stocks - Foreign (Continued)

Italy (Continued)

Description	Shares	Book Value	Fair Value
Finmeccanica SPA ORD	204,000	\$ 89,345	\$ 139,958
IMI Istituto Mobiliare	115,000	884,811	1,036,170
Istituto Naz Assicuraz	856,055	1,232,944	1,305,699
Magneti Marelli ORD	442,500	566,911	747,888
Olivetti	4,182,810	1,943,623	1,186,058
Stet	755,193	2,794,559	4,402,858
Stet SPA-RNC	222,000	778,414	771,341
Telecom Italia ORD	912,000	1,755,552	2,733,721
Telecom Italia RNC	191,000	300,661	378,495
Total Italy	9,878,919	\$ 17,404,356	\$ 20,718,066

Japan

Aoki International Co.	73,000	\$ 1,158,676	\$ 1,298,880
Aoyama Trading Co.	95,000	2,496,822	3,049,211
Canon	50,000	1,080,675	1,360,632
Chiyoda Fire & Marine	218,400	1,170,153	1,076,260
Chugai Pharmaceutical	127,000	1,010,517	1,140,925
Dai-Tokyo Fire & Marine	141,000	860,560	816,589
Daiel, Inc.	196,000	1,889,888	1,256,491
Daiichi Pharmaceutical	66,000	1,062,968	1,162,817
Daito Trust Co.	17,000	165,176	200,170
Daiwa House Co.	49,000	565,713	598,329
Daiwa Kosho Liase Co.	154,000	1,512,474	1,190,065
Daiwa Aiwa Securities	206,000	2,107,574	1,624,246
DDI Corp.	80	623,688	590,305
Eisai Pharma	23,000	414,127	435,315
Fuji Phot Film Co.	110,000	3,440,992	4,422,926
General Sekiyu	94,000	728,385	623,100
Higo Bank	134,000	1,005,202	881,236
Hitachi	531,000	4,871,872	5,928,169
Hitachi Credit Corp.	116,000	2,048,106	2,246,089
Hitachi Metals LTD	33,000	239,489	240,335
Hokkaido Coca-Cola Bottling	23,000	334,030	314,951
Hokkaido Electric Power	50,000	979,426	894,005
Hyakugo Bank	111,000	747,352	635,101
Hyakujushi Bank	103,000	668,195	627,059
Industrial Bank of Japan LTD	83,000	1,155,590	1,288,588
Isetan	45,000	572,963	557,336
Ito-Yokado	36,000	1,910,223	2,088,047
Kagoshima Bank	136,000	1,047,310	877,782
Kawasaki Heavy Industries	370,000	1,695,178	1,720,066
Kita Kyushu Coca-Cola Bottling	14,300	332,685	324,284
Koa Fire & Marine Insurance	128,000	606,580	773,676
Kurimoto	115,000	1,164,571	885,675
Kyocera Corp.	18,700	1,249,777	1,484,223
Makita Corp.	208,000	3,071,388	3,047,816
Maruichi Steeltube	86,000	1,568,106	1,425,175
Matsushita Electric Industrial	177,000	3,005,935	3,566,164
Matsuzakaya	58,000	588,490	427,971
Mikuni Coca-Cola Bottling	23,000	340,018	341,030
Mitsubishi Trust & Banking	157,000	2,058,004	2,478,531
Miyazaki Bank	131,000	696,479	590,715

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Fair Value
Common & Preferred Stocks - Foreign (Continued)			
<u>Japan (Continued)</u>			
Murata Manufacturing	23,000	\$ 832,082	\$ 914,763
NEC Corp.	134,000	1,471,644	1,869,997
Nippon Steel Co.	484,000	1,549,582	1,545,050
Nissan Motor	390,000	3,005,482	3,024,005
NKK	375,000	989,740	804,605
Nomura Securities	166,000	2,059,460	2,287,606
NTT Corp.	235	1,780,560	2,254,637
NTT Data Communication	23	663,321	888,685
Obayashi Corp.	80,000	614,719	535,182
Pioneer Electric Corp.	138,000	3,001,193	3,346,108
Promise Co.	27,000	1,187,760	1,544,841
Rohm	7,000	488,298	720,437
Sanyo Coca-Cola	23,000	342,364	302,915
Seino Transportation Co.	90,000	1,371,739	973,375
Sekisui House	178,000	1,909,280	1,800,919
Sharp Corp.	197,000	3,020,594	2,714,810
Shikoku Coca-Cola	7,000	91,317	84,255
Sony Corp.	46,400	3,112,018	4,042,961
Sumitomo Bank	136,000	1,989,236	2,230,041
Sumitomo Realty	358,000	2,672,137	3,153,701
Sumitomo Trust & Banking	207,000	1,961,569	2,220,708
Taisei Corp.	98,000	553,008	453,875
Toho Bank	200,000	1,346,671	1,229,802
Tohoku Electric Power	48,000	959,306	854,058
Wacoal Corp.	64,000	876,113	792,655
West Japan Railway Co.	383	1,281,497	1,499,896
World Co. LTD	20,000	874,868	877,433
Yamagata Bank	214,000	1,059,955	1,103,106
Yamanouchi Pharmaceuticals	50,000	1,066,747	1,343,188
Yamato Kogyo Co.	91,000	916,483	896,883
Yodogawa Steel Works	140,000	946,220	854,756
Total Japan	8,498,521	\$ 96,240,320	\$ 101,655,538
<u>Malaysia</u>			
Genting Malaysia	66,800	\$ 468,167	\$ 320,160
Resorts World Malaysia	317,000	1,491,006	954,284
Renong BHD	678,000	1,080,725	886,234
Total Malaysia	1,061,800	\$ 3,039,898	\$ 2,160,678
<u>Mexico</u>			
Telmex	325,100	\$ 612,815	\$ 779,727
Total Mexico	325,100	\$ 612,815	\$ 779,727
<u>Netherlands</u>			
ABN Amro Holding	\$ 49,200	\$ 805,274	\$ 916,746
DSM	2,400	217,909	238,625
EVC International	3,500	108,258	88,558
Ing Groep NV	43,023	1,526,823	1,982,222
Koninklijke PTT	9,800	359,422	384,167
Philips Electronics	40,930	2,399,563	2,929,747
Royal Dutch Petroleum Co.	90,800	3,583,602	4,807,533
Ver Den Vitgevers	161,598	2,986,948	3,570,497
Wereldhaven	14,105	780,013	833,697
Total Netherlands	415,356	\$ 12,767,812	\$ 15,751,792

Investment Section

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Fair Value
Common & Preferred Stocks - Foreign (Continued)			
<u>Singapore</u>			
Dev Bank of Singapore (F)	59,000	\$ 693,231	\$ 742,657
Overseas Chinese Bank	70,800	679,826	732,755
Total Singapore	<u>129,800</u>	<u>\$ 1,373,057</u>	<u>\$ 1,475,412</u>
<u>Spain</u>			
Argentaria	34,900	\$ 1,410,622	\$ 1,952,995
Dragados Y Construccion	29,300	372,756	608,150
Empresa Nac De Electric (Endesa)	12,048	778,034	1,010,896
Fuerzas Electricas De	37,561	286,000	357,961
Repsol	11,500	385,427	485,968
Telefonica Espana	122,015	2,572,280	3,525,694
Union Electrica Fenosa	60,000	368,031	545,353
Total Spain	<u>307,324</u>	<u>\$ 6,173,150</u>	<u>\$ 8,487,017</u>
<u>Sweden</u>			
Astra AB Free A	351,853	\$ 5,761,298	\$ 6,566,426
Electrolux B	15,300	792,422	1,106,447
Skandia Forsakrings AB	52,150	1,503,737	1,926,212
Tornet Fastighet	123,000	1,327,388	1,450,613
Total Sweden	<u>542,303</u>	<u>\$ 9,384,845</u>	<u>\$ 11,049,698</u>
<u>Switzerland</u>			
Bobst AG (Bearer Shares)	975	\$ 1,365,185	\$ 1,654,396
Bobstag Regd Shares	1,500	948,153	1,190,508
Ciba Spezialtaet Rights	3,370	100,358	311,277
Nestle	1,100	1,278,671	1,449,546
Novartis AG-Bearer	2,722	3,028,836	4,343,099
Novartis AG-Reg	2,194	2,584,990	3,503,649
Roche Holding Genuss	430	3,737,874	3,884,990
Schweiz Bankverein	19,800	4,006,382	5,290,166
Total Switzerland	<u>32,091</u>	<u>\$ 17,050,449</u>	<u>\$ 21,627,631</u>
<u>United Kingdom</u>			
ADA Group PLC	783,779	\$ 1,482,060	\$ 1,617,704
Anglian Water	221,000	2,122,812	2,396,572
British Aerospace PLC	103,635	2,283,888	2,305,469
British Petroleum ORD	220,404	2,177,228	2,738,628
British Steel	327,000	907,361	810,994
BTR PLC-ORD 25P	260,000	1,093,577	889,342
Cable & Wireless	177,900	1,650,699	1,636,033
Commercial Union PLC	96,200	1,154,643	1,011,189
Courtaulds Textile PLC	227,000	930,143	1,158,084
General Accident PLC	154,000	2,052,144	2,248,040
Guardian Royal Exchange	375,000	1,841,346	1,685,308
Hanson ORD GBP2	29,250	204,501	145,330
Hazlewood Foods	537,000	824,324	1,001,097
Hillsown Holdings	286,000	812,271	804,519
ICI PLC	120,100	1,569,847	1,670,218
Imperial Tobacco Group	258,400	1,742,061	1,662,363
Labroke Group PLC	549,408	2,187,667	2,149,051
Orange PLC	47,697	148,173	157,592
Powell Duffryn	126,000	917,082	937,480

Investment Portfolio (Continued)

Combined Stock Portfolio (Continued)

Description	Shares	Book Value	Fair Value
Common & Preferred Stocks - Foreign (Continued)			
<u>United Kingdom (Continued)</u>			
Royal & Sun Alliance	265,000	\$ 1,635,226	\$ 1,954,040
Sainsbury, J. PLC-ORD25	375,000	2,098,938	2,275,163
Shell Transport & Trading	510,000	2,675,938	3,476,225
Smith & Nephew PLC-ORD	745,000	2,114,376	2,070,888
Somerfield PLC	358,000	1,029,539	1,090,481
South West Water	108,000	1,201,630	1,267,350
Tarmac	743,304	1,335,946	1,546,537
United News & Media	258,000	2,635,210	2,991,057
Vodafone	434,855	1,814,077	2,117,162
Total United Kingdom	8,696,932	\$ 42,642,707	\$ 45,813,916
Total Common & Preferred Stocks- Foreign	35,303,482	\$ 281,110,977	\$ 315,409,092
Stock Commingled Funds			
Cheasapeake Fund Super-Institutional	5,792,346	\$ 90,000,000	\$ 104,957,303
EAFB International Fund	17,142,999	512,894,213	644,199,612
Growth Fund Class B	9,815,381	159,749,372	192,397,163
Russell Special Small Company Fund	40,273,204	434,540,804	526,169,406
S&P 500 Flagship Fund	8,626,357	619,698,938	1,242,324,804
Total Stock Commingled Funds	81,650,287	\$ 1,816,883,327	\$ 2,710,048,288
Total Combined Stock Portfolio	132,954,073	\$ 2,731,305,962	\$ 3,799,994,158
Venture Capital			
Alpha Capital Fund II		\$ 718,636	\$ 718,636
Blue Chip Venture Co.		1,973,834	1,973,834
Brantley III		3,640,803	3,640,803
CID Equity Capital, L.P.		1,379,575	1,379,575
Morgenthaler Venture Partners		1,826,796	1,826,796
Morgenthaler Venture Partners		13,930,900	13,930,900
Morgenthaler Venture Partners		3,072,115	3,072,115
Primus Capital Fund I		179,482	179,482
Primus Capital Fund II		2,018,212	2,018,212
Total Venture Capital		\$ 28,740,353	\$ 28,740,353
Real Estate			
Aetna Open-End RE Account (SA-87)		\$ 76,561,084	\$ 81,976,321
Cigna Open-End RE Account R(SA-R)		94,067,731	97,294,516
Koll/Bren Opportunity Fund IV L.P.		14,057,579	14,057,579
L&B Serbo Fund		214,190,056	216,130,640
Monroeville Mall - Pittsburgh PA, 7.250%, due 08/31/22		25,942,574	25,942,574
Morgan Guaranty Trust Co NY Commingled		81,195,341	79,241,156
Phoenix Homelife/CASA Grp LLC		13,297,212	14,293,875
Sentinel Real Estate Fund		45,000,000	46,587,169
Yarmouth Capital Partners II L.P.		12,061,069	12,044,144
Total Real Estate		\$ 576,372,646	\$ 587,567,974
Total SERS Investment Portfolio		\$ 5,176,951,700*	\$ 6,262,746,225

*SERS has also capitalized net gains on currency contracts of \$16,881,169 for the year ended June 30, 1997

Investment Policy

A. Purpose.

The purpose of this Statement of Investment Policy is to define the Retirement Board's investment philosophy and objectives for the School Employees Retirement System of Ohio. This statement sets forth policies and describes the organization and division of responsibilities to prudently implement the Board's philosophy and objectives in accordance with Section 3309.15 of the Ohio Revised Code. It also establishes the framework and specific objectives to monitor investment performance and proxy voting, and to promote effective communication between the Board and the Investment Staff and Investment Managers.

The contents of this Statement of Investment Policy and the associated Guidelines and Objectives are subject to change at any time by the Board. The Statement will be reviewed and revised periodically to assure that it continues to reflect the attitudes, expectations and objectives of the Board.

B. Background.

The School Employees Retirement System of Ohio was established by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's school districts. This purpose is sustained by the member and employer contributions and returns realized from investment of those contributions.

The System is governed by a seven member board, including the Ohio Attorney General and State Auditor, with responsibility for the investment function as set forth in the Ohio Revised Code. In addition to the investment function, the Ohio Revised Code also sets forth the fiduciary responsibility of the Board and of other fiduciaries in discharging their duties with respect to the fund. This Statement of Investment Policy incorporates and is subject to all restrictions, guidelines and obligations set forth by the Ohio Revised Code.

C. Investment Philosophy.

1. Risk Posture.

The Board realizes that its primary objective is to

assure that the Plan meets its responsibilities for providing retirement and other benefits. Therefore, it shall always act to assure that the level of investment risk in the portfolio shall be prudent and shall not jeopardize that primary objective.

2. Return.

The Board believes, however, that over the long-term there exists a relationship between the level of investment risk taken and rate of investment return realized. The Board feels that assumption of a moderate level of risk associated with investments is reasonable and justified in order to enhance potential long-term investment results.

3. Diversification.

The Board seeks diversification by asset class and by investment approach and individual investments within asset classes to reduce overall portfolio risk.

4. Liquidity Requirements.

The System anticipates positive cash flow over the near-term and intermediate-term. Liquidity, for the purpose of immediate and intermediate-term benefit payments, is therefore not a major consideration in the investment of funds for the foreseeable future.

D. Investment Objectives.

In defining investment objectives the Board seeks to enhance the investment returns of the fund in order to permit higher benefits and to achieve lower costs. Therefore, it adopts the following general investment objectives:

1. Performance Objectives.

- a. Maximize Total Return on Assets: Recognizing that the System's obligations will increase as a result of inflation, to maximize the total return on assets available for the provision of benefits while operating in accordance with applicable regulatory restrictions and within prudent parameters of risk.

- b. **Preservation of Principal:** To protect the System from severe depreciation in asset value during adverse market conditions.

This objective shall be attained by broad diversification of assets and careful review of risks.

- c. **Competitive Results:** To achieve investment results competitive with those of the broad market and of similar funds. Long-term results shall be emphasized.

2. Risk.

- a. **Stability:** While the Board seeks higher long-term investment results, it also seeks to avoid major fluctuations in year-to-year results.
- b. **Risk Level:** The Board seeks to maintain a reasonable degree of total portfolio risk, defined as that which would be experienced by similar retirement systems.

3. Other Objectives.

- a. **Ohio Investments:** Where investment characteristics, including return, risk and liquidity, are equivalent, the Board will give careful consideration to investments which will have a positive impact on the economy of Ohio.

E. Implementation Approach.

In order to monitor and control the activities within the investment function, the Board has reserved certain responsibilities for itself. It has also delegated certain responsibilities to the Investment Staff, to organizations serving as Investment Managers and, from time to time, to other consultants or advisors. These are enumerated in Section F, Investment Organization and Responsibilities.

In fulfilling its fiduciary duties, the Retirement Board employs a competent and qualified Investment Staff for the management of the major portion of portfolio assets. In those areas where specialized expertise is required, the Retirement Board employs the services of outside Investment Managers. Criteria to be used in the selection of such Investment Managers are also enu-

merated in Section F.

The Board has also established a reporting process for regular and timely review and evaluation of investment results. This is described in Section G, Review and Evaluation. Finally, the Board has adopted Investment Guidelines and Objectives for each asset class and each investment management accountability unit within those asset classes. These guidelines also specify long-term target ratios for asset allocation, as well as permissible ranges related to those target allocations. These guidelines and objectives are regularly evaluated and updated based on market conditions, investment results and the recommendations of the Investment Staff, Investment Managers and other consultants or advisors.

F. Investment Organization and Responsibilities.

1. Responsibilities of the Retirement Board.

The Retirement Board recognizes its responsibility to ensure that the assets of the Plan are managed effectively and prudently, in full compliance with all applicable laws, and for the exclusive benefit of participants and beneficiaries. The Board believes it can best manage those responsibilities by delegating certain specific duties to others, as described below. In addition, the Board may designate certain of its members to act as an Investment Committee or a Subcommittee from time to time, and may delegate certain decision-making or fact-finding responsibilities to that committee or subcommittee.

Specific responsibilities of the Retirement Board or its Investment Committee or Subcommittee are as follows:

- a. Ensure that all fiduciaries comply with the Ohio Revised Code and any other applicable regulations and legislation.
- b. Establish investment policies, guidelines and objectives for the assets of the Plan and communicate them to the Investment Staff and Investment Managers.

- c. Appoint and discharge those with responsibility for managing the Plan's assets, including Investment Managers, consultants and any others involved.
 - d. Establish a proxy policy; and review proxy governance issues and reports from the Investment Staff and Investment Managers at least annually.
 - e. Request, receive and review reports from the Investment Staff and Investment Managers.
2. Responsibilities of the Investment Staff.

The Investment Staff, headed by the Executive Director and the Director of Investments, shall accept the following responsibilities. The Executive Director shall:

- a. Obtain necessary reports on the investment results of the Plan's assets on a timely basis as specified in Section G, Review and Evaluation.
- b. Retain any consultants or advisors deemed necessary or desirable for assistance in the investment of Plan assets, and for meeting his responsibilities.
- c. Oversee the investment function.

The Director of Investments shall accept the following responsibilities:

- a. Administer the policies, guidelines and objectives adopted by the Retirement Board of the School Employees Retirement System of Ohio in compliance with the relevant sections of the Ohio Revised Code.
- b. Inform and communicate to other Plan fiduciaries, including all Investment Managers, the requirements of the Ohio Revised Code and the policies, guidelines and objectives adopted by the Retirement Board, including the proxy policy, and monitor their compliance.

- c. Prepare annually an Annual Plan for the investment of the Plan's assets with recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.
 - d. Implement the Annual Plan, exercising the judgments allowed by the Board as to the asset allocation ranges for that year.
 - e. Report to the Board or its Investment Committee any intra-year changes in the Annual Plan, in the asset allocation among managers, or proposed changes in the policy, guidelines or objectives which the Investment Staff deems desirable or which are recommended by an Investment Manager or other consultants or advisors.
 - f. Oversee the activities of the Investment Staff.
3. Responsibilities of the Investment Managers.

Each Investment Manager, including Investment Staff with respect to internally managed assets, shall accept the following responsibilities for the specified investment management accountability unit which it manages.

- a. Manage the assets within its control in compliance with the relevant sections of the Ohio Revised Code and with the policies, guidelines and objectives adopted by the Retirement Board. Vote proxies in accordance with the Retirement Board's policy and guidelines; and periodically prepare a report reflecting proxy voting activity.
- b. Exercise investment discretion within the guidelines and objectives specified, including decisions to buy, hold or sell securities based on the manager's current investment strategy and outlook and compatible with such objectives.
- c. Inform the Retirement Board or the Investment Committee of any substantial changes in invest-

ment strategy, portfolio structure, value of assets, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing the investment management organization.

- d. Prepare reports for the Board or Investment Committee prior to any scheduled meetings, but at least on a quarterly basis.
 - e. Recommend to the Board or Investment Committee any changes in policy, guidelines or objectives which the Investment Manager believes to be desirable.
4. Criteria For Investment Managers.

In instances where the Retirement Board has determined it is desirable to employ the services of an outside Investment Manager, the following criteria shall be used in the selection of such firms:

- a. **Organizational Qualifications:** To be selected, the organization shall be qualified to serve as a fiduciary to the System, shall comply with all applicable nondiscrimination and affirmative action requirements, shall adequately address potential conflicts of interest and shall have a history of professionalism and ethical performance.
- b. **Investment Approach:** The approach utilized by the organization shall be compatible with the System's objectives and guidelines. It shall also be complementary to the System's other Investment Managers.
- c. **Personnel:** The organization shall have an experienced professional staff with adequate research and support personnel and a credible program or history demonstrating the ability to retain key personnel.
- d. **Performance:** The organization and/or its personnel shall have demonstrated the ability to achieve

above average performance in implementing the investment approach for which it is being considered. Satisfactory client references shall also be available.

G. Review and Evaluation.

The Board shall review and evaluate periodic reports on the investment results of the Plan's assets, as described below, obtained by the Executive Director. In addition, the Board shall review the periodic reports of each Investment Manager. In these reviews, it is intended that greater emphasis shall be given to long-term results than to short-term results. Following is the intended frequency for the review and evaluation, although these may be altered by the Board as deemed necessary:

1. Quarterly.

Summary Investment Reports - including highlights and commentary of investment performance, asset composition and holdings for each asset class and each investment management accountability unit. These reports shall identify any results which require the attention of the Board.

Investment Manager Reports - prepared by the manager of each investment management accountability unit, reporting on the results of the most recent period.

2. Annually.

Detailed annual investment reports - these reports will include the contents of the quarterly summary reports, as well as additional detail regarding the investment results for each investment management accountability unit.

Written and/or verbal reports presented by the manager of each investment management accountability unit. These shall be scheduled on a staggered basis throughout the year, as determined appropriate by the Board.



SFRS

Years of Service

Actuarial Section

Actuary's Letter



GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

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December 2, 1997

The Board of Trustees
School Employees Retirement System
of Ohio
Columbus, Ohio

Dear Board Members:

The basic financial objective of the School Employees Retirement System of Ohio (SERS) is to establish and receive contributions which when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Ohio citizens, and which when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of SERS.

In order to measure progress toward this fundamental objective, SERS has annual actuarial valuations performed. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the current cost and level percent of payroll amortization of unfunded actuarial accrued liability over a reasonable period. The latest completed actuarial valuation was based upon data and assumptions as of June 30, 1997. This valuation indicates that the contribution rate, established by the Board of Trustees, for benefits then in effect, meets the basic financial objective. This contribution rate is 9.02% of payroll for 103,739 school employees. The statutory employer contribution is 14% of pay. A SERS policy decision now provides the following allocations: to basic benefits and the Medicare Part-B supplement, the portion which will pay normal cost and 24 year amortization of unfunded actuarial accrued liabilities; and to health care benefits, the remainder of employer contributions.

The actuarial valuation of the basic benefits and Medicare Part-B supplement is based upon financial and participant data which is prepared by retirement system staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among SERS members and their beneficiaries. The data is reviewed by us for internal and year to year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees and were based upon actual experience of SERS during the years 1990 to 1995. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

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December 2, 1997
The Board of Trustees

The financial condition of health care benefits is different and is being significantly affected by the provisions of Act 290 of 1988. Act 290 established a health care surcharge, a program to determine a minimum annual pay for use in calculating employer contribution dollars.


On the basis of the 1997 valuation of the health care benefits, excluding the Medicare Part-B supplement, the allocated contributions are sufficient to provide for a health care reserve equal to 125% of estimated annual claim costs, the funding target established by the Board in 1995.

The current benefit structure is outlined in the Plan Summary. We provided the information used in the supporting schedules in the Actuarial Section and the Analysis of Funding Progress in the Financial Section.

Based upon the results of the valuation of the basic benefits and Medicare Part-B supplement, it is our opinion that the School Employees Retirement System of Ohio continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,


Thomas J. Cavanaugh, F.S.A.
Senior Consultant & Actuary


Michael L. Falco, A.S.A.
Actuary

TJC/ks

GABRIEL, ROEDER, SMITH & COMPANY

Statement of Actuary

Valuation as of June 30, 1997

Actuarial Cost Method and Assumptions

Basic Retirement Benefits

Employer contribution rates for basic benefits are determined using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The maximum statutory rate is 14%.

The present employer contribution rate of 14% is allocated between basic benefits and health care on the basis of SERS' policy decision. For the year ended June 30, 1997, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 30-year period, with the remainder of the employer contribution rate allocated to providing health care benefits. The rate determined for the funding of basic retirement benefits for the year ended June 30, 1997 is 9.79%.

Health Care Benefits

Initially, beginning in 1974, the contribution rate for health care benefits was established at 0.75%, included in a total employer contribution rate of 12.5%. Health care contribution rates have been increased at various times since 1974, and the total employer contribution rate has been increased to the statutory 14% maximum. The portion of the employer contribution rate allocated to health care for the year ended June 30, 1997 is 4.21%. Effective with the 1995 fiscal year the Retirement Board replaced the level cost financing of health care with pay-as-you-go financing. To provide program security and stability, the asset target level for the health care fund is 125 per cent of annual health care. For 1997, this resulted in a health care reserve of \$146.4 million versus a targeted level of \$121.8 million.

In 1988, House Bill 290 provided for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the differ-

ence between the minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal year 1997, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Actuarial Assumptions

The assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary. The actuarial assumptions used in making the valuation were revised as set forth in the Gabriel, Roeder, Smith & Company Investigation Report dated April 11, 1996 for the period from July 1, 1990 through June 30, 1995, and were adopted as of the June 30, 1996 valuation. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizable and persistent, a change is made to the actuarial assumptions.

The valuation assets as of June 30, 1997 were determined on a market-related basis. The asset valuation method recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed four-year period. To this was added the present value of expected future payments for House Bills 284 and 204, or \$1,546,651.

The following significant assumptions were used in the actuarial valuation as of June 30, 1997:

- (1) a rate of return on the investments of 8.25% compounded annually (net after expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 4.25 percent, the 8.25 percent investment return rate translates to an assumed real rate of return of 4 percent;

Statement Of Actuary (Continued)

- (2) projected salary increases of 4.25%, compounded annually, attributable to inflation;
- (3) additional projected salary increases ranging from 1% to 5% per year, attributable to seniority and merit. Pay increase assumptions for individual active members are shown for sample ages in the following table.

Increase Next Year			
Sample Ages	Merit & Seniority	Base (Economy)	Total
20	5.0%	4.25%	9.25%
30	4.3	4.25	8.55
40	3.8	4.25	8.05
50	2.4	4.25	6.65
60	1.0	4.25	5.25

- (4) eligibility for age and service retirement was assumed to be: age 50 with 30 or more years of service; age 55 with 25 or more years of service, or age 60 with 5 or more years of service. Probabilities of retirement with age and service allowance are shown in the following table for sample ages.

Probabilities of Age & Service Retirement
Percent of Eligible Active Members Retiring within Next Year

Sample Ages	Men	Women
50	30%	24%
55	20	18
60	15	30
65	35	30
70	25	38
75	100	100

- (5) mortality of participants based on the 1971 Group Annuity Mortality Table projected to 1984 set back one year for women and men;
- (6) rates of separation from active service before retirement are developed on the basis of actual plan experience. Probabilities of separation for sample ages are shown in the following table.

Probabilities of Separation from Active Employment before Age & Service Retirement
Percent of Active Members Separating within Next Year

Men

Sample Ages	Death	Disability	Other
20	0.02%	0.00%	6.09%
30	0.04	0.10	4.60
40	0.08	0.36	3.42
50	0.24	0.80	3.06
60	0.60	2.75	2.20

Women

Sample Ages	Death	Disability	Other
20	0.01%	0.00%	8.04%
30	0.02	0.03	6.31
40	0.04	0.14	3.95
50	0.08	0.48	2.67
60	0.21	3.25	2.66

- (7) benefits will increase 3% per year after retirement.

Statement of Actuary (Continued)

Actuarial Accrued Liabilities

Accrued liabilities are the present value of plan promises to pay benefits in the future, based upon service already rendered. A liability has been established (accrued) because the service has been performed, but the resulting monthly cash benefit may not be payable until years in

the future. Accrued liabilities are the result of complex mathematical calculations performed by a group of specialists, the plan's actuaries. The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the following schedule.

Actuarial Accrued Liabilities June 30, 1997

Present Value of	Basic Benefits
Future monthly benefits and death benefits to present retirees and survivors	\$ 2,996,028,254
Monthly benefits and refunds to present inactive members	149,222,426
Service allowances to present active members	2,911,956,402
Disability allowances to present active members	338,869,794
Death-after-retirement benefit (\$500) on behalf of present active members	1,159,629
Survivor benefits on behalf of present active members who die before retiring	44,253,400
Medicare Part B supplement	35,728,832
Refunds of member contributions of present active members	27,418,832
Benefits for present active members	<u>3,359,386,889</u>
Benefits for present covered persons	<u>\$ 6,504,637,569</u>

Membership Data

Information regarding active, inactive, and retired members is obtained from computer tapes provided by the

retirement system. Membership data contained on the computer tapes is examined and tested for reasonableness.

Active Member Valuation Data, 1992 to 1997

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
1992	97,497	\$1,244.3	\$12,762
1993	99,135	1,312.7	13,242
1994	99,918	1,360.9	13,620
1995	100,784	1,429.6	14,184
1996	101,777	1,475.9	14,501
1997	103,739	1,551.6	14,957

Retirants and Beneficiaries Added To and Removed From Rolls, 1992 to 1997

Fiscal Year Ended June 30	Additions During Year	Deletions During Year	Number at End of Year
1992	3,488	2,360	49,595
1993	3,303	2,493	50,405
1994	4,055	2,981	51,479
1995	3,532	2,598	52,413
1996	4,032	2,967	53,478
1997	3,993	2,917	54,554

Statement of Actuary (Continued)

Analysis of Financial Experience

**Gains & Losses in Accrued Liabilities Resulting From Differences
Between Assumed Experience & Actual Experience**

Type of Activity	Gain (or Loss) For Year \$ In Millions			
	1996*	1995	1994	1993
Age & Service Retirements If members retire at older ages than assumed, there is a gain. If younger ages, a loss.	\$(9.7)	\$(13.6)	\$(18.5)	\$(15.6)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(8.9)	(5.1)	(5.4)	(2.9)
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	0.2	0.2	(0.4)	(0.4)
Pay Increases If there are smaller pay increases than ass- umed, there is a gain. If greater increases, a loss.	76.6	(3.4)	45.2	29.3
Investment Return If there is greater investment return than ass- umed, there is a gain. If less return, a loss.	126.4	59.2	(6.0)	64.3
Retired Health Care** If costs increase less than assumed, there is a gain. If greater increase, a loss.	-	-	40.7	(56.4)
Withdrawal If more liabilities are released by other separ- ations from active membership than assumed, there is a gain. If smaller releases, a loss.	4.3	6.0	3.0	2.1
Retired Lives If more deaths than assumed, there is a gain. If fewer deaths than assumed, there is a loss.	4.2	4.1	4.3	3.3
Other Gains and losses resulting from employment fluctuations, timing of financial transactions, and miscellaneous unidentified sources, as well as differences covered by changes in membership records.	(33.5)	(41.9)	(23.1)	(51.0)
Total Gain (Loss) During Year	<u>\$159.6</u>	<u>\$5.5</u>	<u>\$39.8</u>	<u>\$(27.3)</u>

The results for 1997 are not available at this time.

** SERS adopted pay-as-you-go financing of healthcare beginning in fiscal year 1995.

Statement of Actuary (Continued)

Short-Term Solvency Test

The SERS financing objective is to pay for the benefits through contributions that remain approximately level from year to year as a percent of member payroll.

If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with:

1) Active member contributions on deposit;

2) The liabilities for future benefits to present retired lives;

3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is rare.

Basic Benefits (\$ In Millions)

June 30	Basic Benefits (\$ In Millions)				Portion of Accrued Liabilities Covered by Assets		
	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	(1)	(2)	(3)
1992	\$ 816	\$2,123	\$1,754	\$3,330	100%	100%	22%
1993	889	2,261	1,902	3,673	100	100	27
1994	962	2,426	1,994	3,952	100	100	28
1995	1,034	2,700	2,105	4,310	100	100	27
1996	1,105	2,886	2,193	4,766	100	100	35
1996*	1,105	2,790	2,234	4,778	100	100	39
1997	1,177	2,996	2,332	5,402	100	100	53
1997**	1,177	2,996	2,332	5,521	100	100	58

* Revised assumptions and asset valuation method

** Revised asset valuation method

Health Care Benefits (\$ In Millions)

June 30	Health Care Benefits (\$ In Millions)				Portion of Accrued Liabilities Covered by Assets		
	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	(1)	(2)	(3)
1992	-	\$833	\$685	\$153	-	18%	0%
1993	-	852	949	141	-	17	0
1994	-	853	981	141	-	17	0



SEARS

Years of Service

Statistical Section

Statistical Section

Revenues By Source

Table I

Fiscal Year	Member Contributions	Employer Contributions	Employer Contribution		Investment Income	Other Revenues	Total
			Rate as a Percent of Covered Payroll				
1992	\$117,331,597	\$202,421,912	14.0%		\$205,739,886	\$2,283,675	\$ 527,777,070
1993	123,270,559	210,429,351	14.0		243,539,163	2,363,874	579,602,947
1994	128,246,355	216,383,274	14.0		300,408,705	2,045,066	647,083,400
1995	133,907,577	227,703,212	14.0		785,991,298	2,662,891	1,150,264,978
1996	138,251,468	238,552,082	14.0		581,602,730	2,201,287	960,607,567
1997	146,156,369	259,243,355	14.0		981,931,142*	2,026,549	1,389,357,415

*GASB 25 was adopted in 1997. As a result, investment income includes net appreciation (depreciation) in fair value of investments for 1997 which can create significant fluctuations. Also included are investment-related administrative expenses.

Expenses By Type

Table II

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems		Refunds	Total
1992	\$302,422,078	\$ 8,586,487	\$1,741,637		\$12,751,491	\$325,501,693
1993	324,386,556	9,726,019	2,747,590		13,513,992	350,374,157
1994	339,173,588	10,037,313	2,665,192		13,908,639	365,784,732
1995	361,050,279	9,869,845	2,857,771		17,730,959	391,508,854
1996	381,521,103	9,948,711	3,441,857		18,218,091	413,129,762
1997	410,337,997	10,811,907*	2,863,606		19,618,499	443,632,009

*Does not include investment administrative expenses, which are included in investment income in Table I above.

Benefit Expenses by Type

Table III

Years Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds		Total
1992	\$185,750,980	\$22,258,565	\$11,814,421	\$81,851,492	\$13,498,111		\$315,173,569
1993	198,878,409	24,987,872	12,666,260	87,079,286	14,288,721		337,900,548
1994	212,437,443	27,367,790	13,067,061	85,496,108	14,713,825		353,082,227
1995	226,834,067	31,129,681	13,854,968	88,340,780	18,621,742		378,781,238
1996	241,967,864	34,235,981	14,268,272	90,212,211	19,054,866		399,739,194
1997	260,069,372	37,135,003	14,918,620	97,429,197	20,404,304		429,956,496

Number of Benefit Recipients by Type

Table IV

<u>Years Ending June 30</u>	<u>Service</u>	<u>Disability</u>	<u>Survivor</u>	<u>Total</u>
1992	42,690	3,661	3,244	49,595
1993	43,166	3,960	3,279	50,405
1994	44,024	4,081	3,374	51,479
1995	44,732	4,285	3,396	52,413
1996	45,555	4,497	3,426	53,478
1997	46,431	4,641	3,482	54,554

Number of Participating Employers

Table V

<u>Year</u>	<u>Total</u>	<u>Counties</u>	<u>Locals</u>	<u>Cities</u>	<u>Villages</u>	<u>Colleges</u>	<u>Technical</u>	<u>Vocational</u>	<u>Other</u>
1992	764	84	371	192	49	2	10	52	4
1993	764	84	371	192	49	2	10	52	4
1994	765	83	372	192	49	2	10	52	5
1995	766	83	371	193	49	2	10	52	6
1996	757	76	371	193	49	2	10	52	4
1997	749	67	371	193	49	2	10	52	5

Retirement Averages

Table VI

Service Retirement

<u>Year Ending June 30</u>	<u>Service Credit</u>	<u>Monthly Amount</u>	<u>Age</u>	<u>Salary</u>
1992	19.528	\$517.85	63.21	\$15,298
1993	20.211	549.01	63.45	15,984
1994	20.551	589.07	63.34	16,704
1995	20.201	587.84	63.50	16,935
1996	20.460	603.12	63.37	17,243
1997	21.149	678.65	63.66	18,682

Disability Retirement

<u>Year Ending June 30</u>	<u>Service Credit</u>	<u>Monthly Amount</u>	<u>Age</u>	<u>Salary</u>
1992	14.595	\$674.50	54.80	\$15,644
1993	15.123	709.53	56.42	16,652
1994	15.148	738.03	58.20	17,370
1995	15.208	790.66	57.04	18,282
1996	14.694	794.67	55.76	18,172
1997	15.540	848.33	56.31	19,531

Schedule of Average Benefit Payments

Table VII

Retirement Effective Dates	Years Credited Service					
	5-9	10-14	15-19	20-24	25-29	30+
July 1, 1991 to June 30, 1997						
Period 7/1/91 to 6/30/92						
Average Monthly Benefit	\$111	\$ 234	\$ 384	\$ 523	\$ 675	\$1,353
Average Final Average Salary*	735	1,018	1,193	1,287	1,400	2,159
Number of Retirees	244	416	401	403	436	240
Period 7/1/92 to 6/30/93						
Average Monthly Benefit	\$123	\$ 254	\$ 378	\$ 533	\$ 673	\$1,309
Average Final Average Salary*	855	1,113	1,174	1,318	1,431	2,054
Number of Retirees	178	333	340	344	412	243
Period 7/1/93 to 6/30/94						
Average Monthly Benefit	\$121	\$ 264	\$ 397	\$ 563	\$ 691	\$1,416
Average Final Average Salary*	809	1,169	1,217	1,371	1,460	2,204
Number of Retirees	194	365	325	366	564	271
Period 7/1/94 to 6/30/95						
Average Monthly Benefit	\$125	\$ 274	\$ 414	\$ 567	\$ 716	\$1,406
Average Final Average Salary*	814	1,208	1,306	1,390	1,486	2,221
Number of Retirees	217	353	331	385	557	251
Period 7/1/95 to 6/30/96						
Average Monthly Benefit	\$151	\$ 260	\$ 415	\$ 573	\$ 726	\$1,398
Average Final Average Salary*	902	1,168	1,301	1,420	1,503	2,237
Number of Retirees	228	388	355	423	609	302
Period 7/1/96 to 6/30/97						
Average Monthly Benefit	\$143	\$ 294	\$ 468	\$ 622	\$ 775	\$1,488
Average Final Average Salary*	777	1,324	1,455	1,538	1,594	2,313
Number of Retirees	201	356	336	376	640	340

* Final average salary is presented on a monthly basis for ease of comparison.

Purpose

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 745 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

Administration

The functioning of SERS is supervised by a seven member Board which works in conjunction with the System's Executive Director. Four of the seven Board members are elected by the general membership (those who contribute to SERS) and one is elected by retirees. The Ohio Attorney General and State Auditor, by virtue of their elected office, serve as the remaining two Board members in an ex officio capacity.

The Executive Director is appointed by the Board. This person oversees the administrative operation of the System, and is aided by four directors. Their areas of responsibility are finance, investments, member services, and management information services.

Employer Participation

The school employers served by SERS include public schools within the state's cities, villages and counties, as well as local districts, vocational and technical schools, and The University of Akron.

Employers contribute to SERS at the rate of 14.0% of payroll. Some employers pay the System directly on a monthly, quarterly, or annual basis, while others make payments through participation in the Ohio Department of Education's School Foundation Fund.

In addition to forwarding appropriate contribution amounts to SERS, it is the responsibility of the employers to supply SERS with new membership records, members' contribution information, and any data needed at the time of a member's application for benefits or refund of deposits on termination of employment.

Employee Participation

Membership in SERS is divided into several groups based on the activity of a member's SERS account. Member groups are:

- A. Active Members - These are persons currently employed by a school employer. Membership is required for most employees working in a position that does not require certification by the Ohio Department of Education. These persons include clerical workers, maintenance personnel, bus drivers, food service workers, playground supervisors, data processing personnel, etc. Two exceptions to the membership requirements are: (1) persons with student status within a school district may choose to become members of SERS; and (2) temporary employees for emergency purposes. Active members have an amount equal to 9.0% of their earnings deducted from their gross salaries for each payroll period. These amounts are then forwarded to SERS by the payroll officer and applied to the member's account at SERS.
- B. Inactive Members - These are persons who have contributions on deposit with SERS, but are not currently employed by a school district in the state of Ohio.
- C. Retired/Disabled Members - These are persons who have either (1) met the age and service requirements for retirement from service; or (2) become eligible to receive benefits as a result of an injury or illness that prevents the member from performing regularly assigned duties.
- D. Member's Survivors - When a member dies before retirement, the qualified beneficiaries become eligible for monthly benefits from SERS.

Refund of Contributions

A member is entitled to a full refund of contributions with SERS upon termination of school employment. Only the money the member has contributed is refundable.

In accordance with the Ohio Revised Code, there is a 90-day waiting period after the member's last day of service

before the refund can be paid. A refund cancels any claim to benefits offered by SERS.

The refunded amount, plus interest, may be redeposited if, at some later date, the member returns to school service or to any other public service with the state of Ohio. This purchase may be made after the member has been credited with 1.5 years of contributing service.

Service Retirement

Members may retire from school employment if they have attained one of three combinations of age or service:

1. Five years of service and age 60; or
2. Twenty-five years of service and age 55; or
3. Thirty years of service at any age.

A member's age is defined to be the actual age a person has reached on the day of retirement. Any change of the date of birth on our records must be substantiated by submitting proof of date of birth to the System.

Service Credit

Service credit is the actual number of years or fraction thereof a person worked within a school district or districts in Ohio schools, plus any other free or purchased service the System recognizes.

Free service is service for which no contributions are required. This includes military service performed while on leave from the school district; service with a school system before establishment of SERS in 1937; or service granted for a period (three years or less) spent off the district's payroll while drawing state worker's compensation for a school job-related accident.

Purchased service is service for which payment plus interest is required. The interest rate is 7.5%. Service must be purchased before the date of retirement if it is to be considered in calculating the member's benefits. Payment may be made in a lump sum or in multiples of one month or more so long as the complete amount due is tendered before retirement. The types of service that can be purchased are:

Military - A member may purchase up to five years of credit in SERS for active service in the armed forces of the U.S. There is no restriction placed on time elapsed between school employment and the time spent in the military. A member may purchase additional service credit if the military service includes prisoner of war time. Purchased credit may not be greater than the member's actual Ohio school employment credit.

Federal, Other State, or School Service - The member may purchase credit for service rendered in a school or government position outside the State of Ohio. The service cannot be greater than the member's SERS service nor can it exceed five years.

Refunded Service - Service lost due to the payment of a refund may be restored after the member has returned to work and accrued 1.5 years of service covered by SERS, STRS, PERS, PFDPF, or SHPRS. An interest charge is payable in addition to the restored funds.

Compulsory Service - This is service for which the member should have made contributions while working, but did not, for whatever reason. The full amount, plus interest, must be paid before retirement benefits are granted.

Optional Service - This is service during a period when the member was given a choice of contributing or refraining from doing so. The member must pay back contributions and may be responsible for the employer's share.

Leave of Absence - A member returning to work after a period of authorized leave may purchase service credit for the period involved. An employer contribution is required for this service to be granted, but the employer is under no obligation to make payment.

A member who has contributions not only at SERS, but also at State Teachers (STRS) or Public Employees (PERS) Retirement Systems is eligible to receive transferred credit from either or both of those systems. Any service which is not concurrent with (served at the same time as)

SERS service will be included in determination of retirement benefits.

Early Retirement Credit

Employers may purchase up to five years of service credit for their eligible employees under an early retirement incentive plan authorized by 1983 legislation.

Adoption of a plan is optional and only employers may purchase up to five years of such credit.

Benefit Calculation

The final average salary is the average of the member's highest three years of earnings while in the school service.

The benefit amount is calculated in this way:

The final average salary amount is multiplied by 2.1% to determine the value of a year of service credit. This value cannot be less than \$86. If it is, \$86 is used. The value is then multiplied by the number of years of service credit.

This calculation yields the annual retirement benefit

amount for a person who has service at retirement time.

For "early retirement" (the member is under age 65 or has less than 30 years of service) there is a corresponding percentage of decrease in the required benefit amount to allow for an extended period of retirement.

Reduction factors are required by Ohio state law.

Retirement Options

Should the retiring member wish to provide a benefit amount for a beneficiary upon the retiree's death, this may be done by the selection of one of the optional retirement plans provided for this purpose. Optional plans may be altered by the retired member should the beneficiary die before the retiree or in the event of a divorce, with consent of the ex-spouse or a court order.

Disability Retirement

A member prevented from performing regular duties on the job after incurring an injury or illness may apply for

monthly disability benefits. To qualify, the member must have at least 5 years of service credit. In addition to the age and service requirements, the member must:

- Have developed the disabling illness or injury after last becoming a member of SERS;
- Have been recommended for approval by a SERS-sponsored medical review board;
- Have applied for benefits within 2 years of the last day of service with the school district;
- Not have withdrawn contributions or retired on service retirement.

There are two disability plans with differing benefits. All new members are under the new plan. Benefits range from 30% of final average salary to 75%. Benefits are lifetime under the old plan, subject to re-examination; and may be converted to service retirement under the new plan.

Death Benefits

The designated beneficiary of any SERS retirees will receive a \$500 lump sum payment upon the retiree's death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the retiree's estate.

Survivor Benefits

Qualified dependents of a deceased member may apply for monthly survivor benefits. Such benefits are payable if the member had at least 18 months of Ohio service credit, three of which were served in the 2.5 years prior to the member's death, or if the member was receiving a disability benefit.

If the member was eligible for service retirement but had not yet applied for benefits, the surviving spouse or other single dependent beneficiary of any age can draw a monthly lifetime benefit known as the joint survivor option. Duration of survivor benefits depends primarily on the age and marital status of the dependent(s).

Health Care and Other Benefits

Eligible benefit recipients receive medical insurance from SERS. Coverage for a spouse and/or dependent children can be provided by means of a monthly deduction from the benefit. Coverage is offered by the selection of the Aetna insurance company or HMO's available in certain zip codes.

If the benefit recipient participates in Medicare B, SERS reimburses the recipient \$24.80 per month.

A prescription drug program is available to benefit recipients of SERS and their dependents who are covered under one of the health plans. Participants may either choose to obtain prescription drugs from a participating local pharmacy and pay 20% of the cost or they may elect to receive the drugs by mail from a licensed mail order pharmacy for a minimal fee per medication.

Members retiring after June 1, 1986 must have 10 or more years of service credit to qualify for the health care benefits.

Members retiring on and after August 1, 1989 with less

than 25 years of qualified service credit pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. Members who joined SERS on and after July 1, 1993 pay the full premium until eligible for Medicare.

Cost of Living Increases

After 12 months on the benefit rolls, and each year thereafter, SERS retirees are entitled to an automatic cost of living increase of up to 3%, based on the Consumer Price Index. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1988.

Re-Employed Retirees' Annuity

Ohio public system retirees who work in a SERS covered position are entitled to an annuity at age 65. The annuity is based on a money purchase formula and may be paid in monthly payments if the monthly amount is \$25 or more. If the monthly amount is less than \$25, the annuity will be paid in a lump sum.

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