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THE COMPREHENSIVE
**ANNUAL
FINANCIAL
REPORT**

of the
**PUBLIC EMPLOYEES RETIREMENT SYSTEM
OF OHIO**

for the
Calendar Year Ended December 31, 1985



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THE COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

for the
Calendar Year Ended December 31, 1985

Issued by:
William S. McLaughlin, Executive Director
Richard E. Schumacher, Assistant Director, Comptroller

PUBLIC EMPLOYEES RETIREMENT SYSTEM
OF OHIO
277 East Town Street, Columbus, Ohio 43215



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Certificate of Conformance in Financial Reporting

Presented to
Public Employees Retirement
System of Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1984

A Certificate of Conformance in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to governmental units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) are judged to substantially conform to program standards.



John T. Walsh
President

Jeffrey L. Essler
Executive Director

THE RETIREMENT BOARD

Elected Members

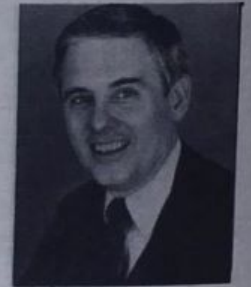


JERRY E. CAPLINGER

Representing
Municipal
Employees

DUSTY RHODES

Representing
Miscellaneous
Employees



WALTER H. KYLE

Representing
State
Employees

WILLIAM G. WILCOX

Representing
Retirants



RICHARD J. REHMER

Representing
College - University
Employees

WAYNE F. WILKE

Representing
County
Employees



Statutory Members



ANTHONY J. CELEBREZZE, JR.
Attorney General



THOMAS E. FERGUSON
State Auditor



WILLIAM G. SYKES
Director, Administrative Services



WILLIAM S. McLAUGHLIN

Executive Director

Assistant Directors

RICHARD D. MYERS
Benefits

ROBERT A. McLAUGHLIN
Investments

RICHARD E. SCHUMACHER
Comptroller

ORGANIZATIONAL STRUCTURE

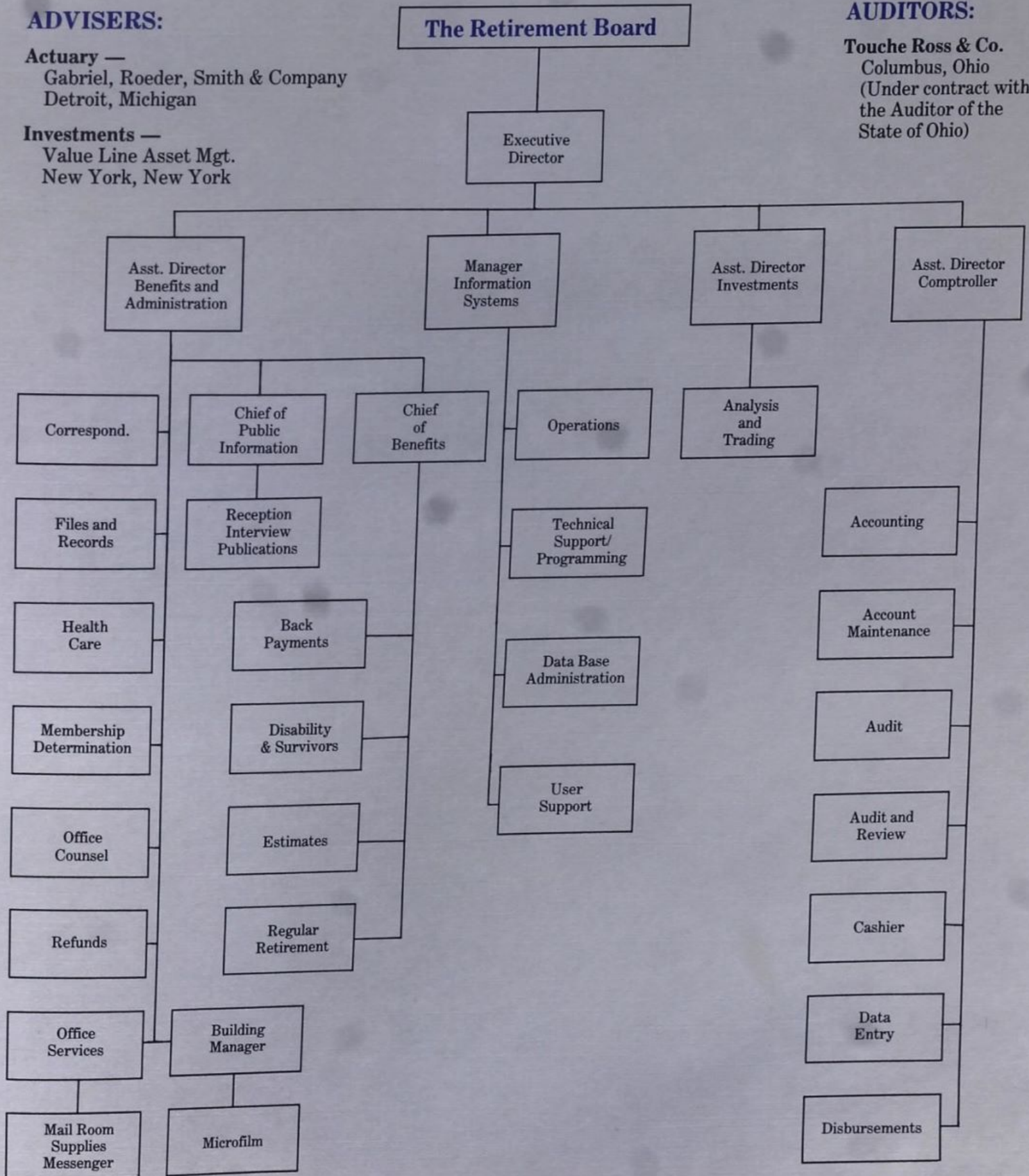
ADVISERS:

Actuary —
Gabriel, Roeder, Smith & Company
Detroit, Michigan

Investments —
Value Line Asset Mgt.
New York, New York

AUDITORS:

Touche Ross & Co.
Columbus, Ohio
(Under contract with
the Auditor of the
State of Ohio)



LETTER OF TRANSMITTAL

PUBLIC EMPLOYEES RETIREMENT SYSTEM OF OHIO

277 EAST TOWN STREET

COLUMBUS, OHIO 43215

TELEPHONE (614) 466-2085

Chairman and Members of The Retirement Board
Public Employees Retirement System
Columbus, OH 43215

June 1, 1986

Dear Chairman and Members of the Board:

It is a privilege to submit to you the Annual Financial Report for the Public Employees Retirement System of Ohio for the fiscal year ended December 31, 1985. We believe this report reflects the careful stewardship of assets and dedicated service to members and retirees.

The report consists of six sections: an Introductory Section which contains a Letter of Transmittal, along with the identification of the administrative organization and consulting services utilized by the System; the Financial Section contains a letter expressing the opinion of the independent certified public accountants and the financial statements of the System; the Actuarial Section contains a letter stating the independent actuary's opinion and results of their annual actuarial valuation; the Statistical Section includes significant data pertaining to the Retirement System; the Investment Section contains the investment report, portfolio summary, and the portfolio listings; the last section is a summary of the System's plan statement.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Employees Retirement System of Ohio for its Comprehensive Annual Financial Report for the fiscal years ending December 31, 1983 and December 31, 1984. In order to be awarded this certificate, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, in which 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. We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

ACCOUNTING SYSTEM

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest is accrued on a monthly basis. Entries for amortization of premium, accumulation of discount and write-off of deferred loss also are accrued monthly. Losses on bond exchanges are accounted for under the deferral and amortization method. Accounts receivable at year end, in addition to accrued interest receivable, reflect accrued employer charges and investment proceeds due on sales that have not yet settled. Investments are recorded at cost; thus, on the balance sheet, bonds and mortgages are carried at amortized book value while stocks are carried at cost. Fixed assets are listed at cost less accumulated depreciation. Through our cash management program, receipts are deposited as received and are recorded as undistributed deposits until such time as they are allocated to member contributions, employer receivables, employer contributions and investment income.

Management is responsible for maintaining systems of internal accounting controls which are designed to provide responsible assurances for the safeguarding of assets and the reliability of financial records.

REVENUES

The 1985 revenue from employee and employer contributions totaled \$967.1 million. Net investment income for the period was \$1,601.9 million. As a comparison, the same figures for 1984 were \$902.9 million and \$713.9 million, respectively. Contribution rates for both employees and employers remain unchanged from the prior year. A major portion of the increase in investment income is attributable to the gains realized on the sales of securities.

EXPENSES

Benefit payments are the primary expense of a Retirement System. Consequently, recurring benefit payments prescribed by the plan, refunds of the contributions to terminated employees, and the cost of administering the System comprise the total expense.

Benefit disbursements for 1985 totaled \$658.1 million. Of this amount \$581.5 million was paid to fulfill the System's obligations to its retirants. Refunds to members or beneficiaries for reasons of separation from service or death totaled \$76.6 million. Health care costs in 1985 amounted to \$117.2 million. These costs are paid by the Public Employees Retirement System on a split-funding program initiated in January, 1981. The Aetna Insurance Company administers the claims processing under this agreement.

FUNDING AND RESERVES

Funds, derived from the excess of revenues over expenses, are accumulated by the Retirement System in order to meet current and future benefit obligations to retirants and beneficiaries. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. Continuous improvement in the funding of the System is sought through suitable reserves, higher investment earnings, and effective cost containment programs. As of December 31, 1985, funds established by the System totaled \$11,057.1 million. The actuarial valuation dated December 31, 1984 reflects an unfunded accrued liability of \$6,316.8 million. This is the difference between the employer accumulation fund balance and the actuarially calculated liability for the fund. This "unfunded accrued liability" is being amortized in an orderly fashion over future years. The state government portion of the liability is being funded over 38 years, the local government portion over 44 years, and the law enforcement portion over 19 years.

INVESTMENTS

The investment portfolio provided net revenues of \$1,601.9 million to the System in 1985. Net revenues are comprised of bond interest, accumulation of discount, amortization of premium, dividend income, recognized gains and losses on the sale of securities, and amortization of deferred loss on bonds sold. A detailed listing of the portfolio is presented on pages 37 to 53.

PROFESSIONAL SERVICES

Professional services are provided to the Public Employees Retirement System by consultants appointed by the Board to aid in efficient and effective management of the System. Actuarial services are provided by Gabriel, Roeder, Smith & Company, Detroit, Michigan. The investment adviser is Value Line Asset Management, New York, New York. The financial records of the System were audited by Touche Ross & Co., Certified Public Accountants, Columbus, Ohio, under contract with the Auditor of the State of Ohio.

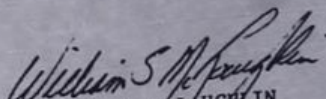
PROSPECTS FOR THE FUTURE

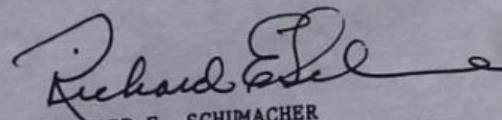
An approximate 5.5 percent growth in the number of retirants is expected for 1986. Continued growth of the Public Employees Retirement System may hinge on further government intervention, including federal regulation, additional involvement of the federal government in the state's retirement plan, and Congress mandating System members into Social Security.

ACKNOWLEDGMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Retirement Board. Its purpose is to provide complete and reliable information as a basis for making management decisions, as a means for determining compliance with the legal provisions, and as a means for determining responsible stewardship over the assets contributed by the members and their employers.

This report is being mailed to all employer units of the System, each state legislator, and other interested parties.


WILLIAM S. McLAUGHLIN
Executive Director


RICHARD E. SCHUMACHER
Assistant Director - Comptroller

FINANCIAL
SECTION

Report of Independent Certified
Public Accountants

Balance Sheet

Statement of Changes in
Financial Position

Statement of Revenues, Expenses,
and Changes in Fund Balances


Notes to Financial Statements

Schedule of Cash Receipts
and Disbursements

Schedule of Administrative Expense

Investment Summary

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

 Touche Ross

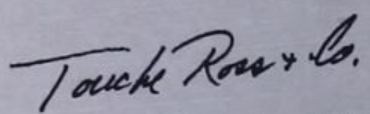
Touche Ross & Co.
250 East Broad Street
Columbus, OH 43215-9948
Telephone: 614 224-1110

May 13, 1986

Honorable Thomas E. Ferguson,
Auditor of State, State of Ohio and
Members of the Retirement Board
Public Employees Retirement System of Ohio
Columbus, Ohio

We have examined the balance sheets of the Public Employees Retirement System of Ohio as of December 31, 1985 and 1984, and the related statements of revenues, expenses, and changes in fund balances and changes in financial position for the years then ended, and the additional information listed in the accompanying table of contents. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Public Employees Retirement System of Ohio as of December 31, 1985 and 1984, and the results of its operations, changes in its fund balances and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the additional information referred to above presents fairly the information set forth therein.


Certified Public Accountants

BALANCE SHEET

Year Ended December 31, 1985
With Comparative Figures for 1984

ASSETS

	1985	1984
Cash and Short-Term Securities:		
Cash	\$ 12,028,195	\$ 12,529,307
Short-Term Securities	<u>2,092,043,572</u>	<u>1,286,959,397</u>
	<u>2,104,071,767</u>	<u>1,299,488,704</u>
Receivables:		
Employer	102,676,928	86,407,165
Investment Sale Proceeds	35,156,311	11,536,384
Accrued Interest and Dividends	<u>141,223,229</u>	<u>155,426,993</u>
	<u>279,056,468</u>	<u>253,370,542</u>
Investments (Notes 3 and 4):		
Bonds	4,965,570,580	4,425,177,252
Mortgages	2,164,258,161	1,364,696,921
Stocks	1,273,272,997	1,388,954,972
Real Estate—Commingled Funds	150,087,091	152,351,158
Venture Capital—Stocks and Notes	<u>29,953,099</u>	<u>54,960,489</u>
	<u>8,583,141,928</u>	<u>7,386,140,792</u>
Fixed Assets:		
Land	1,708,409	1,874,808
Buildings and Building Improvements	5,581,412	6,410,017
Furniture, Fixtures and Equipment	<u>3,342,862</u>	<u>2,187,669</u>
	10,632,683	10,472,494
Accumulated Depreciation	<u>(2,293,384)</u>	<u>(1,922,831)</u>
	<u>8,339,299</u>	<u>8,549,663</u>
Other Assets:		
Deferred Cost on Bonds Sold	119,129,844	232,855,656
Prepaid Expenses	113,098	113,929
Other Assets	<u>698,288</u>	<u> </u>
	<u>119,941,230</u>	<u>232,969,585</u>
TOTAL ASSETS	<u>\$11,094,550,692</u>	<u>\$9,180,519,286</u>

LIABILITIES AND FUND BALANCES

Liabilities:		
Undistributed Deposits	\$ 21,636,643	\$ 10,860,137
Medical Insurance Payable	8,384,733	8,600,706
Investment Commitments Payable	5,824,258	4,468,329
Accrued Administrative Expenses	<u>1,652,892</u>	<u>1,509,825</u>
TOTAL LIABILITIES	<u>37,498,526</u>	<u>25,438,997</u>
Fund Balances:		
Members Savings Fund	2,190,220,966	2,011,158,247
Employer Accumulation Fund (Net Unfunded Accrued	3,936,956,186	2,810,166,280
Liabilities: 1985—\$6,316,782,342;		
1984—\$5,819,389,840 (Note 5)		
Annuity and Pension Reserve Fund	4,388,789,565	3,841,073,859
Survivor Benefit Fund	532,734,902	492,143,349
Income Fund	8,349,510	524,725
Expense Fund	<u>1,037</u>	<u>13,829</u>
TOTAL FUND BALANCES	<u>11,057,052,166</u>	<u>9,155,080,289</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$11,094,550,692</u>	<u>\$9,180,519,286</u>

See Notes to Financial Statements

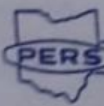


STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1985
With Comparative Figures for 1984

	1985	1984
FUNDS PROVIDED BY:		\$ 1,000,199,959
Excess of Revenues over Expenses	\$ 1,901,971,877	366,645
Items Not Requiring or (Providing) Funds:		
Depreciation	521,325	
Gain or Disposal of Fixed Assets	(139,071)	
Increase (Decrease) in Cash Due to Changes in:		1,900,592
Employer Receivables	(16,269,763)	8,220,819
Investment Sale Proceeds Receivable	(23,619,927)	30,157,767
Accrued Interest and Dividends Receivable	14,203,764	79,248,565
Deferred Costs on Bonds Sold	113,725,812	(48,332)
Prepaid Expenses	831	10,860,137
Undistributed Deposits	10,776,506	435,073
Medical Benefits Payable	(215,973)	(2,227,753)
Investment Commitments Payable	1,355,929	211,836
Accrued Administrative Expenses	143,067	<u>1,129,325,308</u>
Cash Provided From Operations	2,002,454,377	
Sales and Maturities of Investments:		10,057,048,207
Bonds	16,604,622,825	277,745,992
Mortgages	1,523,785,782	608,874,887
Stocks	859,890,454	
Real Estate—Commingled Funds	36,529,373	<u>10,761</u>
Venture Capital—Stocks and Notes	40,969,890	
Proceeds From Sale of Fixed Assets	1,050,000	<u>12,073,005,155</u>
Total Funds Provided	<u>21,069,302,701</u>	
FUNDS USED FOR:		9,763,590,537
Purchase of Investments:		805,771,410
Bonds	17,145,016,153	487,665,907
Mortgages	2,323,347,022	2,319,024
Stocks	744,208,479	1,937,500
Real Estate—Commingled Funds	34,265,306	288,149
Venture Capital—Stocks and Notes	15,962,500	
Additions to Fixed Assets	1,221,890	<u>11,061,572,527</u>
Increase in Other Assets	698,288	
Total Funds Used	<u>20,264,719,638</u>	1,011,432,628
Net Increase in Funds	804,583,063	<u>288,056,076</u>
Cash and Short-Term Investments, Beginning of Year	1,299,488,704	<u>\$ 1,299,488,704</u>
Cash and Short-Term Investments, End of Year	<u>\$ 2,104,071,767</u>	

See Notes to Financial Statements



STATEMENT OF REVENUES, EXPENSES

	MEMBERS SAVINGS	EMPLOYER ACCUMULATION	ANNUITY AND PENSION RESERVE
Revenues:			
Member Contributions	\$ 369,998,140		
Employer Contributions		\$ 551,935,910	
Investment Income			
Other			\$ 38,042
Total Revenues	<u>369,998,140</u>	<u>551,935,910</u>	<u>38,042</u>
Expenses:			
Benefit Payments			534,017,991
Refunds	76,606,091	28,594	
Administrative Expenses			
Total Expenses	<u>76,606,091</u>	<u>28,594</u>	<u>534,017,991</u>
Excess of Revenues Over Expenses	<u>293,392,049</u>	<u>551,907,316</u>	<u>(533,979,949)</u>
Transfers — Increase (Decrease)			
Retirement Annuities	(139,315,926)	(397,095,186)	536,411,112
Disability Benefits	(12,346,450)	(84,115,450)	96,461,900
Survivor Annuities	(5,921,309)		
Retirement to (from) Other Systems	(2,381,602)	(1,359,242)	3,740,844
Statutory Interest	45,642,432	(45,642,432)	
Annual Interest		368,505,346	293,287,732
Other	(6,475)	734,589,554	151,794,067
Total Transfers	<u>(114,329,330)</u>	<u>574,882,590</u>	<u>1,081,695,655</u>
Balance, January 1, 1985	<u>2,011,158,247</u>	<u>2,810,166,280</u>	<u>3,841,073,859</u>
Balance, December 31, 1985	<u>\$2,190,220,966</u>	<u>\$3,936,956,186</u>	<u>\$4,388,789,565</u>

See Notes to Financial Statements



AND CHANGES IN FUND BALANCES

Year Ended December 31, 1985		Year Ended December 31, 1984		
SURVIVOR BENEFITS	INCOME	ADMINISTRATIVE EXPENSE	TOTAL	TOTAL
		\$ 6,892	\$ 370,005,032	\$ 345,368,439
\$ 45,143,499	\$1,601,928,648		597,079,409	557,498,416
	181,480	27,256	1,601,928,648	713,857,919
4,863			251,641	187,347
<u>45,148,362</u>	<u>1,602,110,128</u>	<u>34,148</u>	<u>2,569,264,730</u>	<u>1,616,912,121</u>
			581,512,580	522,466,256
47,494,589	1,045	337	76,636,067	85,108,060
		9,144,206	9,144,206	9,137,846
	1,045	9,144,543	667,292,853	616,712,162
<u>47,494,589</u>	<u>1,602,109,083</u>	<u>(9,110,395)</u>	<u>1,901,971,877</u>	<u>1,000,199,959</u>
(2,346,227)				
5,921,309				
	(698,809,549)	9,097,603		
37,016,471	(895,474,749)	9,097,603		
	(1,594,284,298)	13,829	9,155,080,289	8,154,880,330
<u>42,937,780</u>	<u>524,725</u>	<u>\$ 1,037</u>	<u>\$11,057,052,166</u>	<u>\$9,155,080,289</u>
492,143,349				
<u>\$532,734,902</u>	<u>\$ 8,349,510</u>			

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies:

(a) Administration of System

The Public Employees Retirement System of Ohio is a statewide retirement system for all public employees in Ohio except those covered by one of the other state or local retirement systems in Ohio. The System is administered in accordance with Chapter 145 of the Ohio Revised Code.

(b) Basis of Accounting

The basic financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned and become measurable.

(c) Member Contributions

Member contribution rates, presently 8.5% (9.5% for law enforcement officers), are established by the Retirement Board upon recommendation by the Actuary. Contributions are primarily made by payroll deductions and remitted by participating employers.

(d) Employer Contributions

Employer contribution rates, based on gross covered payroll, presently 13.71% for state, 13.95% for city, county and miscellaneous employer units and 18.10% for law enforcement employer units, are determined by the Retirement Board based upon recommendation by the Actuary. The actuarial formula used is the entry age normal actuarial cost method. This formula determines the amount of contributions necessary to fund (1) the current service cost, which represents the estimated amount necessary to pay for benefits earned by the employees during the current service year; and (2) the prior service cost for service earned prior to plan inception and subsequent benefit increases, which represents the amount necessary to pay for unfunded accrued liabilities over a period of 38 years for state, 44 years for local government and 19 years for law enforcement divisions.

(e) Investments

Short term investments consisting of commercial paper and U.S. Treasury obligations are carried at cost. PERS did not engage in any repurchase or reverse repurchase transactions during 1985 or 1984. Equity securities and investments in real estate commingled funds are shown at cost. Fixed income investments are reflected in the balance sheet at amortized cost. Income is recognized as earned. The cost of investments sold is determined using the average cost method for equity securities and specific cost for all others. Dividend income is recognized based on dividends declared.

(f) Fixed Assets

Fixed assets are recorded at cost at the time of acquisition. Depreciation is computed on the straight-line

method over the estimated useful life of the assets ranging from 50 years for buildings and building improvements to three to 10 years for furniture, fixtures and equipment.

(g) Deferred Cost on Bonds Sold

Losses on bond exchanges are accounted for under the deferral and amortization method of accounting whereby net losses on bonds exchanged are deferred and amortized over the shorter of the life of the bond sold or purchased.

(h) Undistributed Deposits

Cash receipts are recorded as undistributed deposits until such time as they are allocated to employer receivables, employer contributions, member contributions, and investment income.

(i) Funds

Various funds are established to hold the reserves for future and current benefit payments.

- (1) **The Members Savings Fund** holds members' contributions in trust prior to their refund or transfer to a benefit disbursement fund.
- (2) **The Employer Accumulation Fund** is used to accumulate employer contributions to be used in providing the reserves required to transfer to the Annuity and Pension Reserve Funds as members retire or become eligible for disability benefits.
- (3) **The Annuity and Pension Reserve Fund** is the fund from which annuity and disability pensions are paid. This reserve is fully funded according to the latest actuarial study dated December 31, 1984. There are sufficient assets in this fund to pay the vested benefits of all retirants and beneficiaries as of the valuation date.
- (4) **The Survivor Benefit Fund** provides the reserves to pay benefits due dependents of deceased members of the retirement system. This fund is also fully funded as described above.
- (5) **The Income Fund** is the fund which is credited with investment earnings and miscellaneous income. The balance in this fund is transferred to other funds to aid in the funding of future benefit payments.
- (6) **The Expense Fund** provides for disbursement of administrative expenses, with the necessary monies allocated to it from the Income Fund.

NOTE 2. Description of Plan:

Purpose—The Public Employees Retirement System of Ohio (PERS) is a multi-employer defined benefit plan cre-



ated by the Ohio General Assembly. Its purpose is to provide retirement, disability retirement and survivor benefits for its members.

Administration—The general administration and management of PERS is vested in a nine member Board consisting of six elected members and three statutory members. The Board appoints the executive director, an actuary and other employees. All public employees in Ohio are required to become contributing members of PERS. There are certain specified exclusions and exemptions from compulsory membership.

Contributions—Employees and employers are required to contribute to PERS at rates set by the Retirement Board upon recommendation by the Actuary. Currently the rates based on gross payroll are:

	EMPLOYEE RATE	EMPLOYER RATE
State Group	8.5%	13.71%
Local Government Group	8.5%	13.95%
Law Enforcement Group	9.5%	18.10%

These rates fall within the range set by state statute.

Pension Benefits—Benefits are calculated on the basis of age, final average salary and service credit. Members are eligible for retirement benefits at age 60 with five or more years of service credit or at any age with 30 or more years of service. Through January 31, 1984, the benefit was based on 2% of final average salary multiplied by the years of service credit. Effective February 1, 1984, the formula was changed to 2.1% of final average salary. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts.

Law Enforcement Officers Benefits—Full-time sheriffs, deputy sheriffs and full-time township constables or police officers are eligible for special retirement options. This option is available to those members of this class at age 52 or older. The benefit is calculated by multiplying 2.5% of final average salary by the first 20 years of service, 2% of final average salary for the next five years and 1.5% of final average salary for each additional year of service. This option also permits early retirement under qualifying circumstances as early as age 48.

Disability Benefits—A member who becomes permanently disabled for the performance of duty and has completed 60 months of contributing service is eligible for a disability benefit.

Survivor Benefits—Dependents of deceased members may qualify for survivor benefits if the deceased employee has at least 18 months of service credit with three months of credit within the two and one-half years immediately preceding death. Chapter 145 of the Revised Code specifies the dependents and the conditions under which they qualify for survivor benefits.

Refunds—Upon termination of employment, a member may withdraw contributions made to the Retirement System. The law requires a three-month waiting period after

service termination before the refund may be paid. The acceptance of a refund cancels the individual's rights and benefits in PERS. Employer contributions to PERS are not refundable.

Additional Benefits After Retirement—PERS provides health care coverage for all persons receiving monthly benefits from PERS. After July 1, 1986, a new benefit recipient must have 10 years of Ohio service credit to qualify for the health care benefit at no premium cost. Once a member has received benefits for 12 months, a 3% cost of living adjustment is added to each monthly benefit on an annual basis. Benefit recipients who submit proof of payment of Medicare Part B premiums are reimbursed by PERS for the basic health care premium. A lump-sum death benefit of \$500 is provided upon death, to the beneficiaries of retirants receiving regular or disability benefits.

NOTE 3. Summary of Investments:

A summary of investments held at year end is as follows:

	DECEMBER 31, 1985	
	BOOK VALUE	MARKET VALUE
Short-Term Investments	\$2,092,043,572	\$2,117,464,000
Bonds—Par	\$5,474,263,262	
Net Unamortized Discount	508,692,682	
Bonds—Net	4,965,570,580	\$5,171,384,971
Mortgages—Par	2,601,523,172	
Net Unamortized Discount	437,265,011	
Mortgages—Net	2,164,258,161	2,518,960,950
Stocks—Common and Preferred	1,273,272,997	2,050,864,778
Venture Capital	29,953,099	31,165,867
Real Estate-Commingled Funds	150,087,091	172,003,000
Total Investments	\$8,583,141,928	\$9,944,379,566

	DECEMBER 31, 1984	
	BOOK VALUE	MARKET VALUE
Short-Term Investments	\$1,286,959,397	\$1,297,002,000
Bonds—Par	\$5,249,576,638	
Net Unamortized Discount	824,399,386	
Bonds—Net	4,425,177,252	4,462,770,951
Mortgages—Par	1,744,700,941	
Net Unamortized Discount	380,004,020	
Mortgages—Net	1,364,696,921	1,432,436,951
Stocks—common and Preferred	1,388,954,972	1,833,268,859
Venture Capital	54,960,489	55,876,739
Real Estate-Commingled Funds	152,351,158	172,534,238
Total Investments	\$7,386,140,792	\$7,956,887,738

If available, quoted market prices have been used to value investments as of December 31, 1985 and 1984. Securities, not having a quoted market price, have been valued on yields currently available on comparable securities of issuers with similar credit ratings. Venture capital not having quoted market prices is shown at cost. The market value of real estate commingled funds is based upon appraisals of the properties held.

Weighted average purchase yields are as follows:

	1985	1984
Short-term investments	7.26%	8.46%
Long-term investments	10.00%	11.18%
Total yield	9.50%	10.83%
Total yield adjusted for amortization of deferred cost on bonds sold	9.44%	10.67%

NOTE 4. Deferred Cost on Bonds Sold:

The Retirement System defers losses on the sale of bonds under a program to reinvest the proceeds in similar bonds. These exchanges are made to increase annual income, to shorten or lengthen maturity as market conditions change, or to improve the quality of the bond portfolio. The policy for deferred cost is to amortize these costs over the remaining term of the bonds sold or the term of the bond purchased, whichever is shorter. On the subsequent sale of any bond purchased as part of a bond swap on which a loss was deferred, any unamortized loss is immediately recognized.

	1985	1984
Beginning Balance	\$232,855,656	\$312,104,221
Losses Realized on Bonds Exchanged	105,999,963	341,372,692
Losses Amortized	(12,812,859)	(21,282,031)
Losses Written off on Sales Prior to Maturity	(206,912,916)	(399,339,226)
Ending Balance	<u>\$119,129,844</u>	<u>\$232,855,656</u>

NOTE 5. Accumulated Plan Benefits and Actuarial Assumptions:

Accumulated plan benefits are and include all of the following:

- a. Future monthly payments to retirants who are receiving benefit payments on the valuation date and to beneficiaries including those receiving optional survivors' benefits.
- b. The portion of potential future monthly retirement and disability benefits payable to active members attributable to their service credit and salary earned up to the valuation date plus the pro rata portion of certain death benefits.
- c. The potential future monthly service retirement benefits payable to inactive members based on their service credit and salary earned up to the valuation date.

- d. The potential future health care benefits to be paid on behalf of active members, inactive members, retirants and beneficiaries.

The actuarial present value of accumulated plan benefits is the amount determined by the System's Actuary by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest between the valuation date and the expected dates of payment) and the probability of benefit payment (by means of multiple-decrement probability tables for death, disability, and withdrawal).

The actuarial assumptions employed as of December 31, 1984, include:

Investment Return — 7.5%

Salary Scale — The active member payroll is assumed to increase 5.5% annually, which is the portion of the individual pay increase assumptions attributable to inflation.

Multiple Decrement Tables

Death — For determination of active and inactive members' mortality, the 1960 Basic Group Mortality Table was used. For retirants' mortality, the 1971 Group Annuity Mortality Male and Female Tables, projected to 1984, were used.

Disability — Based upon System's experience.

Withdrawal — Based upon System's experience.

There were no changes in actuarial assumptions during either year.

The System's actuarial valuation is calculated separately for retirants and beneficiaries, and active and inactive members.

The actuarial present value of benefits to be paid retirants and beneficiaries currently receiving benefits and deferred survivor beneficiaries, whose benefits have been determined, is calculated using the assumptions noted above. The assets set aside in the Annuity and Pension Reserve Fund and the Survivor Benefit Fund together with interest credited thereon are compared to the allowances for the remaining lifetimes of the retirants and beneficiaries, and any deficiency is then funded by a transfer from the Employer Accumulation Fund. Consequently, all determined benefits are fully funded.

The accrued liability for active and inactive members is calculated on the projected benefit basis, under which the present value of each member's expected benefit payable at retirement or death is determined. The assets of the Employee Savings Fund and Employer Accumulation Fund are subtracted from this present value to arrive at the unfunded accrued liability.

The unfunded liability based upon the last two actuarial valuations is as follows:

DECEMBER 31,
1983

	DECEMBER 31, 1984			DECEMBER 31, 1983	
	State Group	Local Government Group	Law Enforcement Group	Total	Total
Present value of actuarial accrued liability for active and inactive accounts	\$4,241,662,602	\$6,562,388,923	\$182,261,277	\$10,986,312,802	\$9,966,357,346
Less:					
Employer Accumulation Fund*	1,056,844,653	1,514,984,674	86,542,886	2,658,372,213	2,303,550,299
Member Savings Fund	751,722,471	1,228,514,691	30,921,085	2,011,158,247	1,843,417,207
Unfunded Accrued Liability	<u>\$2,433,095,478</u>	<u>\$3,818,889,558</u>	<u>\$ 64,797,306</u>	<u>\$6,316,782,342</u>	<u>\$5,819,389,840</u>

* Amounts shown reflect adjustments for transfers out of the Employer Accumulation Fund to fully fund the Annuity and Pension Reserve Fund and Survivor Benefit Fund.

NOTE 6. Leases:

The System leases equipment with lease terms of one year or less. Total rent expense was \$1,115,237 and \$1,574,491 for the years ended December 31, 1985 and 1984, respectively.

NOTE 7. Vacation and Sick Leave Policy:

As of December 31, 1985 and 1984, \$1,408,187 and \$1,293,243, respectively, was accrued for unused vacation and sick leave for the System's employees. Employees who resign or retire are entitled to full compensation for all earned unused vacation. Unused sick leave pay is lost upon termination. However, employees who retire are entitled to receive payment for a percentage of unused sick leave.

NOTE 8. Professional Trends:

The Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), (previously the National Council on Governmental Accounting (NCGA)), have both issued financial reporting standards for state and local government pension plans. The conflicting opinions and views of these various standard setting bodies within the accounting profession, have created a dilemma for PERS as to which standard to follow.

In March, 1980, the Financial Accounting Standards Board issued Statement No. #35 (FASB #35) titled "Accounting and Reporting by Defined Benefit Pension Plans." The principal impact of this Statement on financial statements will be to require that all of the investments be stated at fair market value, and the elimination of deferred costs on security exchanges.

In a release dated August 1, 1980, the National Council on Governmental Accounting (NCGA) expressed its concern "that acceptance of FASB #35 as generally accepted accounting principles for governmental pension plans could create a situation resulting in the preparation of financial statements for public pension plans that may be subject to misinterpretations, especially in determining the proper level of funding for the plan." Accordingly, the NCGA statement urged government accountants to continue preparing financial statements in accordance with the principles

stated in NCGA Statement 1.

In April, 1983, the NCGA adopted Statement 6 "Pension Accounting and Financial Reporting: Public Employees Retirement Systems and State and Local Governments Employees." The accounting procedures promulgated in NCGA Statement 6 regarding the reporting of fixed income securities states that a gain or loss arising from an exchange may be accounted for under either the completed transaction method or the deferral and amortization method (swap method). If the deferral and amortization method is used, it must be used consistently for gains and losses. Transactions should not be timed deliberately to avoid immediate recognition of losses while recognizing gains. As PERS presently defers only losses on exchanged securities, the adoption and enactment of NCGA Statement 6, which requires the deferral of both gains and losses, would entail substantial changes in the reporting and accounting of exchanged securities.

In September of 1983, NCGA Statement 6 was deferred indefinitely. In November, 1983, the FASB issued Statement #75, which deferred indefinitely the application of FASB #35 to pension plans of state and local governmental units.

In July, 1984, GASB Statement 1 "Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide" was issued stating that NCGA Statement 1, NCGA Statement 6 or FASB Statement 35 were acceptable accounting and reporting principles pending issuance of a new GASB Statement(s).

GASB has placed the pension disclosure issue on its technical agenda project and issued an exposure draft of a proposed statement on August 20, 1985 that would provide authoritative guidance concerning the disclosure of information by Public Employee Retirement Systems (PERS) and state and local government employers regarding defined benefit pension plans in notes to financial statements and required statistical tables.

As of the date of this report, a final statement has not been released. Accordingly, PERS has elected not to change its present accounting principles.



ADDITIONAL INFORMATION

SCHEDULE OF

CASH RECEIPTS AND DISBURSEMENTS

Year Ended December 31, 1985
With Comparative Figures for 1984

	1985	1984
CASH BALANCE AT BEGINNING OF YEAR	\$ 12,529,307	\$ 3,854,122
Receipts:		
Member Contributions	361,648,975	337,208,540
Employer Contributions	405,591,498	554,480,667
Purchases of Back Service	8,228,654	8,026,622
State Subsidies	4,626,688	5,058,192
Investments:		
Matured and Sold	32,256,294,447	18,767,633,908
Interest and Dividends	1,255,994,272	816,973,486
Rental Income	27,376	102,059
Undistributed Deposits	181,815,814	10,860,137
Miscellaneous	330,863	135,149
TOTAL CASH RECEIPTS	<u>34,474,558,587</u>	<u>20,500,478,760</u>
Disbursements:		
Refunds:		
Separation Beneficiaries	73,499,029	81,955,101
Annuity Payments:	3,135,948	3,154,663
Retirement Annuities	458,894,372	410,977,501
Disability Benefits	71,408,566	62,879,273
Survivor Annuities	47,647,747	44,947,488
Retirement to Other Systems	3,818,776	3,227,849
Investment Purchases	33,806,965,944	19,875,712,036
Administrative Expenses	9,689,317	8,949,664
TOTAL CASH DISBURSEMENTS	<u>34,475,059,699</u>	<u>20,491,803,575</u>
CASH BALANCE AT END OF YEAR	<u>\$ 12,028,195</u>	<u>\$ 12,529,307</u>



SCHEDULE OF ADMINISTRATIVE EXPENSE

Year Ended December 31, 1985
With Comparative Figures for 1984

	1985	1984
PERSONAL SERVICES:	\$4,285,998	\$4,077,211
Salaries and Wages	564,419	676,369
Retirement Contributions	454,597	381,251
Insurance	435	7,560
Bureau of Employment Services	<u>5,305,449</u>	<u>5,142,391</u>
SUPPLIES:	138,215	162,354
Office Supplies	64,334	39,508
Printing and Publications	9,026	9,323
Dues and Subscriptions	<u>211,575</u>	<u>211,185</u>
OTHER SERVICES AND CHARGES:		
Professional Services:	65,400	59,949
Auditing	47,600	282,329
Actuarial	357,842	133,020
Investment	146,335	30,650
Medical	13,827	24,714
Pension Review	22,665	99,850
Employee Training	56,799	68,333
Data Processing Contract	20,000	
Disaster Recovery		75,752
Communication:	137,121	10,330
Telephone and Telegraph	5,666	367,245
Freight, Express and Drayage	381,210	101,154
Postage	127,835	207,481
Transportation and Travel	205,616	1,574,491
Utilities	1,115,237	
Equipment Rental		3,688
Repair and Maintenance:	2,481	254,534
Equipment	228,777	17,468
Building	16,640	95,293
Microfilm	119,458	6,753
Retirement Study Commission	17,404	4,591
Taxes — Real Property	17,944	<u>3,417,625</u>
Miscellaneous	<u>3,105,857</u>	97,658
DEPRECIATION ON:	141,463	268,987
Building	379,862	366,645
Equipment and Fixtures	<u>521,325</u>	<u>\$9,137,846</u>
TOTAL ADMINISTRATIVE EXPENSE	<u>\$9,144,206</u>	



INVESTMENT

Year End

JANUARY 1, 1985

	BOOK VALUE	MARKET VALUE	PURCHASES
Bonds and Notes			
U.S. Government and Agencies	\$1,809,412,035	\$1,858,752,582	\$12,687,380,591
Corporate			
Industrial	1,180,920,745		2,062,376,391
Utilities	1,266,478,392		2,109,205,327
Finance	42,554,174		70,053,536
Total Corporate	2,489,953,311	2,478,576,695	4,241,635,254
Canadian Obligations	125,811,906	125,441,674	216,000,308
Mortgages	1,364,696,921	1,432,436,951	2,323,347,022
Venture Capital			
Bonds	36,000,000	36,000,000	
Stocks	18,960,489	19,876,739	15,962,500
Total Venture Capital	54,960,489	55,876,739	15,962,500
Stocks — Common	1,388,954,972	1,833,268,859	744,208,479
Real Estate — Commingled Funds	152,351,158	172,534,238	34,265,306
Total	\$7,386,140,792	\$7,956,887,738	\$20,262,799,460



SUMMARY

December 31, 1985

MATURITIES SALES, AND AMORTIZATIONS	DECEMBER 31, 1985		% TOTAL PORTFOLIO	PURCHASE YIELD
	BOOK VALUE	MARKET VALUE		
\$12,156,757,348	\$2,340,035,278	\$2,406,429,085	26.04	9.28%
2,193,360,622	1,049,936,514			
2,023,112,540	1,352,571,179			
<u>52,137,726</u>	<u>60,469,984</u>			
4,268,610,888	2,462,977,677	2,589,391,142	29.97	11.62%
179,254,589	162,557,625	175,564,744	1.44	11.87%
1,523,785,782	2,164,258,161	2,518,960,950	27.30	12.00%
36,000,000	<u>29,953,099</u>	<u>31,165,867</u>		
<u>4,969,890</u>	<u>29,953,099</u>	<u>31,165,867</u>	.31	1.34%
40,969,890				
859,890,454	1,273,272,997	2,050,864,778	13.36	4.86%
<u>36,529,373</u>	<u>150,087,091</u>	<u>172,003,000</u>	1.58	
<u>\$19,065,798,324</u>	<u>\$8,583,141,928</u>	<u>\$9,944,379,566</u>	<u>100.00</u>	<u>10.00%</u>

ACTUARIAL
SECTION

Report of the Actuary

Summary of Assumptions

Summary of Unfunded Accrued Liabilities

Short-Term Solvency Test

REPORT OF THE ACTUARY

GABRIEL, ROEDER, SMITH & COMPANY
ACTUARIES & CONSULTANTS

2090 First National Building
Detroit, Michigan 48226
Area 313: 961-3346

May 7, 1986

The Retirement Board
Public Employees Retirement System of Ohio
277 East Town Street
Columbus, Ohio 43215

The basic financial objective of PERS is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Ohio citizens.

In order to measure PERS progress toward this fundamental objective, PERS has annual actuarial valuations to determine present financial position and level contribution rates for the future. The latest completed actuarial valuations were based upon data and assumptions as of December 31, 1984. Conditions and results are shown in our reports.

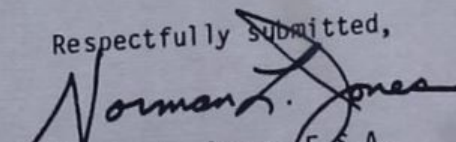
These valuations indicate that the contribution rates, established by the Retirement Board for benefits then in effect, meet the basic financial objective.

Assumptions concerning future financial experience are needed for an actuarial valuation. Each year an actuarial gain/loss analysis is performed, which determines the relationship between assumed financial experience and actual experience, for each major risk area.

In the last decade, actual experience has been less favorable than assumed. The primary reasons are that the substantial gains from investment income that PERS has been able to achieve have been more than offset by inflation-generated salary and health care cost increases. Overall, however, we continue to believe the assumptions used in the regular valuations produce results which are reasonable.

Based upon the valuation results it is our opinion that the Public Employees Retirement System of Ohio continues in sound condition in accordance with actuarial principles of level cost financing.

Respectfully submitted,


Norman L. Jones, F.S.A.

NLJ:ct

Summary of Assumptions Adopted by Retirement Board After Consulting with Actuary

Funding Method. An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments which are level percents of payroll contributions. Adopted 1975.

Assets Valuation Method. Present assets were valued at amortized cost.

Valuation Data. The data about persons now covered and about present assets were furnished by the system's administrative staff. Data is examined for general reasonableness and year-to-year consistency, but is not audited by the Actuary.

Economic Assumptions. The following economic assumptions, adopted in 1982, are used by the actuary.

Investment Return. 7.5 percent annually, compounded annually. Considering other financial assumptions, the 7.5 percent rate translates to an assumed real rate of return of 2 percent; the real rate of return is the rate of investment return over the inflation rate.

Active Employee Total Payroll. Increasing 5.5% annually, compounded annually, which is the base portion of the individual pay increase assumption. In effect, this assumes no change in the number of active employees.

Individual Employee Pay Increases. An employee's

Turnover. Probabilities of separation from employment before age and service retirement because of death, withdrawal or disability are:

pay is assumed to increase each year, in accordance with a table consisting of a percent increase for each age. For sample ages, the following table describes annual increase percents.

AGE	MERIT & SENIORITY		BASE (ECONOMY)	INCREASE NEXT YEAR	
	STATE	LOCAL		STATE	LOCAL
30	3.2%	2.8%	5.5%	8.7%	8.3%
40	2.2	1.8	5.5	7.7	7.3
50	1.4	1.2	5.5	6.9	6.7
60	0.6	0.6	5.5	6.1	6.1

Decrement Assumptions. The following tables of probabilities, adopted in 1981, for the indicated risk areas are used by the actuary.

Mortality. The tables used in evaluating allowances to be paid were the 1971 Group Annuity Mortality Male and Female tables, projected to 1984.

Retirement. Probabilities of age and service retirement applicable to members eligible to retire are:

RETIREMENT AGES	% RETIRING NEXT YEAR		LAW ENFORCEMENT
	STATE & LOCAL	WOMEN	
50-61	12%	15%	15%
62	15	18	15
63	15	20	15
64	20	22	15
65	35	35	15
66	30	30	15
67	30	30	15
68	30	30	15
69	40	40	15
70	100	100	15

SAMPLE AGES	YEARS OF SERVICE	% SEPARATING WITHIN NEXT YEAR								
		DEATH		STATE		LAW ENFORCEMENT		DISABILITY		
		MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	
	0	%	%							
	1			30.00%	30.00%	15.00%	25.00%	25.00%	%	%
	2			25.00	25.00	10.00	20.00	20.00		
	3			20.00	20.00	8.00	14.00	14.00		
	4			15.00	15.00	7.00	9.00	12.00		
	5&Over			12.00	12.00	6.00	8.00	10.00		
30		.12	.10	9.60	11.40	4.90	9.60	11.40	0.08	0.06
40		.25	.15	6.20	7.40	3.60	6.20	7.40	0.39	0.23
50		.71	.43	2.30	3.10	2.00	2.30	3.10	1.12	0.72
60		1.80	1.16	1.00	1.50	1.00	1.00	1.50		

Actuarial Valuation Data

VALUATION YEAR	ACTIVE MEMBERS			RETIRED LIVES		
	NUMBER	ANNUAL PAYROLL (\$ MILLIONS)	AVERAGE PAY	NUMBER	ANNUAL ALLOWANCES (\$ MILLIONS)	AVERAGE ALLOWANCE
1975	234,888	\$2,120	\$ 9,024	52,543	\$133	\$2,522
1976	240,639	2,346	9,747	56,522	148	2,621
1977	271,388	2,694	9,928	60,393	170	2,816
1978	274,700	3,056	11,124	64,386	191	2,964
1979	261,513	3,217	12,302	69,858	231	3,312
1980	256,688	3,441	13,405	73,620	257	3,497
1981	252,623	3,308	13,092	77,718	302	3,880
1982	248,855	3,654	14,683	81,166	331	4,076
1983	248,307	3,814	15,361	85,594	369	4,285
1984	248,483	4,044	16,278	90,302	424	4,691

Summary of Unfunded Accrued Liabilities

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. Laws governing PERS require that these additional 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.

In an inflationary economy, the value of dollars is decreasing. This environment results in employee pay increasing in dollar amounts and retirement benefits increasing in dollar amounts resulting in unfunded

accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities dollars divided by active employee payroll dollars provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Summary of Assets and Actuarial Accrued Liabilities
(\$ Amounts in Millions)

VALUATION YEAR	ACTUARIAL ACCRUED LIABILITIES (AAL)	VALUATION ASSETS	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)	RATIO OF ASSETS TO AAL	ACTIVE MEMBER PAYROLL	UAAL AS A % OF ACTIVE MEMBER PAYROLL
1975	\$ 5,062	\$2,728	\$2,334	54%	\$2,120	110%
1976	5,572	3,044	2,528	55	2,346	108
1977	6,448	3,480	2,968	54	2,694	110
1978	7,576	4,015	3,561	53	3,056	117
1979	8,965	4,667	4,298	52	3,217	134
1980	10,388	5,235	5,153	50	3,441	150
1981	11,055	6,106	4,949	55	3,308	150
1982	12,399	7,145	5,254	58	3,654	144
1983	13,976	8,156	5,820	58	3,814	153
1984	15,473	9,156	6,317	59	4,044	156

Short-Term Solvency Test

The PERS financing objective is to pay for 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.*

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. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is very rare.

It is wise to pay attention to both fundamental and short-term solvency tests.

Computed Accrued Liabilities (\$ Amounts in Millions)

VALUATION YEAR	(1) ACTIVE MEMBER CONTRIBUTIONS	(2) RETIRANTS AND BENEFICIARIES	(3) ACTIVE MEMBERS (EMPLOYER FINANCED PORTION)	REPORTED ASSETS	PORTION OF ACCRUED LIABILITIES COVERED BY REPORTED ASSETS		
					(1)	(2)	(3)
1975	\$ 801	\$1,289					
1976	897	1,443	\$2,973	\$2,728	100	100	21
1977	1,002	1,683	3,232	3,044	100	100	22
1978	1,126	1,923	3,763	3,480	100	100	21
1979	1,216	2,414	4,527	4,015	100	100	21
1980	1,363	2,710	5,334	4,667	100	100	19
1981	1,491	3,296	6,316	5,235	100	100	18
1982	1,664	3,588	6,268	6,106	100	100	21
1983	1,843	4,011	7,146	7,145	100	100	26
1984	2,011	4,486	8,123	8,156	100	100	28
			8,976	9,156	100	100	30

STATISTICAL
SECTION

Revenues by Source

Disbursements by Type

Disbursements by Category

Member Count

Members Contribution Rates

Number of Employer Units

Net Benefit Payments by Category

New Benefit and Refund Payments
by Year

Employer Contribution Rates

Schedule of Average Benefit Payments

REVENUES BY SOURCE

Last 10 Years

	MEMBER CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	INVESTMENT INCOME (NET)	OTHER	TOTAL
1976	\$179,683,373	\$262,752,079	\$ 151,840,150	\$ 90,868	\$ 594,366,470
1977	201,919,726	309,575,701	202,686,233	14,409	714,196,069
1978	234,747,412	378,228,720	208,163,680	60,423	821,200,235
1979	248,550,285	394,820,271	218,710,495	204,640	862,285,691
1980	269,246,190	439,006,229	329,014,384	184,250	1,037,451,053
1981	284,930,608	469,535,130	457,387,532	230,852	1,212,084,122
1982	311,779,921	505,809,912	686,420,515*	192,959	1,504,203,307
1983	330,125,897	544,109,013	666,680,588	56,228	1,540,971,726
1984	345,368,439	557,498,416	713,857,919	187,347	1,616,912,121
1985	370,005,032	597,079,409	1,601,928,648	251,641	2,569,264,730

*Reflects an increase of \$137,685,082 in net investment income resulting from a change to the accrual basis of accounting as of December 31, 1982.

The 1985 PERS Dollar Came From—

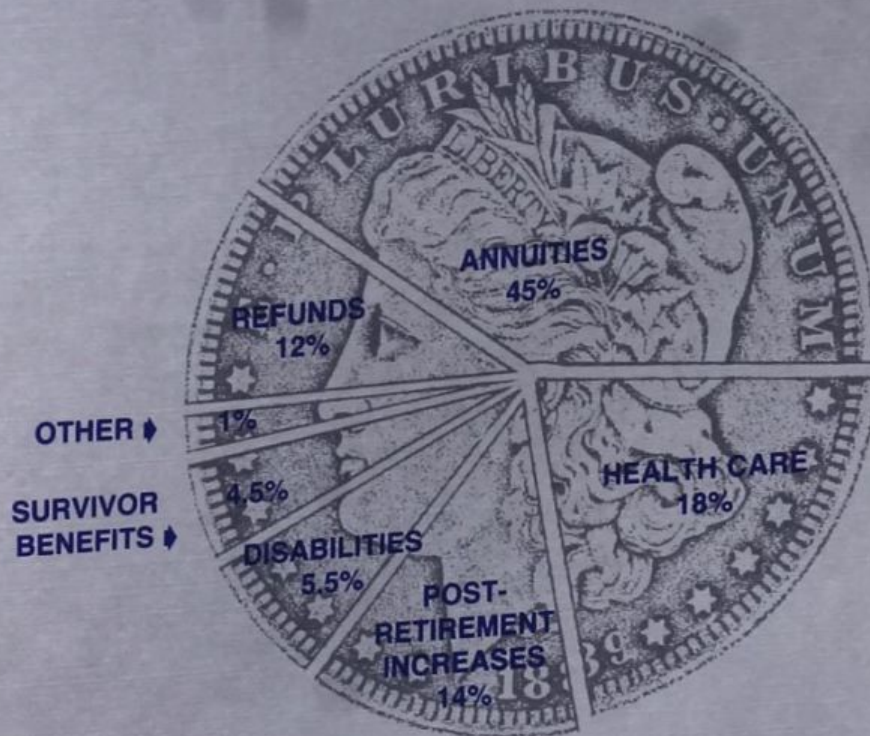


DISBURSEMENTS BY TYPE

Last 10 Years

	BENEFIT PAYMENTS	REFUNDS	ADMINISTRATIVE EXPENSE	TOTAL
1976	\$176,555,770	\$36,962,005	\$3,823,413	\$217,341,188
1977	204,824,240	45,189,181	4,171,429	254,184,850
1978	234,238,430	60,132,020	4,683,030	299,053,480
1979	268,433,588	95,946,284	5,205,476	369,585,348
1980	299,609,180	64,514,399	5,798,912	369,922,491
1981	345,857,579	76,238,930	6,620,678	428,717,187
1982	406,828,497	66,978,882	7,223,272	481,030,651
1983	466,770,558	63,144,826	8,774,539	538,689,923
1984	522,466,256	85,108,060	9,137,846	616,712,162
1985	581,512,580	76,636,067	9,144,206	667,292,853

The 1985 PERS Benefit Dollar Was Spent For—



DISBURSEMENTS

Last

BENEFITS

	ANNUITIES	DISABILITIES	OTHER SYSTEMS	SURVIVORS	CPI	POST RETIREMENT LEGISLATIVE INCR.
1976	\$104,889,718	\$10,268,674	\$2,492,386	\$15,448,314	\$ 4,764,863	\$ 18,726,070
1977	121,894,409	13,180,932	1,448,220	16,955,127	6,778,913	18,596,335
1978	137,607,458	15,699,450	1,225,617	18,295,016	9,185,292	17,231,971
1979	153,958,033	18,801,479	2,038,904	19,808,511	13,212,604	18,170,820
1980	170,755,615	21,862,642	1,849,714	21,521,104	19,101,857	18,956,041
1981	192,045,068	24,970,899	1,967,683	22,974,505	24,942,579	23,399,149
1982	214,286,038	27,372,888	2,023,006	24,535,836	31,468,090	27,594,317
1983	239,346,014	29,678,413	2,615,346	25,977,513	38,569,453	25,841,902
1984	266,061,642	32,411,456	3,227,849	27,608,949	46,263,861	40,967,243
1985	297,771,528	36,811,337	3,818,776	29,136,086	54,905,210	40,238,117

MEMBER COUNT

Last 10 years

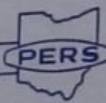
	ACTIVE CONTRIBUTING	INACTIVE	TOTAL
1976	250,712	23,809	274,521
1977	280,045	22,736	302,781
1978	279,088	39,378	318,466
1979	263,614	46,404	310,018
1980	258,559	52,782	311,341
1981	255,097	53,005	308,102
1982	251,169	52,454	303,623
1983	250,566	53,560	304,126
1984	250,796	53,931	304,727
1985	254,797	54,746	309,543

MEMBERS CONTRIBUTION RATES

Last 10 Years

CALENDAR YEAR	CONTRIBUTION RATE
1976	8.0 %
1977	8.5
1978	8.5
1979	8.5
1980	8.5
1981	8.5
1982	8.5*
1983	8.5*
1984	8.5*
1985	8.5*

*Effective November 1982. Law Enforcement Contribution Rate is 9.5%.



BY CATEGORY

10 Years

REFUNDS

HEALTH CARE	DEATH BENEFITS	SEPARATION	BENEFICIARIES	OTHER	TOTAL ALL PAYMENTS
\$ 18,785,745	\$1,180,000	\$34,671,269	\$1,845,152	\$ 422,612	\$213,494,803
24,699,933	1,270,371	43,393,966	1,693,303	91,455	250,002,964
33,719,070	1,274,556	57,696,936	2,220,385	214,699	294,370,450
41,112,677	1,330,560	76,573,982	2,524,667	16,847,635	364,379,872
44,182,218	1,379,989	61,560,229	2,515,380	438,790	364,123,579
54,033,205	1,524,491	73,182,786	2,617,655	438,489	422,096,509
78,112,241	1,436,081	63,954,454	2,722,037	302,391	473,807,379
103,156,330	1,585,587	59,871,357	2,673,207	600,262	529,915,384
104,257,965	1,667,291	80,620,354	3,154,663	1,333,043	607,574,316
117,178,501	1,653,025	72,916,583	3,135,948	583,536	658,148,647

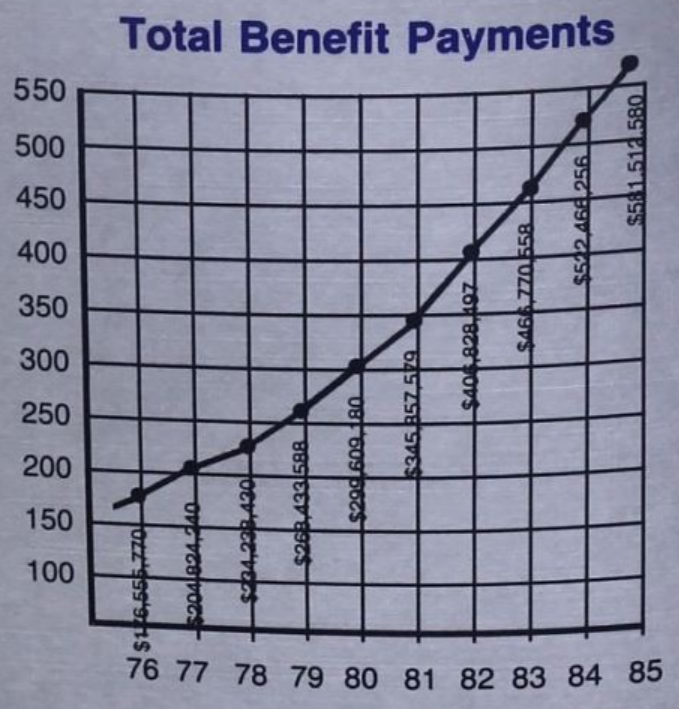
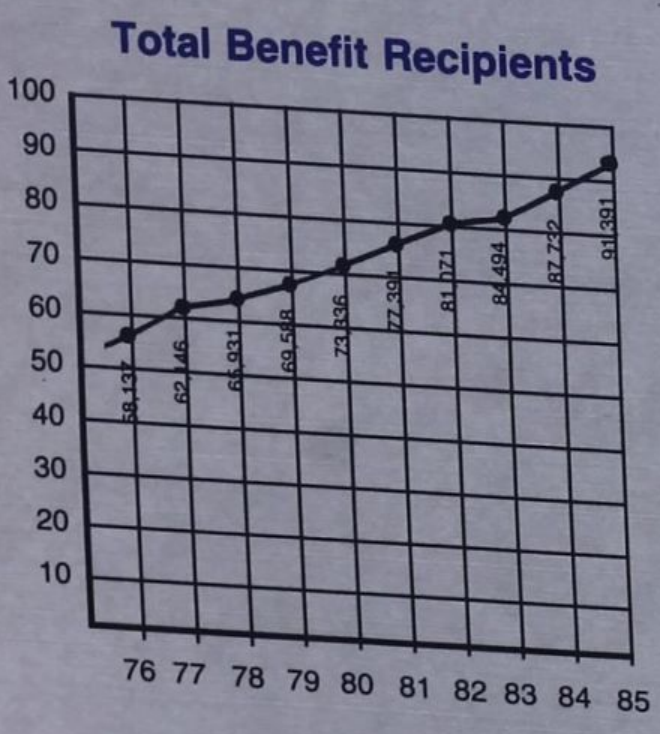
NUMBER OF EMPLOYER UNITS

Last 10 Years

CALENDAR YEAR	STATE	COUNTY	LAW ENFORCEMENT	MUNICIPALITIES	VILLAGES	MISCELLANEOUS	LIBRARIES	TOWNSHIPS	TOTALS
1976	173	159	88	269	557	334	250	1,275	3,105
1977	269	200	88	277	572	321	250	1,283	3,260
1978	270	205	88	281	578	332	251	1,281	3,286
1979	262	198	88	281	569	323	248	1,283	3,252
1980	253	193	88	284	560	327	248	1,275	3,228
1981	252	200	146	291	569	328	249	1,286	3,321
1982	248	207	151	294	576	348	249	1,267	3,340
1983	259	170	162	300	584	353	249	1,342	3,419
1984	270	184	148	330	561	371	254	1,296	3,414
1985	239	197	174	296	599	355	249	1,302	3,411

NUMBER OF NET BENEFIT PAYMENTS BY CATEGORY

AS OF YEAR-END	ANNUITIES	DISABILITIES	SURVIVORS	TOTAL
1976	46,718			58,137
1977	49,945	3,466	7,953	62,146
1978	52,986	3,904	8,297	65,931
1979	55,866	4,334	8,611	69,588
1980	58,798	4,770	8,952	73,336
1981	62,212	5,184	9,354	77,391
1982	65,363	5,565	9,614	81,071
1983	68,345	5,807	9,901	84,494
1984	71,228	6,017	10,132	87,732
1985	74,407	6,189	10,315	91,391
		6,517	10,467	



NUMBER OF NEW BENEFIT AND REFUND PAYMENTS BY YEAR

YEAR ENDING DEC. 31	ANNUITIES	DISABILITIES	S1 & S2 SURVIVORS	REFUND
1976	5,023			
1977	5,172	751	677	36,542
1978	5,067	711	673	34,807
1979	4,851	706	675	46,632
1980	5,068	701	666	53,727
1981	5,772	715	727	36,831
1982	5,445	693	667	35,108
1983	5,143	563	631	28,283
1984	5,475	509	596	23,665
1985	5,516	562	568	28,988
		683	535	21,766



EMPLOYER CONTRIBUTION RATES

STATE — Last 10 Years

Calendar Year	CURRENT			UNFUNDED LIABILITY		Total
	Normal	Health —%	Survivor Benefits	Past Service	Health —%	
1976	8.36%	—%	1.35%	2.29%	—%	12.00%
1977	6.74	1.15	1.35	3.71	0.76	13.71
1978	6.93	1.12	1.38	3.54	0.74	13.71 (1)
1979	6.62	1.25	1.32	3.60	0.92	13.71
1980	6.41	1.31	1.34	3.92	0.73	13.71
1981	6.40	1.27	1.04	4.09	0.91	13.71
1982	5.77	1.10	0.99	4.93	0.92	13.71
1983	4.55	1.65	0.86	5.25	1.40	13.71
1984	4.61	1.70	0.80	5.13	1.47	13.71
1985	4.73	2.17	0.84	4.47	1.50	13.71

(1) Effective 7-1-77

LOCAL — Last 10 Years

Calendar Year	CURRENT			UNFUNDED LIABILITY		Total
	Normal	Health —%	Survivor Benefits	Past Service	Health —%	
1976	8.10%	—%	1.55%	2.25%	—%	11.90%
1977	6.43	1.29	1.55	3.96	0.72	13.95 (1)
1978	7.09	1.66	1.37	3.06	0.77	13.95
1979	6.96	1.68	1.30	3.16	0.85	13.95
1980	6.79	1.75	1.38	3.33	0.70	13.95
1981	6.67	1.65	1.06	3.65	0.92	13.95
1982	6.03	1.27	1.07	4.66	0.92	13.95
1983	4.86	1.97	0.92	4.83	1.37	13.95
1984	4.83	2.20	0.88	4.56	1.48	13.95
1985	4.99	2.53	0.91	4.02	1.50	13.95

(1) Effective 7-1-77

LAW ENFORCEMENT — Last 10 Years

Calendar Year	CURRENT			UNFUNDED LIABILITY		Total
	Normal	Health —%	Survivor Benefits	Past Service	Health —%	
1976	13.02%	—%	0.85%	3.67%	—%	17.54%
1977	10.26	1.29	0.85	5.42	0.28	18.10 (1)
1978	10.86	1.66	0.83	4.45	0.28	18.10
1979	11.69	1.68	0.83	3.62	0.28	18.10
1980	11.82	1.75	0.94	2.89	0.70	18.10
1981	11.35	1.65	1.28	3.46	0.36	18.10
1982	10.38	1.27	1.58	4.47	0.40	18.10
1983	8.66	2.00	1.42	5.27	0.75	18.10
1984	8.15	2.32	1.57	5.14	0.92	18.10
1985	8.19	2.90	1.56	4.35	1.10	18.10

(1) Effective 7-1-77



SCHEDULE OF AVERAGE BENEFIT PAYMENTS*

	YEARS CREDITED SERVICE					
	5-9	10-14	15-19	20-24	25-29	30+
Period 1/1/81-12/31/81						
Average Monthly Benefit**	\$ 136.10	\$ 266.39	\$ 408.37	\$ 551.32	\$ 737.70	\$1,123.05
Average Final Average Salary	\$ 836.47	\$1,020.84	\$1,136.77	\$1,216.31	\$1,353.09	\$1,602.12
Number of Active Recipients	991	1,267	935	781	562	903
Period 1/1/82-12/13/82						
Average Monthly Benefit**	\$ 135.41	\$ 265.73	\$ 411.76	\$ 585.90	\$ 759.79	\$1,183.52
Average Final Average Salary	\$ 864.67	\$1,042.71	\$1,177.98	\$1,305.30	\$1,442.25	\$1,697.75
Number of Active Recipients	933	1,095	930	661	543	857
Period 1/1/83-12/13/83						
Average Monthly Benefit**	\$ 148.74	\$ 297.16	\$ 450.40	\$ 636.33	\$ 827.30	\$1,276.04
Average Final Average Salary	\$ 988.82	\$1,203.13	\$1,316.41	\$1,460.81	\$1,629.31	\$1,884.22
Number of Active Recipients	825	1,063	919	655	587	929
Period 1/1/84-12/13/84						
Average Monthly Benefit**	\$ 133.99	\$ 292.90	\$ 442.85	\$ 620.89	\$ 849.63	\$1,301.33
Average Final Average Salary	\$ 911.76	\$1,216.89	\$1,331.27	\$1,481.04	\$1,701.70	\$1,957.95
Number of Active Recipients	825	1,123	1,020	723	573	984
Period 1/1/85-12/13/85						
Average Monthly Benefit**	\$ 144.94	\$ 310.37	\$ 478.71	\$ 666.69	\$ 898.91	\$1,345.59
Average Final Average Salary	\$1,039.20	\$1,327.97	\$1,484.08	\$1,638.57	\$1,840.48	\$2,124.40
Number of Active Recipients	886	886	983	760	635	1,019
Period 1/1/81-12/13/85						
Average Monthly Benefit**	\$ 139.57	\$ 285.41	\$ 438.89	\$ 611.80	\$ 817.39	\$1,250.11
Average Final Average Salary	\$ 924.54	\$1,154.84	\$1,292.03	\$1,420.58	\$1,601.30	\$1,863.49
Number of Active Recipients	4,535	5,539	4,787	3,580	2,900	4,692

* Retirement Effective Dates January 1, 1981 - December 31, 1985

**"Average Monthly Benefit" includes post retirement and yearly 3% cost-of-living increases.

INVESTMENT
SECTION

Investment Report

Investment Portfolio Summary

Detailed Listing of Investment Portfolio



INVESTMENT REPORT

Economic activity in 1985 can be described as sluggish at best. The domestic economy, as measured by the Gross National Product, grew at a 2.2% rate during the year. Quarterly changes in the GNP numbers ranged from a low of .7% in the fourth quarter to a high of 3.7% in the first quarter of 1985. The rate of inflation in the sluggish economic environment was also low. The Consumer Price Index increased at a 3.5% rate. This compares favorably to the 4.3% rate experienced in 1984.

The sluggish economy and lower inflation rates were instrumental factors in causing investors to take a more positive investment outlook. In the sluggish economic environment investors focused on the activity of the Federal Reserve Board. Investor expectations of a lower Federal Reserve discount rate bred expectations of lower overall interest rates and resulted in a positive investment psychology. The Federal Reserve Board accommodated investors with one discount rate cut in May of 1985 following two discount rate cuts in the fourth quarter of 1984. The discount rate cuts continued to fuel a positive investment outlook.

PERS benefited from the favorable investment markets during the year. The total fund performance was up 25.6% in 1985. Compared to funds of similar asset allocations, SEI Funds Evaluation Service ranks the performance of the PERS fund in the top half of that group.

The bond market reacted favorably to the sluggish economy, reduced inflation rate and an accommodative Federal Reserve Board policy. The year end short-term and long-term interest rates on government securities were 6.97% and 9.35%, respectively. This is 20 and 22

percent below their respective yearly high rates of 8.75% and 11.96%. Our bond portfolio performed well during 1985. Total return on the bond portfolio was 29.3%. This compares quite favorably to the total return figure of 21.3% from the Shearson Lehman Government/Corporate Bond Index. Superior returns in the bond portfolio were achieved by performing arbitrage trades using Treasury, Corporate and Mortgage-Backed Bonds. The purpose of the trading activity was to increase total return and/or quality of the bond holdings and at the same time maintain the composition of the portfolio.

The strength of the bond market, due to positive interest rate forces, flowed into the stock market. Falling interest rates prompted a positive stock market outlook and allowed price/earnings ratios to increase. Our equity portfolio achieved a total return of 28.1% during 1985 while the Dow Jones Industrial Average returned an exceptionally strong total return of 33.7%.

The outlook for 1986 is for continued economic sluggishness during most of the year with perhaps a pick-up in economic activity toward year-end. Eventually the effects of a lower U.S. dollar, low levels of interest rates and monetary stimulus will provide some impetus to faster economic growth.

In 1986 our goal is to achieve a total return for the fund in excess of our actuarially assumed rate of return of 7.5% plus administrative expenses. We believe this goal can be achieved through selectively buying and selling common stocks and trading and positioning our bond portfolio to take advantage of arbitrage opportunities and interest rate movements.

INVESTMENT PORTFOLIO SUMMARY

Year ended December 31, 1985

	PAR VALUE	BOOK VALUE	MARKET VALUE	YIELD	% OF PORTFOLIO
U.S. Gov't. & Agencies	\$2,481,487,120	\$2,340,035,278	\$2,406,429,085	9.28%	26.04
Corporate	2,855,577,143	2,462,977,677	2,589,391,142	11.62%	29.97
Canadian	137,199,000	162,557,625	175,564,744	11.87%	1.44
Mortgages	2,601,523,172	2,164,258,161	2,518,960,950	12.00%	27.30
Ohio Investments (Venture Capital)	29,953,099	29,953,099	31,165,867	1.34%	.31
Stocks (at cost)	1,273,272,997	1,273,272,997	2,050,864,778	4.86%	13.36
Real Estate	150,087,091	150,087,091	172,003,000	-0-	1.58
Total Portfolio	<u>\$9,529,099,622</u>	<u>\$8,583,141,928</u>	<u>\$9,944,379,566</u>	10.00%	<u>100.00</u>



DETAILED LISTING OF INVESTMENT PORTFOLIO

December 31, 1985

U.S. GOVERNMENT & AGENCIES

BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
			\$	\$	\$
United States Treasury Receipts	0.000%	11/15/2003	95,000,000	14,270,746	17,047,750
United States Treasury Receipts	0.000%	11/15/2003	39,000,000	4,328,036	6,587,880
United States Treasury Receipts	0.000%	08/15/2003	52,370,000	10,220,783	9,624,034
United States Treasury Receipts	0.000%	02/15/1991	3,180,000	1,630,329	2,010,427
United States Treasury Receipts	0.000%	08/15/1991	11,880,000	5,904,700	7,182,054
United States Treasury Receipts	0.000%	11/15/2004	5,000,000	641,870	852,500
United States Treasury Receipts	0.000%	02/15/1991	7,231,250	3,765,183	4,571,668
United States Treasury Receipts	0.000%	08/15/1991	7,231,250	3,529,574	4,371,652
United States Treasury Receipts	0.000%	05/15/1991	22,326,250	11,799,736	13,802,757
United States Treasury Receipts	0.000%	02/15/1990	9,281,250	5,535,934	6,467,731
United States Treasury Receipts	0.000%	08/15/1990	9,831,250	5,504,864	6,557,542
United States Treasury Receipts	0.000%	02/15/2004	700,000	94,760	122,605
United States Treasury Receipts	0.000%	12/31/2006	10,762,669	10,762,669	11,328,678
Falcon One Sea Transport Company	12.100%	12/01/1992	3,400	2,482	2,550
FHA—Series MM	4.625%	04/01/1986	37,800	37,800	37,422
FHA—Series MM	4.125%	05/15/2009	203,000	146,251	198,558
United States Treasury	9.125%	11/15/2010	2,000,000	2,030,412	2,555,000
United States Treasury	12.750%	11/15/2012	53,695,000	54,709,061	57,889,653
United States Treasury	10.375%	08/15/2013	60,248,000	65,451,216	73,464,603
United States Treasury	12.000%	11/15/2014	23,305,000	24,775,416	28,067,842
United States Treasury	11.750%	05/15/1992	5,060,000	6,035,883	6,217,475
United States Treasury	13.750%	02/15/1993	9,706,000	9,354,516	10,694,750
United States Treasury	10.875%	07/15/1990	51,500,000	51,713,288	55,523,180
United States Treasury	10.750%	08/15/1993	10,865,000	10,791,787	12,582,973
United States Treasury	11.875%	11/15/1993	14,977,000	15,943,254	17,270,278
United States Treasury	11.750%	01/15/1991	17,400,000	19,026,886	19,498,788
United States Treasury	11.750%	02/15/1987	1,605,000	1,618,570	1,655,156
United States Treasury	10.875%	04/15/1991	12,525,000	13,697,372	14,395,859
United States Treasury	12.375%	08/15/1989	32,980,000	38,035,296	38,298,025
United States Treasury	13.875%	07/15/1991	148,949,000	173,978,557	180,228,290
United States Treasury	13.750%	08/15/1994	9,290,000	10,859,694	11,223,434
United States Treasury	12.625%	11/15/1989	9,500,000	10,447,543	10,758,750
United States Treasury	12.750%	10/15/1991	40,610,000	42,791,345	46,752,262
United States Treasury	12.250%	02/15/1988	12,695,000	12,757,918	13,254,341
United States Treasury	10.375%	04/15/1992	7,110,000	7,544,487	8,074,258
United States Treasury	11.750%	05/15/1995	11,800,000	12,871,038	13,370,816
United States Treasury	11.250%	08/15/1990	39,885,000	40,563,429	41,754,409
United States Treasury	9.875%	07/15/1992	19,295,000	19,789,729	20,693,887
United States Treasury	10.375%	10/31/1987	503,900,000	507,396,299	510,984,834
United States Treasury	8.875%	10/15/1992	55,939,000	55,907,977	58,456,255
United States Treasury	9.750%	11/30/1987	1,027,610,000	1,028,725,037	1,036,920,146
United States Treasury	8.500%	11/15/1988	10,000,000	10,073,999	10,106,200
United States Treasury	8.625%	12/31/1987	15,000,000	14,969,531	14,971,800
United States Treasury	7.875%		\$2,481,487,120	\$2,340,035,278	\$2,406,429,085
Total					

CORPORATE

ACF Industries	11.000%	10/01/1989	\$ 534,000	\$ 534,000	\$ 565,847
Acceleration Corporation	10.500%	09/01/1994	4,600,000	4,600,000	4,756,676
Air Products and Chemicals	11.625%	05/15/2010	15,590,000	16,039,834	16,822,077
Appalachian Power Company	8.125%	07/01/2003	3,800,000	3,120,501	3,121,852

NOTE: Cents omitted. Columns will not add.



BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
Appalachian Power Company	8.500%	03/01/2004	\$ 6,500,000	\$ 5,966,433	\$ 5,497,570
Appalachian Power Company	9.500%	09/01/2006	3,440,000	2,945,667	3,177,080
Atlantic City Electric Company	7.500%	04/01/2002	6,100,000	3,718,457	4,803,140
Atlantic City Electric Company	7.750%	06/01/2003	4,250,000	2,609,239	3,408,117
Atlantic Richfield Company	8.625%	04/01/2000	8,430,000	7,249,094	7,555,050
Atlantic Richfield Company	12.500%	09/15/2012	56,258,000	56,663,235	63,447,209
Atlantic Richfield Company	11.125%	06/01/2015	25,428,000	25,545,456	26,543,017
Baltimore and Ohio Railroad	9.000%	06/01/1986	800,000	800,000	804,168
Baltimore and Ohio Railroad	9.000%	06/01/1987	700,000	700,000	707,560
Baltimore and Ohio Railroad	9.000%	06/01/1991	800,000	797,447	801,376
Baltimore and Ohio Railroad	9.000%	06/01/1992	800,000	797,087	793,960
Baltimore and Ohio Railroad	9.000%	06/01/1993	800,000	796,751	791,216
Baltimore Gas and Electric	7.500%	09/15/2002	4,900,000	3,770,231	3,896,137
Baltimore Gas and Electric	8.375%	09/15/2006	11,670,000	8,982,012	10,019,278
Bell Telephone Company of Pennsylvania	8.000%	08/01/2009	4,250,000	3,169,001	3,483,512
Bell Telephone Company of Pennsylvania	8.625%	07/01/2006	2,920,000	2,189,164	2,572,082
Bell Telephone Company of Pennsylvania	9.625%	07/15/2014	29,741,000	23,338,859	28,548,980
Bell Telephone Company of Pennsylvania	8.750%	07/15/2015	2,500,000	2,107,729	2,193,650
Bell Telephone Company of Pennsylvania	8.125%	05/15/2017	3,500,000	2,564,486	2,859,045
Bell Telephone Company of Pennsylvania	9.250%	01/15/2019	9,900,000	7,737,195	9,139,383
Big Three Industries	9.850%	10/01/2009	11,175,000	9,452,041	10,772,923
Bowater Incorporated	12.375%	02/01/2015	20,155,000	20,307,795	22,454,080
Brush Wellman, Incorporated	12.500%	02/01/2001	15,000,000	15,000,000	16,401,000
Burlington Northern, Incorporated	15.500%	01/02/1999	9,561,933	9,561,933	13,471,712
Burlington Northern, Incorporated	11.625%	08/15/2015	24,830,000	25,266,971	26,982,761
Capital Cities Communications	11.625%	08/15/2015	48,200,000	48,151,890	52,612,710
Carlisle Corporation	11.000%	06/15/2000	1,000,000	1,000,000	823,460
Carnation Company	7.500%	03/01/1996	734,000	692,598	628,641
Carolina Telephone and Telegraph Company	9.000%	05/01/2008	3,900,000	3,160,885	3,520,335
Caterpillar Tractor Company	8.000%	11/01/2001	1,500,000	1,026,266	1,268,535
Chesapeake and Potomac Telephone of Virginia	8.750%	03/01/2010	4,350,000	3,499,816	3,891,466
Chesapeake and Potomac Telephone of Virginia	8.625%	04/01/2009	3,500,000	2,533,244	3,095,120
Chesapeake and Potomac Tel. of Washington, D.C.	7.750%	11/01/2013	10,300,000	6,852,326	8,092,195
Chesapeake and Potomac Tel. of West Virginia	10.650%	05/19/2023	25,157,000	23,482,830	25,494,858
Chevron Corporation	12.750%	08/01/1987	5,800,000	6,064,296	6,146,724
Chevron Corporation	8.750%	07/01/2005	5,615,000	4,753,573	5,082,641
Cincinnati Bell Incorporated	7.375%	08/01/2011	100,000	82,624	76,244
Cincinnati Bell Incorporated	9.600%	10/01/2015	9,540,000	7,681,405	9,130,543
Citizens Utilities	8.875%	03/01/2005	5,164,000	4,811,973	4,690,254
Colt Industries	11.250%	12/01/2015	19,180,000	19,424,024	20,040,990
Commonwealth Edison	8.000%	10/15/2003	5,600,000	4,314,271	4,556,328
Commonwealth Edison	8.125%	01/15/2007	9,850,000	7,622,582	8,018,294
Commonwealth Edison	8.250%	12/01/2007	3,895,000	2,839,253	3,204,104
Commonwealth Edison	12.125%	05/15/2013	6,600,000	6,827,998	7,024,380
Consolidated Edison of New York	7.900%	04/01/1999	6,000,000	4,874,381	5,082,960
Dana Corporation	8.875%	11/15/2008	23,500,000	17,511,029	20,473,200
Dayton-Hudson Corporation	14.750%	06/01/2012	9,100,000	9,712,392	10,664,927
Dayton-Hudson Corporation	12.000%	04/15/2015	1,000,000	1,023,223	1,105,290
Dayton-Hudson Corporation	11.250%	11/15/2015	4,425,000	4,661,826	4,766,565
Delmarva Power and Light Company	7.625%	12/01/2001	1,000,000	743,547	809,020
Diamond State Telephone	11.375%	10/01/2025	13,000,000	12,902,906	13,747,630
Digital Equipment	13.000%	04/15/2014	5,010,000	5,672,459	5,823,223
Dow Chemical Company	9.750%	01/02/2000	2,606,596	2,606,596	2,510,048
Dow Chemical Company	9.750%	07/02/1999	2,637,608	2,637,608	2,541,546
Dupont De Nemours Chemical Company	8.450%	11/15/2004	1,000,000	699,469	888,350
Duke Power Company	8.125%	09/01/2007	4,800,000	3,529,443	4,024,800
Duke Power Company	10.125%	05/01/2009	10,300,000	10,161,310	10,135,921

NOTE: Cents omitted. Columns will not add.

PORTFOLIO

BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
			\$	\$	\$
			12,800,000	12,672,047	12,764,288
Duke Power Company	10.125%	12/01/2015	3,300,000	3,273,890	2,613,963
Duquesne Light Company	8.375%	04/01/2007	5,000,000	5,743,450	5,721,450
Eastman Kodak Company	12.250%	04/01/2015	23,075,000	14,823,211	16,226,801
Eaton Corporation	7.000%	04/01/2011	14,150,000	12,300,278	13,293,783
Exxon Pipeline	9.000%	10/15/2004	27,434,000	23,867,302	25,763,543
Exxon Pipeline	8.875%	10/15/2000	6,875,000	6,875,000	5,821,750
Exxon Pipeline	9.000%	11/01/1996	3,670,000	2,799,814	2,984,554
First Banc Group of Ohio, Incorporated	7.750%	09/01/2001	4,125,000	3,108,489	3,247,158
Florida Power and Light Company	7.500%	01/01/2003	3,340,000	2,737,456	2,899,854
Florida Power and Light Company	8.500%	01/01/2004	13,070,000	13,595,186	14,360,662
Florida Power and Light Company	12.375%	03/01/2013	3,300,000	2,452,946	2,574,231
Florida Power and Light Company	7.375%	06/01/2002	7,300,000	4,960,563	6,013,375
Florida Power Corporation	8.000%	12/01/2003	9,500,000	7,459,055	8,352,590
Florida Power Corporation	8.750%	10/01/2006	26,889,000	26,856,492	27,566,065
Florida Power Corporation	10.500%	10/01/1994	20,000,000	19,950,083	20,099,200
Ford Motor Credit Company	9.875%	12/15/1995	533,336	533,336	539,906
Ford Motor Credit Company	9.250%	05/15/1989	5,735,000	4,309,956	5,362,282
Fruit Growers Express	9.375%	03/01/2009	7,110,000	5,477,482	5,886,511
General Mills, Incorporated	8.000%	07/15/2007	1,905,000	1,498,271	1,636,337
General Motors Acceptance Corporation	8.250%	11/15/2006	9,000,000	9,262,077	9,246,510
General Motors Acceptance Corporation	10.850%	04/01/1987	8,500,000	5,877,837	7,043,185
General Motors Acceptance Corporation	8.250%	12/01/2006	2,000,000	1,761,682	1,482,700
General Telephone Company of Florida	6.250%	07/01/1997	3,000,000	2,581,344	2,386,530
General Telephone Company of Indiana	7.625%	05/01/2003	5,500,000	5,398,260	4,969,910
General Telephone Company of Michigan	9.125%	04/01/2004	1,235,000	1,236,382	1,004,833
General Telephone Company of Upstate New York	8.125%	06/01/2001	1,500,000	1,507,463	1,169,865
Georgia Power Company	7.625%	11/01/2001	4,650,000	4,650,000	3,555,018
Georgia Power Company	7.500%	12/01/2002	6,492,000	4,341,549	5,045,452
Georgia Power Company	7.500%	05/01/2002	12,000,000	12,037,957	12,658,080
Gulf Power Company	11.500%	06/01/2010	7,875,000	7,821,968	6,219,675
Harris Corporation	8.875%	09/15/1997	8,295,000	6,292,153	6,913,053
Huntington Bancshares, Incorporated	8.000%	06/01/2005	10,625,000	7,625,448	8,166,906
Illinois Bell Telephone Company	7.625%	06/01/2003	2,840,000	2,078,874	2,316,190
Illinois Power Company	8.000%	10/01/2014	3,400,000	2,468,554	2,708,508
Indiana Bell Telephone Company	7.400%	03/01/2002	112,446,000	102,502,656	109,822,634
Indianapolis Power and Light	9.375%	10/01/2004	12,000,000	12,191,780	12,656,760
International Business Machines	10.500%	07/15/2015	2,000,000	1,989,966	1,723,280
International Business Machines	8.375%	09/15/2002	6,600,000	6,502,054	5,879,082
Interstate Power Company	9.000%	03/15/2008	7,400,000	6,777,142	6,599,394
Interstate Power Company	8.750%	04/01/2006	8,450,000	7,760,811	7,438,535
Iowa Illinois Gas and Electric Company	8.750%	03/01/2006	5,000,000	4,939,051	4,170,750
Iowa Power and Light	8.250%	09/15/2007	5,000,000	4,332,973	3,883,900
Iowa Power and Light	7.375%	06/01/2002	6,080,000	5,886,365	5,032,720
Iowa Public Service Company	8.000%	08/01/2007	5,850,000	5,850,000	6,484,140
Iowa Public Service Company	13.500%	01/01/2009	50,725,000	54,604,507	57,658,600
K-Mart Corporation	12.750%	03/01/2015	22,396,000	24,136,261	25,402,886
K-Mart Corporation	12.250%	02/15/2015	38,710,000	23,608,934	25,242,626
Kellogg Company	6.000%	04/01/2003	10,000,000	10,000,000	10,221,200
Kroger Company	10.000%	12/01/1989	542,691	542,691	532,298
Lancaster Colony Corporation	10.000%	11/01/1990	1,741,410	1,741,410	1,636,995
Louisville and Nashville Railroad	9.250%	10/30/1991	4,100,000	3,984,863	4,629,351
Louisville and Nashville Railroad	12.500%	01/15/2014	9,500,000	9,503,705	10,247,650
Mercantile Stores	11.750%	08/15/2015	10,450,000	6,698,961	7,314,582
Mercantile Stores	6.375%	02/01/2005	5,615,000	4,094,645	4,455,446
Michigan Bell Telephone Company	7.750%	06/01/2011	3,000,000	2,235,084	2,456,370
Michigan Bell Telephone Company	8.125%	06/01/2015	4,500,000	2,823,720	3,827,610
Minnesota Power and Light	8.350%	09/01/2007			

NOTE: Cents omitted. Columns will not add.



BOND NAME

BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
Mobil Oil Corporation	8.500%	06/15/2001	\$ 22,475,000	\$ 18,720,780	\$ 20,003,000
Mobil Oil Corporation	13.765%	09/15/2004	7,745,000	8,659,963	8,799,000
Monongahela Power Company	8.625%	12/01/2007	6,725,000	6,552,322	5,853,500
Monsanto Company	8.750%	05/15/2008	65,760,000	48,383,809	56,127,400
Mountain States Telephone and Telegraph	7.750%	06/01/2013	5,615,000	4,037,053	4,415,300
Mountain States Telephone and Telegraph	7.875%	11/15/2016	9,700,000	7,316,583	7,698,500
New England Telephone & Telegraph	8.000%	11/15/2003	4,950,000	3,774,120	4,131,000
New Jersey Bell Telephone Company	7.250%	04/01/2011	3,350,000	2,200,944	2,493,600
New Jersey Bell Telephone Company	7.375%	06/01/2012	5,850,000	4,184,081	4,407,700
New Jersey Bell Telephone Company	7.750%	09/01/2013	5,500,000	3,978,615	4,364,300
New Jersey Bell Telephone Company	8.250%	02/15/2016	3,935,000	3,022,626	3,281,100
New Jersey Bell Telephone Company	8.000%	09/15/2016	13,270,000	9,897,184	10,638,500
New Jersey Bell Telephone Company	8.750%	06/01/2018	5,700,000	4,201,914	4,943,200
New York Telephone Company	7.500%	03/01/2009	15,942,000	10,790,195	12,307,300
New York Telephone Company	7.750%	12/15/2006	5,615,000	3,977,624	4,492,800
New York Telephone Company	8.000%	07/15/2008	19,975,000	13,716,493	16,341,300
New York Telephone Company	7.375%	12/15/2011	5,770,000	4,119,007	4,353,000
New York Telephone Company	8.300%	08/15/2012	42,950,000	30,042,324	36,002,400
New York Telephone Company	9.000%	05/01/2014	8,325,000	6,378,154	7,469,700
New York Telephone Company	8.875%	03/15/2015	13,310,000	10,155,442	11,779,600
New York Telephone Company	8.250%	10/15/2015	18,735,000	12,484,063	15,476,600
New York Telephone Company	8.875%	06/15/2018	11,067,000	8,323,552	9,775,800
New York Telephone Company	11.000%	05/15/2023	26,885,000	26,827,852	27,862,800
Northern Indiana Public Service	8.125%	05/01/2001	2,000,000	1,555,571	1,602,400
Northern Indiana Public Service	7.500%	04/01/2002	3,000,000	2,032,387	2,257,000
Northern Indiana Public Service	8.125%	07/15/2003	3,110,000	2,273,774	2,460,400
Northern Indiana Public Service	8.375%	10/15/2006	6,000,000	4,537,640	4,800,900
Northwestern Bell Telephone	8.500%	11/01/2007	3,000,000	2,338,866	2,423,900
Northwestern Bell Telephone	7.875%	01/01/2011	11,575,000	8,194,206	9,371,400
Northwestern Bell Telephone	8.625%	06/15/2012	7,000,000	5,526,273	6,079,200
Ohio Bell Telephone Company	9.500%	08/15/2016	16,510,000	13,708,291	15,569,000
Ohio Bell Telephone Company	8.750%	01/01/2010	5,000,000	3,851,326	4,393,200
Oklahoma Gas & Electric Company	7.875%	10/01/2013	4,120,000	3,095,092	3,316,900
Oklahoma Gas & Electric Company	7.125%	01/01/2002	6,500,000	4,004,653	4,958,700
Orange & Rockland Utilities	8.625%	01/01/2006	6,000,000	4,774,452	5,267,400
Orange & Rockland Utilities	8.000%	12/01/2001	3,000,000	2,174,324	2,525,800
Owens-Corning Fiberglas	8.125%	05/15/2003	6,250,000	4,316,050	5,268,100
Pacific Bell	12.000%	05/01/2010	6,400,000	5,603,756	6,764,600
Pacific Bell	12.750%	04/01/2025	56,035,000	59,982,260	63,359,800
Pacific Gas & Electric Company	11.375%	08/15/2024	86,745,000	85,961,845	91,314,700
Pacific Northwest Bell Telephone	11.250%	11/01/2018	15,750,000	16,224,862	16,375,400
Pacific Northwest Bell Telephone	7.750%	08/01/2009	7,500,000	5,199,581	5,978,700
Pacific Northwest Bell Telephone	9.000%	11/01/2012	5,850,000	4,488,878	5,255,200
Pacific Telephone & Telegraph Company	8.750%	08/01/2018	5,880,000	4,610,312	5,123,300
Pacific Telephone & Telegraph Company	7.250%	02/01/2008	5,575,000	3,766,339	4,178,500
Pacific Telephone & Telegraph Company	9.500%	06/15/2011	6,343,000	5,200,857	5,940,000
Pacific Telephone & Telegraph Company	8.875%	07/01/2015	50,260,000	39,364,601	45,126,400
Pacific Telephone & Telegraph Company	8.375%	02/01/2017	12,900,000	9,104,557	10,691,600
Pacific Telephone & Telegraph Company	9.625%	11/01/2014	5,140,000	4,628,018	4,863,900
Pacific Telephone & Telegraph Company	9.750%	07/01/2019	3,735,000	3,318,367	3,575,000
Penney, J.C. Company	6.000%	05/01/2006	16,715,000	9,784,937	10,676,300
Penney, J.C. Company	12.375%	11/01/2014	15,625,000	16,908,448	17,477,900
Pennsylvania Mart Properties	10.250%	04/01/2000	2,199,996	2,199,996	2,174,300
Pennsylvania Power & Light Company	7.250%	02/01/2001	6,375,000	5,635,284	4,940,100
Pennsylvania Power & Light Company	7.625%	02/01/2002	3,125,000	2,799,069	2,483,800
Pennsylvania Power & Light Company	7.500%	01/01/2003	10,300,000	9,482,523	8,039,300
Pennsylvania Power & Light Company	9.750%	05/01/2005	6,515,000	6,170,072	6,034,800

NOTE: Cents omitted. Columns will not ad

PORTFOLIO

BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
			\$ 3,700,000	\$ 3,614,300	\$ 3,425,201
Pennsylvania Power & Light Company	9.750%	11/01/2005	6,350,000	5,576,228	5,192,331
Pennsylvania Power & Light Company	8.250%	12/01/2006	49,000	47,348	41,748
Petroleum Facilities Incorporated (Series P)	4.700%	06/01/1989	126,000	121,487	105,107
Petroleum Facilities Incorporated (Series R)	4.700%	12/01/1989	113,000	108,528	100,972
Petroleum Facilities Incorporated (Series T)	4.700%	06/01/1989	39,835,000	39,824,829	42,909,465
Phibro-Salomon	11.625%	08/01/2015	5,000,000	5,108,794	5,313,150
Potomac Electric Power	11.250%	11/01/2015	57,070,000	57,752,752	60,186,022
Proctor and Gamble Company	10.625%	11/15/2015	5,075,000	4,361,619	4,793,134
Public Service Company of Oklahoma	9.625%	06/01/2009	40,000	41,225	46,570
Reynolds, R.J. Industries	13.350%	10/01/2012	5,100,000	5,009,738	4,069,035
Rochester Gas & Electric Company	8.375%	09/15/2007	5,200,000	4,921,040	4,158,388
Rochester Telephone Corporation	7.625%	03/01/2001	1,000,000	1,000,000	1,001,420
St. Louis Southwestern Railway	9.750%	10/01/1990	16,362,000	12,257,111	13,569,661
Sears Roebuck & Company	0.000%	02/01/2007	10,190,000	6,930,272	7,798,610
Sears Roebuck & Company	7.000%	11/15/2001	5,775,000	3,762,596	4,057,168
Sears Roebuck & Company	6.000%	05/01/2000	41,855,000	42,614,013	46,613,076
Sears Roebuck & Company	11.875%	12/01/2014	897,409	811,975	728,758
Second Swansea Properties, Incorporated	6.250%	02/01/1992	4,985,100	4,985,100	4,638,984
Society Bank	9.750%	10/01/1996	12,500,000	10,931,163	11,371,875
Sohio Pipeline	8.750%	05/01/2001	3,325,000	3,001,953	2,981,893
South Carolina Electric & Gas	9.125%	02/01/2006	8,800,000	7,192,674	8,247,712
South Carolina Electric & Gas	9.875%	06/01/2009	11,260,000	7,804,408	8,731,792
South Central Bell Telephone Company	7.375%	11/01/2007	5,125,000	3,700,898	3,916,268
South Central Bell Telephone Company	7.375%	08/01/2012	3,200,000	2,484,274	2,689,600
South Central Bell Telephone Company	8.250%	08/01/2013	7,695,000	7,276,153	7,378,042
South Central Bell Telephone Company	0.096%	03/01/2019	6,235,000	6,538,771	6,901,085
South Central Bell Telephone Company	11.875%	04/01/2023	20,410,000	20,519,637	20,713,700
South Central Bell Telephone Company	10.375%	12/30/2025	41,825,000	27,391,724	33,022,092
South Central Bell Telephone Company	7.600%	09/01/2008	33,825,000	21,302,321	25,869,360
Southern Bell Telephone & Telegraph	7.375%	07/15/2010	41,831,000	29,236,054	32,734,012
Southern Bell Telephone & Telegraph	7.625%	03/15/2013	17,960,000	12,912,247	14,662,184
Southern Bell Telephone & Telegraph	8.000%	02/15/2014	41,160,000	30,405,228	34,312,210
Southern Bell Telephone & Telegraph	8.250%	04/15/2016	21,075,000	16,073,477	17,299,624
Southern Bell Telephone & Telegraph	8.125%	05/01/2017	17,115,000	11,585,399	14,778,631
Southern Bell Telephone & Telegraph	8.625%	09/01/2018	10,130,000	10,355,337	11,147,457
Southern Bell Telephone & Telegraph	11.750%	04/19/2023	43,625,000	43,424,349	45,479,498
Southern Bell Telephone & Telegraph	10.750%	12/18/2025	5,690,000	5,762,563	6,121,984
Southern Bell Telephone & Telegraph	12.000%	11/01/2012	5,120,000	5,292,902	5,747,916
Southern California Edison	12.375%	12/01/2014	10,000,000	9,857,475	10,613,000
Southern California Edison	11.500%	10/15/2015	3,800,000	2,690,653	3,237,676
Southern California Edison	8.350%	01/15/2007	4,600,000	3,252,309	3,767,906
Southern Indiana Gas & Electric Company	7.750%	06/01/2004	8,460,000	6,265,706	7,049,379
Southern New England Telephone Company	8.125%	05/01/2008	4,160,000	3,390,732	3,997,552
Southern New England Telephone Company	9.625%	12/01/2010	3,600,000	3,917,700	3,909,240
Southern New England Telephone Company	11.500%	08/15/2025	9,870,000	6,435,868	7,019,050
Southern New England Telephone Company	6.750%	06/01/2008	5,395,000	4,314,801	4,757,688
Southwestern Bell Telephone	8.750%	08/01/2007	4,075,000	2,782,179	3,124,384
Southwestern Bell Telephone	7.625%	10/01/2013	5,085,000	4,429,138	4,653,385
Southwestern Bell Telephone	9.250%	01/15/2015	8,320,000	8,791,845	9,408,256
Southwestern Bell Telephone	12.750%	02/15/2025	52,285,000	55,272,302	56,870,917
Southwestern Bell Telephone	11.875%	10/18/2021	3,250,000	2,491,490	2,804,132
Southwestern Bell Telephone	8.850%	01/15/2001	3,685,000	2,634,806	2,895,415
Stauffer Chemical	7.375%	01/01/2002	2,290,000	1,710,062	1,790,688
Tampa Electric Company	7.550%	03/01/2002	6,800,000	5,437,915	5,331,608
Tucson Electric Power Company	7.650%	05/01/2003	5,425,000	4,708,672	4,582,226
Tucson Electric Power Company	8.500%	10/01/2009	1,609,652	1,609,652	1,412,791
Union Carbide Company	8.625%	01/15/1999			



BOND NAME

BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VAL
Utah Power & Light Company	7.500%	05/01/2002	\$ 6,000,000	\$ 3,785,228	\$ 4,721,700
Utah Power & Light Company	8.500%	03/01/2007	2,500,000	2,317,697	2,104,700
Virginia Electric & Power Company	7.500%	09/01/2001	4,250,000	2,786,090	3,346,000
Virginia Electric & Power Company	7.375%	06/01/2002	6,800,000	4,818,926	5,259,500
Virginia Electric & Power Company	9.250%	03/01/2006	2,675,000	2,120,875	2,436,800
Virginia Electric & Power Company	8.750%	09/01/2006	5,075,000	3,966,497	4,423,800
Virginia Electric & Power Company	8.625%	03/01/2007	8,255,000	6,744,480	7,099,500
Virginia Electric & Power Company	9.625%	07/01/2008	6,550,000	5,733,952	6,004,600
Warren Property Corporation	0.000%	10/01/2007	120,385,409	71,977,765	12,369,600
West Penn Power Company	8.500%	12/01/2007	7,900,000	6,116,451	6,820,600
Westvaco Corporation	12.650%	01/15/2014	6,700,000	7,056,743	7,587,000
Westvaco Corporation	12.300%	01/15/2015	36,000,000	37,420,830	40,394,800
Wisconsin Electric Power	11.500%	09/15/2015	7,740,000	7,826,419	8,361,200
Wisconsin Public Service	11.500%	10/01/2015	7,800,000	7,877,565	8,464,000
Worthington Industries	9.250%	12/01/1998	15,000,000	15,000,000	13,932,600
Total			\$2,855,577,143	\$2,462,977,677	\$2,589,391,100

CANADIAN

British Columbia Hydro and Power	15.000%	04/15/2011	\$ 28,060,000	\$ 33,325,106	\$ 37,465,000
British Columbia Hydro and Power	15.500%	07/15/2011	14,580,000	18,620,730	20,082,000
British Columbia Hydro and Power	15.500%	11/15/2011	13,870,000	17,709,859	19,145,000
Hydro Quebec	13.375%	02/15/2013	7,450,000	8,882,829	9,048,000
Hydro Quebec	11.750%	02/01/2012	4,515,000	4,716,974	5,170,000
Manitoba Hydro Electric Board	8.625%	12/01/2006	7,150,000	5,641,389	6,319,000
New Brunswick Electric Power Commission	9.000%	02/15/1997	4,064,000	3,764,787	3,270,000
Province of Manitoba	14.750%	03/15/1997	20,810,000	24,675,728	26,459,000
Province of Ontario	15.125%	05/01/2011	25,000,000	31,068,591	33,621,000
Province of Ontario	15.250%	08/31/2012	5,000,000	6,365,470	6,875,000
Province of Quebec	13.000%	10/01/2013	6,700,000	7,786,156	8,104,000
Total			\$137,199,000	\$162,557,625	\$175,564,000

MORTGAGES

Fort Lewis	4.500%	06/01/1988	\$ 153,406	\$ 153,406	\$ 143,400
Fort Lewis	4.500%	09/10/1988	306,691	306,691	286,700
Fort Lewis	4.500%	12/01/1988	248,874	248,874	232,600
Fort Riley	4.500%	01/01/1988	152,345	147,774	142,400
Fort Riley	4.500%	03/01/1988	337,679	327,548	315,000
Fort Riley	4.500%	05/01/1988	308,938	299,670	288,800
Fort Riley	4.500%	06/01/1988	325,542	315,775	304,500
Fort Riley	4.500%	07/01/1988	330,067	320,165	308,600
Fort Riley	4.500%	09/01/1988	406,916	394,708	380,400
2nd Cumberland Housing	4.500%	10/10/1988	405,667	393,497	379,500
3rd Cumberland Housing	4.500%	11/01/1986	96,538	88,935	90,200
4th Cumberland Housing	4.500%	01/01/1987	171,326	157,834	160,000
Cutler NRS	4.500%	08/01/1986	80,832	74,467	75,000
Mayport Quarters	4.500%	11/01/1986	32,550	32,794	30,000
Mayport Quarters	4.500%	01/01/1988	380,802	387,942	356,000
Mayport Quarters	4.500%	03/01/1988	411,049	421,326	384,000
5th Newport	4.500%	04/01/1988	328,565	336,779	307,000
6th Newport	4.500%	08/01/1987	150,970	150,970	141,000
Beale AFB	4.250%	06/01/1987	136,320	136,320	127,000
Beale AFB	4.250%	01/01/1987	164,757	164,963	154,000
Beale AFB	4.250%	02/01/1987	156,482	156,873	146,000
Beale AFB	4.250%	04/01/1987	174,989	175,426	163,000

PORTFOLIO

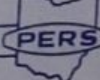
MARKET VALUE	BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
4,721,940	Kincheloe AFB	4.500%	11/01/1986	\$ 42,537	\$ 42,537	\$ 39,772
2,104,700	Kincheloe AFB	4.500%	01/01/1987	70,080	69,467	65,525
3,346,067	Malmstrom AFB	4.500%	05/01/1988	327,698	327,698	306,398
5,259,936	Minot AFB	4.500%	02/01/1987	130,596	130,596	122,108
2,436,871	Minot AFB	4.500%	05/01/1987	151,548	151,548	141,697
4,423,877	Turner AFB	4.500%	06/01/1987	205,172	207,736	191,835
7,099,960	FHA—Alice Village	7.480%	03/01/2022	1,502,129	856,213	1,277,290
6,004,647	FHA—Almond Terrace	7.480%	07/01/2022	1,548,874	875,329	1,317,038
2,369,600	FHA—Amherst Village	7.440%	05/01/2021	3,051,560	1,636,398	2,594,802
6,820,623	FHA—Anglers Manor	7.440%	03/01/2021	3,121,450	1,510,002	2,654,231
7,587,080	FHA—Apple Village	7.440%	02/01/2019	6,885,036	4,073,180	5,854,484
0,394,880	FHA—Arbor Terrace	7.440%	10/01/2021	1,366,451	712,262	1,161,920
8,361,289	FHA—Aspen-Stratford Apartments	7.440%	05/01/2019	2,160,664	1,296,398	1,837,255
8,464,014	FHA—Austin Village Apartments	7.440%	02/01/2022	1,831,620	886,047	1,557,463
3,932,600	FHA—Autumn Trace Apartments	7.480%	08/01/2021	1,627,482	858,497	1,383,880
9,391,142	FHA—Batavia Village	7.480%	02/01/2021	1,482,248	810,195	1,260,385
7,465,712	FHA—Bayberry Housing For The Elderly	7.440%	08/01/2018	5,323,078	3,128,367	4,526,319
0,082,929	FHA—Briarwood Apartments of Columbus	7.480%	04/20/2022	4,970,685	2,491,715	4,226,673
9,145,870	FHA—Brookchester	7.440%	10/15/2020	1,992,521	1,270,232	1,694,280
9,048,919	FHA—Cambridge Square	7.440%	10/01/2019	3,283,378	1,970,026	2,791,922
5,170,487	FHA—Cambridge Village	7.480%	08/01/2018	1,526,714	1,040,085	1,298,195
6,319,956	FHA—Campus Manor	7.480%	05/01/2019	1,473,446	777,242	1,252,900
3,270,991	FHA—Canton Tower	7.460%	08/01/2018	4,467,911	3,610,291	3,799,154
6,459,290	FHA—Carlton-Green Estates	9.440%	11/01/2019	3,446,526	3,261,277	3,353,918
3,621,000	FHA—The Carolina	7.440%	07/01/2022	2,378,592	1,646,431	2,022,564
6,875,400	FHA—Casa De Amigos	7.480%	10/01/2022	1,381,985	960,630	1,175,129
8,104,186	FHA—Cedar Park Apartments	7.480%	07/01/2011	4,871,370	3,532,371	5,127,117
5,564,744	FHA—Cedar Woods Apartments	7.480%	07/20/2021	2,454,117	1,196,870	2,086,784
143,434	FHA—Cheyenne Station	7.480%	02/01/2022	2,781,675	1,585,554	2,365,314
286,756	FHA—The Chimneys of Oak Creek	7.480%	08/01/2023	7,545,922	5,329,828	6,416,449
232,697	FHA—Cliffview Apartments	7.440%	10/15/2020	3,892,786	2,481,651	3,310,114
142,442	FHA—Cliffview Apartments	7.440%	10/01/2019	3,500,306	2,105,969	2,976,381
315,730	FHA—130 Clinton Street	7.440%	08/01/2022	1,900,111	1,071,187	1,615,702
288,857	FHA—Countrysquire Apartments	7.440%	10/01/2022	1,943,632	1,180,756	1,652,709
304,381	FHA—Cove Apartments & Racquetball Club	7.440%	10/01/2022	1,047,253	570,856	890,500
308,612	FHA—Crawford Square Apartments	7.480%	09/01/2019	2,806,863	1,513,854	2,508,634
380,466	FHA—Creekwood Apartments	7.440%	11/01/2006	2,488,649	1,347,020	2,174,457
379,298	FHA—Cross Creek Apartments	7.440%	07/01/2006	3,861,594	2,036,990	4,059,500
90,263	FHA—Deep Lake Hermitage Apartments	7.480%	07/01/1999	1,297,880	695,987	1,159,980
160,190	FHA—Delaware Village	7.440%	02/01/2003	2,162,974	1,165,321	2,044,010
75,578	FHA—Delhi Estates	7.480%	11/01/2004	2,162,974	1,165,321	2,834,532
30,434	FHA—Douglas Manor	7.440%	12/01/2002	3,171,504	2,759,992	4,742,374
356,049	FHA—Duckwood Trails	7.480%	10/01/2006	5,133,828	2,759,992	877,391
384,331	FHA—Eagles Landing	7.480%	01/01/2007	981,696	584,109	877,391
307,209	FHA—Earhart Woods	7.480%	08/01/2005	4,220,511	2,927,984	3,983,867
141,157	FHA—Eastside Hills Apartments	7.480%	08/01/2005	1,511,988	812,858	1,428,829
127,459	FHA—Eisner Court	7.440%	12/01/2002	1,846,936	996,127	1,675,818
154,048	FHA—Elgin Manor	7.440%	12/01/2008	3,560,809	1,878,326	3,440,631
146,311	FHA—Essex Village	7.480%	12/27/1988	3,072,445	1,791,539	3,141,575
163,615	FHA—Fairington Apartments	7.440%	02/01/2021	4,298,811	2,982,335	3,655,364
not add.	FHA—Fairington Apartments of Southbend	7.440%	10/01/2006	4,502,919	2,437,275	4,078,114
	FHA—Fairfield West Townhouses	7.480%	09/01/2007	1,604,960	954,951	1,434,433
	FHA—Fairview Manor	7.480%	09/01/2009	2,670,336	1,302,320	2,687,025
	FHA—Fernwood Court	7.440%	01/01/2008	2,590,532	1,253,170	2,341,193
	FHA—Finley Apartments	7.440%	06/01/2020	1,391,606	751,467	1,183,311
	FHA—Fleetwood Apartments	7.440%	05/01/2008	1,906,037	941,413	1,665,400
	FHA—Forest Park Apartments	7.480%	07/01/2020	1,469,329	803,133	1,249,400
	FHA—Forum Manor	7.480%	11/01/2009	1,521,394	905,229	1,359,746

NOTE: Cents omitted. Columns will not add.



BOND NAME

BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VAL
FHA—Fountain Square Apartments	7.480%	04/01/2008	\$ 2,614,472	\$ 1,379,134	\$ 2,441,000
FHA—Fox Ridge Apartments	7.440%	02/01/2008	2,460,629	1,387,180	2,297,000
FHA—Foxchase of Alexandria	7.490%	08/01/2023	76,955,089	55,802,367	65,436,000
FHA—Foxwood Apartments	7.480%	01/01/2007	2,563,054	1,352,011	2,393,000
FHA—Franklin Court	7.480%	01/01/2004	2,751,950	1,509,717	2,631,000
FHA—Garfield House	7.480%	02/01/2023	13,044,881	9,199,761	11,092,000
FHA—Gentry Place	7.440%	10/01/2010	3,107,651	1,503,327	3,231,000
FHA—Gillpark Cooperative	7.440%	12/01/1993	9,871,465	5,071,462	9,439,000
FHA—Glenbrook II	7.480%	08/01/2022	3,359,129	1,898,375	2,856,000
FHA—Hadley West	7.440%	12/01/1994	6,051,865	3,556,675	5,787,000
FHA—Harbour Town Apartments	7.440%	01/01/2008	2,506,216	1,597,713	2,089,000
FHA—Hidden Meadow Townhouses	7.440%	04/01/2010	3,259,464	1,566,580	3,010,000
FHA—Highland Place	7.440%	09/01/2002	3,788,014	2,031,321	3,461,000
FHA—Highview Park	7.480%	01/01/2011	1,257,099	856,399	1,161,000
FHA—Hillcrest Elderly	7.480%	09/15/2017	3,668,931	2,148,889	3,119,000
FHA—Hillside Apartments	7.440%	07/01/1999	1,353,821	731,063	1,440,000
FHA—Hopkins Village	7.440%	07/01/2007	4,327,227	2,336,702	4,040,000
FHA—Hunters Creek	7.480%	10/01/2021	4,537,512	2,507,746	3,858,000
FHA—Huntington Towers	7.440%	10/01/2019	5,267,515	2,851,125	4,479,000
FHA—Irving Oaks	7.480%	08/01/1998	2,776,782	1,569,268	2,867,000
FHA—Jamestown Apartments of Seymour	7.440%	08/01/2004	3,289,236	1,973,542	3,071,000
FHA—Jamestown Apartments of Valparaiso	7.440%	06/01/2020	4,761,344	2,798,237	4,048,000
FHA—Keystone Apartments	7.440%	10/01/2010	8,271,657	4,135,828	7,909,000
FHA—King Village	7.440%	10/01/2007	1,870,177	1,009,896	1,671,000
FHA—Kokomo Manor	7.440%	09/01/2019	2,459,554	1,331,272	2,091,000
FHA—Lakeview Apartments	7.480%	03/01/2007	3,165,374	1,816,133	2,955,000
FHA—Laluz Apartments	7.480%	01/01/2010	2,644,629	1,450,841	2,469,000
FHA—Lasby Park	7.480%	01/01/2010	2,008,489	1,396,118	1,920,000
FHA—Latana Square	7.480%	02/01/2022	1,355,422	772,591	1,152,000
FHA—Lawrence Village	7.480%	08/01/2020	1,704,435	929,085	1,449,000
FHA—Lawrenceburg Village	7.440%	01/01/2021	1,946,441	1,061,003	1,655,000
FHA—Lima Club Apartments	7.480%	11/01/2018	2,005,844	1,366,498	1,705,000
FHA—Logan Place	7.480%	11/01/2019	1,073,429	530,178	912,000
FHA—Lone Oak Manor	7.480%	08/01/2019	1,498,479	790,448	1,274,000
FHA—Majestic Oaks Apartments	7.480%	10/01/2021	4,319,820	2,278,705	3,673,000
FHA—Maple Hills Apartments	7.440%	01/01/2019	1,675,406	827,501	1,424,000
FHA—Marion Village	7.480%	11/01/2021	1,538,476	828,867	1,308,000
FHA—McMillen Wood	7.440%	03/01/2019	2,430,923	1,943,931	2,067,000
FHA—Meadowlands	7.480%	02/01/2022	1,751,457	989,817	1,489,000
FHA—Monument Square Apartments	7.440%	09/01/2019	2,142,531	1,459,600	1,821,000
FHA—Mt. Vernon Plaza	7.480%	12/01/2018	7,511,116	5,295,345	6,386,000
FHA—New Bridge Village	7.440%	11/01/2020	3,738,051	2,048,822	3,178,000
FHA—New Floral Gardens	7.440%	07/01/2019	2,629,467	1,533,240	2,235,000
FHA—New Floral Gardens	7.440%	08/01/2019	4,367,023	2,546,407	3,713,000
FHA—Newark Green	7.480%	10/20/2021	1,266,423	609,528	1,076,000
FHA—Northwood Apartments of Franklin	7.440%	10/01/2011	2,267,988	1,227,584	2,387,000
FHA—Oakwood Gardens	7.480%	04/01/2023	6,716,854	3,786,626	5,711,000
FHA—Olentangy Commons	7.480%	09/01/2021	4,895,845	2,705,786	4,163,000
FHA—Parish Square Apartments	7.480%	05/01/2022	1,017,883	547,223	865,000
FHA—Park Bluff Apartments	7.440%	07/01/2019	3,619,514	2,171,708	3,077,000
FHA—Pleasant Hill Apartments	7.480%	06/01/2022	2,691,712	1,534,276	2,288,000
FHA—Rainier Vista Apartments	7.480%	05/01/2022	2,930,079	1,655,902	2,491,000
FHA—Richfield Apartments	7.440%	04/01/2021	2,983,363	1,443,203	2,536,000
FHA—Ridge Village	7.480%	06/01/2022	1,351,466	763,766	1,149,000
FHA—Ridgewood II Apartments	7.440%	04/01/2010	3,419,955	1,643,716	3,270,000
FHA—River Bend Apartments	7.440%	05/01/2010	2,982,766	1,442,912	2,818,000
FHA—Riverview Apartments	7.440%	07/01/2011	1,750,350	945,189	1,745,000



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MARKET VALUE	BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
2,441,263	FHA—Rolling Ridge Townhouses	7.480%	08/01/2008	\$ 1,868,888	\$ 985,838	\$ 1,787,125
2,297,613	FHA—Roslyn Plaza	7.400%	08/01/2010	3,248,882	2,245,792	2,968,666
5,436,451	FHA—Shaker Park Gardens Apartments	7.440%	03/01/2010	3,300,300	1,769,786	3,015,649
2,393,251	FHA—Shawnee II	7.440%	04/01/2009	1,879,918	928,512	1,680,177
2,631,552	FHA—Silver Spring Square	7.480%	10/01/2008	1,543,827	872,477	1,395,234
1,092,323	FHA—Southgate Village	7.480%	02/01/2022	2,424,853	1,442,787	2,061,901
3,231,957	FHA—Stanford Townhouses	7.400%	09/01/2012	3,832,794	2,630,257	3,502,215
9,439,589	FHA—Tamarind Square	7.480%	02/01/2008	1,200,430	817,798	1,134,406
2,856,334	FHA—Tanglewood Apartments	9.710%	02/01/2014	2,191,064	1,782,978	2,300,617
5,787,096	FHA—The Terrace	7.480%	12/01/1999	2,757,019	1,529,040	2,694,986
2,089,558	FHA—Thomaston Gardens	7.440%	06/01/2008	2,000,817	988,225	1,868,262
3,010,930	FHA—Townhomes of Chowen Bend	7.480%	04/01/2022	1,306,229	744,551	1,110,713
3,461,297	FHA—Townhouse of Lowell	7.440%	01/01/2019	3,214,722	1,889,289	2,733,543
1,161,246	FHA—Trafalgor Square	9.440%	01/20/2020	1,620,050	1,385,143	1,576,519
3,119,765	FHA—Tree Bourne II	7.480%	12/30/2017	1,574,638	925,255	1,338,946
1,440,127	FHA—Tudor Ridge	7.440%	12/01/2018	3,575,707	2,860,565	3,040,495
4,040,548	FHA—Tullahoma Village Apartments	7.440%	02/01/2020	1,735,789	857,325	1,475,976
3,858,337	FHA—Twinoaks	7.480%	05/01/2018	1,768,417	1,204,742	1,503,720
4,479,073	FHA—University Village	7.480%	07/01/2009	4,767,411	2,694,250	4,260,873
2,867,028	FHA—Urbana Village	7.440%	11/01/2013	1,165,890	625,209	1,227,099
3,071,324	FHA—Vandalia Elderly	7.480%	08/01/2013	1,448,473	986,780	1,520,896
1,048,666	FHA—Village Park Apartments	7.480%	12/01/2012	1,002,667	549,561	1,028,987
7,909,772	FHA—The Villas	7.480%	09/01/2013	3,712,630	2,603,775	3,907,543
1,671,471	FHA—Vista Verde Apartments	7.480%	09/01/2010	2,159,119	1,230,698	2,215,796
2,091,408	FHA—Vista Verde II	7.480%	11/01/2011	1,999,989	1,390,210	2,104,988
2,955,668	FHA—Washburn Apartments	7.480%	03/01/2010	1,112,387	773,230	1,170,787
2,469,422	FHA—Washington Square Apartments	7.440%	06/01/2009	2,814,151	1,517,784	2,831,740
1,920,617	FHA—Wesley Camilla Tower	7.480%	05/01/2019	8,747,992	6,161,630	7,438,592
1,152,543	FHA—Willow Wood Estates	7.480%	05/01/2022	1,587,138	1,103,234	1,349,575
1,449,315	FHA—Willowbrook Apartments	7.480%	11/01/2019	1,110,272	600,952	944,086
1,655,098	FHA—Willowpark Apartments	7.440%	11/01/2019	1,698,804	917,354	1,444,527
1,705,609	FHA—Wilmington Green	7.440%	11/01/2019	1,698,804	1,280,390	2,523,573
912,758	FHA—Windrush-Knoxville	7.480%	03/01/2010	2,359,736	2,547,647	3,979,812
274,187	FHA—Wood Glen Apartments	7.480%	07/01/2013	3,781,294	1,451,578	2,795,633
673,229	FHA—Woodlen Place	7.440%	12/01/2010	2,688,109	1,085,348	2,031,462
424,631	FHA—Wrightstown Arms Apartments	7.480%	07/01/2009	2,018,844	793,274	1,504,062
308,196	Federal Home Loan Mortgage Corporation	7.440%	04/01/2011	1,465,590	3,301,407	3,513,036
1,067,062	Federal Home Loan Mortgage Corporation	7.440%	03/01/2008	3,762,287	7,076,440	7,395,460
489,299	Federal Home Loan Mortgage Corporation	8.500%	02/01/2010	7,733,815	3,142,813	3,353,830
821,837	Federal Home Loan Mortgage Corporation	9.000%	06/01/2009	3,591,786	3,142,813	26,104,880
386,852	Federal Home Loan Mortgage Corporation	8.500%	11/01/2008	29,208,258	1,123,761	1,341,125
178,539	Federal Home Loan Mortgage Corporation	7.500%	11/01/2009	1,324,019	5,343,940	5,859,274
235,889	Federal Home Loan Mortgage Corporation	10.500%	05/01/2013	5,647,493	951,126	989,701
713,367	Federal Home Loan Mortgage Corporation	11.500%	05/01/2010	964,386	3,515,681	3,698,372
1,076,865	Federal Home Loan Mortgage Corporation	11.000%	08/01/2013	3,564,696	970,284	1,020,704
387,058	Federal Home Loan Mortgage Corporation	11.500%	07/01/2013	983,811	2,712,205	3,050,088
711,475	Federal Home Loan Mortgage Corporation	11.500%	08/01/2013	2,848,047	684,040	861,683
163,035	Federal Home Loan Mortgage Corporation	12.000%	03/01/2007	922,820	1,266,958	1,283,678
865,526	Federal Home Loan Mortgage Corporation	8.500%	07/01/2003	1,486,168	2,166,288	2,312,606
1,077,745	Federal Home Loan Mortgage Corporation	6.750%	02/01/2009	2,530,896	4,985,613	6,181,825
288,817	Federal Home Loan Mortgage Corporation	8.000%	12/01/2009	6,692,098	4,774,273	5,345,144
491,504	Federal Home Loan Mortgage Corporation	8.250%	08/01/2013	5,102,763	989,893	1,051,059
536,814	Federal Home Loan Mortgage Corporation	12.250%	11/01/2013	998,631	230,606	244,855
149,178	Federal Home Loan Mortgage Corporation	13.000%	10/01/2013	232,641	2,538,934	3,097,743
270,332	Federal Home Loan Mortgage Corporation	13.000%	03/01/2007	3,239,470	2,132,503	2,452,071
18,714	Federal Home Loan Mortgage Corporation	9.000%	05/15/2009	2,458,217	2,189,350	2,635,064
45,974	Federal Home Loan Mortgage Corporation	10.000%	05/01/1998	2,852,573	1,837,543	2,120,031
	Federal Home Loan Mortgage Corporation	8.250%	05/01/2009	2,194,082		

NOTE: Cents omitted. Columns will not add.



BOND NAME

BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
Federal Home Loan Mortgage Corporation	9.000%	01/01/2009	\$ 1,098,329	\$ 884,155	\$ 1,050,155
Federal Home Loan Mortgage Corporation	10.000%	09/01/2009	1,221,681	983,072	1,218,681
Federal Home Loan Mortgage Corporation	10.500%	04/01/2011	3,099,466	3,126,586	3,139,586
Federal Home Loan Mortgage Corporation	8.500%	02/01/2007	2,518,545	1,914,094	2,351,645
Federal Home Loan Mortgage Corporation	8.250%	04/01/2009	1,745,881	1,311,593	1,612,745
Federal Home Loan Mortgage Corporation	10.000%	01/01/2010	1,137,963	923,173	1,135,137
Federal Home Loan Mortgage Corporation	8.750%	08/01/2004	2,162,080	1,664,801	2,043,162
Federal Home Loan Mortgage Corporation	8.000%	09/01/2007	9,134,155	7,883,917	8,346,315
Federal Home Loan Mortgage Corporation	8.250%	10/01/2007	9,280,432	8,097,177	8,572,732
Federal Home Loan Mortgage Corporation	8.250%	11/01/2007	1,316,952	1,160,564	1,216,952
Federal Home Loan Mortgage Corporation	13.000%	11/01/2013	71,919	71,290	75,619
Federal Home Loan Mortgage Corporation	13.000%	11/01/2013	51,848	52,720	54,548
Federal Home Loan Mortgage Corporation	8.750%	04/01/2008	9,836,184	9,196,832	9,295,184
Federal Home Loan Mortgage Corporation	8.750%	05/01/2008	5,909,302	5,525,197	5,584,302
Federal Home Loan Mortgage Corporation	10.250%	06/01/2009	4,801,556	4,642,504	4,831,556
Federal Home Loan Mortgage Corporation	13.000%	09/01/2010	639,156	649,942	672,715
Federal Home Loan Mortgage Corporation	12.000%	05/01/2013	152,063	141,323	158,915
Federal Home Loan Mortgage Corporation	13.000%	06/01/2014	71,276	72,479	75,076
Federal Home Loan Mortgage Corporation	12.000%	01/01/2015	303,821	312,556	317,421
Federal Home Loan Mortgage Corporation	12.000%	06/01/2015	375,318	380,479	392,218
Federal Home Loan Mortgage Corporation	11.000%	07/01/2015	11,408,068	11,351,027	11,707,568
Federal Home Loan Mortgage Corporation	11.000%	09/01/2015	12,263,684	11,826,790	12,585,684
Federal Home Loan Mortgage Corporation	11.500%	09/01/2015	216,336	215,389	224,336
Federal Home Loan Mortgage Corporation	11.000%	11/01/2015	33,151,000	32,708,356	34,021,000
Federal Home Loan Mortgage Corporation	10.500%	12/01/2015	11,500,000	11,349,062	11,648,500
Federal Home Loan Mortgage Corporation	11.000%	12/01/2015	13,300,000	13,586,781	13,649,000
Federal Home Loan Mortgage Corporation	11.000%	12/01/2008	18,373,897	17,682,817	16,789,897
Federal Home Loan Mortgage Corporation	11.000%	09/01/2015	3,941,133	3,886,942	4,044,133
Federal Home Loan Mortgage Corporation	11.000%	09/01/2015	999,126	985,388	1,025,126
Federal Home Loan Mortgage Corporation	10.000%	10/01/2015	5,090,541	4,812,152	5,077,541
Federal Home Loan Mortgage Corporation	11.000%	11/01/2015	2,027,371	1,976,686	2,080,371
Federal Home Loan Mortgage Corporation	11.000%	12/01/2015	1,971,537	1,914,855	2,023,537
Federal Home Loan Mortgage Corporation	11.500%	12/01/2015	1,405,017	1,394,479	1,457,017
Federal Home Loan Mortgage Corporation	10.000%	09/01/2011	6,468,264	6,330,813	6,452,264
Federal Home Loan Mortgage Corporation	10.000%	10/01/2010	11,225,291	9,162,644	11,197,291
Federal Home Loan Mortgage Corporation	10.000%	01/01/2011	4,410,499	4,316,776	4,399,499
Federal Home Loan Mortgage Corporation	9.000%	12/01/2009	10,193,795	9,410,147	9,747,795
Federal Home Loan Mortgage Corporation	9.000%	07/01/2009	7,453,602	6,731,534	7,127,602
Federal Home Loan Mortgage Corporation	6.500%	01/01/2008	3,710,413	3,070,367	3,390,413
Federal Home Loan Mortgage Corporation	6.000%	10/01/2002	3,707,150	3,076,934	3,090,150
Federal Home Loan Mortgage Corporation	10.000%	11/01/2010	3,253,025	3,139,169	3,244,025
Federal Home Loan Mortgage Corporation	10.250%	11/01/2009	9,882,766	8,549,857	9,944,766
Federal Home Loan Mortgage Corporation	10.750%	12/01/2009	6,089,541	5,412,080	6,208,541
Federal Home Loan Mortgage Corporation	9.500%	10/01/2011	5,081,932	4,050,705	4,918,932
Federal Home Loan Mortgage Corporation	11.000%	11/01/2013	22,448,309	20,897,972	23,037,309
Federal Home Loan Mortgage Corporation	8.000%	04/01/2010	4,191,009	3,605,578	3,829,009
Federal Home Loan Mortgage Corporation	11.500%	05/01/2014	5,114,792	4,922,987	5,306,792
Federal Home Loan Mortgage Corporation	9.000%	02/01/2010	15,153,496	13,988,571	14,490,496
Federal Home Loan Mortgage Corporation	13.000%	12/01/2014	4,048,704	4,117,026	4,261,704
Federal Home Loan Mortgage Corporation	13.000%	12/01/2014	896,779	911,913	943,779
Federal Home Loan Mortgage Corporation	8.000%	01/01/2010	8,237,418	7,050,715	7,526,418
Federal Home Loan Mortgage Corporation	10.250%	10/01/2012	4,510,242	4,036,666	4,538,242
Federal Home Loan Mortgage Corporation	9.250%	06/01/2010	15,073,048	12,755,566	14,564,048
Federal Home Loan Mortgage Corporation	11.500%	12/01/2014	4,823,241	4,541,383	5,004,241
Federal Home Loan Mortgage Corporation	7.500%	11/01/1999	3,325,481	2,992,933	2,972,481
Federal Home Loan Mortgage Corporation	11.500%	01/01/2015	4,719,401	4,443,611	4,896,401
Federal Home Loan Mortgage Corporation	8.250%	03/01/2009	15,633,987	14,222,043	14,441,987



PORTFOLIO

BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
			\$ 4,990,926	\$ 4,791,289	\$ 5,203,041
Federal Home Loan Mortgage Corporation	12.000%	02/01/2015			
Federal Home Loan Mortgage Corporation	11.500%	06/01/2014	35,329,077	35,991,497	36,653,917
Federal Home Loan Mortgage Corporation	11.500%	02/01/2015	4,766,663	4,453,851	4,945,413
Federal Home Loan Mortgage Corporation	11.500%	03/01/2015	4,840,785	4,521,595	5,022,314
Federal Home Loan Mortgage Corporation	10.000%	08/01/2013	10,444,450	9,354,310	10,418,338
Federal Home Loan Mortgage Corporation	9.000%	12/01/2009	354,440	312,793	338,933
Federal Home Loan Mortgage Corporation	8.000%	09/01/2011	9,401,559	8,047,147	8,590,675
Federal Home Loan Mortgage Corporation	11.500%	05/01/2015	4,762,464	4,583,872	4,941,057
Federal Home Loan Mortgage Corporation	12.000%	04/01/2015	4,567,341	4,507,395	4,761,453
Federal Home Loan Mortgage Corporation	12.000%	05/01/2015	5,060,340	4,997,086	5,250,103
Federal Home Loan Mortgage Corporation	11.500%	02/01/2015	37,879,734	38,803,052	39,300,224
Federal Home Loan Mortgage Corporation	8.500%	01/01/2008	6,743,818	5,869,229	6,297,040
Federal Home Loan Mortgage Corporation	10.250%	12/01/2010	1,385,701	1,339,800	1,394,362
Federal Home Loan Mortgage Corporation	12.500%	07/01/2014	7,920,911	8,302,105	8,316,957
Federal Home Loan Mortgage Corporation	11.250%	06/01/2015	2,993,491	2,941,105	3,088,924
Federal Home Loan Mortgage Corporation	11.000%	09/01/2015	3,012,138	2,970,721	3,091,207
Federal Home Loan Mortgage Corporation	10.500%	09/01/2010	9,384,076	9,029,241	9,505,318
Federal Home Loan Mortgage Corporation	11.000%	09/01/2015	2,019,722	1,991,951	2,072,740
Federal Home Loan Mortgage Corporation	11.000%	08/01/2015	1,011,354	997,448	1,037,902
Federal Home Loan Mortgage Corporation	11.000%	09/01/2015	3,012,475	2,971,053	3,091,552
FmHA—Allen Edmonds Shoe Corporation	9.200%	08/15/2008	543,570	543,570	538,988
FmHA—Endries Fastener & Supply Company	9.200%	10/20/2008	233,911	233,911	231,939
FmHA—Friday Canning Company	9.300%	11/01/1993	9,967,822	9,967,822	10,108,069
FmHA—Holiday Inn of Las Cruces	10.050%	12/01/2004	3,778,589	3,806,948	3,891,947
FmHA—Norland Corporation	9.200%	07/15/2008	375,111	375,111	371,949
FmHA—Oconomowoc Canning Company	9.200%	09/25/2008	5,978,775	5,978,775	5,928,374
FmHA—Packaging Services	10.130%	09/15/1999	874,365	877,635	900,596
FmHA—Robert Endries Company	9.200%	08/20/2008	97,688	97,688	96,864
FmHA—Shell Patterns	9.200%	08/30/2008	140,041	140,041	138,861
FmHA—South Point Ethanol	14.000%	06/01/1994	23,800,000	23,800,000	25,704,000
FmHA—Texfi Industries, Incorporated	14.000%	03/27/1995	6,555,000	6,555,000	7,079,400
GNMA—Alliance Mortgage — 378	10.000%	08/20/2015	21,454,888	19,859,180	21,723,074
GNMA—Jumbo Mortgage — 440	11.000%	11/20/2015	998,698	997,762	1,044,269
GNMA—Lambrecht Realty Company — 6278	8.500%	07/15/2018	3,096,282	2,345,433	2,904,715
GNMA—United Federal Mortgage — 23969	9.000%	09/15/2008	746,325	525,227	717,405
GNMA—Crossland Capital Corporation — 25541	9.000%	11/15/2008	2,151,684	1,736,771	2,068,306
GNMA—Midland Mortgage Company — 27896	9.000%	10/15/2008	3,527	2,847	3,390
GNMA—J. I. Kislak Mortgage — 28236	9.000%	10/15/2008	2,680,949	2,151,462	2,577,062
GNMA—P. S. F. S. Mortgage Corp. — 28303	9.000%	12/15/2008	2,257,045	1,908,614	2,169,585
GNMA—Mid-States Mortgage Company — 29325	9.000%	12/15/2008	35,905	24,819	34,514
GNMA—Peoples Mortgage Company — 34358	9.500%	02/15/2009	1,629,879	1,411,883	1,607,468
GNMA—New York Guardian — 36498	9.500%	10/15/2009	3,530,108	3,196,954	3,481,569
GNMA—Skylake Bank — 36581	9.500%	10/15/2009	882,373	799,099	870,241
GNMA—Lomas & Nettleton Company — 36696	9.500%	10/15/2009	4,328,357	3,919,869	4,268,842
GNMA—Lomas & Nettleton Company — 37913	10.000%	12/15/2009	4,048,197	3,733,196	4,098,799
GNMA—Kissell Company — 38350	9.500%	10/15/2009	3,870,625	3,667,417	3,817,404
GNMA—Kissell Company — 38352	10.000%	11/15/2009	4,022,647	3,944,414	4,072,930
GNMA—Capital Mortgage Company — 39233	11.000%	03/15/2010	709,669	571,727	742,051
GNMA—Fort Worth Mortgage — 39466	11.000%	08/15/2010	4,476,893	4,254,448	4,681,174
GNMA—Kissell Company — 40286	11.000%	03/15/2010	2,026,672	1,935,472	2,119,149
GNMA—Security Financial Mortgage — 42991	10.000%	07/15/2010	3,663,245	3,402,239	3,709,036
GNMA—Banco Mortgage Company — 43594	11.000%	09/15/2010	8,350,065	7,097,555	8,731,078
GNMA—First Family Mortgage — 43880	11.000%	09/15/2010	366,397	295,179	383,116
GNMA—Merrill Lynch Mortgage — 45023	9.000%	01/15/2010	1,907,142	1,469,692	1,833,241
GNMA—Merrill Lynch Mortgage — 45024	9.000%	12/15/2009	6,585,902	5,285,186	6,330,698
GNMA—Valley Federal — 50537	12.500%	01/15/2011	46,408	46,177	49,947
GNMA—Cameron Brown — 59908	11.500%	03/15/2013	3,782,200	3,779,836	4,012,688

NOTE: Cents omitted. Columns will not add.



BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
GNMA—Hibernia Bank — 61375	11.500%	02/15/2013	\$ 4,750,664	\$ 4,602,948	\$ 5,000
GNMA—Colonial Savings & Loan — 61873	11.500%	06/15/2013	6,533,221	6,366,828	6,931
GNMA—American First Savings — 64306	11.500%	04/15/2013	4,827,738	4,701,010	5,121
GNMA—F & M Mortgage — 64423	11.500%	02/15/2013	5,158	5,026	5,158
GNMA—Reilly Mortgage Group — 64441	12.000%	03/15/2018	998	988	1,000
GNMA—Citicorp Real Estate — 66029	7.250%	11/15/2022	9,847,367	5,819,178	8,638
GNMA—Citicorp Real Estate — 66030	7.250%	11/15/2022	9,779,805	5,779,253	8,578
GNMA—Citicorp Real Estate — 66031	7.250%	08/15/2022	9,772,029	5,774,658	8,571
GNMA—Citicorp Real Estate — 66035	7.250%	05/15/2022	4,983,094	3,021,001	4,371
GNMA—Citicorp Real Estate — 66040	7.250%	07/15/2022	10,169,512	6,009,546	8,920
GNMA—Citicorp Real Estate — 66041	7.250%	09/15/2022	9,808,346	5,796,119	8,603
GNMA—Citicorp Real Estate — 66042	7.250%	12/15/2022	2,976,562	1,758,962	2,611
GNMA—Citicorp Real Estate — 66043	6.750%	11/15/2021	14,757,290	9,928,889	12,603
GNMA—Suburban Coastal Corporation — 67549	11.500%	07/15/2013	5,849,841	5,846,185	6,206
GNMA—Kissell Company — 67715	11.500%	08/15/2013	7,600,450	6,973,412	8,063
GNMA—First Federal Savings Bank — 67771	11.500%	05/15/2013	3,459,544	3,457,382	3,670
GNMA—Lomas & Nettleton — 69751	11.500%	08/15/2013	2,813,108	2,739,264	2,984
GNMA—South Carolina National Bank — 70948	12.000%	08/15/2013	956,854	945,491	1,024
GNMA—Franklin Mortgage Corporation — 71115	11.500%	09/15/2013	2,876,525	2,874,727	3,051
GNMA—Citicorp Homeowners Service — 100357	11.500%	08/15/2013	3,783,956	3,781,591	4,014
GNMA—Lincoln Service Company — 100673	12.500%	11/15/2013	871,255	867,443	937
GNMA—Wells Fargo — 100864	12.500%	10/15/2013	895,459	894,620	963
GNMA—Gibraltar Mortgage — 102117	12.500%	10/15/2013	953,942	949,768	1,026
GNMA—Moore Mortgage — 102538	12.500%	10/15/2013	917,438	916,578	987
GNMA—Benchmark Mortgage — 103029	12.500%	12/15/2013	820,965	816,861	883
GNMA—Merrill Lynch Mortgage — 103871	9.000%	10/15/2009	12,330,359	9,848,874	11,852
GNMA—New York Guardian — 104308	12.500%	10/15/2013	971,521	970,610	1,045
GNMA—The Georgia Company — 104438	12.500%	12/15/2013	925,468	920,841	996
GNMA—Chase Home Mortgage — 104477	12.500%	12/15/2013	1,889,890	1,880,441	2,033
GNMA—Manufacturers Hanover Mort. — 104735	12.500%	01/15/2014	1,848,616	1,839,373	1,989
GNMA—Norwest Mortgage Company — 104907	12.500%	11/15/2013	5,516,922	5,511,750	5,937
GNMA—American Savings & Loan — 105189	12.500%	10/15/2013	945,113	944,227	1,017
GNMA—Kissell Company — 105211	12.500%	12/15/2013	915,604	911,026	985
GNMA—Sovran Mortgage — 105398	12.500%	12/15/2013	919,066	914,471	989
GNMA—Colonial Mortgage — 105877	12.500%	11/15/2013	918,108	913,518	988
GNMA—Central Pacific Mortgage — 106475	12.500%	05/15/2014	994,454	989,482	1,070
GNMA—Lomas & Nettleton — 106621	12.000%	01/15/2014	3,842,879	3,978,580	4,115
GNMA—Hinton Mortgage — 106702	12.500%	12/15/2013	2,836,204	2,833,545	3,052
GNMA—Central Savings & Loan — 106773	12.500%	05/15/2014	1,019,599	1,016,413	1,097
GNMA—Central Savings & Loan — 106775	12.500%	06/15/2014	984,325	981,249	1,059
GNMA—Cameron Brown — 107321	12.500%	12/15/2014	976,794	973,742	1,051
GNMA—Fleet Mortgage — 107611	12.500%	11/15/2013	890,489	889,654	958
GNMA—Superior Federal Bank — 108115	11.000%	09/15/2013	1,942,820	1,939,178	2,031
GNMA—Standard Federal — 108603	12.500%	06/15/2014	1,976,893	1,968,244	2,127
GNMA—Westamerica Mortgage — 108862	13.000%	07/15/2014	962,948	981,304	1,041
GNMA—Draper & Kramer — 109448	12.500%	12/15/2013	5,549,148	5,543,946	5,972
GNMA—Bankers Mortgage — 109632	12.500%	05/15/2014	1,912,855	1,906,878	2,058
GNMA—Chemical Mortgage Company — 109676	12.000%	10/15/2013	5,379,152	5,537,164	5,789
GNMA—Commonwealth Mortgage — 109758	12.500%	02/15/2014	901,797	900,952	970
GNMA—Beverly Hills Savings & Loan — 109773	12.500%	05/15/2014	994,709	991,601	1,070
GNMA—Sibley Corporation — 110419	12.500%	05/15/2014	965,477	964,572	1,039
GNMA—Colonial Mortgage — 110910	13.000%	12/15/2014	1,981,264	2,019,032	2,142
GNMA—Rouse Real Estate — 111179	12.500%	08/15/2014	994,786	993,853	1,070
GNMA—Homestead Savings — 111536	12.000%	04/15/2014	993,566	1,009,245	1,064
GNMA—S. E. Mortgage — 111571	12.500%	04/15/2014	947,144	943,000	1,019
GNMA—Kissell Company — 111874	12.500%	05/15/2014	985,739	981,426	1,060
GNMA—Delson Financial — 112212	12.000%	04/15/2015	1,995,470	1,971,774	2,137

NOTE: Cents omitted. Columns will not



PORTFOLIO

MARKET VALUE

MARKET VALUE	BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
5,040,170	GNMA—First Mortgage Corporation — 112515	12.500%	05/15/2014	\$ 2,845,279	\$ 2,959,090	\$ 3,062,232
6,981,355	GNMA—Embeague Corporation — 112581	12.500%	04/15/2014	994,350	989,999	1,070,169
5,121,941	GNMA—Central Savings & Loan — 112742	12.500%	06/15/2014	1,017,995	1,014,814	1,095,618
5,472	GNMA—Central Savings & Loan — 112748	12.500%	07/15/2014	1,020,627	1,017,437	1,098,450
1,069	GNMA—Waterfield Mortgage — 112757	13.000%	07/15/2014	982,770	1,001,504	1,062,620
8,638,012	GNMA—Bloomington Federal — 113594	12.500%	11/15/2013	866,802	863,010	932,896
8,578,747	GNMA—Lomas & Nettleton — 113728	12.500%	03/15/2014	964,735	963,831	1,038,296
8,571,926	GNMA—Benchmark Mortgage — 114193	13.000%	12/15/2014	968,357	986,816	1,047,036
4,371,120	GNMA—Trust Company — 114285	12.500%	12/15/2014	995,516	991,161	1,071,425
8,920,594	GNMA—Security Pacific Mortgage — 114640	13.000%	11/15/2014	974,047	992,615	1,053,188
8,603,783	GNMA—Guardian Mortgage — 114724	12.500%	07/15/2014	997,186	992,823	1,073,222
2,611,011	GNMA—Lomas & Nettleton — 114742	12.500%	07/15/2014	3,917,613	4,074,318	4,216,331
12,603,759	GNMA—Continental Bank — 115849	12.500%	10/15/2014	996,383	992,024	1,072,357
6,206,330	GNMA—Goldome Realty — 116576	13.000%	06/15/2014	865,038	881,528	935,322
8,063,621	GNMA—Mortgage Inv. Co. of El Paso — 116820	12.500%	07/15/2014	1,872,197	1,864,006	2,014,952
3,670,369	GNMA—Citicorp Homeowners — 117474	13.000%	12/15/2014	974,781	993,363	1,053,982
2,984,539	GNMA—Lomas & Nettleton — 117691	13.000%	07/15/2014	2,724,722	2,808,167	2,946,106
1,024,733	GNMA—Buckeye Savings & Loan — 117825	13.000%	11/15/2014	1,000,085	1,019,149	1,081,342
3,051,821	GNMA—Colonial Mortgage — 118228	12.500%	11/15/2014	956,407	955,511	1,029,334
4,014,550	GNMA—Deposit Trust — 118563	12.500%	06/15/2014	1,948,495	1,939,972	2,097,068
937,688	GNMA—Maryland Mortgage — 118602	13.000%	11/15/2014	996,494	1,015,490	1,077,459
963,738	GNMA—Countrywide Funding — 118767	12.500%	12/15/2014	1,014,344	1,009,906	1,091,687
1,026,680	GNMA—Norwest Mortgage — 119085	12.500%	08/15/2014	2,014,602	2,095,187	2,168,216
987,393	GNMA—Waterfield Mortgage — 119182	12.500%	12/15/2014	995,562	994,628	1,071,473
883,564	GNMA—Mason McDuffie — 119509	13.000%	10/15/2014	930,001	947,729	1,056,620
11,852,557	GNMA—Atlantic Home Mortgage — 120173	12.500%	09/15/2014	981,761	978,693	2,084,889
1,045,599	GNMA—Kissell Company — 120303	12.000%	02/15/2015	1,946,784	2,015,530	1,071,459
996,035	GNMA—Kissell Company — 120329	12.500%	11/15/2014	995,549	992,438	1,044,177
2,033,994	GNMA—Allstate Mortgage — 120362	12.500%	12/15/2014	970,199	967,168	3,109,175
1,989,573	GNMA—W M C Mortgage — 120518	12.500%	12/15/2014	2,888,897	2,878,667	2,132,239
5,937,588	GNMA—Manufacturers Hanover Mort. — 120698	12.000%	03/15/2015	1,990,997	1,967,354	2,035,684
1,017,178	GNMA—Manufacturers Hanover Mort. — 120704	13.000%	12/15/2014	1,882,714	1,918,603	1,097,896
985,419	GNMA—B. F. Saul Mortgage Company — 120843	12.500%	09/15/2014	1,020,112	1,016,924	1,008,834
989,145	GNMA—Citicorp — 120879	13.000%	12/15/2014	933,025	950,811	1,062,466
988,114	GNMA—Crossland Mortgage — 121098	13.000%	12/15/2014	982,627	1,001,358	1,046,787
1,070,281	GNMA—New York Guardian — 121340	12.500%	12/15/2014	972,625	971,713	1,028,473
4,115,492	GNMA—New York Guardian — 121346	12.500%	12/15/2014	955,608	952,622	1,078,013
3,052,465	GNMA—New York Guardian — 121347	13.000%	11/15/2014	997,006	1,016,011	2,120,940
1,097,344	GNMA—Alliance Mortgage Company — 121505	12.500%	02/15/2015	1,970,676	1,999,004	2,052,354
1,059,380	GNMA—Alliance Mortgage Company — 121524	12.500%	02/15/2015	1,906,950	1,934,362	2,655,272
1,051,275	GNMA—Richard Gill Company — 121732	12.000%	03/15/2015	2,479,385	2,566,938	992,463
958,388	GNMA—Alliance Mortgage — 122040	12.500%	11/15/2014	922,149	921,284	293,621
2,031,471	GNMA—Tower Federal Savings & Loan — 122568	12.000%	03/15/2015	274,171	270,916	1,081,684
2,127,632	GNMA—Kissell Company — 122690	12.500%	12/15/2014	1,005,049	1,000,652	2,140,683
1,041,187	GNMA—Weyerhaeuser Mortgage — 122725	12.000%	05/15/2015	1,998,882	2,021,369	1,072,633
5,972,271	GNMA—ARCS Mortgage — 122763	12.500%	12/15/2014	996,639	992,278	4,270,785
2,058,710	GNMA—First Bankers Mortgage — 122853	12.000%	05/15/2015	3,987,885	4,020,286	4,734,703
5,789,312	GNMA—FBS Mortgage Corporation — 123019	12.000%	02/15/2015	4,421,073	4,537,126	3,164,351
970,559	GNMA—Commonwealth Mortgage — 123175	12.500%	12/15/2014	2,940,164	2,927,300	1,088,107
,070,556	GNMA—Standard Federal — 123406	13.000%	11/15/2014	1,006,342	1,025,525	1,072,389
,039,095	GNMA—Liberty Mortgage — 123461	12.500%	12/15/2014	996,412	992,053	1,071,867
,142,242	GNMA—Chemical Mortgage — 123508	13.000%	11/15/2014	991,322	1,010,220	1,070,374
,070,638	GNMA—Bloomington Federal — 123919	12.500%	11/15/2014	994,541	990,190	2,138,420
,064,049	GNMA—Mason McDuffie Mortgage — 124699	12.000%	06/15/2015	1,996,769	2,067,280	3,205,252
,019,364	GNMA—Mortgage Investment Co. — 124765	12.000%	04/15/2015	2,992,933	3,008,833	16,737,240
,060,901	GNMA—Manufacturers Hanover — 125270	11.000%	09/15/2015	16,006,847	15,566,659	3,142,498
137,029	GNMA—Associates National Mortgage — 125431	12.000%	02/15/2015	2,934,336	2,899,491	

NOTE: Cents omitted. Columns will not add.



BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
GNMA—Cameron Brown Company — 125939	12.000%	04/15/2015	\$ 3,967,959	\$ 4,033,058	\$ 4,210,000
GNMA—Kissell Company — 126659	12.000%	05/15/2015	3,935,476	4,051,081	4,210,000
GNMA—Kissell Company — 126662	12.000%	06/15/2015	4,995,558	5,170,402	5,340,000
GNMA—Union Federal Savings & Loan — 127993	12.000%	04/15/2015	3,926,178	4,064,821	4,200,000
GNMA—Rainier Financial Service — 128724	12.500%	04/15/2015	2,437,310	2,472,346	2,620,000
GNMA—City Federal Savings & Loan — 129289	12.000%	04/15/2015	1,974,467	1,951,020	2,110,000
GNMA—Colonial Sav. & Loan Assoc. — 129429	11.000%	08/15/2015	2,995,574	2,884,176	3,130,000
GNMA—Duvall Fed. Savings & Loan — 131666	12.000%	05/15/2015	8,891,925	9,014,189	9,520,000
GNMA—Bankers Life Company — 132061	12.000%	07/15/2015	5,009,436	5,184,766	5,360,000
GNMA—Associates Nat. Mort. Co. — 132255	11.000%	08/15/2015	2,972,953	2,862,396	3,100,000
GNMA—Alliance Mortgage — 132583	11.000%	06/20/2015	11,960,547	11,949,334	12,500,000
GNMA—City Federal Savings & Loan — 134563	12.000%	07/15/2015	3,195,448	3,307,289	3,420,000
GNMA—Navy Federal — 135548	11.000%	08/15/2015	4,999,794	4,951,358	5,220,000
GNMA—GMAC Mortgage Corporation — 135607	11.000%	10/15/2015	4,998,703	4,989,330	5,220,000
GNMA—Norwest Mortgage — 136280	11.000%	09/15/2015	14,914,255	14,504,113	15,590,000
GNMA—Cerberion Financial — 136723	11.000%	11/15/2015	5,011,777	5,047,800	5,240,000
GNMA—Colonial Mortgage — 137180	12.000%	06/15/2015	5,542	5,702	5,700,000
GNMA—Cameron Brown Company — 138011	11.000%	09/15/2015	3,575,815	3,743,431	3,730,000
GNMA—Alliance Mortgage — 139705	11.000%	11/15/2015	10,011,091	10,083,046	10,460,000
GNMA—Fleet Funding — 140208	11.000%	11/15/2015	9,999,040	9,927,172	10,450,000
GNMA—Manufacturers Hanover Mort. — 140366	11.000%	11/15/2015	13,027,957	13,003,530	13,620,000
GNMA—Citicorp — 142556	11.000%	10/15/2015	34,946,761	34,422,560	36,540,000
GNMA—Weyerhaeuser Mortgage — 143844	11.000%	11/15/2015	5,013,244	4,996,011	5,240,000
Citicorp FHA Project — 87	7.430%	01/01/2002	19,643,956	12,621,242	16,440,000
Citicorp FHA Project — 136	7.430%	11/01/2012	23,723,203	17,075,785	24,660,000
Citicorp FHA Project — 148	7.430%	05/01/2022	38,728,425	26,335,329	32,930,000
Citicorp FHA Project — 99	7.430%	10/01/2023	2,830,184	2,062,496	2,400,000
Citicorp FHA Project — 1985-1	6.875%	03/01/2016	20,472,459	14,944,895	16,740,000
Columbia Finance Corporation of Delaware	17.500%	01/15/2010	13,049,914	13,049,914	13,040,000
FNMA FHA Project — 798	7.250%	05/25/2007	33,600,008	23,570,904	30,070,000
FNMA FHA Project — 797	7.250%	09/25/2007	13,861,746	10,309,674	12,400,000
GMAC 1985-A Grantor Trust	8.450%	12/15/1990	170,550,000	169,697,250	169,910,000
Merrill Lynch FHA Project — 109	7.430%	06/01/2024	5,625,221	3,724,967	4,780,000
Merrill Lynch FHA Project — 91	7.430%	09/20/2023	16,022,912	11,384,270	13,620,000
Merrill Lynch FHA Project — 42	7.430%	09/01/2022	5,818,600	4,265,267	4,940,000
Merrill Lynch FHA Project — 151	7.430%	09/01/2024	5,674	3,560	4,000,000
Merrill Lynch FHA Project — 153-S	7.430%	01/01/2024	9,592,199	6,364,040	8,150,000
Merrill Lynch FHA Project — 54	7.430%	05/01/2023	39,377,447	29,651,640	33,480,000
Merrill Lynch FHA Project — 29	7.430%	02/01/2021	9,052,026	6,890,855	7,690,000
Northeast Mortgage FHA Project — 1985-1	8.540%	08/01/2016	39,006,247	31,302,513	33,160,000
Norwest Mortgage FHA Project — 67	7.430%	06/01/2023	49,197,007	36,258,191	41,830,000
Norwest Mortgage FHA Project — 12	7.430%	12/01/2021	13,051	9,070	11,000,000
Norwest Mortgage FHA Project — 56	7.430%	03/01/1998	89,678,674	66,657,074	98,280,000
Norwest Mortgage FHA Project — 62	7.430%	03/01/2021	5,286,153	3,809,334	4,490,000
Pulte Acceptance Corporation — Series N	13.750%	02/15/2009	17,277,290	17,277,290	18,830,000
Pulte Acceptance Corporation — Series O	14.500%	04/15/2009	19,627,283	19,627,283	21,490,000
Pulte Acceptance Corporation — Series Q	14.500%	09/15/2009	8,976,279	8,976,279	9,820,000
Pulte Acceptance Corporation — Series R	14.850%	08/15/2009	13,857,319	13,857,319	15,190,000
Pulte Acceptance Corporation — Series S	14.850%	07/15/2009	19,973,426	19,973,426	21,890,000
Pulte Acceptance Corporation — Series U	17.375%	05/15/2010	4,937,464	4,937,464	5,670,000
Pulte Acceptance Corporation — Series V	15.500%	09/15/2012	6,285,890	6,285,890	7,110,000
Reilly Mortgage FHA Project — 95	7.430%	11/01/2024	20,456,646	12,932,592	17,390,000
Reilly Mortgage FHA Project — 64	7.430%	12/01/2011	14,889,102	10,872,265	12,660,000
Reilly Mortgage FHA Project — 4	7.430%	07/01/2022	13,554,839	10,132,761	11,520,000
Reilly Mortgage FHA Project — 99	7.430%	02/01/2024	11,934,320	8,551,686	10,140,000
Reilly Mortgage FHA Project — 61	7.430%	05/01/2022	14,869,161	11,230,863	12,640,000
Sears Mortgage Securities Corp. — Series 1985-A	11.875%	04/25/2015	6,080,880	6,004,869	6,440,000

NOTE: Cents omitted. Columns will not

MARKET VALUE

4,249,446
4,214,659
5,349,943
4,204,701
2,623,155
2,114,536
3,132,262
9,522,718
5,364,806
3,108,609
12,506,307
3,422,133
5,227,935
5,226,794
15,594,793
5,240,465
5,935
3,738,979
10,467,897
10,455,297
13,622,423
36,541,382
5,241,998
16,443,170
24,668,335
32,931,554
2,406,562
16,742,786
13,049,914
30,072,007
12,406,263
169,910,437
4,783,238
13,624,602
4,947,672
4,825
8,156,439
33,483,431
7,697,119
33,167,792
41,833,199
11,098
98,282,446
4,494,922
18,832,246
21,491,875
9,829,026
15,191,086
21,895,868
5,678,084
7,118,770
17,394,695
12,660,501
11,525,951
10,147,991
2,643,544
6,445,733

BOND NAME	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
Sears Mortgage Securities Corp. — Series 1985-D	11.250%	10/25/2015	\$ 13,462,034	\$ 13,411,551	\$ 14,337,066
Sears Mortgage Securities Corp. — Series 1985-F	10.500%	11/25/2015	14,700,000	14,144,810	14,745,423
Society Acceptance Corporation	14.500%	03/15/1996	9,704,154	9,704,154	11,544,158
U. S. G. I. FHA Project — 3002	7.430%	10/01/2024	1,320,472	973,994	1,122,824
U. S. G. I. FHA Project — 3001	7.430%	03/01/2025	14,996,093	11,134,599	12,751,478
U. S. G. I. FHA Project — 7	7.430%	07/01/2023	14,575,689	9,487,862	12,393,999
U. S. G. I. FHA Project — 22	7.430%	09/01/2024	4,965,774	3,575,357	4,222,497
U. S. Capital Finance Corporation — Series A	16.750%	08/15/2010	3,605,308	3,605,308	3,605,308
U. S. Capital Finance Corporation — Series B	15.750%	01/15/2011	10,468,303	10,468,303	10,468,303
Weyerhaeuser FHA Project — 1984-A	7.430%	06/01/1997	21,476,212	15,315,144	18,841,940
Weyerhaeuser FHA Project — 1984-E	7.430%	01/01/2013	24,554,118	17,456,491	28,640,659
Total			\$2,601,523,172	\$2,164,258,161	\$2,518,960,950

OHIO INVESTMENTS (Venture Capital)

STOCKS

	SHARES	BOOK VALUE	MARKET VALUE
Cardinal Development Fund	4,973,173	\$ 4,973,173	\$ 4,973,173
Micro Industries Corporation	400,000	3,000,000	4,000,000
Mr. Moneysworth	80	3,750,000	3,750,000
Muller Food Products	875	1,000,000	1,312,500
Pickett Hotel Company	80,000	5,000,000	5,000,000
Primus Capital Fund	2,650,000	2,650,000	2,650,000
Ritzzy's, G. D., Incorporated	1,184,155	1,579,926	1,480,193
Wilkins Company	40,000	8,000,000	8,000,000
Total	9,328,283	\$29,953,099	\$31,165,867

COMMON STOCK

NAME	SHARES	COST	MARKET VALUE
Abbott Laboratories	1,144,600	\$ 33,208,733	\$ 78,262,025
Amdahl Corporation	951,900	16,483,384	13,921,537
American Greetings	634,000	15,430,809	20,684,250
American Home Products Corporation	1,174,800	50,947,809	73,865,550
American International Group	159,800	16,966,403	16,938,800
Amoco Corporation	400,000	8,760,340	24,750,000
Anheuser-Busch Companies, Incorporated	750,000	23,811,344	31,687,500
Armstrong World Industries	623,100	17,910,280	27,805,837
Associated Dry Goods Corporation	500,000	15,782,048	18,937,500
Atlantic Richfield Company	585,500	13,369,634	37,325,625
Automatic Data Processing Incorporated	206,300	5,857,100	12,171,700
Banc One Corporation	371,250	5,362,500	9,559,687
Bandag, Incorporated	131,800	3,610,041	7,858,575
Bankers Trust New York Corporation	137,000	5,029,991	10,069,500
Barnett Banks of Florida, Incorporated	217,500	4,980,693	9,733,125
Bausch & Lomb	700,000	23,539,210	22,487,500

NOTE: Cents omitted. Columns will not add.



	SHARES	COST	MARKET VALUE
Borden, Incorporated	400,000	\$ 11,003,802	\$ 20,650,000
Bristol-Myers Company	1,486,400	59,500,482	98,400,000
Burlington Northern, Incorporated	140,000	2,499,236	9,550,000
Capital Cities Communications	100,000	16,065,000	22,450,000
Capital Holding Corporation	700,000	12,398,149	20,560,000
Chase Manhattan Corporation	25,000	1,489,075	1,810,000
Chevron Corporation	400,000	13,866,190	15,250,000
Citicorp	100,000	4,666,109	4,930,000
Citizens & Southern of Georgia	390,000	5,863,820	8,040,000
Clorox Company	380,900	12,345,915	18,140,000
Coca-Cola Company	325,000	19,993,820	27,460,000
Collins Foods International	461,700	3,143,364	6,340,000
Commonwealth Edison	349,738	9,469,372	10,270,000
Community Psychiatric Centers	860,000	22,437,339	24,290,000
Cooper Industries	400,000	15,011,120	16,800,000
Corroon & Black Corporation	200,000	9,645,584	12,050,000
Dayton-Hudson Corporation	400,000	13,174,517	18,350,000
Donnelley, R. R. and Sons Company	409,400	11,957,929	26,040,000
Dow Chemical Company	133,400	4,177,727	5,460,000
Dow Jones & Company	360,000	15,306,123	17,010,000
Dun & Bradstreet Corporation	645,600	11,827,372	54,060,000
E-Systems Incorporated	350,000	10,794,321	10,360,000
Emerson Electric Company	429,200	19,683,510	34,870,000
Exxon Corporation	1,287,520	28,439,479	70,970,000
Family Dollar Stores Incorporated	630,900	12,849,947	12,850,000
First Union Corporation	370,000	14,830,623	15,910,000
First Wachovia Corporation	419,000	13,883,029	14,240,000
General Electric Company	770,000	27,647,362	56,010,000
Heinz, H. J. Company	890,000	18,701,574	28,810,000
Humana Incorporated	959,800	26,364,766	29,990,000
International Business Machine	478,300	57,180,493	74,370,000
Lilly, Eli & Company	82,000	5,053,057	9,140,000
Lincoln National Corporation	400,000	12,936,696	20,050,000
Marriott Corporation	130,000	9,560,821	14,170,000
Masco Corporation	600,000	6,457,387	24,150,000
Masco Industries	90,000	551,250	1,930,000
McDonald's Corporation	600,900	17,475,312	48,590,000
McGraw-Hill Incorporated	860,000	9,849,222	41,280,000
Melville Corporation	461,400	9,105,967	23,300,000
Merck & Company, Incorporated	624,000	64,316,172	85,480,000
Mobil Corporation	600,000	18,334,383	18,150,000
Morgan, J. P. & Company Incorporated	200,000	9,380,593	12,820,000
Mr. Gasket Company	200,000	2,205,812	1,700,000
National Medical Enterprises	1,115,000	32,945,208	24,940,000
NCNB Corporation	375,000	16,098,952	16,960,000
Norfolk Southern Corporation	160,000	9,994,701	13,000,000
Northern States Power Company	475,000	19,130,823	25,170,000
Pacificorp	300,000	8,571,000	9,370,000
Pepsico, Incorporated	700,000	27,039,030	50,920,000
Pfizer, Incorporated	1,252,200	33,796,649	63,390,000
Pillsbury Company	573,800	20,129,517	35,210,000
Pitney Bowes, Incorporated	400,000	11,480,796	19,400,000
Quaker Oats Company	550,000	20,611,405	31,480,000
Ralston Purina Company	835,000	18,466,918	39,240,000
Rubbermaid, Incorporated	300,000	2,897,600	10,350,000



PORTFOLIO

MARKET VALUE

20,650,000
98,474,000
9,555,000
22,450,000
20,562,500
1,815,625
15,250,000
4,937,500
8,043,750
18,140,362
27,462,500
6,348,375
10,273,553
24,295,000
16,800,000
12,050,000
18,350,000
26,048,075
5,469,400
17,010,000
54,069,000
10,368,750
34,872,500
70,974,540
12,854,587
15,910,000
14,246,000
56,017,500
28,813,750
29,993,750
74,375,650
9,143,000
20,050,000
14,170,000
24,150,000
1,935,000
48,597,787
41,280,000
23,300,700
35,488,000
18,150,000
12,825,000
1,700,000
24,948,125
6,968,750
3,000,000
5,175,000
9,375,000
0,925,000
3,392,625
5,216,975
9,400,000
1,487,500
9,245,000
0,350,000

Ryder System, Incorporated
Service Corporation International
Sherwin-Williams Company
Super Valu Stores
Torchmark Corporation
Tucson Electric Power Company
Walgreen Company
Warner-Lambert Company
Wells Fargo & Company
Wendy's International, Incorporated
Total

	SHARES	COST	MARKET VALUE
	327,510	\$ 4,374,116	\$ 10,930,646
	300,000	7,688,983	9,375,000
	99,400	3,124,737	4,398,450
	917,800	12,575,856	20,535,775
	1,480,000	12,446,674	32,560,000
	160,000	4,298,348	6,840,000
	758,200	11,604,170	21,324,375
	1,165,000	42,165,423	55,337,500
	420,500	13,936,204	26,649,187
	1,200,000	7,401,719	20,100,000
	42,652,118	\$1,273,272,997	\$2,050,864,778

REAL ESTATE—COMMINGLED FUNDS

Aetna Separate Account 87
Cigna Separate Account R
NCNB/Crossroads Park
Security Capital Real Estate Corporation
Total

PAR VALUE	BOOK VALUE	MARKET VALUE
\$ 33,538,809	\$ 33,538,809	\$ 41,000,000
70,032,133	70,032,133	84,291,000
22,000,000	22,000,000	21,974,000
24,516,147	24,516,147	24,738,000
\$150,087,091	\$150,087,091	\$172,003,000



PLAN STATEMENT

Purpose

The Public Employees Retirement System of (PERS) was created by the Ohio General Assembly. Its purpose is to provide a retirement, disability retirement, and survivor benefit program for its members, the employees of Ohio.

Administration

The general administration and management of the System are vested in the nine-member Public Employees Retirement Board. Six members are elected by the group representing: state employees, county employees, municipal employees, non-teaching employees of state colleges and universities, retirants, and miscellaneous employees which include those who work for townships and libraries. The State Auditor, the Attorney General and the Director of the Ohio Department of Administrative Services are statutory members. Members of the Board receive no compensation but are reimbursed for expenses.

The Board appoints the executive director, an acting executive director, and other employees as necessary for the transaction of the business. By law, the State Treasurer is the custodian of the funds of the System.

All public employees in Ohio are required to become contributing members of PERS when they begin public employment (except those covered by one of the other state or local government retirement systems in Ohio). Excluded from contributing are new employees retired from another state or municipal system in Ohio, active contributors to the State Police and Firemen's Disability and Pension Fund or State Highway Patrol Retirement System, and law enforcement officers who have earnings other than compensation as law enforcement officers.

The law provides for optional membership as follows:

- Elected public officials;
- Temporary or emergency employees whose employment will not exceed three calendar months;
- Students whose employment will not exceed 1,000 hours in any calendar year;
- Any new employee, not a member at the time of employment, whose employment will not exceed 30 hours per week.

Employer Contributions

Employer units contribute to PERS at rates set by the Retirement Board upon recommendation by the Actuarial Board. Currently, the employer rates are:

- State employer units — 13.71% of gross payrolls;
- City, county and miscellaneous employer units — 13.71% of gross payrolls;
- Law enforcement employer units — 18.10% of gross payrolls.



Member Contributions

The percentage of gross salary set by the Retirement Board upon recommendation by the Actuary is 8.5%. The rate law enforcement officers pay is 9.5%.

Individual accounts for each member of the Retirement System are maintained by PERS and funds contributed are fully refundable at service termination or death. Each year members are sent a statement of the balance in their individual account and a report disclosing the financial status of the System and describing the major developments at PERS during the year.

Regular Retirement

Members are eligible to retire at age 60 or thereafter if they have at least five years or 60 contributing months of membership in PERS. They also may retire at age 55 if they have 25 years of service credit, or at any age with 30 or more years of service credit.

Service credit allowed under Chapter 145 of the Revised Code includes:

1. Service rendered to the State or a political subdivision on which contributions have been paid;
2. Certain military service which interrupted contributing public service;
3. Prior service before 1935;
4. Any out-of-service period of three years or less during which the member was receiving an award for Workers' Compensation;
5. Previously unreported service in Ohio;
6. Service purchased by the member for:
 - a. Military service that is not being used for other retirement programs, except Social Security;
 - b. Prisoner-of-war service;
 - c. An authorized leave of absence not to exceed one year;
 - d. Comparable public service outside Ohio or with the federal government that is not being used for other retirement programs, except Social Security;
 - e. Service restored by redeposit which had been canceled by an earlier refund;
 - f. Service in an Ohio police or fire department or the State Highway Patrol that is not being used for other retirement purposes;
 - g. Up to 30% additional credit on completed terms of full-time contributing elective service.

Benefit Calculations

Benefits are figured on the basis of age, final average

salary and service credit. Final average salary is the average of the three highest years of earnings.

A full benefit at age 65 or with 30 or more years of service credit is based on 2.1% of final average salary multiplied by years of service. If the final average salary is \$4,095 or less, a minimum formula of \$86 times number of years of service is used. The maximum annual benefit cannot exceed 90% of final average salary.

Persons with less than 30 years of service credit who retire before age 65 receive a percentage reduction in the benefit amount as specified in the law. Benefits are paid monthly.

Optional Payment Plans

Members have the option of taking their monthly pensions on a straight life plan of payment, which pays the highest amount, or taking any one of several optional payment plans at reduced amounts. These options assure monthly benefits to a designated beneficiary if the member predeceases the designated beneficiary.

Law Enforcement Officers' Benefits

A special retirement option is provided for full-time sheriffs, deputy sheriffs, township constables or police officers, and county narcotics agents. The option, which is available at age 52 or at age 62 with a minimum of 15 years of law enforcement credit, requires certification of satisfactory completion of the Peace Officers Training School and 25 years or more of total service credit (including military service) as a law enforcement officer.

The annual benefit is calculated by multiplying 2.5% of final average salary by the first 20 years of service, 2% of final average salary by the next 5 years, and 1.5% of final average salary by each additional year of service. The total benefit amount cannot exceed 72% of final average salary.

A member with at least 15 years of total service as a law enforcement officer who is discharged for a reason other than retirement, death, dishonesty, cowardice, intemperate habits, or conviction of a felony, may apply for retirement benefits calculated on the total years of service credit multiplied by 1½% of the final average salary. The benefit shall start on or after the attainment of age 52 by the applicant.

A peace officer with 25 years of service credit may elect a reduced pension as early as age 48 or may choose to leave the contributions on deposit until age 52 in order to receive full benefits. By choosing to take retirement benefits early, the peace officer agrees to accept 75% of the full benefit at age 48, 80% at age 49, 86% at age 50, or 93% at age 51.

Once a member elects to receive a reduced benefit under these provisions, this election may not be changed.

At time of retirement, law enforcement officers may elect to take benefits under the regular provisions of the law in lieu of those special benefits provided for them.

Disability Retirement

Before reaching age 60, a member who becomes permanently disabled for the performance of duty may apply for and receive monthly disability benefits if he has completed at least five years (60 contributing months) of service credit.

The annual benefit is determined by multiplying 2.1% of final average salary by the length of public service plus additional service equal to the difference between the applicant's age and age 60. The benefit amount cannot exceed 75% nor be less than 30% of final average salary.

Survivor Benefits

Certain dependents may qualify for monthly survivor benefits if the deceased member has at least 18 months of Ohio service credit with three months of the credit within the two and one-half years immediately before death, or if the member was receiving a disability benefit at the time of death. The dependents qualify as follows:

1. A surviving spouse age 62 or older (age 50 if the deceased member had 10 or more years of service credit).
2. A spouse with dependent child(ren) under age 18 (or 22 if students).
3. Dependent parent(s) age 65 or older.
4. An incompetent spouse or incompetent child(ren), orphan(s) or dependent parent(s) at any age.

If a surviving spouse remarries before reaching age 62, rights to benefits cease. The benefit will be resumed if the remarriage ends in divorce, annulment, dissolution or death within two years after the survivor benefit ceased.

If the member dies after reaching retirement age but before applying for benefits, the surviving spouse or other sole dependent beneficiary at any age, may elect to take a monthly joint survivorship annuity for life, known as Option 1.

Refunds

Upon termination of employment and application, a member may withdraw contributions made to the Retirement System. The law requires a three-month waiting period after service termination before the refund may be paid. The acceptance of a refund cancels the individual's rights and benefits in PERS.

If a refund is taken and the individual later returns to covered public employment, the amount refunded, plus interest, can be redeposited after a period of 18 months.

Money contributed to PERS by employer units is non-fundable.

Beneficiaries

The beneficiary of a member of PERS is determined one of two ways:

1. By automatic succession as determined by law. The order of automatic succession is:
 - a. Spouse.
 - b. If no spouse, the youngest dependent child under age 18 (or, if student, under 22). If monthly benefits are taken, payments will be determined on the basis of all minor children. Incompetent dependent children are included, regardless of age.
 - c. If no minor child(ren), then all living children share equally in a refund of the account.
 - d. If none of the foregoing, the older parent qualifies for a refund. If the parent(s) are dependent, incompetent, or incompetent, monthly benefits will be paid if they so elect.
 - e. If none of the foregoing, a refund is made to the estate of the deceased.
2. By specific designation in writing by the member on the form provided by PERS. At time of retirement, the member must designate a beneficiary on the retirement application.

Additional Benefits After Retirement

1. Health Care Coverage — Persons receiving monthly benefits from PERS are covered by hospital and medical insurance at no premium cost to the individual. Beginning July 1, 1986 a new benefit recipient must have 10 years of Ohio service, exclusive of purchased military and/or out-of-state service, in order to qualify for health care benefit. Spouses and dependent children may be covered if the benefit recipient authorizes appropriate premium deduction.
2. Cost-of-Living Adjustments — Once a member has received benefits for 12 months, a 3% cost-of-living adjustment is added to each monthly benefit amount in each year that the Consumer Price Index shows an increase of 3% or more.
3. Medicare Part B Premium Reimbursement — Retirees who submit proof of coverage for Medicare Part B are reimbursed by PERS for their basic Medicare Part B premiums. This amount is added to their monthly benefits.
4. Death Benefits — At the death of a former member receiving regular retirement benefits or disability benefits, a lump sum payment of \$500 is made to the beneficiary, or if none, to the person responsible for burial expenses or to the decedent's estate.

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