

***Comprehensive
Annual Financial
Report June 30, 1985***

SCHOOL EMPLOYEES RETIREMENT SYSTEM

**SCHOOL EMPLOYEES RETIREMENT SYSTEM
OF OHIO**

45 NORTH FOURTH STREET
COLUMBUS, OHIO 43215

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

*For The
Fiscal Year Ended June 30, 1985*

*Prepared By SERS Staff
Thomas R. Anderson,
Executive Director*

THE SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO



MARY E. KASUNIC

*President
Wickliffe City School District
Wickliffe, Ohio
Term expires June 30, 1989*



ANTHONY J. CELEBREZZE, JR.

*Attorney General
Ex Officio Member*



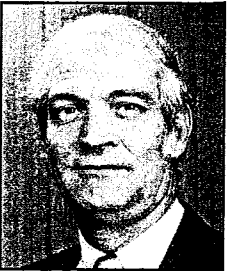
ORRIS E. FIELDS, JR.

*Vice President
Wilmington City School District
Wilmington, Ohio
Term expires June 30, 1987*



THOMAS E. FERGUSON

*Auditor of State
Ex Officio Member*



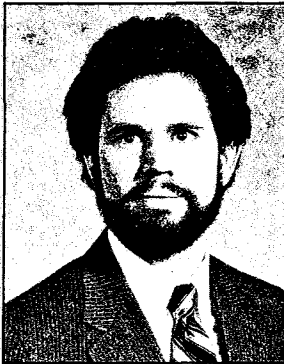
LOWELL B. DAVIS

*Employee-Member
Euclid City School District
Euclid, Ohio
Term expires June 30, 1989*



WILLIAM A. GUY

*Employee-Member
Columbus City School District
Columbus, Ohio
Term expires June 30, 1988*



THOMAS R. ANDERSON

Executive Director



AGNES F. O'KEEFE

*Retiree-Member
Westerville, Ohio
Term expires June 30, 1988*

ASSISTANT DIRECTORS

R. JACK COOPER

Investments

ROBERT E. HARTSOOK

Retirement Services

DALE D. McINTYRE

Information Services

THOMAS R. SKIPTON

Office Services

JOHN W. FRANK

Membership-Accounting

RITA M. VOLPI

Planning / Human Resources

C. DOUGLAS WILSON

Data Processing

ORGANIZATIONAL CHART

RETIREMENT BOARD
Mary E. Kasunic, President
Orris E. Fields, Jr., Vice President
Lowell B. Davis, Employee-Member
Agnes F. O'Keefe, Retiree-Member
William A. Guy, Employee-Member
Anthony J. Celebrezze, Jr., Attorney General
Thomas E. Ferguson, Auditor of State

EXECUTIVE DIRECTOR Thomas R. Anderson

Asst. Director Investments
R. Jack Cooper

Asst. Director Information Services
Dale D. McIntyre

Asst. Director Membership and Accounting
John W. Frank

Asst. Director Retirement Services
Robert E. Hartsook

Asst. Director Office Services
Thomas R. Skipton

Asst. Director Planning/Human Resources
Rita M. Volpi

Asst. Director Data Processing
C. Douglas Wilson

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SCHOOL EMPLOYEES RETIREMENT SYSTEM

45 North Fourth Street • Columbus, Ohio 43215 • Telephone (614) 221-5853

December 1, 1985

President and Members of the Retirement Board School Employees Retirement System

Dear President and Members:

The comprehensive annual financial report of the School Employees Retirement System (SERS) is submitted herewith. This report contains statements of financial condition, results of operation of the benefit programs administered by the SERS, schedules of significant data regarding the operation of the Retirement System, and the opinion of our certified public accountant, Peat, Marwick, Mitchell and Co. In addition, there is an Actuarial Section containing the opinion of our independent actuary, Gabriel, Roeder, Smith and Co., an Investment Section containing the investment report, schedules of portfolio activity, and a listing of our portfolio, and the Plan Summary.

Accounting System and Reports

This report was prepared in accordance with generally accepted accounting principles of governmental accounting and reporting as pronounced by the National Council of Governmental Accounting.

Transactions of the SERS are reported on the accrual basis of accounting. Our internal accounting controls are designed to insure the safekeeping of member contributions and to provide a reasonable degree of reliability regarding all of our financial records. During the past year we made a significant modification to our cash management system which allows us to deposit and subsequently invest cash receipts on a more timely basis. These cash receipts are treated as undistributed deposits until such time as they are allocated to member contributions, employer contributions, or investment income.

Review of Operations

In early 1985, the SERS undertook to develop a Long-Term Business Plan. In accordance with our mission of "Providing the Best Possible Benefits and Service to the Members and Retirants of the School Employees Retirement System," a document was prepared which forecasted a number of challenges to the System which must be addressed in the next few years, analyzed our ability to meet those environmental forces, and proposed several key goals and objectives to be achieved by our actions during those years.

In March, Board President Mary Kasunic was re-elected to a four-year term expiring in 1989. During her previous six-year tenure, Mrs. Kasunic served as Vice President for one year and President for two years.

Continuing efforts at effective cost management of the SERS health care program for retirees led to several changes in the plan. The maximum lifetime benefit under the Aetna program was increased from \$500,000 to \$1 million; the annual deductible went from \$100 to \$150 per person; and the retiree cost for each drug prescription was raised from \$1.00 to \$2.00.

On the federal front, there were renewed efforts to require all public employees to join Social Security. Another proposal would institute a tax on school employees and employers to pay for Medicare coverage. Although mandatory Social Security coverage did not develop as a serious proposal, Congress was still considering mandatory Medicare coverage as of the date this report was prepared.

Financial Highlights

Revenues:

Revenues from employee and employer contributions were \$73.1 million and \$119.1 million, respectively, while income from investments totaled \$153.9 million. This represents an increase over 1984 of 8.3% for employee contributions, 11.5% for employer contributions, and 6.0% for investment income. Contribution rates for both employees and employers remained unchanged from the prior year.

Expenses:

Expenses are incurred primarily for the purpose for which the Retirement System was created; namely, the payment of benefits. Included in the total expenses for fiscal 1985 were benefit payments, refunds of contributions due to member termination or death, transfers of contributions to other Ohio Systems to provide benefits for those members who hold membership in more than one system, and administrative expenses. Expenses for fiscal 1985 totaled \$162.3 million, an increase of 10.9% over 1984 expenses. Increases in the number of benefit recipients, the average benefit paid, and health care expense combined to increase benefit expense by \$15 million, accounting for nearly all of the increase in total System expenses for the fiscal year.

Financial Highlights (Continued)

Funding and Reserves:

Funds are derived from the excess of revenues over expenses, and are accumulated by the Retirement System in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential.

Net income for the fiscal year 1985 resulted in an increase in fund balances of \$186.9 million. This increase is \$10.7 million greater than the total increase in fund balances for the fiscal year 1984.

The actuarial valuation, for funding purposes, dated June 30, 1985 reflects an unfunded accrued liability of \$1,402 million. This liability represents the difference between the computed actuarial accrued liability for benefits to be paid members and retirants (\$3,086 million) and total of fund balances and expected value of future payments for state subsidies (\$1,684 million). The current employer contribution rate of 14% is sufficient to amortize this unfunded accrued liability over 36 years. A year ago, the funding period was 37 years.

Additional information regarding funding is provided within the Actuarial Section (pages 24 to 26 of this report).

Investments

The School Employees Retirement System invests the previously mentioned funds in order to maximize both current income yield and long-term appreciation. For the fiscal year ended June 30, 1985, investments provided 44.1% of the System's total revenues while employee and employer contributions provided 20.9% and 34.1%, respectively; and other sources accounted for the remaining 0.9%.

At June 30, 1985, our investment portfolio was structured as follows: 51.6% in debt securities; 24.4% in equity securities; 12.7% in short-term investments; and 11.3% in real estate.

Portfolio composition, rates of return, and analysis of significant economic conditions, and additional information concerning our investments are presented in the Investment Section (pages 27 to 49).

Acknowledgments

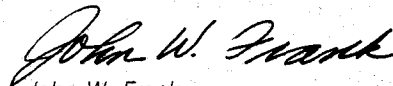
The preparation of this report is the result of the combined effort of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and as a means of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

This report is being mailed to all employer members of the System and other interested parties.

Respectfully submitted,



Thomas R. Anderson
Executive Director



John W. Frank
Assistant Director, Membership and Accounting

**Financial
Statements**



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Two Nationwide Plaza
Columbus, Ohio 43215
614-221-3181

Honorable Thomas E. Ferguson
Auditor of State
State of Ohio

The Retirement Board
School Employees Retirement System of Ohio:

We have examined the balance sheets of the School Employees Retirement System of Ohio as of June 30, 1985 and 1984 and the related statements of revenues, expenses and changes in fund balance and changes in financial position for the years then ended. 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 aforementioned financial statements present fairly the financial position of the School Employees Retirement System of Ohio at June 30, 1985 and 1984 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules I through IV is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peat, Marwick, Mitchell's Co.

November 11, 1985

BALANCE SHEET
Exhibit A

Financial Statements

Years ended June 30, 1985 and 1984

	1985	1984
Assets:		
Cash	\$ 428,419	\$ 683,162
Receivables:		
Contributions:		
Employers	60,576,671	51,586,334
Employees	6,866,775	7,094,695
State of Ohio subsidies	1,578,723	1,720,156
Accrued investment income	19,419,480	19,650,351
Investment sale proceeds	32,183,585	17,536,058
Total receivables	<u>\$ 120,625,234</u>	<u>\$ 97,587,594</u>
Investments, at cost (market \$1,697,945,355 and \$1,326,242,163, respectively)(notes 5 and 6)	<u>1,601,207,790</u>	<u>1,413,337,734</u>
Property and equipment, at cost (note7)	7,683,727	7,587,796
Less accumulated depreciation	<u>1,426,245</u>	<u>1,049,083</u>
Net property and equipment	<u>6,257,482</u>	<u>6,538,713</u>
Other assets	265,820	157,613
Total assets	<u>\$ 1,728,784,745</u>	<u>\$ 1,518,304,816</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 451,179	\$ 358,690
Investment commitments payable	39,453,298	14,739,562
Accrued health care benefits payable	8,492,834	9,879,069
Notes payable	4,244,681	4,398,245
Other liabilities	<u>409,592</u>	<u>78,773</u>
Total liabilities	<u>\$ 53,051,584</u>	<u>\$ 29,454,339</u>
Net assets available for benefits	<u>\$ 1,675,733,161</u>	<u>\$ 1,488,850,477</u>
Fund balance (note 8):		
Actuarial present value of credited projected benefits for:		
Current retirants and beneficiaries	\$ 1,511,799,217	\$ 1,371,162,368
Present inactive members	111,168,934	101,847,922
Active members:		
Member contributions	432,528,863	396,230,502
Employer financed portion	<u>857,983,917</u>	<u>766,999,671</u>
Total actuarial present value of credited projected benefits	2,913,480,931	2,636,240,463
Unfunded actuarial present value of credited projected benefits payable	<u>(1,237,747,770)</u>	<u>(1,147,389,986)</u>
Total fund balance	<u>\$ 1,675,733,161</u>	<u>\$ 1,488,850,477</u>

See accompanying notes to financial statements.

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCE**
Exhibit B

Financial Statements

Years ended June 30, 1985 and 1984

	1985	1984
Revenues:		
<i>Contributions:</i>		
Employers (note 4)	\$ 119,145,737	\$ 106,886,556
Employees	73,117,682	67,503,890
State of Ohio subsidies	1,578,723	1,720,155
Transfer from other Ohio systems	1,425,653	1,224,116
	<u>\$ 195,267,795</u>	<u>\$ 177,334,717</u>
<i>Investment income (loss):</i>		
Interest and dividends	\$ 126,576,303	\$ 117,932,778
Real estate income, net of depreciation expense of \$2,336,846 in 1985 and \$1,752,462 in 1984	12,500,660	10,401,237
Net realized gain on sale of investments	14,960,421	14,076,319
Gain (loss) on options traded net of option expense of \$3,586,244 in 1985 and \$2,212,774 in 1984	(103,355)	2,805,129
	<u>\$ 153,934,029</u>	<u>\$ 145,215,463</u>
Total revenues	<u>\$ 349,201,824</u>	<u>\$ 322,550,180</u>
Expenses:		
<i>Benefits:</i>		
Retirement	\$ 96,910,985	\$ 85,444,144
Disability	10,527,898	9,270,155
Survivor	8,004,136	7,389,851
Health care	30,778,698	29,153,910
Death	563,433	590,375
	<u>146,785,150</u>	<u>131,848,435</u>
Refund of employee contributions	8,373,795	7,827,632
Administrative expenses	5,673,205	4,658,760
Transfer to other Ohio systems	1,486,990	1,181,012
Loss on disposal of fixed assets	—	879,498
Total expenses	<u>\$ 162,319,140</u>	<u>\$ 146,395,337</u>
Net income	\$ 186,882,684	\$ 176,154,843
Fund balance, beginning of year	1,488,850,477	1,312,695,634
Fund balance, end of year	<u>\$ 1,675,733,161</u>	<u>\$ 1,488,850,477</u>

See accompanying notes to financial statements.

**STATEMENT OF CHANGES
IN FINANCIAL POSITION**
Exhibit C

Financial Statements

Years ended June 30, 1985 and 1984

	1985	1984
Resources provided by:		
<i>From operations:</i>		
Net income	\$ 186,882,684	\$ 176,154,843
<i>Items which do not use working capital:</i>		
Depreciation	381,002	382,692
Loss on disposal of property and equipment	—	879,498
Total resources provided from operations	<u>187,263,686</u>	<u>177,417,033</u>
Proceeds from disposal of property and equipment	1,219	90,804
Proceeds from notes payable	—	3,391,913
Other	80,631	—
Total resources provided	<u>\$ 187,345,536</u>	<u>\$ 180,899,750</u>
 Resources used by:		
Additions to property and equipment	100,990	1,049,069
Increase in other assets	108,207	43,054
Repayment of notes payable	234,195	194,846
Net increase in working capital	<u>186,902,144</u>	<u>179,612,781</u>
Total resources used	<u>\$ 187,345,536</u>	<u>\$ 180,899,750</u>
 Changes in components of working capital:		
<i>Increase (decrease) in current assets:</i>		
Cash	(254,743)	433,913
Receivables	23,037,640	32,019,676
Investments	187,870,056	139,711,385
	<u>\$ 210,652,953</u>	<u>\$ 172,164,974</u>
 <i>Increase (decrease) in current liabilities:</i>		
Accounts payable and accrued expenses	92,489	126,540
Investment commitments payable	24,713,736	(8,234,979)
Accrued health care benefits payable	(1,386,235)	922,972
Other liabilities	330,819	(262,340)
	<u>\$ 23,750,809</u>	<u>\$ (7,447,807)</u>
Net increase in working capital	<u>\$ 186,902,144</u>	<u>\$ 179,612,781</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
June 30, 1985 and 1984

(1) Description of the System

(A) Organization - The School Employees Retirement System of Ohio (SERS) was established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of Ohio public schools who are not required to possess a certificate in order to perform their duties. Responsibility for the organization and administration of SERS is vested in the Retirement Board. Employer and employee membership data follow:

Employer Members	June 30,	
	1985	1984
Local.....	376	376
City.....	192	192
County.....	86	87
Village.....	49	49
Vocational.....	49	49
Technical.....	13	13
College.....	2	2
Other.....	1	1
	<u>768</u>	<u>769</u>
Employee Members		
Current retirants and beneficiaries.....	<u>38,708</u>	<u>36,838</u>
Inactive vested members.....	<u>7,597</u>	<u>7,467</u>
Active plan members:		
Vested.....	54,159	51,743
Nonvested.....	<u>32,679</u>	<u>33,018</u>
Total active plan participants.....	<u>86,838</u>	<u>84,761</u>

(B) Benefits - Members are eligible for normal retirement benefits upon reaching age 65 and earning 30 years of service credit. The benefit is equal to 2% of the member's final average salary, as defined, multiplied by the number of years of credited service. Early retirement with reduced benefits is available upon reaching (a) age 55 and 25 years of service credit or (b) age 60 and 5 years of service credit.

In addition to retirement benefits, SERS also provides for disability benefits, survivor benefits, death benefits and health care benefits. Members are eligible for disability benefits after completion of 5 years of eligible service. Qualified dependents of a deceased member are eligible for monthly survivor benefits. Death benefits of \$500 are payable upon the death of a retirant to a designated beneficiary. All members receiving a benefit from SERS are eligible to receive medical insurance. Members who retire after June 1, 1986 must have at least 10 or more years of service credit to qualify for the health care benefits.

Members with credited service in the State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) are eligible to receive transferred credit

from either or both of those systems. Any service which is not concurrent with service within SERS will be included in the determination of retirement benefits. Similarly, a member with credited service in SERS may transfer such service to STRS or PERS upon retirement.

Upon termination of a member's school employment, the member's accumulated contribution, without interest, is refundable.

(C) Contributions - The Ohio Revised Code requires contributions by active members and their employers. Contribution rates are established by the Retirement Board within the allowable rates established by the Ohio Revised Code. Active members and their employers are required to contribute 8.75% and 14%, respectively, of active member payroll. An Employees' Saving Fund (Account) is established for member contributions. Contributions may be refunded to a member who withdraws from SERS or to the member's beneficiary following the member's death.

(2) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by SERS.

(A) Investments - Income on all investments is recognized on the accrual basis.

Corporate and government bonds and obligations with fixed maturities are reported at cost (as of the trade date) adjusted for amortization of premiums and accretion of discounts.

Investments in residential mortgage-backed securities are carried at the amount of unpaid principal balance of the securities, adjusted for accretion of discounts.

Investments in first mortgage loans are carried at the amount of unpaid principal balance of the loan.

Investments in common stocks are carried at cost. Gains and losses on stock sales are recognized on the basis of the average cost of the stocks sold.

Net option income is earned on premiums received from selling covered call stock options. Premiums received are earned ratably over the term of the option or until the option is exercised, closed, or expired.

Investments in short-term obligations, principally certificates of deposit, commercial paper, U.S. Treasury bills and bank repurchase agreements are carried at cost, which approximates market value.

Investments in real estate are carried at cost. Depreciation on buildings is provided using the straight-line method over the estimated useful lives of the property (40 to 45 years).

(B) Depreciation (Non-Investment) - Depreciation is provided using the straight-line method over the estimated useful lives of the related assets.

(C) Federal Income Tax Status - During the years ended June 30, 1985 and 1984 SERS qualified under the

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 1985 and 1984

provision of the Internal Revenue Code and was exempt from Federal income taxes.

(D) Accrued Health Care Benefits Payable - Amounts accrued for health care benefits payable are based upon estimates furnished by the claims administrator. Such estimates have been developed from prior claims experience.

(3) Actuarial Cost Method and Assumptions

Employer contribution rates are determined using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability as of June 30, 1985 over 36 years.

The following significant assumptions were used in the actuarial valuations as of June 30, 1985 and 1984: (1) a rate of return on the investments of 7.5% compounded annually; (2) projected salary increases of 4.5%, compounded annually, attributable to inflation; (3) additional projected salary increases ranging from .5% to 3% per year attributable to seniority and merit; (4) post-retirement mortality life expectancies of participants based on the 1955 American Annuity Table set ahead 1 year for men and set back 5 years of women; (5) rates of withdrawal from active

service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of actual plan experience; (6) health care premium increases of 4.5% annually with 25% of eligible retirants electing a joint survivor form of payment and 25% of eligible retirants electing to cover spouses for health care; and (7) eligibility of all health care benefit recipients for Medicare on attainment of age 65, or immediately if retired for disability.

(4) Funding Requirement Determinations and Actual Contributions

Included in employer contributions were \$112,592,000 and \$103,229,000 for 1985 and 1984, respectively, equivalent to 14 percent of active member payroll for 1985 and 1984 of \$804,230,000 and \$737,348,000, respectively. Amounts contributed by employers were in accordance with actuarially computed funding requirement determinations.

The components of employer contributions are as follows: (1) \$50,666,000 and \$46,453,000 (6.3 percent of active member payroll) for normal costs in 1985 and 1984, respectively, and (2) \$61,926,000 and \$56,776,000 (7.7 percent of active member payroll) for amortization of the unfunded actuarial accrued liability in 1985 and 1984, respectively.

(5) Investments

A summary of investments as of each June 30 follows:

	1985		1984	
	Carrying Value	Market Value	Carrying Value	Market Value
Corporate and government bonds and obligations:				
Corporate bonds	\$ 74,661,252	\$ 72,241,271	\$ 102,030,849	\$ 80,087,456
Utility bonds	169,737,107	167,011,577	218,140,982	162,788,324
United States Government and Agency obligations	181,862,785	193,020,218	125,142,359	118,347,977
Canadian Government obligations	8,985,292	8,786,797	9,889,773	8,870,658
	<u>\$ 435,246,436</u>	<u>\$ 441,059,863</u>	<u>\$ 455,203,963</u>	<u>\$ 370,094,415</u>
First mortgage loans:				
GNMA modified pass-through mortgage-backed securities	197,325,440	199,737,808	171,428,594	143,160,754
FHLMC mortgage-backed participation certificates	98,913,409	101,176,498	109,455,487	97,529,578
FHA/VA guaranteed single-family mortgages	539,863	443,805	598,747	412,711
HUD guaranteed mortgages	1,887,513	1,768,748	2,954,659	2,436,912
FHA guaranteed project mortgage	3,509,325	2,228,423	3,573,395	1,733,097
Commercial and industrial mortgages	89,240,709	97,502,763	49,393,882	53,090,982
	<u>\$ 391,416,259</u>	<u>\$ 402,858,045</u>	<u>\$ 337,404,764</u>	<u>\$ 298,364,034</u>
Common Stocks	<u>\$ 389,537,785</u>	<u>\$ 438,176,482</u>	<u>\$ 353,050,885</u>	<u>\$ 364,788,446</u>
Short-term investments:				
Commercial paper	194,792,556	195,262,788	106,287,996	106,790,665
Bankers acceptances	9,195,301	9,210,006	19,761,495	19,840,519
Certificates of deposit	—	—	5,000,000	5,000,000
	<u>\$ 203,987,857</u>	<u>\$ 204,472,794</u>	<u>\$ 131,049,491</u>	<u>\$ 131,631,184</u>
Real estate, land and buildings	101,039,956	121,071,000	101,125,666	118,094,000
Commingled real estate funds	71,079,497	81,453,847	32,002,965	39,773,209
Capital development fund — limited partnership	8,900,000	8,853,324	3,500,000	3,496,875
Total investments	<u>\$ 1,601,207,790</u>	<u>\$ 1,697,945,355</u>	<u>\$ 1,413,337,734</u>	<u>\$ 1,326,242,163</u>

Market values of securities are based primarily on quotations from national security exchanges. Market value of real estate is based upon appraisals. Market values of the commingled real estate funds are based on information provided by the fund managers.

NOTES TO FINANCIAL STATEMENTS (Continued)

Financial Statements

(6) Leases

SERS' investment in real estate as of June 30 consists of:

	1985	1984
Land	\$ 18,413,656	\$ 18,413,656
Buildings	91,094,482	88,843,346
	<u>109,508,138</u>	<u>107,257,002</u>
Less accumulated depreciation	8,468,182	6,131,336
	<u>\$ 101,039,956</u>	<u>\$ 101,125,666</u>

The following is a summary of minimum future lease payments on noncancellable operating leases related to SERS' investment in real estate as of June 30, 1985:

Year ending June 30	
1986	\$ 12,068,884
1987	11,238,261
1988	9,324,514
1989	8,600,932
1990	8,008,139
Later years	<u>107,505,344</u>
Total minimum future lease payments	<u>\$ 156,746,074</u>

(7) Property and Equipment

A summary of property and equipment at June 30 follows:

	1985	1984
Land	\$ 1,178,055	\$ 1,178,055
Building and improvements	3,705,818	3,703,893
Furniture and equipment	2,799,854	2,705,848
	<u>7,683,727</u>	<u>7,587,796</u>
Less accumulated depreciation	1,426,245	1,049,083
	<u>\$ 6,257,482</u>	<u>\$ 6,538,713</u>

(8) Actuarial Present Value Of Credited Projected Benefits

For financial reporting purposes, pursuant to National Council on Governmental Accounting Statement 6, the actuarial present value of credited projected benefits has been computed and included in these financial statements. The actuarial present value of projected benefits consists of:

- (A) the actuarial present value of projected benefits payable to current retirants and beneficiaries
- (B) the actuarial present value of projected benefits payable to terminated vested participants and
- (C) the actuarial present value of credited projected benefits for active participants.

The actuarial present value of credited projected benefits for active participants represents a portion of the actuarial present value of projected total benefits, giving effect to estimated salary increases to date of retirement. The portion assumed to be credited is the portion represented by the ratio of:

- (A) the number of years of covered service rendered as of the date of the valuation to
- (B) the total covered service which will have been rendered as of the expected date of retirement.

The actuarial present value of credited projected benefits and the unfunded portion thereof reported in these financial statements differ from the actuarial accrued liability and the unfunded portion thereof developed for funding requirement determinations because different actuarial cost methods are used for the two purposes.

The total actuarial present value of credited projected benefits were \$2,913,480,931 and \$2,636,240,463 at June 30, 1985 and 1984, respectively, consisting of:

	1985		1984
	Amount	% of Active Member Payroll	Amount
			% of Active Member Payroll
Actuarial present value of credited projected benefits for:			
Current retirants and beneficiaries	\$ 1,511,799,217	188%	\$ 1,371,162,368
Present inactive members	111,168,934	14	101,847,922
Total	<u>\$ 1,622,968,151</u>	<u>202%</u>	<u>\$ 1,473,010,290</u>
Actuarial present value of credited projected benefits for active participants:			
Member contributions	\$ 432,528,863	54%	\$ 396,230,502
Employer financed portion	857,983,917	106	766,999,671
Total	<u>\$ 1,290,512,780</u>	<u>160%</u>	<u>\$ 1,163,230,173</u>
Total actuarial present value of credited projected benefits	<u>\$ 2,913,480,931</u>	<u>362%</u>	<u>\$ 2,636,240,463</u>
			<u>358%</u>

The total actuarial present value of credited projected benefits increased by \$277,240,468 from June 1984 to 1985. There were no changes in actuarial assumptions and no changes in benefit provisions during the year.

Schedules

ADMINISTRATIVE EXPENSE
Schedule I

Financial Statements

Years ended June 30, 1985 and 1984

Personal services:

	1985	1984
Salaries	\$ 2,383,299	\$ 2,034,493
Retirement contributions	321,274	277,519
Insurance	168,148	149,445
Total personal services	<u>\$ 2,872,721</u>	<u>\$ 2,461,457</u>

Professional Services:

Investment counsel	\$ 490,489	\$ 383,255
Medical	146,313	130,358
Actuarial and technical	393,097	78,929
Auditing	55,114	—
Employee training	22,219	12,968
Total professional services	<u>\$ 1,107,232</u>	<u>\$ 605,510</u>

Communications:

Postage	\$ 220,350	\$ 215,215
Telephone	35,708	36,550
Retirement counselling services	34,656	20,943
Printing and publications	37,562	19,146
Total communications	<u>\$ 328,276</u>	<u>\$ 291,854</u>

Other services and charges:

Equipment repairs and maintenance	\$ 259,907	\$ 209,788
Building occupancy and maintenance	196,922	196,048
Interest on notes payable	176,702	145,333
Supplies	130,473	138,791
Transportation and travel	78,539	83,102
Equipment rental	77,295	81,737
Surety bonds and insurance	20,560	21,420
Memberships and subscriptions	20,590	18,384
Retirement study commission	17,454	14,767
Miscellaneous	5,532	7,877
Total other services and charges	<u>\$ 983,974</u>	<u>\$ 917,247</u>
	<u>\$ 5,292,203</u>	<u>\$ 4,276,068</u>

Depreciation:

Furniture and equipment	\$ 288,330	\$ 290,072
Building	92,672	92,620
Total depreciation	<u>\$ 381,002</u>	<u>\$ 382,692</u>
Total administrative expense	<u><u>\$ 5,673,205</u></u>	<u><u>\$ 4,658,760</u></u>

See accompanying auditors' report.

INVESTMENT SUMMARY
Schedule II

Financial Statements

Year Ended June 30, 1985

	1984		Purchases	Sales and Redemptions	1985		% of Total Market Value
	Carrying Value	Market Value			Carrying Value	Market Value	
Corporate and govern- ment bonds and obligations	\$ 455,203,963	\$ 370,094,415	\$ 150,180,859	\$ 170,138,386	\$ 435,246,436	\$ 441,059,863	26.0%
First mortgage loans	337,404,764	298,364,034	100,014,439	46,002,944	391,416,259	402,858,045	23.7
Common stocks	353,050,885	364,788,446	289,997,306	253,510,406	389,537,785	438,176,482	25.8
Short-term investments	131,049,491	131,631,184	2,623,939,211	2,551,000,845	203,987,857	204,472,794	12.0
Real estate, land and buildings	101,125,666	118,094,000	2,251,136	2,336,846	101,039,956	121,071,000	7.1
Commingled real estate funds	32,002,965	39,773,209	39,076,532	—	71,079,497	81,453,847	4.8
Capital development fund — limited partnerships	3,500,000	3,496,875	5,400,000	—	8,900,000	8,853,324	.6
Total investments	\$ 1,413,337,734	\$ 1,326,242,163	\$ 3,210,859,483	\$ 3,022,989,427	\$ 1,601,207,790	\$ 1,697,945,355	100.0%

See accompanying auditors' report.

Year Ended June 30, 1984

	1983		Purchases	Sales and Redemptions	1984		% of Total Market Value
	Carrying Value	Market Value			Carrying Value	Market Value	
Corporate and govern- ment bonds and obligations	\$ 454,148,602	\$ 417,387,397	\$ 20,320,313	\$ 19,264,952	\$ 455,203,963	\$ 370,094,415	27.9%
First mortgage loans	324,718,518	315,973,413	44,630,593	31,944,347	337,404,764	298,364,034	22.5
Common stocks	272,728,121	344,973,413	133,526,253	53,203,489	353,050,885	364,788,446	27.5
Short-term investments	101,894,517	102,230,388	1,546,471,915	1,517,316,941	131,049,491	131,631,184	9.9
Real estate, land and buildings	89,431,579	102,690,000	11,699,756	5,669	101,125,666	118,094,000	8.9
Commingled real estate funds	29,455,012	35,113,319	2,547,953	—	32,002,965	39,773,209	3.0
Capital development fund — limited partnerships	1,250,000	1,250,000	2,250,000	—	3,500,000	3,496,875	.3
Total investments	\$ 1,273,626,349	\$ 1,319,617,930	\$ 1,761,446,783	\$ 1,621,735,398	\$ 1,413,337,734	\$ 1,326,242,163	100.0%

See accompanying auditors' report.

CASH RECEIPTS AND DISBURSEMENTS

Schedule III

Financial Statements

Years ended June 30, 1985 and 1984

Cash balance at beginning of year

	1985	1984
Cash balance at beginning of year	\$ 683,162	\$ 249,249

Receipts:

Contributions:

Employer

110,155,864 96,659,965

Employees

73,345,602 65,588,500

State of Ohio subsidies

1,720,156 1,870,175

Transfers from other Ohio systems

1,425,653 1,224,116

	<u>\$ 186,646,811</u>	<u>\$ 165,342,756</u>
--	-----------------------	-----------------------

Investments:

Investments matured and sold

\$ 3,008,341,900 \$ 1,604,199,340

Investment income

154,164,900 142,723,806

	<u>\$ 3,162,506,800</u>	<u>\$ 1,746,923,146</u>
--	-------------------------	-------------------------

Miscellaneous

350,279 2,316,100

Total Receipts

	<u>\$ 3,349,503,890</u>	<u>\$ 1,914,582,002</u>
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Disbursements:

Benefits:

Retirement

\$ 96,910,985 \$ 85,444,144

Disability

10,527,898 9,270,155

Survivor

8,004,136 7,389,851

Health Care

32,164,933 28,230,938

Death

563,433 590,375

Total benefits

	<u>\$ 148,171,385</u>	<u>\$ 130,925,463</u>
--	-----------------------	-----------------------

Refund of employee contributions

\$ 8,373,795 \$ 7,827,632

Administrative expenses

5,580,716 4,532,220

Investments purchased

3,186,145,747 1,769,681,762

Transfers to other Ohio systems

1,486,990 1,181,012

	<u>\$ 3,349,758,633</u>	<u>\$ 1,914,148,089</u>
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Cash balance at end of year

	<u>\$ 428,419</u>	<u>\$ 683,162</u>
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See accompanying auditors' report.

CHANGES IN FUND BALANCE ACCOUNTS

Schedule IV

Description of Funds (Accounts)

Chapter 3309 of the Ohio Revised Code requires the following funds to be maintained by SERS:

(A) Employees' Savings Fund

The Employees' Savings Fund accumulates the contributions deducted from the compensation of members. Contributions may be refunded to a member who withdraws from SERS or to the member's beneficiary, following the member's death. Upon retirement, a member's accumulated contributions are transferred to the Annuity and Pension Reserve Fund.

(B) Employers' Trust Fund

The Employers' Trust Fund is the depository for employer contributions. Based on actuarial valuations, amounts are transferred out of this fund into the Annuity and Pension Reserve Fund and the Survivors' Benefit Fund.

(C) Annuity and Pension Reserve Fund

The Annuity and Pension Reserve Fund is the fund from which all retirement, health care and death benefits are

paid. Funds are transferred into the Annuity and Pension Reserve Fund from the Employees' Savings Fund and Employers' Trust Fund. In addition, contributions by the State of Ohio for supplemental benefits are recorded in this fund.

(D) Survivors' Benefit Fund

The Survivors' Benefit Fund represents amounts transferred from the Employees' Savings Fund and the Employers' Trust Fund for the payment of survivors' benefits.

(E) Guarantee Fund

The Guarantee Fund records all investment earnings of SERS. Annually, investment earnings are transferred to the Annuity and Pension Reserve Fund, the Survivors' Benefit Fund, and the Expense Fund.

(F) Expense Fund

The Expense Fund is used to record all expenses for the administration and management of SERS. Annually, funds are transferred from the Guarantee Fund to cover expenses incurred.

School Employees Retirement System Of Ohio

CHANGES IN FUND BALANCE ACCOUNTS (Continued)
Schedule IV (Continued)

Financial Statements

A summary of the fund balance accounts follows:

	Year Ended June 30, 1985						
	Employees' Savings Fund	Employers' Trust Fund	Annuity and Pension Reserve Fund	Survivors' Benefit Fund	Guarantee Fund	Expense Fund	Total
Fund balance at beginning of year	\$ 396,230,502	\$ (278,542,393)	\$ 1,279,974,018	\$ 91,188,350	—	—	\$ 1,488,850,477
Changes for the year:							
Contributions:							
Employers	—	119,145,737	—	—	—	—	119,145,737
Employees	73,117,682	—	—	—	—	—	73,117,682
State of Ohio subsidies	—	1,578,723	—	—	—	—	1,578,723
Investment income	—	—	—	—	153,934,029	—	153,934,029
Transfer from other Ohio systems	—	—	1,396,636	29,017	—	—	1,425,653
Benefits:							
Retirement	—	—	(96,910,985)	—	—	—	(96,910,985)
Disability	—	—	(10,527,898)	—	—	—	(10,527,898)
Survivor	—	—	—	(8,004,136)	—	—	(8,004,136)
Health Care	—	—	(30,778,698)	—	—	—	(30,778,698)
Death	—	—	(563,433)	—	—	—	(563,433)
Refunds of employee contributions	(8,373,795)	—	—	—	—	—	(8,373,795)
Administrative expenses	—	—	—	—	—	(5,673,205)	(5,673,205)
Transfers to other Ohio systems	—	—	(1,461,900)	(25,090)	—	—	(1,486,990)
Other transfers	(28,445,526)	(110,776,986)	272,184,815	15,298,521	(153,934,029)	5,673,205	—
Net changes	\$ 36,298,361	\$ 9,947,474	\$ 133,338,537	\$ 7,298,312	—	—	\$ 186,882,684
Fund balance at end of year	\$ 432,528,863	\$ (268,594,919)	\$ 1,413,312,555	\$ 98,486,662	—	—	\$ 1,675,733,161

See accompanying auditors' report.

	Year Ended June 30, 1984						
	Employees' Savings Fund	Employers' Trust Fund	Annuity and Pension Reserve Fund	Survivors' Benefit Fund	Guarantee Fund	Expense Fund	Total
Fund balance at beginning of year	\$ 356,397,208	\$ (257,390,366)	\$ 1,123,829,345	\$ 89,859,447	—	—	\$ 1,312,695,634
Changes for the year:							
Contributions:							
Employers	—	106,886,556	—	—	—	—	106,886,556
Employees	67,503,890	—	—	—	—	—	67,503,890
State of Ohio subsidies	—	1,720,155	—	—	—	—	1,720,155
Investment income	—	—	—	—	145,215,463	—	145,215,463
Transfer from other Ohio systems	—	—	1,158,601	65,515	—	—	1,224,116
Benefits:							
Retirement	—	—	(85,444,144)	—	—	—	(85,444,144)
Disability	—	—	(9,270,155)	—	—	—	(9,270,155)
Survivor	—	—	—	(7,389,851)	—	—	(7,389,851)
Health Care	—	—	(29,153,910)	—	—	—	(29,153,910)
Death	—	—	(590,375)	—	—	—	(590,375)
Refunds of employee contributions	(7,827,632)	—	—	—	—	—	(7,827,632)
Administrative expenses	—	—	—	—	—	(4,658,760)	(4,658,760)
Transfers to other Ohio systems	—	—	(1,128,830)	(52,182)	—	—	(1,181,012)
Loss or disposal of fixed assets	—	—	—	—	—	(879,498)	(879,498)
Other transfers	(19,842,964)	(129,758,738)	280,573,486	8,705,421	(145,215,463)	5,538,258	—
Net changes	\$ 39,833,294	\$ (21,152,027)	\$ 156,144,673	\$ 1,328,903	—	—	\$ 176,154,843
Fund balance at end of year	\$ 396,230,502	\$ (278,542,393)	\$ 1,279,974,018	\$ 91,188,350	—	—	\$ 1,488,850,477

See accompanying auditors' report.

School Employees Retirement System Of Ohio

COMPARATIVE SUMMARY OF NET ASSETS AVAILABLE FOR BENEFITS AND TOTAL COMPUTED ACTUARIAL LIABILITIES

Table I

Fiscal Year	Net Assets Available For Benefits	Total Computed Actuarial Accrued Liabilities	Percentage
1981	\$ 1,073,577,619	\$ 2,024,746,093	53.0%
1982	1,189,392,619	2,256,513,146	52.7
1983	1,314,052,816	2,526,633,147	52.0
1984	1,488,850,477	2,792,981,981	53.3
1985	1,675,733,161	3,085,752,814	54.3

See note following Table II.

SUMMARY OF UNFUNDED ACTUARIAL ACCRUED LIABILITIES

Table II

Fiscal Year	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL As A % Of Active Member Payroll
1981	\$ 951,168,474	\$ 655,483,198	145.1%
1982	1,067,120,527	652,224,795	163.6
1983	1,212,580,331	682,882,779	177.6
1984	1,304,131,504	737,347,635	176.9
1985	1,417,247,928	804,230,073	176.2

Unfunded Actuarial Accrued Liabilities

Each time a new employer joins the System or an employer adopts a higher level of benefit, unfunded liabilities are created. The law governing the System requires that these additional liabilities be financed systematically over a period of future years.

In an inflationary economy, the value of dollars is decreasing. This environment results in employee pays increasing in dollar amounts, retirement benefits increasing in dollar amounts, and then, unfunded actuarial accrued liabilities in-

creasing 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 actuarial accrued liabilities can be misleading. Unfunded actuarial accrued liabilities dollars divided by active employee payroll dollars provides an index which helps 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.

**COMPARATIVE SUMMARY OF ACCRUED LIABILITIES
PERCENTAGE COVERED BY NET ASSETS AVAILABLE FOR BENEFITS**

Statistical Data

Table III

Computed Actuarial Accrued Liabilities

Fiscal Year	Member Contributions	Current Retirants And Beneficiaries	Active Members, Employer Financed Portion	Net Assets Available For Benefits	Percentage Of Accrued Liabilities Covered By Net Assets Available For Benefits		
					(1)	(2)	(3)
1981	\$ 298,254,671	\$ 958,966,066	\$ 767,525,356	\$ 1,073,577,619	100	81	0
1982	324,180,388	1,071,728,280	860,604,478	1,189,392,619	100	81	0
1983	351,781,439	1,213,688,792	961,162,916	1,314,052,816	100	79	0
1984	396,230,502	1,371,162,368	1,025,589,111	1,488,850,477	100	80	0
1985	432,528,863	1,511,799,217	1,141,424,734	1,675,733,161	100	82	0

NOTE: The ultimate test of financial soundness is the Systems' ability to pay all promised benefits when due. The Systems' progress in accumulating assets to pay all promised benefits can be measured by comparing the present assets of the System with (1) member contributions, (2) the liability for future benefits payable to current retirants and beneficiaries, (3) the employer-financed portion of the liability for benefits payable to active plan participants.

In a System that has been following the discipline of level

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

NOTE: NCGA Statement 6, the authoritative guide to the preparation of this report, requires that we present 10 years of comparative actuarial statistical data, disclosing the progress we have made in accumulating assets to pay benefits when due. Tables I to III present only 5 years of data, since 10 years is not available.

NCGA Statement 6 also states that "...Until 10 years of ac-

tuarial present value of credited projected benefits data become available, the data which are available should be disclosed." In Tables I to III the entry age normal actuarial cost method was used to determine the actuarial liability. The entry age normal actuarial cost method is the same method used to determine employer and employee contribution rates.

REVENUES BY SOURCE

Table IV

Last Ten Years

Year Ending June 30	Member Contributions	Employer Contributions	Investment Income	Other	Total
1976	\$ 33,716,679	\$ 51,370,939	\$ 29,652,983	\$ 1,909,999	\$ 116,650,600
1977	36,378,039	55,681,997	29,735,598	1,011,850	122,807,484
1978	38,912,883	59,693,632	43,129,863	912,035	142,648,413
1979	41,971,918	64,183,954	47,220,797	1,184,656	154,561,325
1980	50,486,674	72,574,779	66,965,956	2,659,240	192,686,649
1981	52,469,568	81,353,991	69,572,728	1,030,754	204,427,041
1982	54,543,053	87,988,507	83,719,002	6,151,973	232,402,535
1983	57,302,477	86,862,611	107,416,567	3,489,140	255,070,795
1984	67,503,890	106,886,556	145,215,463	2,944,271	322,550,180
1985	73,117,682	119,145,737	153,934,029	3,004,376	349,201,824

EXPENSES BY TYPE

Table V

Last Ten Years

Year Ending June 30	Aggregate Benefit Payments	Administrative Expenses	Transfers to Ohio Retirement Systems	Other	Total
1976	\$ 47,699,699	\$ 1,660,095	\$ 3,127,491	\$ 8,475	\$ 52,495,760
1977	53,821,330	1,843,181	617,525	8,822	56,290,858
1978	62,995,337	1,934,825	743,655	15,947	65,689,764
1979	76,380,937	2,232,180	912,031	13,154	79,538,302
1980	86,590,668	2,367,777	764,675	15,970	89,739,090
1981	93,005,719	3,092,593	844,547	22,950	96,965,809
1982	112,044,340	3,425,836	1,006,803	—	116,476,979
1983	128,451,107	4,051,778	1,215,546	—	133,718,431
1984	139,676,067	4,658,760	1,181,012	879,498	146,395,337
1985	155,158,945	5,673,205	1,486,990	—	162,319,140



THOMAS E. FERGUSON
AUDITOR OF STATE
COLUMBUS, OHIO 43216

DEPUTY AUDITORS:

JAMES A. BOLDEN
Administration

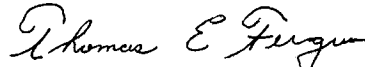
RICHARD G. NUSS
CPA
Auditing Division

RUSSELL ROUCH
Management Advising
Service

School Employees Retirement System
45 North Fourth St.
Columbus, Ohio 43215

We have reviewed the report of examination of the School Employees Retirement System for the period ended June 30, 1985, prepared by Peat, Marwick, Mitchell & Co., Certified Public Accountants. Based upon this review, we have accepted this report in lieu of the examination required by Section 117.09 of the Revised Code. The Auditor of State has not examined the accompanying financial statements, and accordingly, is unable to express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria as reflected by the Ohio Constitution; the Revised Code; policies, procedures and guidelines of the Auditor of State; and local resolutions/ordinances.


THOMAS E. FERGUSON
Auditor of State

December 5, 1985

Information Line toll free
1-800-282-0370

GABRIEL, ROEDER, SMITH & COMPANY

ACTUARIES & CONSULTANTS

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

November 26, 1985

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

The basic financial objective of SERS 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 determine SERS present financial position and level contribution rates for the future, annual actuarial valuations are made.

The latest completed actuarial valuation is based upon data and assumptions as of June 30, 1985. Conditions and results are shown in our reports.

Assumptions concerning future financial experiences are needed for an actuarial valuation. We believe the assumptions used in the regular annual valuations produce results which are reasonable.

On the basis of the 1985 valuation and the benefits and contribution rates then in effect, it is our opinion that SERS is in sound condition in accordance with actuarial principles of level cost financing.

In the last decade two economic assumptions were trouble spots.

The investment return rate did not exceed the inflation rate by a reasonable amount (3% annually is the current assumed margin for the future). However, a substantial real rate of return has been available in the investment universe in recent years.

Increases in retired life health care costs substantially exceeded overall inflation increases. Health care costs, expressed as a percent of employee payroll, are higher for SERS than for most other retirement systems, because of a relatively low average employee pay in SERS.

A program of annual actuarial gain/loss analysis has begun; this analysis determines the relationship between assumed financial experience and actual experience, for each major risk area.

Respectfully submitted,


Gerald B. Sonnenschein


Richard G. Roeder

RGR:jmg

**STATEMENT OF ACTUARIES
(Valuation as of June 30, 1985)**

The assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary, and a summary follows.

The non-economic assumptions are from the June 30, 1980 revised actuarial valuation and the economic assumptions were established for the June 30, 1981 actuarial valuation.

- 1) The investment return rate used in making the valuation was 7.5 percent per year, compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 4.5 percent, the 7.5 percent investment return rate translates to an assumed real rate of return of 3 percent.
- 2) Pay increase assumptions for individual active members are shown for sample ages in the table below. Part of the assumptions for each age is for merit and/or seniority increase, and the other 4.5 percent recognizes inflation.

INCREASE NEXT YEAR

Sample Age	Merit & Seniority	Base (Economy)	Total
20	3.0%	4.5%	7.5%
30	2.3	4.5	6.8
40	1.8	4.5	6.3
50	1.0	4.5	5.5
60	0.0	4.5	4.5

- 3) Total active member payroll is assumed to increase 4.5 percent annually, which is the portion of the individual pay increase assumptions attributable to inflation. The number of active members is assumed to continue at the present number.

4) Assumptions for Health Care Coverages

Premium Rates:

Status	Monthly Rates Reported	
	1985	1984
Benefit Recipient below age 65	\$ 148.10	\$ 148.10
Spouse below age 65*	81.09	81.09
Benefit recipient above age 65 and eligible for Medicare	35.63	35.63
Spouse above age 65 and eligible for Medicare*	11.03	11.03
Mail order prescription service	11.24	8.83

* System portion

Availability of Medicare Coverage: All benefit recipients were assumed to be eligible for Medicare on attainment of age 65, or immediately if retired for disability.

Election of Joint and Survivor Benefits: 25% of eligible retirants are assumed to elect a joint and survivor form of payment. Survivors of these retirants will receive fully paid health care for the remainder of their lives.

Election of Spouse Health Care Coverage: 25% of retirants are assumed to elect to cover spouses for health care. The System will pay approximately one-half the premium for dependents during the life of the retirant.

Medicare Part B Premium: \$16.20 per month assumed to be effective January 1, 1985, from \$15.50.

Premium Increases: Premiums are assumed to increase 4.5% annually, which is the inflation rate assumed for other actuarial valuation computations.

Probabilities of Separation and Retirement

Sample Ages	Men			Women		
	Death	Disability	Other	30+	Retirement Years of Service 25-29	Under 25
20	0.04%	0.00%	13.91%	—	—	—
30	0.05	0.01	6.55	—	—	—
40	0.07	0.10	4.64	—	—	—
50	0.21	0.33	3.06	13.5%	—	—
60	0.85	—	2.02	13.5	6.0%	6.0%
70	—	—	—	28.0	28.0	20.0
20	0.01%	0.00%	11.57%	—	—	—
30	0.02	0.00	6.59	—	—	—
40	0.04	0.05	5.07	—	—	—
50	0.14	0.15	3.55	10.0%	—	—
60	0.32	—	2.46	23.0	15.0%	13.0%
70	—	—	—	29.0	19.0	17.0

Actuarial Accrued Liabilities

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

future. Accrued liabilities are the result of complex mathematical calculations, which are made annually by the plan's actuaries—specialists who make such calculations. The results of the computed actuarial accrued liabilities, computed using the entry age normal actuarial cost method, are listed in the following schedule.

Actuarial Accrued Liabilities June 30, 1985

Present Value Of	Actuarial Accrued Liabilities	
	Health Care	Total
Future monthly benefits and death benefits to present retirants and survivors	\$ 386,173,935	\$ 1,511,799,217
Monthly benefits and refunds to present inactive members	42,704,155	111,168,934
Service allowances and health care benefits to present active members	251,745,414	1,392,572,190
Disability allowances to present active members		25,064,642
Death-after-retirement benefit (\$500) on behalf of present active members		1,230,650
Survivor benefits on behalf of present active members who die before retiring		31,174,484
Refunds of member contributions of present active members		12,742,697
Benefits for present active members	251,745,414	1,462,784,663
Benefits For Present Covered Persons	\$ 680,623,504	\$ 3,085,752,814

Investments

*Investment Portfolio
Distribution*

Investment Report

Portfolio Summary

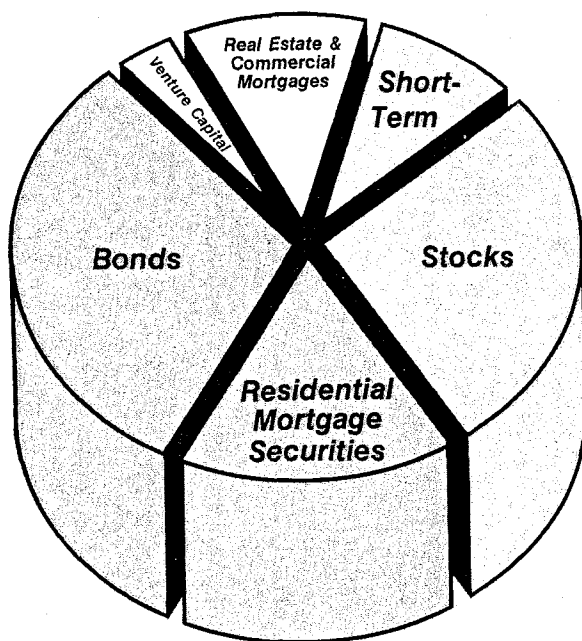
Schedules

Exhibits

List of Investments

Investment Policy

**INVESTMENT PORTFOLIO
DISTRIBUTION
June 30, 1985**



- 27.1% Bonds
- 19.2% Residential Mortgage Securities
- 24.0% Stocks
- 16.4% Real Estate & Commercial Mortgages
- 12.6% Short-Term Investments
- 0.7% Venture Capital

The U.S. economy was a little weaker during the past year than was expected. The U.S. Gross National Product increased by only 2% during the fiscal year instead of the 4% which was anticipated. Part of the reason for this slow growth was the strength of the U.S. dollar versus foreign currencies during the period. This strength in the dollar caused U.S. goods to be very expensive for foreigners while making foreign goods relatively cheap for U.S. citizens. This strength resulted in a large trade deficit and contributed to the low growth rate of the U.S. economy. The U.S. inflation rate continued at a low level and was slightly under 4% for the fiscal year. The unemployment rate stabilized in the 7 to 7½% range and finished the fiscal year at 7.3%.

The slow growth rate of the U.S. economy and the low inflation rate allowed both the fixed-income markets and the stock market to report excellent rates of return for the year. The fixed-income markets returned from 28% to 41% depending on the length of maturity, and the S & P 500 index of common stocks returned 30.9% for the fiscal year. However, because of the uncertainties surrounding the federal budget, the proposed tax bill and the outlook for the U.S. economy and the dollar, both markets experienced a great amount of volatility during the year. Unfortunately many of the uncertainties in the markets last year are still present and unresolved. The budget deficit has not been reduced, and probably will not be reduced significantly during the near future, since President Reagan opposes a tax increase and Congress opposes significant cuts in spending.

The U.S. economy slowed dramatically during the first half of 1985 and does not give any indication of picking up for the second half. Because of this weakness in the economy, the Federal Reserve Board may be forced to continue its accommodative posture to prevent a recession. However, at the first sign of strength in the economy the Fed will probably become more restrictive to prevent the possible return of inflation. Because of these uncertainties, it is expected that both the fixed-income and stock markets will continue to remain very volatile during the coming fiscal year. It is expected that the next fiscal year will be somewhat stronger than last year. GNP should increase by approximately 4%, inflation should continue in the 4% to 5% range, and unemployment should remain in the 7% to 7½% range.

In light of the outlook for the U.S. economy it is anticipated that much of the coming year's cash flow will again be in-

vested in common stocks and, to a lesser extent this year, in real estate.

Over the past year approximately \$80 million was committed to real estate and participating mortgages. This increased the percentage of the Fund invested in these types of assets to 16.4% of the Fund as compared to 13.1% last year. This part of the Fund has experienced significant growth in size over the last three or four years; however, it is expected that these significant commitments of new cash to these types of assets will decline during the coming year. On June 30, 1986 it is anticipated that these assets will represent approximately 17% of the total Fund.

Emphasis will continue to be given to the stock portfolio during the coming year since the longer term economic outlook remains favorable. Since the stock market has been trending upward for the last two years, it is anticipated that stock prices might decline early in the year 1986 which will present an excellent buying opportunity. Therefore, near-term the Fund will take a more defensive posture with the intention of buying stocks after the expected weakness has occurred. At year-end June, 1986 it is expected that stocks will represent approximately 32% of the Fund as opposed to 24% currently.

Because of the continued rapid growth of the real estate and the common stock portfolios during the past year, the percentage of total assets held in the bond portfolio decreased from 32% to approximately 27% of the Fund at year-end. With the expected emphasis on common stocks in the coming year, it is anticipated that the percentage of bonds will decrease again; and by year-end bonds will probably represent only 22% of total assets of the Fund.

The mortgage portfolio decreased in size modestly last year, going from approximately 21% to around 19%. However, with the superior returns historically received on mortgage investments, and with their high quality and marketability, it is anticipated that the commitment to mortgages will increase modestly over the coming year to approximately 20% of the Fund.

The yields on the bond and mortgage portfolios are still very high and contribute a significant amount of income to the Fund each year. The yield on the bond portfolio increased again this year to 11.54% from 11.15% at last year-end. The yield on the mortgage portfolio is still at a very high 12.05% as compared to 12.10% last year at this time.

PORTFOLIO SUMMARY

Schedule I

Investments

Investment Category	June 30, 1985		June 30, 1984	June 30, 1983	June 30, 1982	June 30, 1981
	Par Value	Percent	Par Value	Par Value	Par Value	Par Value
U.S. Government & Agency Bonds	\$ 179,390,600	11.1%	\$ 124,382,500	\$ 109,692,500	\$ 102,336,500	\$ 100,748,000
Corporate Bonds	250,749,300	15.4	325,700,000	339,900,000	312,750,000	306,920,000
Canadian Bonds	9,000,000	0.6	10,000,000	10,000,000	54,300,000	55,300,000
G.N.M.A. Mortgage-Backed Pass - Thru	202,049,813	12.4	178,061,964	163,897,360	138,187,746	132,285,163
F.H.L.M.C. Mortgage-Backed Pass - Thru	103,394,697	6.4	117,636,136	137,942,239	125,860,669	117,462,257
F.H.A., V.A. & H.U.D. Mortgages	5,936,701	0.4	7,126,801	7,859,624	8,563,389	9,774,938
Common and Preferred Stocks	389,537,784	24.0	353,050,884	272,728,121	246,055,095	199,093,353
Investment Real Estate	180,587,635	11.1	139,259,967	113,810,453	57,957,435	23,683,003
Commercial & Industrial Mortgages	86,122,866	5.3	47,039,141	29,031,508	16,100,000	—
Venture Capital	12,017,843	0.7	5,854,741	3,595,381	2,452,990	—
Short-Term Investments	205,050,000	12.6	132,150,000	102,500,000	104,350,000	81,449,359
	\$ 1,623,837,239	100.0%	\$ 1,440,262,134	\$ 1,290,957,186	\$ 1,168,913,824	\$ 1,026,716,073

PORTFOLIO RATES OF RETURN (Average annual returns for the periods ended June 30)

Schedule II

Asset Category	One Year	Three Year	Five Year
Equity Portfolio	24.2%	22.6%	15.8%
Bond Portfolio	34.5	23.2	13.3
Residential Mortgage Portfolio	35.5	23.8	14.1
Short-Term Investment Portfolio	9.5	9.6	11.9
Total Fund	25.3%	20.1%	12.9%

NOTE: Real Estate Portfolio returns are included in the total return of the Fund for each period; and for the last five years these assets have returned 12.9% annually.

QUALITY OF STOCKS

Schedule III

Quality Rating	Percent of Stock
A+	26.3%
A	27.1
A-	20.6
B+	15.0
B	7.8
B-	1.8
C	--
D	--
Not Rated	1.4

Of the stocks owned by the System, the majority fall within the top four quality grades as rated by Standard and Poor's Corporation with respect to the relative stability and growth of earnings and dividends. The 1.4 percent in the non-rated category are banks and insurance companies which are not rated by Standard and Poor's as a matter of policy.

A+ Highest	B Below Average
A High	B- Low
A- Above Average	C Lowest
B+ Average	D In Reorganization

DIVERSIFICATION OF STOCKS

Schedule IV

Category	Percent
Credit Sensitive	18.6%
Growth Consumer	13.0
Consumer Staple	8.8
Consumer Cyclical	13.4
Intermediate Goods and Services	29.2
Capital Goods	17.0

The System's stocks are diversified by industry to reduce risk and to enable the portfolio to participate in upswings in various sectors of the economy as they arise.

DIVIDEND GROWTH FROM STOCKS

Schedule V

Fiscal Year Ended	Dividends Received*	% Increase
June 1985	\$ 17,328,134	+ 16.7%
June 1984	14,845,987	+ 12.6
June 1983	13,187,649	+ 19.7
June 1982	11,019,698	+ 20.5
June 1981	9,146,619	+ 20.1

* Cash Basis

Exhibit 1

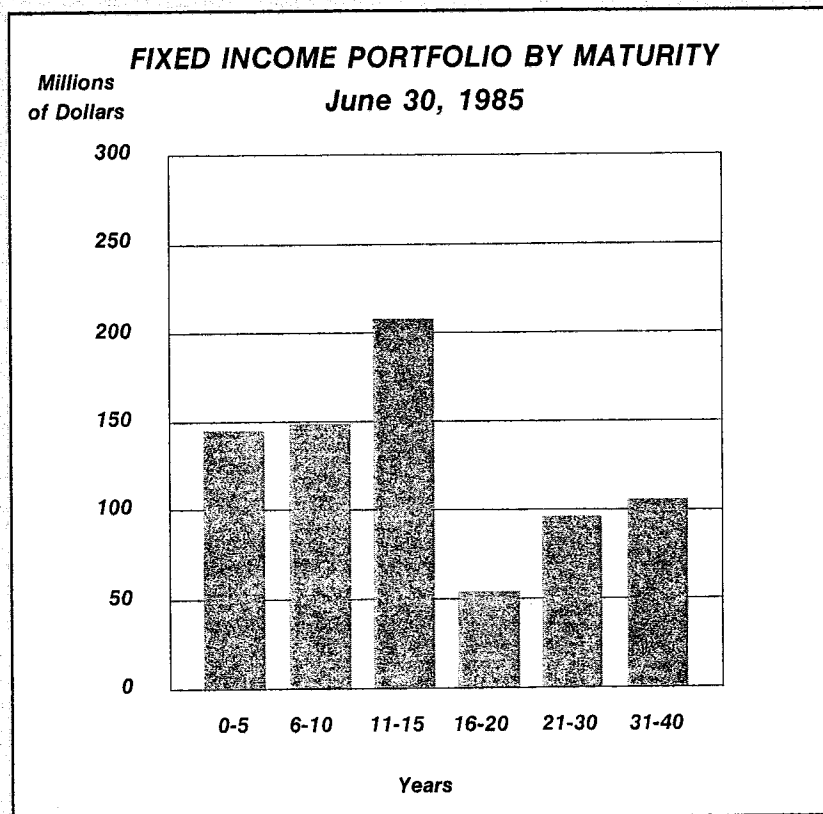


Exhibit 2

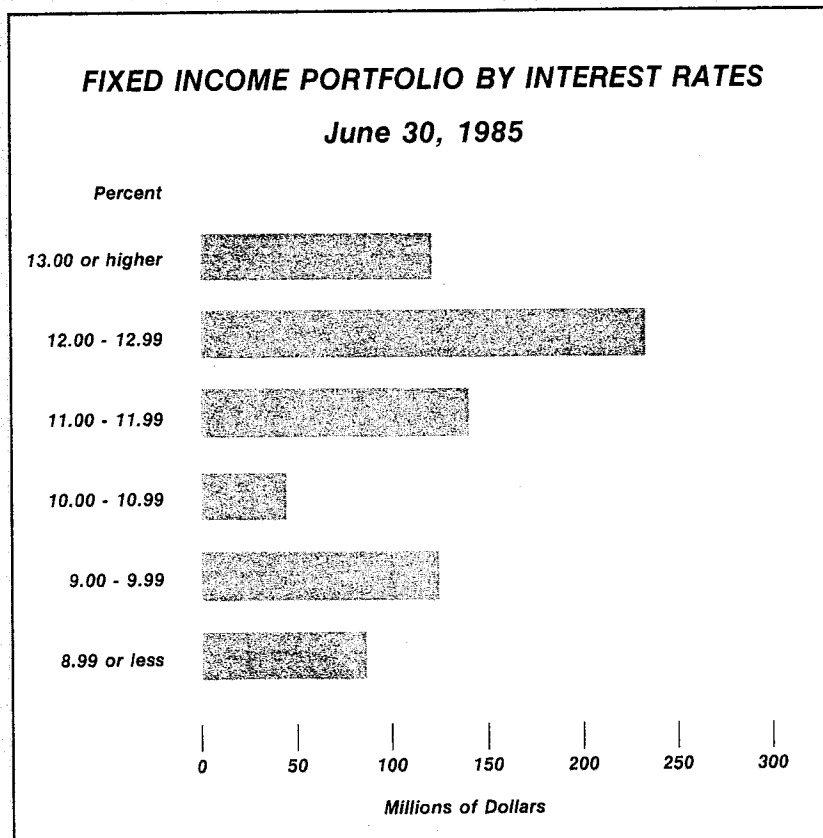


Exhibit 3

**BOND PORTFOLIO QUALITY RATINGS BY MOODY'S
June 30, 1985**

Most of the bonds in the portfolio fall within the top three grades of the nine bond quality ratings established by Moody's Investors Services, Inc.

43.5%	Aaa
27.2%	Aa
23.7%	A
4.9%	Baa
0.7%	Ba

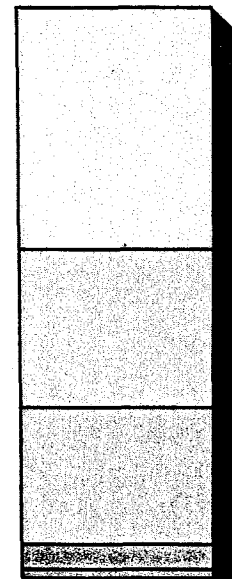


Exhibit 4

**DISTRIBUTION OF GOVERNMENT INSURED
OR GUARANTEED MORTGAGE PORTFOLIO
June 30, 1985**

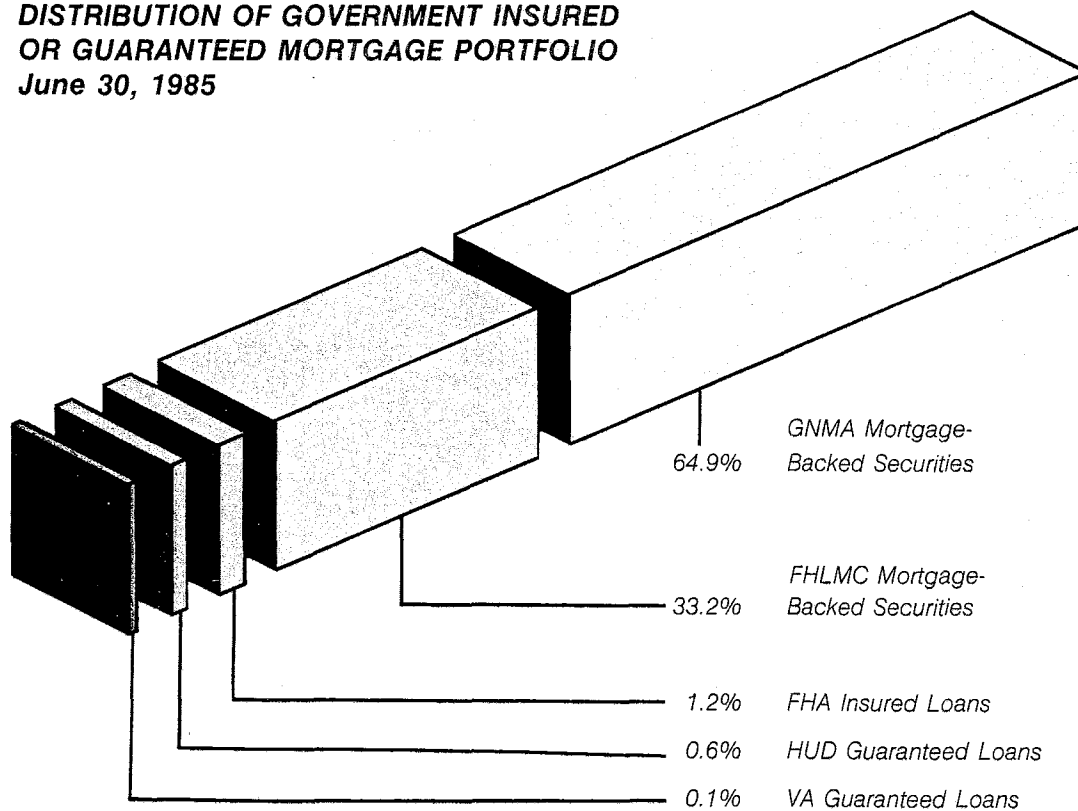


Exhibit 5

REAL ESTATE PORTFOLIO BY PROPERTY TYPE
 Percent Of Holdings As Of June 30, 1985 (Based On Market Value)

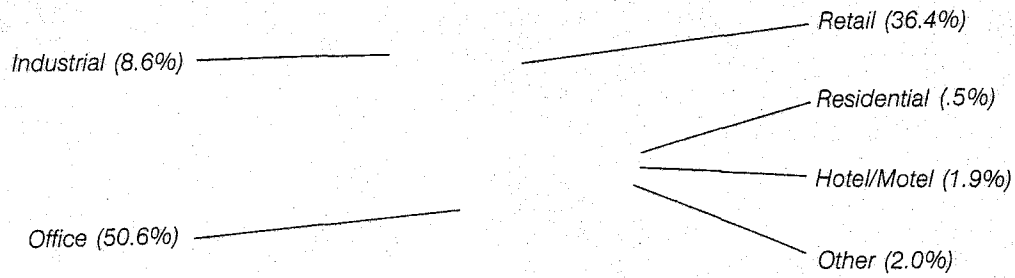


Exhibit 6

REAL ESTATE PORTFOLIO BY TYPE OF OWNERSHIP
 Percent Of Holdings As Of June 30, 1985 (Based On Market Value)

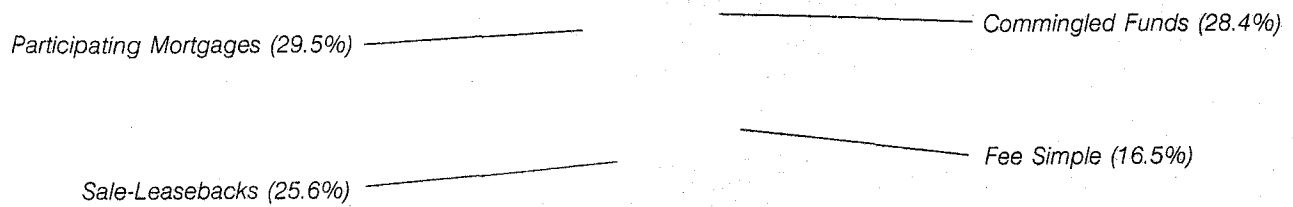
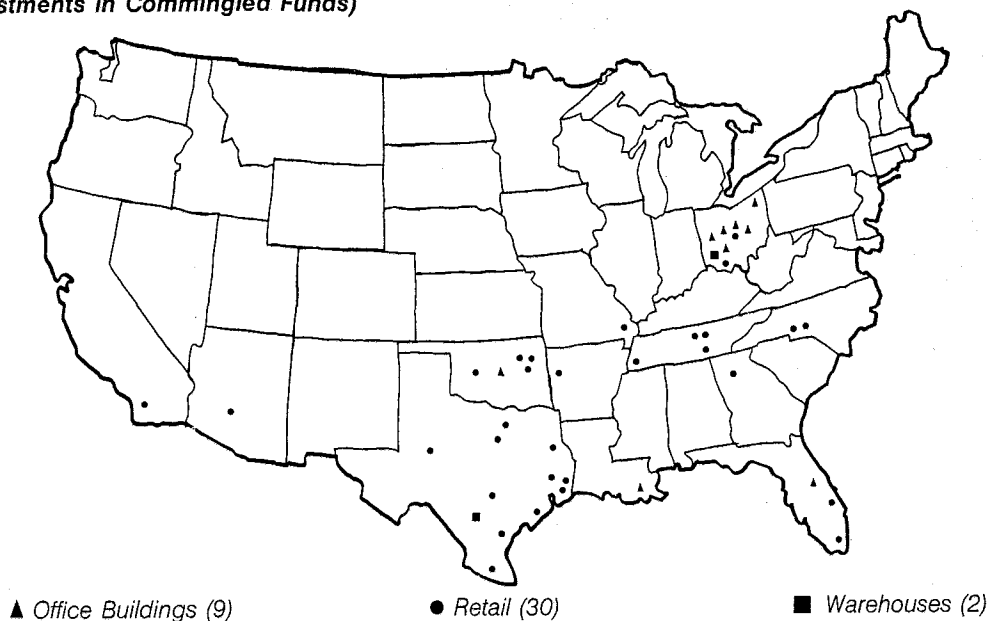


Exhibit 7

REAL ESTATE PORTFOLIO BY GEOGRAPHICAL LOCATION
 (Excluding Investments In Commingled Funds)



LIST OF INVESTMENTS
Fixed-Income

Investments

Year Ended June 30, 1985	Maturity	Par Value	Book Value	Market Value
Short-Term Investments				
<i>Bankers Acceptances</i>				
BancOhio National Bank	7-22-85	\$ 5,000,000	\$ 4,971,883	\$ 4,977,908
BancOhio National Bank	7-30-85	2,250,000	2,235,260	2,236,181
Morgan Guaranty Trust Co.	7-10-85	2,000,000	1,988,158	1,995,917
		<u>\$ 9,250,000</u>	<u>\$ 9,195,301</u>	<u>\$ 9,210,006</u>
<i>Commercial Paper</i>				
Barclays American Corp.	7-02-85	\$ 7,600,000	\$ 7,565,631	\$ 7,596,876
Barclays American Corp.	7-15-85	3,100,000	3,086,799	3,090,571
Deere (John) Credit Co.	7-03-85	3,900,000	3,888,300	3,897,660
Ford Motor Credit Co.	7-03-85	10,000,000	9,956,979	9,993,854
Ford Motor Credit Co.	7-08-85	4,700,000	4,690,078	4,692,062
Ford Motor Credit Co.	7-16-85	5,000,000	4,978,271	4,983,445
Ford Motor Credit Co.	7-17-85	5,000,000	4,977,236	4,982,410
Ford Motor Credit Co.	7-18-85	9,000,000	8,946,375	8,967,825
General Electric Credit Corp.	7-05-85	9,800,000	9,757,697	9,789,928
General Electric Credit Corp.	7-17-85	5,000,000	4,977,236	4,982,410
General Electric Credit Corp.	7-22-85	5,700,000	5,664,027	5,675,268
General Electric Credit Corp.	7-23-85	5,700,000	5,662,903	5,674,144
General Motors Accept. Corp.	7-01-85	3,300,000	3,283,156	3,299,326
General Motors Accept. Corp.	7-05-85	7,200,000	7,189,430	7,192,450
General Motors Accept. Corp.	7-18-85	6,000,000	5,966,167	5,979,000
General Motors Accept. Corp.	7-26-85	8,000,000	7,950,000	7,956,667
K-Mart Corp.	7-17-85	4,000,000	3,978,850	3,986,683
Motorola Inc.	7-11-85	10,000,000	9,937,917	9,977,236
North American Phillips Corp.	7-25-85	6,300,000	6,258,420	6,269,760
Ohio Bell Telephone Co.	7-03-85	1,900,000	1,889,914	1,898,836
J.C. Penney Financial Corp.	7-08-85	10,100,000	10,048,448	10,083,503
Sears Roebuck Acceptance Corp.	7-09-85	4,000,000	3,982,156	3,992,700
Sears Roebuck Acceptance Corp.	7-25-85	8,900,000	8,839,480	8,855,500
Shell Oil Co.	7-10-85	10,000,000	9,938,333	9,979,444
Shell Oil Co.	7-12-85	7,700,000	7,652,837	7,681,135
Shell Oil Co.	7-12-85	5,000,000	4,970,295	4,987,708
Standard Oil Company (Ohio)	7-26-85	10,900,000	10,832,329	10,841,352
Weyerhaeuser Co.	7-19-85	5,000,000	4,971,042	4,981,660
Wisconsin Bell Telephone Co.	7-09-85	3,000,000	2,991,250	2,994,375
Wisconsin Power & Light Co.	7-10-85	5,000,000	4,981,000	4,990,000
Wisconsin Power & Light Co.	7-11-85	5,000,000	4,980,000	4,989,000
		<u>\$ 195,800,000</u>	<u>\$ 194,792,556</u>	<u>\$ 195,262,788</u>
Total Short-Term		<u>\$ 205,050,000</u>	<u>\$ 203,987,857</u>	<u>\$ 204,472,794</u>

LIST OF INVESTMENTS

Investments

Year Ended June 30, 1985	Interest Rate	Maturity	Par Value	Book Value	Market Value
U.S. Government & Agency Bonds					
<i>U.S. Treasury</i>					
U.S. Treasury Notes	11.375%	8-15-86	\$ 10,000,000	\$ 9,984,732	\$ 10,346,900
U.S. Treasury Notes	12.625	11-15-87	10,000,000	9,989,500	10,771,900
U.S. Treasury Notes	11.750	5-15-89	10,000,000	10,188,889	10,693,700
U.S. Treasury Notes	11.875	10-15-89	10,000,000	10,254,129	10,762,500
			<u>\$ 40,000,000</u>	<u>\$ 40,417,250</u>	<u>\$ 42,575,000</u>
<i>Agency Bonds</i>					
Federal Farm Credit Bank	12.400%	3-02-87	\$ 10,000,000	\$ 10,175,000	\$ 10,571,900
Federal Farm Credit Bank	11.500	7-20-88	10,000,000	10,102,121	10,571,900
Federal Farm Credit Bank	11.700	7-20-88	10,000,000	10,202,660	10,615,600
Federal Farm Credit Bank	13.050	1-23-89	10,000,000	10,527,273	10,953,100
Federal Farm Credit Bank	11.150	1-22-90	10,000,000	10,000,000	10,425,000
Federal Farm Credit Bank	12.500	9-04-90	13,000,000	13,497,908	14,267,500
Federal Farm Credit Bank	11.500	1-20-92	5,000,000	4,976,562	5,290,600
Federal Farm Credit Bank	13.750	7-20-92	11,000,000	11,382,031	12,815,000
Federal Farm Credit Bank	12.350	3-01-94	5,000,000	5,243,421	5,531,250
Federal Home Loan Bank	12.050	10-26-87	10,000,000	10,253,906	10,596,900
Federal Home Loan Bank	14.125	7-25-89	11,000,000	11,817,410	12,498,750
Federal Home Loan Bank	11.450	2-25-92	1,000,000	982,500	1,053,750
Federal Home Loan Mtg. Corp.	9.400	9-15-08	2,272,400	1,989,764	2,153,099
Federal Home Loan Mtg. Corp.	9.875	3-15-09	395,200	352,018	380,874
Federal Home Loan Mtg. Corp.	12.450	9-15-09	30,723,000	29,942,961	32,719,995
			<u>\$ 139,390,600</u>	<u>\$ 141,445,535</u>	<u>\$ 150,445,218</u>
Total U.S. Government and Agency Bonds			<u>\$ 179,390,600</u>	<u>\$ 181,862,785</u>	<u>\$ 193,020,218</u>

Corporate Bonds

Industrial Bonds

American Brands Inc.	11.125%	10-15-89	\$ 10,000,000	\$ 9,961,429	\$ 10,242,800
Amoco Co.	9.200	7-15-04	5,750,000	5,677,009	5,012,390
Cities Service Co.	9.750	10-01-00	6,500,000	6,514,869	5,544,630
Conoco, Inc.	9.375	4-01-09	3,000,000	2,955,000	2,568,630
Continental Oil Co.	8.875	6-01-01	10,000,000	8,032,472	8,450,400
Dana Corp.	8.875	11-15-08	1,250,000	1,235,294	977,100
Dow Chemical Co.	11.250	7-15-10	11,750,000	11,540,422	11,322,535
General Mills Inc.	9.375	3-01-09	8,500,000	8,493,000	7,278,890
Halliburton Co.	16.000	10-01-88	5,000,000	5,000,000	5,497,000
Litton Industries Inc.	11.500	7-01-95	128,000	103,127	130,560
Litton Industries Inc.	9.500	7-01-00	128,000	103,127	127,840
Litton Industries Inc.	12.625	7-01-05	128,000	103,127	134,880
McDonald's Corp.	11.625	4-15-95	5,000,000	4,977,500	5,200,900
Philip Morris, Inc.	9.550	6-01-86	6,000,000	5,944,916	6,040,980
Philip Morris, Inc.	8.875	6-01-04	3,750,000	3,653,291	3,120,450
Unocal Corp.	14.000	5-15-90	157,000	101,824	167,794
Unocal Corp.	12.125	5-15-91	251,300	163,021	258,839
Unocal Corp.	13.500	5-15-97	157,000	101,824	164,653
			<u>\$ 77,449,300</u>	<u>\$ 74,661,252</u>	<u>\$ 72,241,271</u>

School Employees Retirement System Of Ohio

LIST OF INVESTMENTS

Investments

Year Ended June 30, 1985	Interest Rate	Maturity	Par Value	Book Value	Market Value
Telephone Bonds					
General Tel. Co. of Florida	10.750%	7-01-04	\$ 3,000,000	\$ 2,839,639	\$ 2,827,620
General Tel. Co. of Florida	13.375	9-01-10	7,500,000	7,335,032	8,310,300
General Tel. Co. of Indiana	14.000	12-01-10	1,000,000	918,250	1,114,230
General Tel. Co. of Michigan	11.875	6-01-10	1,500,000	1,315,586	1,520,790
General Tel. Co. of Northwest	10.750	9-01-04	650,000	577,613	612,352
General Tel. Co. of Northwest	12.125	7-01-10	6,000,000	5,860,032	6,150,780
General Tel. Co. of Ohio	10.250	12-01-04	1,500,000	1,323,430	1,365,975
General Tel. Co. of Ohio	9.000	6-01-06	1,000,000	994,750	784,090
General Tel. Co. of Ohio	16.625	5-01-11	3,000,000	2,948,000	3,612,810
General Tel. Co. of Pennsylvania	12.000	6-01-10	5,000,000	5,000,000	5,078,750
General Tel. Co. of Southeast	8.750	5-01-01	2,000,000	1,519,728	1,602,560
General Tel. Co. of Wisconsin	14.375	4-01-10	4,000,000	3,763,260	4,414,960
Illinois Bell Tel. Co.	12.250	8-05-17	6,000,000	5,997,679	6,357,540
Northwestern Bell Tel. Co.	8.625	6-15-12	9,000,000	9,054,356	6,978,690
South Central Bell Tel. Co.	12.875	10-01-20	27,000,000	26,585,855	28,947,240
South Central Bell Tel. Co.	9.200	4-01-10	9,000,000	6,977,863	7,371,810
Southern Bell Tel. & Tel. Co.	12.875	10-05-20	7,000,000	6,073,180	7,504,910
Southwestern Bell Tel. Co.	14.250	12-10-20	25,000,000	26,454,651	28,492,250
			<u>\$ 119,150,000</u>	<u>\$ 115,538,904</u>	<u>\$ 123,047,657</u>
Power & Light Bonds					
Central Illinois Public Service Co.	8.500%	3-01-04	\$ 2,000,000	\$ 1,931,980	\$ 1,573,880
Duke Power Co.	8.125	9-01-07	4,000,000	3,953,754	2,985,960
Florida Power & Light Co.	12.125	11-01-09	2,500,000	2,423,585	2,553,550
Indianapolis Power & Light Co.	9.300	6-01-06	2,650,000	2,659,441	2,209,385
Iowa Power & Light Co.	8.750	3-01-06	1,000,000	1,035,999	787,500
Iowa Public Service Co.	9.000	5-01-06	2,500,000	2,610,025	2,016,925
Kansas Gas & Electric Co.	8.125	5-01-01	1,000,000	933,247	703,610
Kansas Gas & Electric Co.	8.375	9-01-06	500,000	507,346	347,515
Kansas Gas & Electric Co.	8.875	3-15-08	1,000,000	1,002,001	725,280
Kansas Power & Light Co.	8.750	9-01-00	1,000,000	1,026,383	810,480
Kansas Power & Light Co.	8.625	5-01-06	2,000,000	2,062,710	1,560,920
Metropolitan Edison Co.	9.000	9-01-08	3,000,000	2,917,891	2,299,440
New England Power Co.	8.625	8-01-03	2,000,000	2,021,583	1,565,760
Philadelphia Electric Co.	8.625	7-15-03	3,000,000	3,002,667	2,250,180
Philadelphia Electric Co.	8.500	1-15-04	4,500,000	4,475,159	3,325,095
Philadelphia Electric Co.	8.625	3-15-07	4,000,000	3,990,650	2,951,400
Public Service Electric & Gas Co.	12.000	11-01-09	3,000,000	2,862,790	3,070,980
Southern California Edison Co.	8.875	3-01-00	3,500,000	3,553,205	2,886,835
Southern California Edison Co.	8.875	3-15-01	2,000,000	2,060,000	1,640,220
Southwestern Public Service Co.	10.900	6-01-90	2,000,000	1,990,413	2,068,340
Southwestern Public Service Co.	8.800	2-01-05	1,000,000	1,043,084	794,500
Union Electric Co.	8.875	9-01-06	3,500,000	3,556,563	2,763,565
Wisconsin Power & Light Co.	8.875	4-01-04	2,500,000	2,577,727	2,072,600
			<u>\$ 54,150,000</u>	<u>\$ 54,198,203</u>	<u>\$ 43,963,920</u>
Total Corporate Bonds			<u>\$ 250,749,300</u>	<u>\$ 244,398,359</u>	<u>\$ 239,252,848</u>

LIST OF INVESTMENTS

Investments

Year Ended June 30, 1985	Interest Rate	Maturity	Par Value	Book Value	Market Value
Canadian Bonds					
Authority, Board, Commission					
Alberta Government Tel. Comm.	7.875%	9-01-96	\$ 1,300,000	\$ 1,307,228	\$ 1,063,543
Manitoba Hydro Electric Board	9.500	10-01-85	7,700,000	7,678,064	7,723,254
Total Canadian Bonds			\$ 9,000,000	\$ 8,985,292	\$ 8,786,797
Total Bonds			\$ 439,139,900	\$ 435,246,436	\$ 441,059,863
Mortgage Securities					
GNMA Modified Pass-Through					
Mortgage-Backed Securities					
Level Payment	8.000%	2005-08	\$ 14,553,215	\$ 14,497,337	\$ 12,188,317
Level and Graduated Payment	9.000	2008-09	18,786,710	18,569,590	16,594,345
Level and Graduated Payment	9.500	2009	21,997,328	21,668,685	20,032,344
Level and Graduated Payment	10.000	2009	3,530,667	3,443,676	3,341,083
Level and Graduated Payment	11.000	2010	26,747,752	25,807,034	26,428,464
Level Payment	11.500	2010-13	20,186,735	19,856,704	20,323,210
Level and Graduated Payment	12.000	2012-13	26,425,339	25,856,472	27,087,503
Level and Graduated Payment	12.500	2010	46,820,886	46,183,622	48,748,792
Level Payment	13.000	2012	9,961,962	9,373,169	10,588,588
Level Payment	13.500	2010	1,708,871	1,700,372	1,845,580
Level and Graduated Payment	14.000	2011-12	5,537,365	5,023,551	6,026,188
Level and Graduated Payment	15.000	2011-12	3,218,404	2,933,732	3,608,473
Graduated Payment	15.500	2011	592,818	511,042	655,805
Level Payment	16.000	2011-12	1,981,761	1,900,454	2,269,116
			\$ 202,049,813	\$ 197,325,440	\$ 199,737,808
FHLMC Mortgage-Backed					
Participation Certificates					
Issue Date 1978	9.000%	2008	\$ 7,870,685	\$ 7,756,080	\$ 7,044,263
Issue Date 1978	9.250	2008	17,053,444	16,908,628	15,476,001
Issue Date 1979	10.000	2009-11	33,506,080	30,902,645	31,495,715
Issue Date 1979-83	12.000	2009-13	10,206,715	8,963,846	10,385,332
Issue Date 1983	12.500	2013	13,604,875	13,382,933	14,081,046
Issue Date 1980-84	13.000	2010-14	943,316	943,316	995,198
Issue Date 1982	14.000	2012	9,886,282	9,886,282	10,677,184
Issue Date 1980	14.750	2010	6,326,614	6,284,965	6,669,453
Issue Date 1981	15.000	2011	2,605,998	2,597,049	2,860,083
Issue Date 1981	16.250	2011	1,390,688	1,287,665	1,492,223
			\$ 103,394,697	\$ 98,913,409	\$ 101,176,498
FHA Insured Mortgages					
Single Family	5.000%	Various	\$ 14,802	\$ 14,802	\$ 10,692
Single Family	5.250	Various	149,750	149,750	125,056
Single Family	5.500	Various	27,854	27,854	24,090
Single Family	5.750	Various	24,001	24,001	20,926
Single Family	6.000	Various	25,693	25,693	20,318
Single Family	6.750	Various	40,040	40,040	31,988
FHA PROJECT-Section 231	5.500	5-01-10	3,509,325	3,509,325	2,228,423
			\$ 3,791,465	\$ 3,791,465	\$ 2,461,493

LIST OF INVESTMENTS

Investments

Year Ended June 30, 1985	Interest Rate	Maturity	Par Value	Book Value	Market Value
Mortgage Securities (Continued)					
VA Guaranteed Mortgages					
Single Family	4.500%	Various	\$ 4,556	\$ 4,556	\$ 4,056
Single Family	5.250	Various	140,172	140,172	116,385
Single Family	5.500	Various	10,503	10,503	8,239
Single Family	5.750	Various	26,381	26,381	21,622
Single Family	6.000	Various	61,377	61,377	48,660
Single Family	6.750	Various	14,734	14,734	11,773
			<u>\$ 257,723</u>	<u>\$ 257,723</u>	<u>\$ 210,735</u>
HUD Guaranteed Mortgages					
Section 8	7.50-8.75%	1990-91	\$ 754,395	\$ 754,395	\$ 699,527
Section 23	7.75-8.75	1990	1,133,118	1,133,118	1,069,221
			<u>\$ 1,887,513</u>	<u>\$ 1,887,513</u>	<u>\$ 1,768,748</u>
Total Residential Mortgages			\$ 311,381,211	\$ 302,175,550	\$ 305,355,282
Total Bonds & Residential Mortgages			\$ 750,521,111	\$ 737,421,986	\$ 746,415,145

REAL ESTATE and COMMERCIAL AND INDUSTRIAL MORTGAGES

Commercial and Industrial Mortgages					
Construction Development Co.					
Dillard's, Austin, TX	12.500%	10-01-07	\$ 7,163,089	\$ 7,163,089	\$ 7,616,538
Construction Development Co.					
Dillard's, Memphis, TN	12.500	10-01-07	7,132,698	7,132,698	7,873,624
Crow Childress Harrod Ltd.	12.500	8-30-12	8,516,714	8,516,714	10,438,919
Philip R. Duke & Assoc.	11.000	8-15-15	9,600,000	9,600,000	9,600,000
Four CPS Company Ltd.	12.000	9-12-03	12,810,925	12,810,925	14,418,000
One Prestige Plaza Ltd.	11.500	1-01-04	6,564,431	6,564,431	8,124,615
1001 Howard Avenue	11.000	2-27-15	23,474,505	23,474,505	25,154,239
Northcreek Office Park	11.500	3-29-15	3,360,504	3,360,504	3,658,985
Petropoulos & McConnell	12.000	1-31-90	7,500,000	7,500,000	7,500,000
			<u>\$ 86,122,866</u>	<u>\$ 86,122,866</u>	<u>\$ 94,384,920</u>
Total Commercial & Industrial Mortgages					
Land and Buildings					
Office Building, Columbus, OH			\$ 16,916,160	\$ 13,371,669	\$ 22,804,000
Office Building, Dublin, OH			8,251,895	7,796,437	9,000,000
Office Building, Oklahoma City, OKLA			9,815,272	9,237,438	10,000,000
Warehouse, San Antonio, TX			3,800,000	3,598,347	4,160,000
Warehouse, Sharonville, OH			1,505,381	1,403,038	1,500,000
J.C. Penney Store, Cape Girardeau, MO			3,500,000	3,320,439	3,750,000
K-Mart Store, Edinburg, TX			2,182,000	2,014,631	2,200,000
K-Mart Store, Gallatin, TN			2,222,000	2,048,056	2,250,000
K-Mart Store, Miami, FLA			3,350,000	3,244,640	3,687,000
K-Mart Store, Midland, TX			2,829,500	2,616,844	2,900,000
K-Mart Store, Port St. Lucie, FLA			3,667,000	3,441,801	3,965,000
K-Mart Store, Portland, TX			2,388,500	2,210,379	2,500,000
Wal-Mart Store, Bixby, OKLA			1,060,000	1,006,237	1,250,000
Wal-Mart Store, Center, TX			1,320,000	1,245,845	1,800,000
Wal-Mart Store, Fort Smith, ARK			2,550,000	2,437,853	3,000,000
Wal-Mart Store, Groves, TX			2,300,000	2,203,642	2,400,000
Wal-Mart Store, Silsbee, TX			1,520,000	1,431,139	1,850,000
Wal-Mart Store, Vidor, TX			2,515,000	2,437,572	2,600,000
Wal-Mart Store, Weatherford, OKLA			1,582,000	1,511,772	1,750,000

School Employees Retirement System Of Ohio

LIST OF INVESTMENTS

Investments

Year Ended June 30, 1985	Par Value	Book Value	Market Value
<i>Land and Buildings (Continued)</i>			
Kroger Supermarket, Charlotte, NC	2,865,746	2,743,338	2,994,000
Kroger Supermarket, Charlotte, NC	2,814,320	2,699,501	2,940,000
Kroger Supermarket, Cincinnati, OH	2,078,440	1,961,280	2,170,000
Kroger Supermarket, Columbus, OH	2,187,129	2,052,572	2,303,000
Kroger/Super X, Gallatin, TN	1,750,000	1,607,400	1,822,000
Kroger Supermarket, Plano, TX	2,346,534	2,214,878	2,400,000
Kroger Supermarket, Roswell, GA	3,560,612	3,469,690	3,600,000
Kroger/Super X, Smyrna, TN	2,699,649	2,534,525	2,841,000
Safeway Supermarket, Arlington, TX	3,300,000	3,141,467	3,450,000
Safeway Supermarket, Broken Arrow, OKLA	2,700,000	2,563,169	2,835,000
Safeway Supermarket, Clute, TX	2,481,000	2,349,315	2,525,000
Safeway Supermarket, Escondido, CA	2,900,000	2,771,697	3,045,000
Safeway Supermarket, Glendale, AZ	1,900,000	1,822,038	1,995,000
Safeway Supermarket, Tulsa, OKLA	2,650,000	2,531,307	2,785,000
Total Investment Real Estate	\$ 109,508,138	\$ 101,039,956	\$ 121,071,000
<i>Commingled Real Estate Funds</i>			
Equitable Life Assurance	\$ 20,721,330	\$ 20,721,330	\$ 21,507,151
NCNB National Bank	15,703,810	15,703,810	16,253,246
Prudential Property Investment Separate Account (PRISA)	34,654,357	34,654,357	43,693,450
Total Commingled Real Estate Funds	\$ 71,079,497	\$ 71,079,497	\$ 81,453,847
Total Real Estate and Commercial And Industrial Mortgages	\$ 266,710,501	\$ 258,242,319	\$ 296,909,767

Common Stocks

Shares		Book Value	Market Value
13,600	Abbott Laboratories	\$ 785,711	\$ 780,300
1,900	Acme-Cleveland Corp.	30,706	32,063
37,700	Aetna Life & Casualty Co.	1,621,561	1,757,762
3,500	Alberto-Culver Co.	61,714	60,375
11,500	Allied Stores Corp.	644,999	687,125
40,000	ALLTEL Corp.	971,866	1,125,000
19,200	Aluminum Co. of America	645,780	657,600
234,700	Amerada Hess Corp.	6,864,673	6,659,613
12,500	American Brands, Inc.	832,752	832,813
12,500	American Cyanamid Co.	603,740	625,000
14,800	American Electric Power Company, Inc.	322,514	349,650
20,300	American General Corp.	652,338	707,962
102,900	American Home Products Corp.	4,578,586	6,572,737
33,600	American International Group, Inc.	2,740,391	2,856,000
19,200	American Stores Co.	1,000,088	1,281,600
217,200	American Telephone & Telegraph Co.	3,920,057	5,239,950
47,900	Ameritech Corp.	3,175,976	4,544,513
105,100	Amoco Corp.	5,668,211	6,606,848
32,100	Anheuser-Busch Companies, Inc.	876,381	1,019,175
29,400	Archer-Daniels-Midland Co.	604,432	712,950
18,600	Arkla, Inc.	300,934	348,750

School Employees Retirement System Of Ohio

LIST OF INVESTMENTS
Common Stocks (Continued)

Investments

Shares		Book Value	Market Value
9,800	Armstrong World Industries, Inc.	375,841	382,200
88,200	Atlantic Richfield Co.	4,168,019	5,280,975
22,000	Automatic Data Processing, Inc.	964,101	1,177,000
2,700	Ball Corp.	127,659	149,513
11,700	Bank of Boston Corp.	590,939	642,037
31,400	BankAmerica Corp.	677,323	600,525
10,000	Bankers Trust New York Corp.	638,203	696,250
9,300	Bard (C.R.), Inc.	285,361	327,825
18,450	Barnett Banks of Florida, Inc.	661,850	696,488
5,300	Becton, Dickinson & Co.	279,615	289,512
28,300	Bell Atlantic Corp.	2,422,810	2,621,288
97,400	BellSouth Corp.	2,830,658	4,066,450
50,400	Black & Decker Corp.	1,100,957	995,400
40,000	Block (H & R) Inc.	1,873,189	2,260,000
89,800	Boeing Co.	3,271,833	4,018,550
15,000	Borden, Inc.	487,574	630,000
35,000	Briggs & Stratton Corp.	1,036,413	988,750
78,800	Bristol-Meyers Co.	1,623,993	4,836,350
15,000	Brush Wellman Inc.	468,911	480,000
14,800	Burlington Northern, Inc.	856,538	923,150
120,900	CSX Corp.	2,341,417	3,158,513
10,800	Campbell Soup Co.	765,333	828,900
7,800	Capital Cities Communications, Inc.	1,723,143	1,741,350
31,200	Capitol Holding Corp.	754,303	744,900
40,000	Carlisle Corp.	1,257,900	1,300,000
40,000	Caterpillar Tractor Co.	1,830,587	1,325,000
23,200	Champion Spark Plug Co.	209,477	205,900
17,700	Chase Manhattan Corp.	1,002,874	1,068,637
29,200	Chemical New York Corp.	1,148,164	1,204,500
1,600	Chesebrough-Pond's, Inc.	51,113	51,200
100,500	Chevron Corp.	3,626,034	3,756,188
12,700	Chubb Corp.	931,859	944,562
14,700	Cigna Corp.	768,941	872,813
25,000	Cincinnati Bell Inc.	1,104,273	1,253,125
93,600	Cincinnati Milacron Inc.	2,400,204	1,942,200
36,400	Citicorp	1,648,229	1,797,250
50,000	Cleveland-Cliffs Iron Co.	1,042,625	1,000,000
5,200	Cluett, Peabody & Company, Inc.	151,166	187,850
22,000	Coca-Cola Co.	1,485,262	1,526,250
4,200	Coleman Company, Inc.	120,997	132,300
31,300	Commonwealth Edison Co.	993,123	966,387
36,300	Consolidated Edison Co. of New York, Inc.	1,168,655	1,347,638
25,100	Consolidated Natural Gas Co.	1,112,460	1,094,987
29,500	Continental Corp.	1,299,210	1,268,500
14,000	Coors (Adolph) Co.	228,706	257,250
26,200	Corning Glass Works	1,123,819	1,159,350
7,600	Cross & Trecker Corp.	193,974	193,800
10,510	Cyprus Minerals Co.	111,827	132,689
34,800	Dana Corp.	985,250	952,650
33,000	Dart & Kraft, Inc.	505,280	1,167,375

LIST OF INVESTMENTS
Common Stocks (Continued)

Investments

Shares		Book Value	Market Value
126,600	Dayton-Hudson Corp.	3,804,245	5,348,850
30,000	Deluxe Check Printers, Inc.	699,825	1,237,500
9,000	Disney (Walt) Productions	712,305	844,875
53,700	Dominion Resources, Inc.	1,660,209	1,772,100
11,700	Donnelley (R.R.) & Sons Co.	636,703	681,525
25,300	Dow Chemical Co.	841,417	904,475
29,200	Dow Jones & Company, Inc.	1,338,997	1,372,400
114,700	DuPont (E.I.) de Nemours & Co.	5,415,415	6,666,938
18,000	Duke Power Co.	625,125	625,500
140,800	Eastman Kodak Co.	7,948,130	6,230,400
39,900	Eaton Corp.	1,932,808	2,044,875
12,900	Echlin Inc.	335,165	338,625
40,000	Economics Laboratory, Inc.	1,190,000	1,330,000
18,500	Emerson Electric Co.	1,303,988	1,357,437
11,600	Emery Air Freight Corp.	198,021	195,750
256,800	Exxon Corp.	8,295,451	13,835,100
15,400	FMC Corp.	1,037,278	1,054,900
147,900	FPL Group, Inc.	2,834,673	3,789,937
40,100	Federated Department Stores, Inc.	1,782,485	2,556,375
75,500	Firestone Tire & Rubber Co.	1,432,978	1,623,250
28,600	First Chicago Corp.	661,657	636,350
13,000	First Interstate Bancorp	607,071	719,875
15,000	Fort Howard Paper Co.	819,888	1,091,250
25,800	Gannett Company, Inc.	1,562,898	1,622,175
22,800	General Cinema Corp.	844,273	880,650
17,400	General Dynamics Corp.	1,281,758	1,294,125
92,900	General Electric Co.	5,590,980	5,748,188
8,700	General Foods Corp.	554,050	704,700
110,000	General Instrument Corp.	5,180,950	1,746,250
17,500	General Mills, Inc.	951,723	1,113,437
95,000	General Motors Corp.	6,961,900	6,840,000
15,700	General Re Corp.	918,053	1,334,500
11,500	General Signal Corp.	485,962	527,563
16,600	Genuine Parts Co.	526,963	556,100
36,400	Georgia-Pacific Corp.	841,460	864,500
12,300	Gerber Products Co.	368,446	425,887
11,200	Goodrich (B.F.) Co.	369,128	357,000
90,000	Goodyear Tire & Rubber Co.	2,594,600	2,655,000
46,000	Gordon Jewelry Corp. Class "A"	785,337	792,200
30,000	Goulds Inc.	517,500	510,000
15,900	Grainger (W.W.), Inc.	524,319	534,638
35,000	Guilford Mills Inc.	822,627	844,375
65,800	Halliburton Co.	2,690,970	1,924,650
8,400	Handleman Co.	201,171	226,800
24,400	Harris Corp.	660,078	692,350
30,000	Hartmarx Corp.	863,949	1,087,500
16,400	Heileman (G.) Brewing Company, Inc.	335,343	334,150
17,200	Heinz (H.J.) Co.	820,164	939,550
36,800	Hercules Inc.	793,919	1,297,200
19,100	Hershey Foods Corp.	769,671	902,475

LIST OF INVESTMENTS
Common Stocks (Continued)

Investments

Shares		Book Value	Market Value
124,100	Hewlett-Packard Co.	4,630,797	4,343,500
50,000	Hillenbrand Industries, Inc.	1,128,000	1,237,500
15,100	Holiday Corp.	861,769	839,937
45,000	Huffy Corp.	571,884	450,000
54,600	ITT Corp.	2,300,014	1,747,200
3,400	Interlake, Inc.	170,026	171,275
187,400	International Business Machines Corp.	14,615,076	23,190,750
16,200	International Flavors & Fragrances Inc.	482,522	486,000
10,600	International Minerals & Chemical Corp.	428,056	431,950
50,000	International Multifoods Corp.	1,485,515	1,668,750
11,000	International Paper Co.	558,930	539,000
26,700	InterNorth, Inc.	1,276,303	1,174,800
20,000	Iowa Resources Inc.	699,891	755,000
53,700	Johnson & Johnson	1,956,613	2,490,338
60,000	Jostens, Inc.	1,260,550	1,500,000
21,600	K-Mart Corp.	823,050	828,900
21,500	Kellogg Co.	1,120,862	1,255,063
15,000	Kimberly-Clark Corp.	859,812	886,875
19,800	Knight-Ridder Newspapers, Inc.	651,090	767,250
60,000	Kroger Co.	2,100,725	2,722,500
12,000	Lilly (Eli) & Co.	957,741	1,038,000
72,400	Limited, Inc.	1,444,871	1,810,000
24,900	Lincoln National Corp.	1,003,431	1,030,237
8,606	Litton Industries, Inc.	606,006	707,844
50,000	Longs Drug Store, Inc.	1,151,338	1,531,250
137,900	Louisiana Land & Exploration Co.	3,752,878	4,447,275
22,300	Lowe's Companies, Inc.	593,994	599,312
90,000	Lubrizol Corp.	1,902,450	1,991,250
13,800	Luckey Stores, Inc.	304,729	313,950
12,700	MacMillan, Inc.	437,885	444,500
18,900	Macy (R.H.) & Co., Inc.	982,819	978,075
25,000	Magic Chef, Inc.	942,073	1,037,500
6,100	Martin Marietta Corp.	317,559	352,275
17,200	Masco Corp.	516,169	606,300
23,000	May Department Stores Co.	1,183,683	1,279,375
13,800	McDonald's Corp.	928,365	945,300
20,000	McKesson Corp.	871,090	945,000
10,400	MEI Corp.	392,383	403,000
40,000	Mellon Bank Corp.	1,522,325	2,160,000
13,300	Melville Corp.	618,673	638,400
4,000	Mercantile Stores Co., Inc.	266,917	270,000
25,400	Merck & Co., Inc.	2,332,333	2,860,675
36,400	Minnesota Mining & Manufacturing Co.	2,472,432	2,839,200
94,600	Mobil Corp.	2,828,466	2,849,825
2,300	Monarch Machine Tool Co.	38,092	35,650
41,400	Monsanto Co.	1,931,510	2,002,725
29,200	Morgan (J.P.) & Co., Inc.	1,420,525	1,503,800
80,000	Morrison Inc.	1,392,500	1,600,000
10,000	Mosinee Paper Corp.	124,938	131,250
123,200	Motorola, Inc.	3,267,763	4,204,200

LIST OF INVESTMENTS
Common Stocks (Continued)

Investments

Shares		Book Value	Market Value
130,800	NCR Corp.	3,356,103	4,005,750
70,000	N L Industries, Inc.	1,245,613	761,250
32,800	NWA Inc.	1,155,391	1,775,300
11,200	Nabisco Brands, Inc.	664,388	925,400
23,000	National Medical Enterprises, Inc.	647,117	727,375
24,100	New York Times Co. Class "A"	1,092,065	1,153,788
18,400	Newmont Mining Corp.	821,365	768,200
14,800	Niagara Mohawk Power Corp.	293,842	299,700
27,900	Norfolk Southern Corp.	1,409,429	1,911,150
2,000	North America Coal Corp.	105,546	107,500
6,100	Northern States Power Co.	279,135	301,187
20,000	Norton Co.	720,272	720,000
6,100	Noxell Corp. Class "B"	278,964	334,738
20,400	NYNEX Corp.	1,795,794	1,820,700
8,200	ONEOK, Inc.	267,401	262,400
35,200	Outboard Marine Corp.	853,270	800,800
56,000	Pacific Gas & Electric Co.	990,985	1,099,000
28,600	Pacific Telesis Group	1,986,698	2,241,525
27,000	Panhandle Eastern Corp.	1,003,387	978,750
30,000	Parker-Hannifin Corp.	927,512	1,001,250
47,800	Penney (J.C.) Company, Inc.	2,220,123	2,461,700
28,500	Pennzoil Co.	1,492,898	1,453,500
13,500	Peoples Energy Corp.	230,008	229,500
16,800	PepsiCo, Inc.	984,550	1,010,100
21,300	Perkin-Elmer Corp.	512,750	543,150
40,500	Pfizer Inc.	1,982,390	2,004,750
26,500	Philip Morris Inc.	2,374,635	2,262,437
30,000	Phillips Industries Inc.	682,500	686,250
22,300	Phillips Petroleum Co.	901,673	850,188
116,000	Pillsbury Co.	4,627,347	6,264,000
35,000	Pioneer Hi-Bred International Inc.	941,250	1,146,250
22,100	Pitney Bowes, Inc.	983,910	991,737
33,800	Polaroid Corp.	1,551,966	1,064,700
41,100	Proctor & Gamble Corp.	1,858,210	2,311,875
28,200	Public Service Electric & Gas Co.	894,255	860,100
14,500	Pulte Home Corp.	237,970	242,875
68,100	RCA Corp.	1,501,996	3,243,262
39,900	RTE Corp.	701,341	743,138
16,300	Ralston Purina Co.	704,523	725,350
29,700	Ranco, Inc.	550,748	527,175
35,300	Raytheon Co.	1,587,562	1,765,000
17,000	Reading & Bates Corp.	170,168	146,625
22,500	Revco D.S., Inc.	553,645	556,875
19,200	Revlon, Inc.	675,224	782,400
70,000	Reynolds (R.J.) Industries, Inc.	2,217,865	2,222,500
47,500	Roadway Services, Inc.	1,463,825	1,377,500
31,700	Rockwell International Corp.	1,163,476	1,180,825
14,200	Rohm & Haas Co.	920,427	935,425
4,200	Ryan Homes, Inc.	115,413	114,975
37,800	Santa Fe Southern Pacific Corp.	1,133,213	1,256,850

School Employees Retirement System Of Ohio

LIST OF INVESTMENTS
Common Stocks (Continued)

Investments

Shares		Book Value	Market Value
24,700	Sara Lee Corp.	939,513	1,065,188
25,000	Earl Scheib Inc.	501,900	543,750
16,900	Schering-Plough Corp.	766,463	756,275
22,900	Scott Paper Co.	845,947	944,625
11,700	Searle (G.D.) & Co.	624,380	631,800
103,500	Sears, Roebuck & Co.	4,709,744	3,971,812
11,600	SmithKline Beckman Corp.	775,508	807,650
48,500	Snap-on Tools Corp.	1,745,349	1,891,500
95,100	Southeast Banking Corp.	2,537,054	3,257,175
39,900	Southern California Edison Co.	1,016,185	1,067,325
107,600	Southern Co.	2,259,466	2,380,650
30,000	Southern Indiana Gas & Electric Co.	577,263	783,750
19,500	Southwestern Bell Corp.	1,554,266	1,638,000
6,800	Square D Co.	264,300	269,450
4,100	Squibb Corp.	229,842	258,813
36,700	Standard Oil Company (Ohio)	1,715,835	1,720,312
30,000	Standard Products Co.	634,812	573,750
20,000	Standard Register Co.	414,850	680,000
16,900	Stanley Works	506,772	498,550
10,900	Super Valu Stores, Inc.	414,283	416,925
5,500	Taft Broadcasting Co.	357,874	414,563
15,900	Tektronix, Inc.	748,145	961,950
56,600	Tenneco, Inc.	2,389,291	2,398,425
189,800	Texaco Inc.	7,126,129	7,188,675
84,900	Texas Oil & Gas Corp.	1,492,079	1,390,237
37,400	Texas Utilities Co.	1,141,554	1,159,400
10,700	Textron Inc.	470,254	588,500
9,600	Thomas & Betts Corp.	363,711	340,800
16,200	Time Inc.	957,211	935,550
34,100	Times Mirror Co.	1,711,591	1,832,875
20,000	Transamerica Corp.	589,896	640,000
17,600	TRW Inc.	1,322,532	1,317,800
15,100	USG Corp.	606,764	641,750
28,000	Union Camp Corp.	921,450	1,039,500
52,700	Union Pacific Corp.	2,595,618	2,516,425
35,000	United States Shoe Corp.	908,887	1,351,875
99,300	United Technologies Corp.	3,200,151	4,120,950
12,146	Unocal Corp.	567,043	355,271
84,100	USAIR Group, Inc.	2,380,694	2,943,500
11,300	USLIFE Corp.	476,607	406,800
68,400	U S West, Inc.	4,077,955	5,540,400
43,200	Wal-Mart Stores, Inc.	2,196,860	2,359,800
38,000	Walgreen Co.	983,411	1,049,750
260,000	Wang Laboratories, Inc., Class "B"	6,714,262	4,680,000
15,100	Warner-Lambert Co.	625,915	654,962
14,800	Waste Management, Inc.	844,810	899,100
98,433	Wendy's International, Inc.	1,493,125	1,697,969
6,300	West Point-Pepperell, Inc.	237,746	256,725
64,600	Westinghouse Electric Corp.	2,107,326	2,220,625
37,300	Westvaco Corp.	1,395,220	1,436,050

LIST OF INVESTMENTS
Common Stocks (Continued)

Investments

Shares		Book Value	Market Value
23,600	Weyerhaeuser Co.	670,189	678,500
33,500	Whirlpool Corp.	1,136,795	1,599,625
79,700	White Consolidated Industries, Inc.	2,277,383	2,181,786
75,000	Worthington Industries, Inc.	1,498,000	2,118,750
2,900	Wrigley (Wm.) Jr. Co.	194,868	214,600
12,400	Xerox Corp.	622,842	652,550
3,500	Zurn Industries, Inc.	118,876	117,250
Total Common and Preferred Stock		\$ 389,537,785	\$ 438,176,482

	Par Value	Book Value	Market Value
Venture Capital			
Cardinal Development Capital Fund	\$ 3,750,000	\$ 3,750,000	\$ 3,712,257
Marion Steel Co. First Mort. 18.00% 12-01-91	3,117,843	3,117,843	3,117,843
Morgenthaler Venture Partner Fund	2,500,000	2,500,000	2,500,000
Primus Capital Fund	2,650,000	2,650,000	2,641,067
Total Venture Capital	\$ 12,017,843	\$ 12,017,843	\$ 11,971,167
Total Portfolio	\$ 1,623,837,239	\$ 1,601,207,790	\$ 1,697,945,355

INVESTMENT POLICY

Investments

This Investment Policy was adopted by the School Employees Retirement Board Of Ohio at its August 2, 1985 meeting.

A. Purpose

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

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

B. Background

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

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

C. Investment Philosophy

Risk Posture

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

Return

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

justified in order to enhance potential long-term investment results.

Diversification

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

Liquidity Requirements

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

D. Investment Objectives

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

Performance Objectives

- A. **Maximize Total Return on Assets:** Recognizing the System's obligations will increase as a result of inflation, to maximize the total return on assets available for the provision of benefits while operating in accordance with applicable regulatory restrictions and within prudent parameters of risk.
- B. **Preservation of Principal:** To protect the System from severe depreciation in asset value during adverse market conditions. This objective shall be attained by broad diversification of assets and by careful review of risks.
- C. **Competitive Results:** To achieve investment results competitive with those of the broad market and of similar funds. Long-term results shall be emphasized.

Risk

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

Other

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

E. Implementation Approach

In order to monitor and control the activities within the investment function, the Board has reserved certain responsibilities for itself. It has also delegated certain responsibilities to the Investment Staff, to organizations serving as

School Employees Retirement System Of Ohio

INVESTMENT POLICY

Investments

E. Implementation Approach (Continued)

Investment Managers and, from time to time, to other consultants or advisors. These are enumerated in Section F, Investment Organization and Responsibilities.

In fulfilling its fiduciary duties, the Retirement Board employs a competent and qualified Investment Staff for the management of the major portion of portfolio assets. In those areas where specialized expertise is required, the Retirement Board employs the services of outside Investment Managers.

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

F. Investment Organization and Responsibilities

Responsibilities of the Retirement Board

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

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

- A. Ensure that all fiduciaries comply with the Ohio Revised Code and any other applicable regulations and legislation.
- B. Establish investment policies, guidelines and objectives for the assets of the Plan and communicate them to the Investment Staff and Investment Managers.
- C. Appoint and discharge those with responsibility for managing the Plan's assets, including investment managers, consultants and any others involved.
- D. Request, receive and review reports from the Investment Staff and Investment Managers.

Responsibilities of the Investment Staff

The Investment Staff, headed by the Executive Director and the Assistant Director for Investments, shall accept the

following responsibilities. The Executive Director shall:

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

The Assistant Director for Investments shall accept the following responsibilities:

- A. Administer the policies, guidelines and objectives adopted by the Retirement Board of the School Employees Retirement System of Ohio in compliance with the relevant sections of the Ohio Revised Code.
- B. Inform and communicate to other Plan fiduciaries, including all Investment Managers, the requirements of the Ohio Revised Code and the policies, guidelines and objectives adopted by the Retirement Board, and monitor their compliance.
- C. Prepare annually an Annual Plan for the investment of the Plan's assets with recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.
- D. Implement the Annual Plan, exercising the judgments allowed by the Board as to the asset allocation ranges for that year.
- E. Report to the Board or its Investment Committee any intra-year changes in the Annual Plan or in the policy, guidelines or objectives which the Investment Staff deems desirable or which are recommended by an Investment Manager or other consultants or advisors.
- F. Oversee the activities of the Investment Staff.

Responsibilities of the Investment Managers

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

- A. Manage the assets within its control in compliance with the relevant sections of the Ohio Revised Code and with the policies, guidelines and objectives adopted by the Retirement Board.
- B. Exercise investment discretion within the guidelines and objectives specified, including decisions to buy, hold or sell securities based on the manager's current investment strategy and outlook, and compatible with such objectives.
- C. Inform the Retirement Board or the Investment Committee of any substantial changes in investment strategy, portfolio structure, value of assets, and of any organizational changes including that of ownership, affiliation, organizational structure, financial condition, or changes

INVESTMENT POLICY

Investments

Responsibilities of the Investment Manager (Continued)

in professional personnel staffing the investment management organization.

- D. Prepare reports for the Board or Investment Committee prior to any scheduled meetings but at least on a quarterly basis.*
- E. Recommend to the Board or Investment Committee any changes in policy, guidelines or objectives which the Investment Manager believes to be desirable.*

G. Review and Evaluation

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

Quarterly

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

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

Annually

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

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

PLAN SUMMARY

Purpose

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 768 school districts. This purpose is sustained by the member and employer contributions and the income realized from investments from those contributions.

Administration

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

The Executive Director is appointed by the Board. This person oversees the administrative operation of the System, and is aided by seven assistant directors. Their areas of responsibility are accounting/membership, investments, office services, retirement services, information services, data processing, and planning/human resources.

Employer Participation

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

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

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

Employee Participation

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

A. Active Members — These are persons currently employed by a school employer. Membership is required for anyone working in a position which does not require certification by the Ohio Department of Education. These persons include clerical workers, maintenance personnel, bus drivers, food service

workers, playground supervisors, data processing personnel, etc. There are two exceptions to the membership requirements: (1) Persons with student status within a school district may or may not choose to become members of SERS. (2) Persons retired from one of the other Ohio state retirement systems may not become members of SERS. A retired member may not be employed in the schools for 60 calendar days following the effective date of retirement. Thereafter, employment in the school cannot exceed 59 days of the fiscal year, beginning July 1. Active members have an amount equal to 8.75% of their earnings deducted from their gross salaries for each payroll period. These amounts are then forwarded to SERS by the payroll officer, and applied to the member's account at SERS.

B. Inactive Members — These are persons who have contributions on deposit with SERS, but who are not currently employed by a school district in the state of Ohio.

C. Retired/Disabled Members — These are persons who have either (1) met the age and service requirements for retirement from service; or (2) become eligible to receive benefits as a result of an injury or illness which prevents the member from performing regularly assigned duties.

D. Members' Survivors — When a member dies before retirement, the qualified beneficiaries become eligible for monthly benefits from SERS.

Refund Of Contributions

A member is entitled to a full refund of contributions with SERS upon termination of school employment. Only the money which the member has contributed is refundable. In accordance with Ohio Revised Code, there is a 90-day waiting period after the member's last day of service before the refund can be paid. A refund cancels any claim to benefits offered by SERS.

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

Service Retirement

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

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

A member's age is defined to be the actual age a person

PLAN SUMMARY

has reached on the day of retirement. Any change of the date of birth on our records must be substantiated by submitting proof of date of birth to the System.

Service Credit

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

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

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

Military — For service with the armed forces of the U.S. before July 1, 1973, a member may purchase up to 5 years of credit for time spent before working for a school employer or after leaving that employment. There is no restriction placed on the time elapsed between school employment and the time spent in the military. A member may purchase additional service credit if the military service includes prisoner of war time. Purchased credit may not be greater than the member's actual Ohio school employment credit.

Federal, Other State, Or Private Service — The member may purchase credit for service rendered in a school or government position other than the State of Ohio. The amount of service cannot be greater than the member's SERS service nor can it exceed 5 years.

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

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

Optional Service — This is service during a period when the member was given a choice of contributing or refraining from doing so. In order for the member to purchase this credit in this instance, the employer-school district

must likewise make its contribution, and the employer is under no obligation to do so.

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

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

Early Retirement Credit

Employers may purchase up to five years of service credit for their eligible employees under an early retirement incentive plan authorized by 1983 legislation. Adoption of a plan is optional and only employers may purchase such credit.

Benefit Calculation

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

The benefit amount is calculated in this way:

The final average salary amount is multiplied by 2% to determine the value of a year of service credit. This value cannot be less than \$86.00. If it is, \$86.00 is used. The value is then multiplied by the number of years of service credit. This calculation yields the annual retirement benefit amount for a person who has reached age 65 or who has 30 years of service at retirement time.

For "early retirement" (the member is under age 65 or has less than 30 years of service) there is a corresponding percentage of decrease in the required benefit amount to allow for an extended period of retirement. Reduction factors are required by Ohio state law and set by the Board as recommended by the actuary.

Retirement Options

Should the retiring member wish to provide a benefit amount for a beneficiary, this may be done by the selection of one of the optional retirement plans provided for this purpose. Optional plans may be altered by the retired member should the beneficiary die before the retirant or in the event of a divorce.

Disability Retirement

A member prevented from performing regular duties on the job after incurring an injury or illness and before reaching age 60 may apply for monthly disability benefits. To qualify, the member must have at least 5 years service credit. In

PLAN SUMMARY

Disability Retirement (Continued)

addition to the age and service requirements, the member must:

- Have developed the disabling illness or injury after last becoming a member of SERS;
- Have been recommended for approval by a SERS-sponsored medical review board;
- Have applied for benefits within 2 years of the last day of service with the school district.

The benefit is calculated in the same way as a regular service retirement benefit, except that no reduction is made for being under 65 years of age. SERS grants free credit for each year between the member's date of disability retirement and age 60. Benefits range from a minimum of 30% of final average salary to a maximum of 75% and are granted as long as the member remains disabled (subject to re-examination) or until death.

Death Benefits

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

Survivor Benefits

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

If the member was eligible for service retirement but had not yet applied for benefits, the surviving spouse or other single dependent beneficiary of any age can draw a

monthly lifetime benefit known as the joint survivor option. Duration of survivor benefits depends primarily on the age and marital status of the dependent(s).

Health Care and Other Benefits

Any person receiving a benefit from SERS is entitled to receive medical insurance. Coverage for a spouse and/or dependent children can be provided by means of a monthly deduction from the benefit. Coverage is offered by the selection of either the Aetna insurance company, or for those persons in the Cleveland area, the Kaiser health plan.

If the benefit recipient participates in Medicare B, the premium is paid by SERS and is added to the monthly benefit.

An optional prescription drug program is available to all benefit recipients of SERS and their dependents who are covered under the Aetna health care plan. Participants may either choose to obtain prescription drugs from their local pharmacy and receive reimbursement from the Aetna health care plan or they may elect to receive the drugs by mail from a licensed mail order pharmacy for a minimal fee per medication.

Members who retire on or after June 1, 1986 must have at least 10 or more years of service credit to qualify for the health care benefits.

Cost Of Living Increases

After 12 months on the benefit rolls, SERS retirants are entitled to an automatic cost of living of 3%. This automatic increase will be paid each year by the Retirement System until the accumulated excess cost of living points fall below 3%. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1984.