

# Treasurer's Report

## 1987

Steve Adams, Treasurer



*For the fiscal year ending June 30, 1987.*

# 1987 Report of the Treasurer

**Steve Adams, Treasurer  
State of Tennessee**



**Year Ended June 30, 1987**

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# LETTER OF TRANSMITTAL

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## STATE OF TENNESSEE



**TREASURY DEPARTMENT**  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37219

**STEVE ADAMS**  
TREASURER

**DALE SIMS**  
EXECUTIVE ASSISTANT

**JANICE CUNNINGHAM**  
EXECUTIVE ASSISTANT

January 12, 1988

The Honorable Ned McWherter, Governor  
The Honorable John S. Wilder, Lieutenant  
Governor & Speaker of the Senate  
The Honorable Ed Murray, Speaker of the  
House of Representatives  
Members of the General Assembly  
State of Tennessee  
State Capitol  
Nashville, Tennessee 37219

Ladies and Gentlemen:

I am pleased to present to you my first Annual Financial Report of the Treasurer's Office for the fiscal year ended June 30, 1987. This report contains a summary of all the programs administered by the Treasury Department as well as statistical information and financial statements reflecting the current condition of these programs.

During the 1986-87 fiscal year we achieved record investment earnings on both State and TCRS funds. TCRS investments produced \$726,663,408 during the year. Investment of uncommitted state funds yielded earnings of \$108,799,286 from investments in collateralized deposits, U.S. Treasury securities and repurchase agreements. The performance of our investment program for state funds as well as TCRS funds for the past six years is illustrated by the following table:

**Summary of Investment Program Earnings**  
**Fiscal Year 1981-82 through 1986-87**

<b>Fiscal Year</b>	<b>Cash Management Earnings</b>	<b>TCRS Portfolio Earnings</b>	<b>Total Treasury Earnings</b>
1986-87	\$108,799,286	\$ 726,663,408	\$ 835,462,694
1985-86	102,595,865	564,296,889	666,892,754
1984-85	95,041,075	354,195,992	449,237,067
1983-84	67,469,868	342,868,167	410,338,035
1982-83	73,204,971	272,632,717	345,837,688
1981-82	90,389,685	215,770,205	306,159,890
<b>TOTAL</b>	<b><u>\$537,500,750</u></b>	<b><u>\$2,476,427,378</u></b>	<b><u>\$3,013,928,128</u></b>

As the schedule above indicates, the earnings on investments generated by the Treasurer's Office have shown steady improvement over the last several years after taking into account market conditions. Little could have been accomplished without the supportive environment which has been provided by the General Assembly. This is a tribute to the sound leadership of the General Assembly, as well as the professional and business like attitude with which the Treasurer's Office has been managed in the past.

As we look to the future, changes in the financial markets pose new challenges. We will continue to make every effort to further improve the Investment Program as well as the administration of the programs for which we have responsibility. Thank you for your continuing support of our efforts.

Sincerely,

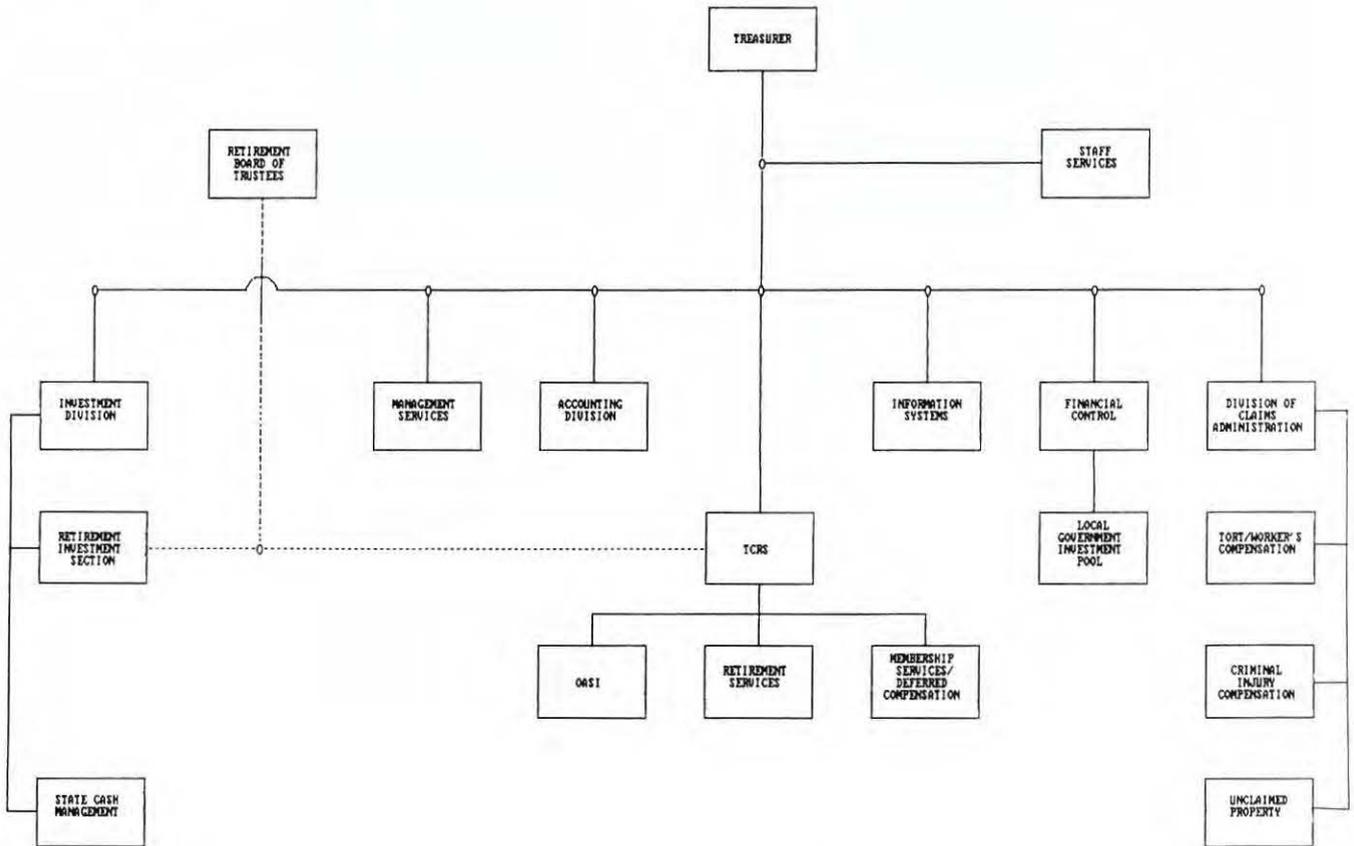
A handwritten signature in black ink that reads "Steve Adams". The signature is written in a cursive, flowing style.

Steve Adams  
Treasurer

# EXECUTIVE SUMMARY

The 1987 Treasurer's Report contains reports on various programs administered by the Treasury Department, including the Investment Division, Tennessee Consolidated Retirement System, State Trust of Tennessee, Local Government Investment Pool, Division of Claims Administration, Defense Counsel Commission, Deferred Compensation Plan, Unclaimed Property, Escheat Program and the Chairs of Excellence Program.

In order to carry out the duties assigned to the Treasurer's Office, the department is organized according to the following plan:



The following comments represent a brief recap of the purpose and operations of each program administered by the department. The remainder of this report gives detailed data regarding each of these programs' activities during the 1986-87 fiscal year.

**Investment Division:** This division has the responsibility for investing all funds under management of the Treasury Department.

**Pension Fund Investments—**This section manages the assets of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 1987 totaled \$5.7 billion. For the year, investments produced \$726.7 million in income for a realized rate of return of 15.1% on book value. This section also manages the Chairs of Excellence Trust which at June 30, 1987 totaled \$66,438,776.

**State Cash Management—**This section manages the State Pooled Investment Fund which includes the state's cash and the various dedicated reserves and trust funds of the state and the Local Government Investment Pool. Investments during 1986-87 averaged \$1.6 billion producing \$108.8 million in income for an average rate of return of 6.78%.

**Tennessee Consolidated Retirement System:** On July 1, 1972 the seven state retirement plans consolidated to form the TCRS. The TCRS provides retirement coverage to state employees, higher education employees, teachers and employees of political subdivisions that have elected to participate in the plan. Retirement benefits are financed by both employee and employer contributions. Members become eligible for full service retirement upon the attainment of age 60 and 10 years of service or 30 years of service. As of June 30, 1987, there were 154,298 active members and 48,169 retirees.

**Division of Claims Administration:** The duties of the Division of Claims Administration include investigating and making settlement offers in claims against the state for personal injuries and property damages resulting from work related accidents and negligent acts or omissions of state officers and employees. New claims filed with the Division of Claims Administration in fiscal year 1986-87 totaled 6,667. The Division is also responsible for review and payment of court orders issued under the Criminal Injuries Compensation Program, the Victims of Drunk Drivers Compensation Fund and provides staff support for the Defense Counsel Commission. The Defense Counsel Commission is empowered to pay attorneys' fees incurred by state employees in defense of certain civil actions for damages brought against them. During the fiscal year ending June 30, 1987, the Defense Counsel Commission made payments in the total amount of \$245,276.

**Deferred Compensation Program:** The State of Tennessee Deferred Compensation Program provides an opportunity to state employees to defer receipt of a portion of their current income, thereby deferring income tax payments on that portion of salary and its earnings. This program offers employees two plans: Plan I, authorized by Section 457(b) of the Internal Revenue Code and Section 8-25-101, et. seq. of **Tennessee Code Annotated**, and Plan II, implemented during the 1983-84 fiscal year, authorized by Section 401(k) of the Internal Revenue Code and Section 8-25-301, et. seq. of **Tennessee Code Annotated**. During the 1986-87 fiscal year, participation in the program included 4,229 individuals or 11% of eligible state employees.

**Unclaimed Property and Escheat:** This division administers the Uniform Disposition of Unclaimed Property Act. Through this program the state takes custody of abandoned property (bank accounts, insurance policies, utility deposits, etc.) and attempts to locate the rightful owners or their heirs. Since the program began in 1979, over \$22.6 million in unclaimed property of 113,499 owners has been reported to the Treasurer and over \$6.7 million of that property has been returned to 29,925 owners or their heirs. Administration of the state's escheat law is also the responsibility of the Treasurer's Office. When an individual in Tennessee dies without any known heirs, his property becomes subject to escheat. During the past fiscal year, the Treasurer's Office has received funds totaling \$87,789 representing 37 estates.

**Chairs of Excellence:** The Chairs of Excellence Trust (COE) is a non-expendable trust fund authorized by the 94th General Assembly to further the cause of education in Tennessee. The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus, creating a chair. As of June 30, 1987, forty-seven chairs have been created, with state appropriations totaling \$35,000,000 and matching contributions totaling \$22,935,863.

## INVESTMENT DIVISION

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### State Cash Management Section

The State Treasury receives all funds coming into the possession of the state. These funds are used to pay budgeted expenses and for investment. Last year, \$5,706,880,830 was paid out by the Treasury for state expenses, payroll and various benefit program disbursements as reflected in drafts issued by authority of the Commissioner of Finance and Administration. During the 1986-87 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was \$1,632,621,125 per month and interest income of \$108,799,286 was earned.

The State Funding Board, composed of the Governor, Commissioner of Finance and Administration, Comptroller, Treasurer and Secretary of State, sets the investment policy for the state. The investment objective for the State Pooled Investment Fund is to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient liquidity for state expenditures and other withdrawals from the State Pooled Investment Fund.

Security of state funds is of primary importance in managing the state's cash reserves. To insure the safety of state funds, all non U.S. Government guaranteed investments are fully collateralized at market value, with all collateral held directly by the State Trust or in safekeeping with a third party trustee.

Investment of funds may be made for maturity greater than one year but less than five years but cannot exceed 20% of the portfolio or \$150,000,000, whichever is less. Funds may be invested in collateralized certificates of deposit with Tennessee financial institutions, bills, notes and bonds of the U.S. Treasury, or other obligations guaranteed as to principal and interest by the United States or any of its agencies and repurchase agreements against obligations of the United States or its agencies. Securities underlying repurchases must be book-entry and delivered to the State Trust of Tennessee. At June 30, 1987, investments had an average maturity of 334 days, and an average weighted yield of 6.59%. The total invested balance at June 30, 1987 (\$1,787,646,000 par value) was allocated as follows: U.S. Treasury securities, 52%; repurchase agreements, 10%; and collateralized certificates of deposit, 38%.

In order to insure that state investment returns reflect current market conditions, several market indicators are carefully monitored. Among these are rates reported daily in the Wall Street Journal, rates on U.S. Treasury securities and institutional money market funds. The following table illustrates state returns compared with two of these indicators:

#### State Cash Management Comparative Returns

State Cash Investments				
Fiscal Year	Total Fund	New Funds	Merrill Lynch Institutional Fund	90 Day Treasury (CD Equivalent Yield)
1986-87	6.78%	6.23%	6.38%	5.67%
1985-86	8.35	7.52	7.27	7.06
1984-85	9.98	9.30	9.26	9.22
1983-84	9.46	9.59	9.31	9.51
1982-83	10.59	9.21	9.21	9.02

The Cash Management Section also manages the relationship with 305 financial institutions in Tennessee serving as state depositories and administers the Local Government Investment Pool.

**ANALYSIS OF STATE CASH INVESTMENTS**

<b>Fiscal Year</b>	<b>Average Amount Invested</b>	<b>Amount Earned</b>	<b>Percentage Earned</b>
<b>COLLATERALIZED TIME DEPOSITS</b>			
1986-87	\$594,006,672	\$38,871,102	6.52%
1985-86	513,425,919	41,711,815	8.13%
1984-85	503,542,609	51,317,061	10.23%
1983-84	514,977,198	47,797,219	9.41%
1982-83	545,223,522	61,557,242	10.87%
1981-82	558,364,991	79,936,649	14.19%

<b>REPURCHASE AGREEMENTS</b>			
1986-87	\$306,224,111	\$18,804,873	6.15%
1985-86	227,202,051	16,723,921	7.43%
1984-85	325,739,767	30,817,982	9.43%
1983-84	175,794,508	17,075,876	9.55%
1982-83	129,132,864	11,647,729	9.10%
1981-82	71,513,252	10,453,036	14.24%

<b>U.S. GOVERNMENT SECURITIES</b>			
1986-87	\$719,499,940	\$50,525,274	7.25%
1985-86	482,407,939	43,487,272	9.01%
1984-85	118,839,175	11,652,596	10.76%

<b>MONEY MARKET DEPOSIT ACCOUNTS AND OTHER</b>			
1986-87	\$ 12,890,402	\$ 598,037	4.68%
1985-86	12,421,084	672,858	5.42%
1984-85	14,880,557	1,253,436	8.42%

<b>TOTAL FUNDS</b>				
<b>Fiscal Year</b>	<b>Average Total Funds Invested</b>	<b>Total Cash Management Earnings</b>	<b>Percent Of Total Available Cash Invested</b>	<b>Composite Weighted Average Rate of Return</b>
1986-87	\$1,632,621,125	\$108,799,286	100.0%	6.78%
1985-86	1,235,456,993	102,595,865	100.0%	8.35%
1984-85	963,002,108	95,041,075	100.0%	9.98%
1983-84	704,153,223	67,469,868	98.5%	9.46%
1982-83	674,356,386	73,204,971	97.1%	10.59%
1981-82	629,878,243	90,389,685	97.5%	14.21%

## INVESTMENT DIVISION

### Cash Management Analysis For The Year Ended June 30, 1987

#### Current Purchases

Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Weighted Average Interest Rate	Interest Rate Net of Admin. Fee
7/86	6.32%	6.55%	6.46%	5.63%	6.52%	6.37%
8/86	5.95	6.16	6.09	5.50	6.13	5.98
9/86	5.70	5.76	5.67	5.21	5.75	5.60
10/86	5.77	5.73	6.02	4.39	5.73	5.58
11/86	5.85	5.91	6.07	5.71	5.91	5.76
12/86	6.18	6.87	—	3.53	6.75	6.60
1/87	6.02	6.24	6.15	4.58	6.19	6.04
2/87	6.11	6.00	6.19	3.71	6.05	5.90
3/87	6.21	6.08	6.18	4.83	6.11	5.96
4/87	6.37	6.00	6.95	4.40	6.26	6.11
5/87	7.03	6.24	—	3.95	6.54	6.39
6/87	7.17	6.59	7.43	4.72	6.77	6.62
Dollar Weighted Average	6.24%	6.15%	6.42%	4.68%	6.23%	6.08%

#### Cumulative

Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Total Portfolio Cumulative Return
7/86	7.34%	6.62%	8.10%	5.63%	7.49%
8/86	7.14	6.26	7.94	5.50	7.26
9/86	6.87	5.91	7.70	5.21	6.97
10/86	6.62	5.77	7.61	4.39	6.78
11/86	6.50	5.79	7.49	5.71	6.75
12/86	6.43	6.49	7.38	3.53	6.81
1/87	6.31	6.35	7.32	4.58	6.72
2/87	6.19	6.00	7.07	3.71	6.54
3/87	6.16	6.07	6.87	4.83	6.47
4/87	6.17	6.00	6.76	4.40	6.44
5/87	6.27	6.17	6.76	3.95	6.53
6/87	6.43	6.58	6.75	4.72	6.62
Dollar Weighted Average	6.52%	6.15%	7.25%	4.68%	6.78%

The average rate on investments made each month during the year was 6.23% as shown above. This is the gross average earnings rate used for interest allocations to LGIP participants and other state agencies. The rate of return on total portfolio of investments for 1986-87 was 6.78%.

**Local Government Investment Pool**

The Local Government Investment Pool (LGIP) was created by the 91st General Assembly and began operations in November of 1980. This investment vehicle enables all Tennessee municipalities, counties, school districts, utility districts or other local government units and political subdivisions to participate with the state in providing maximum opportunities for the investment of public funds. By investing funds along with the State Treasurer's cash portfolio, a participant can realize the same rate of earnings as that achieved by the Treasurer's investments. This allows cash managers who have previously been limited either by the relatively small amount of funds available for investments or the complexities of today's investment environment to take advantage of the volume and expertise of the Treasurer's cash management program.

**SCHEDULE OF ACTIVITY BY ENTITY TYPE  
FISCAL YEAR ENDED JUNE 30, 1987**

	<b>Account Balance 7/1/86</b>	<b>Amount Deposited FY 1986-87</b>	<b>Amount Withdrawn FY 1986-87</b>	<b>Net Interest Credited FY 1986-87</b>	<b>Account Balance 6/30/87</b>
Cities	\$ 77,418,455	\$ 384,753,439	\$ 333,309,719	\$ 8,497,844	\$ 137,360,019
Counties	39,020,201	57,859,668	49,026,056	2,445,352	50,299,165
Commitments to D.O.T.	24,078,029	7,485,024	7,571,355	1,514,149	25,505,847
Educational Institutions	25,781,712	712,844,732	635,954,085	6,692,125	109,364,484
Commitments to OASI	53,068	0	0	3,317	56,385
Other	3,592,060	6,771,500	5,326,959	313,351	5,349,952
	<u>\$ 169,943,525</u>	<u>\$ 1,169,714,363</u>	<u>\$ 1,031,188,174</u>	<u>\$ 19,466,138</u>	<u>\$ 327,935,852</u>

The interest earned by LGIP participants is based on the average rate of interest (less an administrative fee) earned on the investments placed by the Treasurer each month. Currently the administrative fee is fifteen one hundredths of one percent (.15%) which is reduced from the actual average rate earned on the Treasurer's investments. Over \$19.4 million in interest was earned by the LGIP participants during the year based on an average monthly net earnings rate of 6.08%.

## INVESTMENT DIVISION

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### Reconciliation of Cash and Cash Equivalents

June 30, 1987

(Expressed in Thousands)

Cash and cash equivalents per Department of Finance and Administration		\$3,070,045
Add: Net reconciling items to bank statements		4,632
Deduct: Petty cash and travel advances		(363)
Departmental revolving accounts		(4,169)
Departmental cash in other accounts		<u>(426,791)</u>
Cash and cash equivalents per Treasury		<u>\$2,643,354</u>
Represented by:		
TCRS short term investments	\$817,710	
Cash in banks	27,692	
Time deposits	678,761	
Repurchase agreements	177,385	
Treasury bills	<u>941,806</u>	
Total		<u>\$2,643,354</u>

The cash and cash equivalents per Finance and Administration as reported in the State of Tennessee Annual Financial Report for June 30, 1987 is \$3,070,045. The items above adjusted to that balance represent cash and cash equivalents under control of the State of Tennessee but not in possession of the Treasurer. The eight hundred, seventeen million shown as short term investments for TCRS is invested in commercial paper.

**Retirement Investment Section**

The assets of the Tennessee Consolidated Retirement System are managed by the Retirement Investment Section. Funds in the retirement system are actively managed with a portfolio of high quality bonds, mortgages, stocks, and international securities. To add income to the system, covered call options are written on stock positions and the staff actively lends securities for a fee.

**Book Value of Retirement Fund Investments**

	June 30, 1987	June 30, 1986
<b>Domestic Securities:</b>		
Certificates of Deposit	\$ 1,550,000	\$ 1,550,000
Government Bonds	1,638,208,325	1,411,076,208
Corporate Bonds	1,076,239,869	1,033,757,371
Corporate Stocks	1,679,933,257	1,608,364,122
Mortgages	2,832,802	3,198,651
<b>International Securities:</b>		
Government Bonds	\$ 173,556,823	\$ 29,234,742
Corporate Bonds	39,210,238	35,232,523
Corporate Stocks	169,011,868	43,616,173
American Depository Receipts	1,848,337	1,670,650
Cash Equivalents	\$ 808,665,877	\$ 519,023,101
Total	<u>\$5,591,057,396</u>	<u>\$4,686,723,541</u>

Investment policy for TCRS funds is subject to the approval of the Board of Trustees, to the conditions and limitations imposed by state statutes of the state of Tennessee on domestic life insurance companies, and to the conditions and limitations imposed by state statutes on retirement fund investments. An Investment Advisory Council was established by the Consolidated Retirement Act of 1972 to provide policy guidance to the Board of Trustees and the investment staff.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

**DOMESTIC BOND PORTFOLIO  
as of June 30, 1987**

Description	Shares/ Units	Maturity Date	Coupon Rate	Book Value	Yield
A C F Industries	400,000	10 1 1989	11.00	\$ 400,000.00	11.00
Air Products & Chemical Deb	10,000,000	4 1 2006	8.50	9,944,033.13	8.56
Amer SW Financial CMO Ser 37-C	11,500,000	12 1 2006	9.20	11,337,262.09	9.36
American Tel & Tel Deb	15,000,000	2 15 2001	7.00	13,152,867.36	8.55
Amoco SF Deb	11,500,000	6 15 2005	8.38	9,638,582.48	10.33
Amoco SF Deb	22,000,000	8 1 2007	7.88	20,461,919.44	8.61
Anheuser Busch Notes	10,000,000	10 1 1996	8.00	9,935,280.71	8.10
Anheuser Busch SF Deb	16,000,000	12 1 2016	8.63	15,541,888.30	8.90
Arkla Inc. Deb	12,500,000	12 15 2006	8.90	12,500,000.00	8.90
Associated Dry Goods	35,500,000	5 1 1989	0.00	29,594,511.87	13.48
Associated Dry Goods SF Deb	22,825,000	3 1 2006	8.85	22,861,524.77	8.83
ARCO Deb	10,000,000	3 1 2016	9.88	10,080,362.02	9.79
ARCO Deb	10,000,000	3 1 2011	9.13	10,653,185.32	8.48
Baltimore Gas & Electric FMB	10,160,000	1 1 2002	7.13	6,659,900.56	12.26
Borden SF Deb	47,000,000	4 15 2016	8.38	45,803,021.42	8.62
Bowater SF Deb	25,000,000	2 1 2015	12.38	24,843,914.00	12.46
Compaq Computer Convert Deb	7,200,000	3 1 2012	5.25	9,032,626.39	3.67
CSX Corp Sec Notes	11,000,000	8 1 1996	8.40	10,987,098.41	8.42

## INVESTMENT DIVISION

Description	Shares/ Units	Maturity Date	Coupon Rate	Book Value	Yield
Cert of Accrual-Ust Series G	17,850,000	5 15 1992	0.00	9,661,938.56	13.00
Cert of Accrual-Ust Series L	15,000,000	11 15 1991	0.00	8,859,654.53	12.40
Cert of Accrual-Ust Series T	25,280,000	5 15 1996	0.00	8,653,533.46	12.45
Cert of Accrual-Ust Series T	9,404,000	11 15 1996	0.00	3,030,425.68	12.45
Cert of Accrual-Ust Series P	10,000,000	11 15 1991	0.00	6,704,749.42	9.35
Cert of Accrual-Ust Series U	50,000,000	8 15 2004	0.00	7,734,133.13	11.20
Cert of Accrual-Ust Series V	24,820,000	5 15 2002	0.00	4,632,658.57	11.61
Cert of Accrual-Ust Series S	20,000,000	5 15 1990	0.00	15,693,700.23	8.61
Cert of Accrual-Ust Series X	100,000,000	11 15 2004	0.00	13,981,880.67	11.65
Cert of Accrual-Ust Series E	20,000,000	11 15 1991	0.00	12,851,379.19	10.67
Ches & Potomac Tel Va Fmb	10,000,000	9 1 2026	8.50	9,670,305.93	8.80
CMO Trust CMO Ser I-1D	10,000,000	5 1 2007	10.15	9,975,494.35	10.18
Consolidated Edison Fmb	12,750,000	10 1 1998	6.85	9,447,239.38	10.90
Consolidated Edison Fmb	16,250,000	2 15 2003	7.75	12,210,408.63	11.13
Coupon Treasury Receipts	17,280,000	8 15 1992	0.00	8,903,372.04	13.36
Coupon Treasury Receipts	15,000,000	2 15 1993	0.00	7,491,447.54	12.73
Coupon Treasury Receipts	39,600,000	2 15 1998	0.00	11,026,892.57	12.40
Coupon Treasury Receipts	49,140,000	8 15 1998	0.00	12,925,915.62	12.37
Coupon Treasury Receipts	100,000,000	8 15 2003	0.00	16,628,837.44	11.44
Coupon Treasury Receipts	6,625,000	5 15 1992	0.00	3,471,555.86	13.71
US Treasury Corpus	2,000,000	8 15 1987	0.00	1,971,863.42	11.62
US Treasury Corpus	76,000,000	11 15 2001	0.00	17,253,225.54	10.84
Duke Power Fmb	9,750,000	6 1 2003	7.75	6,820,725.27	12.06
Duke Power Co. Fmb	42,200,000	2 1 2017	8.50	41,728,905.62	8.61
Exxon Pipeline Sf Deb	5,500,000	12 1 1998	6.63	4,608,978.03	9.23
FPL Group Capital Inc. Deb	35,000,000	6 1 1997	9.38	34,852,278.49	9.44
FSF Finance Corp CMO Ser 1-A	2,650,565	6 1 1996	9.25	2,634,594.59	9.35
FSF Finance Corp CMO Ser 2-D	46,450,000	6 1 2016	9.25	41,347,174.20	10.46
Farmers Insurance Group	21,000,000	7 15 1996	8.25	20,804,344.40	8.40
FHLMC PC #189272	17,967,092	12 1 2007	8.50	16,431,484.10	9.45
FHLMC Cap Deb	38,000,000	10 1 1996	8.65	37,903,790.75	8.69
FHLMC PC #170220	25,607,781	4 1 2017	8.00	24,984,780.85	8.22
FHLMC PC #256498	10,427,073	4 1 2009	8.00	8,922,833.48	9.58
FHLMC PC #20001	19,671,032	7 1 2000	10.75	19,485,007.16	10.89
FHLMC B PC #20006	9,931,750	8 1 2001	8.75	9,907,607.75	8.78
FHLMC PC # 220010	11,502,888	8 1 2001	8.75	11,474,926.16	8.78
FHLMC B PC # 286896	16,977,706	2 1 2017	7.50	16,183,676.69	7.91
First Financial Management	2,000,000	12 1 2006	7.00	2,000,000.00	7.00
FNMA MBS #2426	8,379,593	4 1 2008	7.75	7,254,479.11	9.20
FNMA MBS #7238	32,378,846	6 1 2008	8.00	30,603,648.81	8.56
FNMA MBS #18742	33,084,145	11 1 2008	8.50	28,832,646.13	9.96
Florida Power & Light Fmb	15,000,000	2 1 2016	9.88	15,367,530.00	9.62
Ford Motor Credit Notes	30,000,000	5 15 1994	8.88	29,499,777.73	9.21
Ford Motor Credit Notes	10,000,000	12 8 1988	6.70	10,014,660.02	6.59
GMAC Mtg Secs Cmo Ser B-2	15,887,625	5 20 2011	7.80	14,921,791.62	8.39
GNMA MBS #193196	34,084,578	8 15 2016	9.00	34,105,792.99	8.99
General Motors Accept Notes	25,000,000	4 15 1990	7.25	24,925,516.99	7.37
General Tel of Calif Fmb	18,000,000	12 1 2016	8.63	17,641,440.19	8.82
General Tel of Florida Fmb	13,750,000	4 15 2026	8.75	13,526,091.93	8.90
General Tel South 1st Mtg	10,000,000	9 1 2016	8.75	9,546,241.39	9.20
Gulf Power Fmb	15,000,000	2 1 2016	10.13	14,925,585.74	10.18
Hoechst Celanese Corp Notes	30,000,000	6 15 1997	9.45	30,000,000.00	9.45
Home Fed Savings & Loan	844,000	3 1 1997	15.47	844,000.00	15.47
Honeywell Sf Deb.	25,950,000	6 1 2017	9.88	25,724,135.92	9.97
Houston Industries Deb.	29,500,000	2 15 1996	9.63	29,484,405.16	9.63
Houston Lighting & Power Fmb	15,000,000	3 1 2017	9.00	15,000,000.00	9.00
lbrd (World Bank) Bonds	15,000,000	7 15 2016	9.25	14,831,250.00	9.36
lbrd (World Bank) Bonds	37,000,000	9 1 2016	8.25	36,421,655.31	8.39
lbrd (World Bank) Bonds	68,000,000	10 15 2016	8.63	69,427,898.75	8.43
Investors Cmo Ser J	10,700,000	8 25 2013	11.38	11,133,727.31	10.90
Investors Cmo Ser C2	20,000,000	2 25 2012	11.90	19,506,464.17	12.22
Investors Cmo Ser C3	11,350,000	6 25 2001	7.88	9,342,841.23	10.26
Investors Cmo Ser C4	30,000,000	2 25 2004	8.88	26,490,291.88	10.35
Investors Cmo Ser E5	33,000,000	12 25 2010	10.88	29,374,552.48	12.31
Kansas Power & Light Notes	10,000,000	7 1 1996	8.25	10,254,488.23	7.85
Kansas Power & Light Fmb	7,200,000	3 1 2017	8.68	7,138,943.70	8.76

## INVESTMENT DIVISION

Description	Shares/ Units	Maturity Date	Coupon Rate	Book Value	Yield
Mdu Res Gp Sf 1st Mtg	9,850,000	11 15 2010	11.25	9,850,000.00	11.25
McDonalds Corp Sf Deb	20,000,000	3 1 2016	8.88	19,845,478.18	8.95
Mercantile Stores Sf Deb	7,000,000	1 15 2014	12.50	6,977,912.25	12.54
Mountain Fuel Supply Sf Deb	13,500,000	11 1 2016	9.38	13,331,922.63	9.50
National Fuel Gas Deb	8,000,000	9 1 2006	9.88	8,158,208.24	9.65
New Jersey Bell Tel Fmb	16,000,000	9 1 2013	7.75	11,572,891.17	11.00
Northwestern Bell Tel Fmb	16,000,000	4 1 2005	7.50	11,835,239.36	10.79
Norton Simon Inc.	4,048,000	6 1 2004	9.88	4,048,000.00	9.88
Pacific Tel & Tel Fmb	27,000,000	8 15 2024	11.38	31,755,236.61	9.63
Pacific Gas & Electric Fmb	15,000,000	8 1 2019	9.00	13,965,760.73	9.70
Pacific Gas & Electric Fmb	20,000,000	2 1 2020	8.50	19,519,388.23	8.72
Paine Webber Mac Cmo Ser A-3	1,286,128	5 1 2012	11.30	1,286,127.78	11.30
Pennsylvania Power & Light Fmb	21,500,000	10 1 2015	12.00	21,362,717.97	12.08
Pitney Bowes Credit Notes	12,150,000	3 1 1992	7.25	12,150,000.00	7.25
Private Export Funding Notes	10,000,000	6 30 1994	8.60	10,000,000	8.60
Pub Ser Elec of Colorado Notes	21,000,000	5 1 1992	8.95	21,000,000	8.95
North American Rockwell Notes	25,000,000	3 15 1997	7.50	22,773,385.20	8.89
Ryan Mtg CMO IV 4-2	22,600,000	1 1 2010	9.40	22,544,362.85	9.43
Ryan Mtg CMO IV 8-C	16,000,000	9 1 2007	9.00	15,417,913.70	9.40
Salomon CMO Ser 84-1 A	4,502,577	5 1 1994	8.13	4,488,057.57	8.19
Salomon Capital CMO Ser 85-32	39,500,000	10 1 2004	8.63	34,179,468.54	10.30
US SBA PC Series SBIC 1986A	20,000,000	9 1 1996	8.75	20,000,000.00	8.75
US SBA PC Series 1987 A	10,000,000	2 1 1997	7.95	10,000,000.00	7.95
Southern Bell Telephone Fmb.	34,000,000	9 1 2026	8.63	32,720,680.37	8.97
Southern Calif. Edison Fmb	14,000,000	12 1 2017	8.38	13,372,291.74	8.80
Southwestern Elec. Power Fmb	15,000,000	8 1 2015	11.38	14,814,056.59	11.52
Student Loan Gov Gtd Deb	26,000,000	9 1 1989	13.15	26,000,000.00	13.15
Texas East Transmission Sf Deb	20,000,000	9 1 2011	10.13	20,000,000.00	10.13
Travelers Corp. Notes	21,000,000	1 15 1997	7.63	20,923,711.50	7.68
Treasury Inv. Growth Receipts	13,678,000	5 15 2000	0.00	2,902,135.38	12.41
Treasury Inv. Growth Receipts	4,723,875	5 15 2000	0.00	1,002,290.15	12.41
Treasury Inv. Growth Receipts	17,803,000	5 15 1994	0.00	7,963,326.81	12.05
Treasury Inv. Growth Receipts	17,812,500	11 15 1994	0.00	7,514,783.24	12.05
Treasury Inv. Growth Receipts	8,208,000	5 15 1995	0.00	3,266,023.35	12.05
Treasury Inv. Growth Receipts	17,803,000	11 15 1995	0.00	6,681,398.64	12.05
Treasury Inv. Growth Receipts	8,312,500	5 15 1996	0.00	2,942,366.58	12.05
Treasury Inv. Growth Receipts	15,513,500	5 15 2000	0.00	3,291,583.30	12.41
Union Camp SF Deb	38,904,000	7 1 2010	10.88	34,938,841.71	12.24
Union Pacific Sfd	13,000,000	1 15 2017	8.50	12,724,682.15	8.70
US Treasury Bonds	12,000,000	5 15 1999	8.50	12,717,646.40	7.72
US Treasury Bonds	53,000,000	2 15 2007	7.63	53,081,376.96	7.61
US Treasury Bonds	96,832,000	11 15 2008	8.75	99,567,948.54	8.47
US Treasury Bonds	161,905,000	11 15 2012	10.38	187,049,063.87	8.82
US Treasury Bonds	74,000,000	8 15 2013	12.00	86,127,775.07	10.18
US Treasury Bonds	62,250,000	8 15 2005	10.75	78,016,679.63	8.07
US Treasury Bonds	43,000,000	2 15 2006	9.38	50,680,334.00	7.57
US Treasury Bonds	7,700,000	2 15 2016	9.25	9,147,954.68	7.63
US Treasury Bonds	25,000,000	11 15 2016	7.50	21,729,790.24	8.75
US Treasury Bonds	46,425,000	5 15 1996	7.38	46,620,173.49	7.31
US Treasury Bonds	34,150,000	10 15 1993	7.13	34,579,217.33	6.88
US Treasury Bonds	56,850,000	11 15 1996	7.25	55,531,939.14	7.60
US Treasury Strip	22,664,000	5 15 1995	0.00	12,788,743.41	7.40
US Stripped Treasury Bo	39,460,000	5 15 2003	0.00	6,777,008.86	11.41
Virginia Electric & Power	15,000,000	6 1 2017	9.88	14,737,580.17	10.06
Washington Gas Light FM	791,000	11 1 1988	4.50	791,000.00	4.50
Weyerhaeuser Deb	15,000,000	2 15 2007	8.38	14,944,165.72	8.41
Total Domestic Bonds				\$2,714,448,194.39	

## INVESTMENT DIVISION

### TENNESSEE CONSOLIDATED RETIREMENT SYSTEM INTERNATIONAL BOND PORTFOLIO as of June 30, 1987

Description	Shares/ Units	Maturity Date	Coupon Rate	Book Value	Yield
Canadian Treasury Bills	12,386,000	10 23 1987	0.00	\$ 9,025,652.20	8.41
Japan L.T. Govt. Bonds	3,100,000,000	6 20 1996	5.10	19,673,548.23	5.08
Japan L.T. Govt. Bonds	753,000,000	7 20 1996	5.10	4,912,430.02	5.12
Gov. of France Treasury	60,000,000	8 6 1987	0.00	9,904,060.05	8.08
Japan L.T. Govt. Bonds	750,000,000	30 20 2007	5.70	4,893,682.64	5.74
UK Exchequer Gilt Stock	8,750,000	11 20 1998	12.00	17,198,867.59	9.00
UK Treasury Gilt Stock	9,000,000	11 15 1995	12.75	17,499,345.50	9.42
UK Treasury Gilt Stock	3,000,000	1 15 1990	13.00	5,297,007.26	9.08
Bundersrepublik	50,000,000	10 20 1998	6.00	24,536,151.26	5.99
Bundersrepublik	10,000,000	3 20 1997	6.00	5,489,076.74	5.76
Australia Commonwealth	15,000,000	2 15 1995	13.00	9,471,123.46	14.10
Australia Commonwealth	6,500,000	3 15 1995	14.00	4,888,338.42	13.11
British Columbia School Dist.	1,000,000	10 15 1987	6.25	1,000,000.00	6.35
Canadian National Ry	8,500,000	3 15 2013	12.00	8,500,000.00	12.00
Hydro-Quebec Deb.	30,000,000	1 15 2027	8.25	29,710,237.63	8.33
Prov. of Nova Scotia Sf Deb.	20,000,000	3 15 2016	8.88	19,851,393.34	8.95
Province of Quebec Deb.	21,000,000	12 1 2026	8.63	20,916,146.18	8.66
Total International Bonds				\$212,767,060.52	

### TENNESSEE CONSOLIDATED RETIREMENT SYSTEM DOMESTIC STOCK PORTFOLIO as of June 30, 1987

Description	Shares/ Units	Book Value	Approximate Market Value
AMR Corp.	150,000	\$ 9,127,950.00	\$ 8,887,500
Abbott Laboratories	1,000,000	22,771,315.00	62,375,000
Advanced Micro-Devices Inc.	475,000	13,439,875.00	9,025,000
Affiliated Publications Inc.	98,000	3,461,687.50	5,978,000
Airborne Freight Corp.	235,000	7,398,850.00	7,755,000
Alco Health Services Co.	182,500	3,240,000.00	3,581,563
Aluminum Co. of America	750,000	29,872,924.79	40,031,250
American Tel. and Tel.	461,000	9,968,775.00	12,735,125
Amp Inc.	250,000	14,886,530.00	14,656,250
Amoco Corp.	600,000	37,464,953.10	52,500,000
Atlantic Richfield	500,000	28,949,840.00	47,625,000
Automatic Data Processing	378,600	17,729,888.00	18,078,150
Berkley (WR) Corp.	135,000	4,557,500.00	3,543,750
Black & Decker Corp.	500,000	9,672,000.00	11,625,000
Borden Inc.	475,000	26,637,670.80	28,500,000
Bristol Myers Co.	700,000	19,488,753.67	34,825,000
Brunswick Corp.	315,000	7,906,715.37	7,560,000
Burlington Northern Inc.	400,000	23,430,367.00	33,100,000
Capital Cities ABC Inc.	103,000	18,722,362.40	39,397,500
Clayton Homes Inc.	308,500	3,106,930.00	3,200,688
Coca-Cola Co.	800,000	14,472,393.34	35,600,000
Compaq Computer Co.	200,000	2,770,751.00	9,375,000
Computer Sciences Corp.	200,000	11,113,151.60	11,275,000
Consolidated Edison of NY Inc.	800,000	27,853,180.00	35,900,000
A T Cross Company	248,000	3,486,392.50	8,246,000
Delmarva Power & Light Co.	900,000	15,302,032.00	18,112,500
Digital Equipment	75,000	12,099,620.00	12,290,625
Disney (Walt) Co.	275,000	18,417,157.25	19,868,750
Dollar General Corp.	295,000	6,721,000.00	3,540,000
Dow Chemical	275,000	19,942,387.50	23,684,375
Dresser Ind.	303,000	7,310,275.00	9,468,750
Duke Power Company	700,000	27,078,800.00	31,237,500
Eastman Kodak Co.	203,100	17,911,964.00	17,491,988

## INVESTMENT DIVISION

Description	Shares/ Units	Book Value	Approximate Market Value
Eqk Realty Investors I	1,250,000	21,292,600.01	17,187,500
Exxon Corp.	200,000	16,950,140.00	18,650,000
Firestone Tire & Rubber Co.	500,000	19,408,416.50	20,812,500
First Wachovia Corp.	533,000	12,388,267.70	21,519,875
Florida Steel Corp.	162,500	6,121,578.92	6,032,813
Flowers Industries	450,000	8,365,152.40	12,206,250
Ford Motor Co.	600,000	29,937,562.35	59,400,000
Fort Howard Paper	300,000	8,289,885.00	16,087,500
Fuller H B Co.	27,000	1,072,370.00	1,100,250
General Electric Co.	1,400,000	35,293,854.69	76,125,000
General Motors Corp.	450,000	40,036,790.00	37,181,250
General Re Corp	400,000	16,694,375.00	21,700,000
Great Atlantic & Pac. Tea Inc.	88,000	3,397,380.00	3,410,000
Greyhound Corp.	200,000	8,458,754.20	8,150,000
Hewlett Packard	325,000	19,655,007.90	19,865,625
Illinois Tool Works Inc.	476,000	6,188,288.60	18,683,000
Intergraph	650,000	16,933,775.00	14,625,000
Internatl. Business Machines	275,000	38,346,218.59	44,687,500
International Clinical Labs	145,000	2,065,000.00	2,646,250
Interpublic Group Cos. Inc.	92,500	3,169,725.00	3,353,125
James River Corp.	800,000	30,302,000.00	26,800,000
Johnson & Johnson	700,000	35,356,900.00	64,312,500
Kinder Care Inc.	170,000	2,581,875.00	2,911,250
Limited Inc.	200,000	6,809,493.00	8,675,000
Lorimar Telepictures Corp.	240,000	5,006,530.91	3,720,000
Magna International Inc.	75,000	1,418,735.00	1,396,875
McDonalds Corp.	675,000	35,650,500.40	35,775,000
Mercantile Stores	187,500	3,954,895.50	9,046,875
Merck and Co.	250,000	37,024,410.00	42,625,000
Mobil Corp.	800,000	27,955,000.00	40,700,000
Monsanto Co.	525,000	24,568,056.95	43,903,125
Morgan Stanley Group Inc.	250,000	17,041,058.00	18,093,750
Newport Corp.	150,000	3,273,606.25	1,762,500
Norfolk Southern Corp.	1,082,400	23,479,192.14	35,791,200
Nynex Corp.	600,000	26,019,250.00	42,075,000
Pall Corp.	333,100	9,941,834.34	9,701,538
Penney (J.C.) Co.	625,000	29,457,081.70	32,812,500
Pepsico Inc.	700,000	21,951,300.00	25,200,000
Perkin-Elmer Corp.	625,000	21,111,020.00	19,765,625
Polaroid Corp.	450,000	17,697,627.00	17,268,750
Potomac Electric Power	1,054,000	15,222,595.00	24,242,000
Procter & Gamble	500,000	30,541,985.30	49,000,000
Quaker Oats Co.	300,000	15,579,707.00	15,600,000
Rohm & Haas Co.	281,000	12,287,956.60	11,938,500
Rowan Companies Inc.	1,477,300	12,399,498.50	13,480,363
SCI Systems	562,500	6,157,263.00	10,968,750
Safety-Kleen Corp.	217,012	2,083,744.91	7,297,029
Salomon Inc.	450,000	16,193,925.00	14,793,750
Shoneys Inc.	900,000	15,156,254.95	26,775,000
Smithline Beckman Corp.	535,000	29,334,603.68	31,966,250
Suntrust Banks Inc.	1,275,000	23,171,927.46	32,353,125
Syntex	250,000	9,846,750.00	10,750,000
Sysco Corp.	214,000	6,035,660.00	7,516,750
TRW Inc.	800,000	29,458,451.99	42,100,000
Tele Communications	400,000	6,371,210.00	14,100,000
Tenneco Inc.	550,000	25,662,628.41	27,018,750
Texas Utilities	300,000	9,872,869.00	9,675,000
Time Incorporated	200,000	11,212,039.54	19,500,000
Times Mirror Inc.	725,000	37,188,759.30	66,881,250
Union Camp Corp.	825,000	18,477,063.70	34,237,500
United Telecommunication	1,100,000	30,748,775.00	30,112,500
Unocal Corp.	1,100,000	31,608,388.00	43,587,500
Wal Mart Stores Inc.	500,000	27,934,602.50	33,812,500
Wang Labs Inc. Cl. B.	950,000	28,037,053.00	15,081,250
Weyerhaeuser Co.	900,000	28,106,057.15	45,225,000
Whirlpool Corp.	350,000	7,166,472.81	12,468,750
Wyse Technology	175,000	3,097,515.00	4,900,000
Total Domestic Stocks		\$1,679,933,256.67	\$2,242,189,707

## INVESTMENT DIVISION

### TENNESSEE CONSOLIDATED RETIREMENT SYSTEM INTERNATIONAL STOCK PORTFOLIO as of June 30, 1987

Description	Shares/ Units	Book Value	Approximate Market Value
Bank of Scotland Plc.	950,000	\$ 5,957,529.82	\$ 9,297,153
Bayerische Motoren Werke Ag.	24,000	8,575,687.49	8,976,326
British Gas Plc. ADR #2	125,000	1,848,337.50	3,500,000
Centre Parc. NV.	135,000	3,768,941.30	5,743,692
Cie Fin. Michelin Bearer	15,000	9,838,000.92	9,709,379
CKD Corp.	600,000	2,757,362.66	2,946,866
Collins & Leahy Holdings Ltd.	27,000	69,877.08	73,989
Credit Suisse Bearer	1,800	2,068,183.71	3,762,880
Daiwa Securities Co. Ltd.	586,000	3,630,922.35	10,937,602
Dai-Tokyo Fire & Marine	480,000	2,940,269.57	3,465,940
Deutsche Bank Ag.	26,133	9,742,909.44	9,108,170
Fanuc, Ltd.	174,000	4,992,676.56	7,289,510
Industrial Bank of Japan	80,000	994,997.51	2,343,324
Ito Yokado Co., Ltd.	185,000	4,355,457.02	5,091,281
Marui Co. Ltd.	140,000	3,134,801.70	3,309,264
Mikuni Coca Cola Bottling	572,000	2,908,601.99	3,440,572
NCR Japan Ltd.	200,000	2,877,425.03	2,956,403
Nippon Express Co. Ltd.	300,000	1,961,880.33	2,431,880
Nixdorf Computer Ag. Preferred	12,000	5,390,640.01	5,341,078
Noranda Forest Inc.	500,000	7,312,682.82	10,615,512
Pioneer Electronic Corp.	185,000	2,813,717.02	3,881,471
Renown Inc.	93,000	427,507.83	532,153
Sagami Rubber Ind. Co. Ltd.	100,000	664,622.28	960,490
Shimachu Company, Ltd.	280,000	4,750,399.52	6,084,469
Siemens Ag.	20,000	7,940,849.96	7,913,196
Soc Auxiliaire D'Entreprises	25,250	5,999,358.27	5,278,905
Storehouse Plc.	1,200,000	5,684,192.98	5,745,713
Sumitomo Forestry Co. Ltd.	297,000	3,167,655.09	2,771,730
Sumitomo Marine & Fire Inc. Co.	600,000	4,628,598.69	5,231,608
Sumitomo Realty Development	250,000	2,695,504.68	2,741,826
Swiss Reinsurance Co. PC	6,000	10,194,336.48	12,225,892
Takasago Thermal Engineering	412,500	2,240,156.89	2,767,796
Takashimaya Co., Ltd.	500,000	3,850,308.29	5,994,550
Tarmac Plc.	325,982	991,739.23	1,581,925
Tokyu Corp.	240,000	1,770,554.37	2,730,245
Toyota Motor Corp.	125,000	1,360,694.39	1,660,422
Unilever NV	285,000	18,624,654.84	19,176,627
Willis Faber Plc.	650,000	4,186,839.60	4,289,874
York Benimaru Co. Ltd.	368,000	3,741,330.24	4,411,989
Total International Stocks		\$170,860,205.46	\$206,321,702

**Rate of Return Analysis  
On Retirement Investments For the  
Fiscal Years 1977-78 Through 1986-87**

Fiscal Year	EXCLUDING GAINS AND LOSSES			INCLUDING GAINS AND LOSSES		
	Average Amount Invested	Amount Earned	Percentage Earned	Average Amount Invested	Amount Earned	Percentage Earned
1986-87	\$4,918,934,167	\$366,812,760	7.37%	\$4,802,008,843	\$726,663,408	15.15%
1985-86	4,159,389,303	342,666,987	8.24%	4,048,574,353	564,296,889	13.94%
1984-85	3,502,888,237	321,331,692	9.17%	3,486,456,087	354,195,992	10.16%
1983-84	3,010,007,123	276,903,188	9.20%	2,959,626,328	342,868,167	11.58%
1982-83	2,545,242,008	256,280,401	10.07%	2,537,065,851	272,632,717	10.75%
1981-82	2,156,483,125	219,758,181	10.19%	2,156,322,701	220,079,030	10.21%
1980-81	1,827,992,630	162,099,561	8.87%	1,828,006,525	162,071,771	8.87%
1979-80	1,542,751,066	118,939,883	7.71%	1,539,759,583	124,922,850	8.11%
1978-79	1,284,537,367	92,304,615	7.19%	1,281,261,947	98,855,456	7.72%
1977-78	1,069,721,675	72,870,213	6.81%	1,069,341,125	73,631,313	6.89%

NOTE: The formula used to calculate the above figures has been devised consistent with authoritative sources absent specific generally accepted accounting principles promulgating such as is as follows:

$$\frac{1}{(A + B - 1)/2}$$

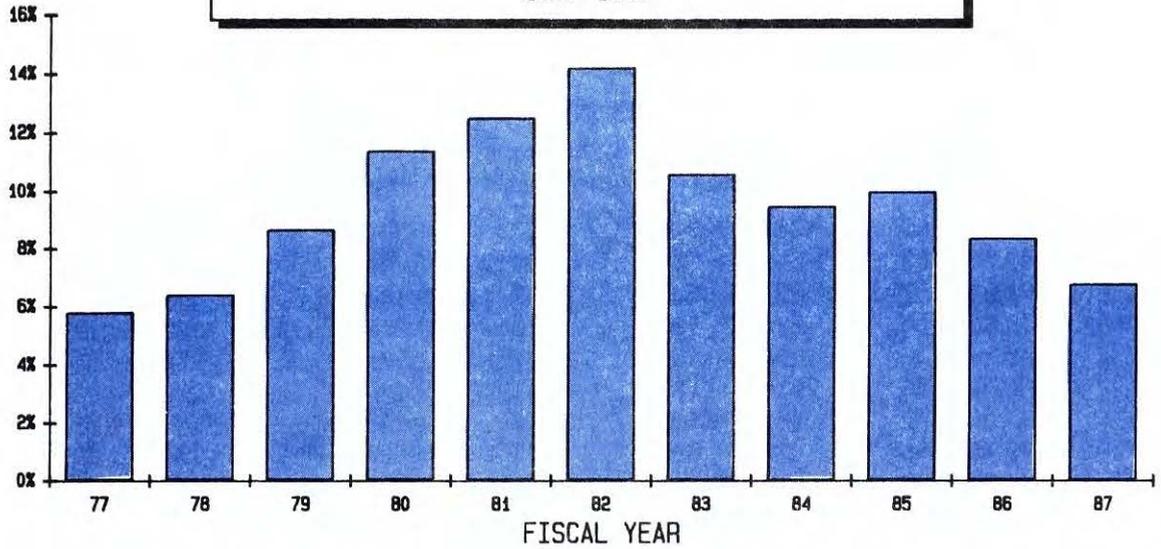
Where

- 1 = Current earnings plus discount minus premium
- A = Total assets less current liabilities at beginning of year
- B = Total assets less current liabilities at end of year

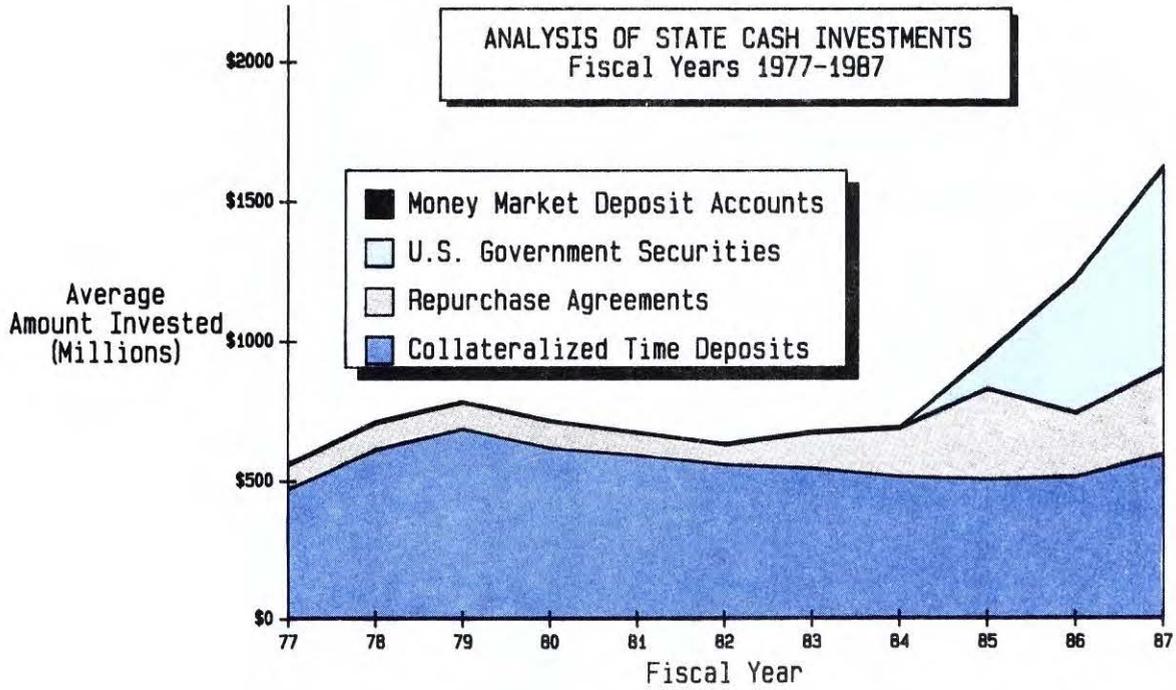
NOTE: Rates are computed where 1 includes and excludes gains and losses on sales of investments.

# INVESTMENT DIVISION

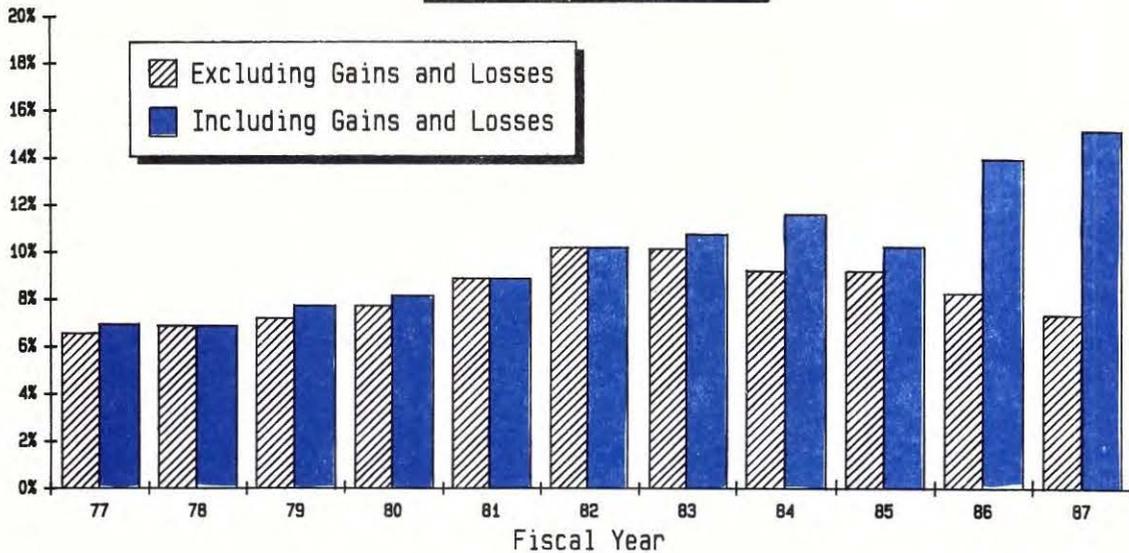
**CASH MANAGEMENT INVESTMENTS**  
 Composite Weighted Average Rate of Return  
 1977-1987



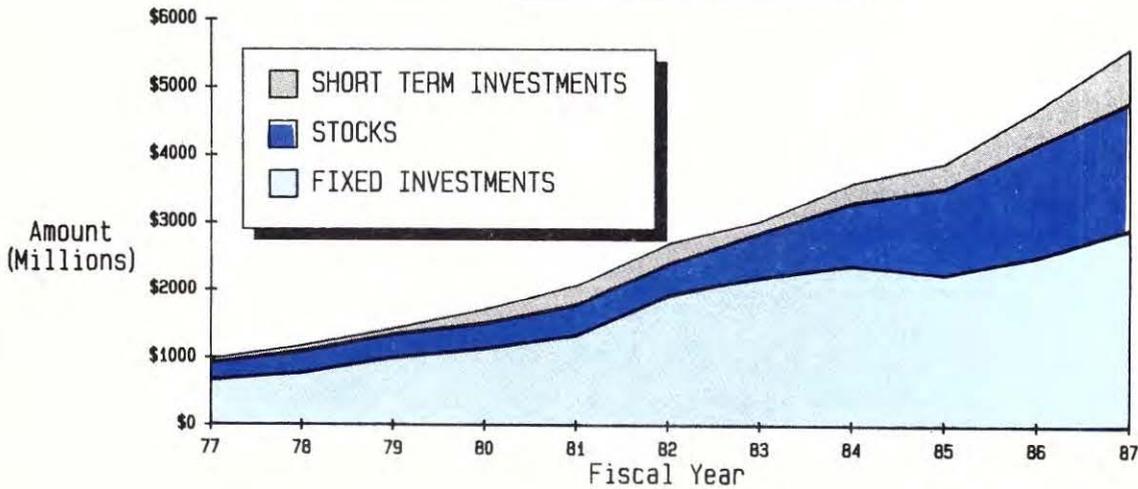
**ANALYSIS OF STATE CASH INVESTMENTS**  
 Fiscal Years 1977-1987



RETIREMENT INVESTMENTS  
Rate of Return  
Analysis 1977-1987



RETIREMENT INVESTMENTS  
PORTFOLIO DISTRIBUTION  
1977-1987



**Retirement Investment Section**

The following chart provides additional analysis on TCRS investments pursuant to several popular methods of measuring investment performance:

**TCRS INVESTMENTS  
RATE OF RETURN ANALYSIS**

Fiscal Year	<sup>1</sup> SEI Balanced Public Fund Index Median Total Return	<sup>2</sup> TCRS Time Weighted Total Return	<sup>3</sup> Income Yield On Average Available Funds	<sup>4</sup> Yield To Maturity New Bonds
1986-87	10.8%	10.3%	4.92%	8.05%
1985-86	25.2	27.7	5.21	9.67
1984-85	26.8	28.6	7.26	11.76
1983-84	-2.1	-3.3	8.02	12.21
1982-83	37.6	35.4	8.64	11.80
1981-82	4.1	5.6	8.08	14.50
1980-81	3.1	1.4	7.95	12.83
1979-80	8.1	9.6	7.16	11.05
1978-79	8.3	8.9	6.91	9.12
1977-78	1.7	0.5	7.43	7.90

<sup>1</sup>This index most closely resembles TCRS' structure and objectives.

<sup>2</sup>This is the method SEI uses to calculate returns and is the most accurate way to measure performance.

<sup>3</sup>This is the total dividend and interest income earned in one year and expressed as a percent of average funds available to invest at amortized cost. It does not include discount amortization of bonds or lending fees.

<sup>4</sup>This is the yield to maturity on bonds acquired with new funds during each fiscal year.

## INVESTMENT DIVISION

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### State Trust of Tennessee

A not-for-profit corporation, the State Trust of Tennessee was chartered in the state of Tennessee on April 20, 1979 and began operations in December, 1980. The State Trust has enabled the Treasury Department to gain limited membership in the Federal Reserve Bank System. Being a limited member of the Federal Reserve gives the Treasury Department access to the Federal Reserve Wire System. Today, the State Trust of Tennessee is a major participant in this Federal Reserve district and fully utilizes the wire system to send, receive and transfer funds under the State Treasurer's management. In addition, the local Federal Reserve Bank is used to safekeep securities in both book entry and definitive form.

### State Trust of Tennessee Federal Reserve Bank Transactions Fiscal Year 1986-87

Transaction Type	Number	Amount
Wire Disbursements (1)	4,273	\$17,379,230,395
Wire Receipts (2)	9,602	21,212,434,657
Security Disbursements (3)	1,357	18,485,337,804
Security Receipts (4)	1,270	18,441,868,101
ACH Transactions (5)	582,208	310,557,105
Check Redemptions (6)	<u>5,445,848</u>	<u>5,523,273,045</u>
TOTAL	6,044,558	\$81,352,701,107

#### Explanation of Transaction Types:

- (1) Disbursements of cash for the purpose of non-Fed eligible securities, payment of TIAA/CREF contributions, and payment of OASI contributions.
- (2) Receipt of cash for payment of interest and principal for non-Fed eligible securities, concentration of cash deposited in local banks, and drawdown of Federal funds.
- (3) Disbursement of cash against the receipt of Fed eligible securities (U.S. Government securities held in book-entry form by the Federal Reserve Bank).
- (4) Receipt of cash against the disbursement of Fed eligible securities.
- (5) Direct deposit of state payroll and TCRS pension payments.
- (6) Redemption of state warrants, TCRS pension checks, state payroll checks, etc.

## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

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One of the primary responsibilities of the State Treasurer is the administration of the state's retirement system. Retirement coverage is provided through this system for state employees, higher education employees, teachers and employees of participating local governments. Administration of the retirement system includes the Old Age and Survivor Insurance Agency (OASI), TCRS membership, contributions, retirement benefits and investment of retirement system funds.

### **Old Age & Survivor Insurance Agency**

The State Old Age & Survivor Insurance Agency (OASI) administers the state's responsibilities under the Federal-State Social Security Agreement, executed on August 16, 1951. Prior to 1951, public employees were not eligible for social security coverage. The 1950 amendments to the Federal Social Security Act allowed coverage for certain groups of state and local government employees who were not covered by a retirement system. The 1954 amendments authorized the coverage of services and employees under a retirement system and prescribed the mechanics for accomplishing such coverage.

Effective January 1, 1956, social security coverage was extended to include employees in positions under the Tennessee State Retirement System and the Tennessee Teachers' Retirement System (superseded systems) and on July 1, 1972, to the Tennessee Consolidated Retirement System coverage group.

As of December, 1986, there were approximately 2,000 reporting entities. The Social Security Coverage Program accounted for employer and employee contributions totaling \$516,516,056.82 for the 1986 calendar year. The contribution rate was 14.30 percent (employer/employee) in 1986 and 1987. The 1986 maximum wage base was \$42,000 and \$43,800 in 1987.

The 1986 Federal Budget Reconciliation Act mandated medicare coverage to public employees hired after March 31, 1986, who were not covered under social security. The Act also contains provisions which relieve the state of its responsibility for collecting social security contributions and medicare taxes from public employees, effective January, 1987. However, the state retains full responsibility for all matters relating to coverage of its state and local employees. In addition, the state's liability to the Social Security Administration with respect to collecting and depositing social security contributions for payments due on wages paid for calendar years 1984-1986 continues until the Statute of Limitations precludes such liability.

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

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## Membership and Contributions

Effective July 1, 1972, the seven state retirement plans consolidated to form the Tennessee Consolidated Retirement System having three membership classifications: Group I, teachers and general employees; Group II, state policemen, wildlife officers, firemen and policemen; and Group III, judges and elected officials. Prior members of the seven superseded systems were permitted to retain their original rights and benefits. Effective July 1, 1976, all new members of the TCRS are classified as Group I members.

On July 1, 1978, the TCRS assumed administrative duties of the University of Tennessee Joint Contributory Retirement System which provided specific benefits to faculty and administrative personnel who elected to join the plan. Currently, the TCRS administers all retirement plans available to state employees and teachers except the Teacher Insurance and Annuity Association Plan which is optional to higher education teachers.

Membership in the retirement system is mandatory for state employees, teachers and employees of participating local governments. TCRS membership has grown steadily since 1972 when there were approximately 93,000 members.

### Schedule of Active Members

Employment Category	Year Ended 6/30/86	Year Ended 6/30/87
State Employees	41,192	41,958
Higher Education Employees	22,140	23,919
K-12 Teachers	48,887	49,139
Political Subdivision Employees	37,921	39,282
TOTAL	150,140	154,298

Retirement benefits are financed by member contributions, employer contributions, and the earnings of the invested assets. Certain members contribute a percentage of their salaries to the TCRS. The contribution rate for these Group I members is 5% of gross salary and varies for other groups of members. Effective July 1, 1981, the TCRS became noncontributory for certain state and local government employees.

The employee reserve account is the fund in which employee contributions plus interest are accumulated and held in trust. During the 1986-87 fiscal year, contributions credited to the employee reserve account totaled \$116.5 million which included \$37.7 million provided by employers for non-contributory members.

The contribution rates for the employers participating in the retirement system are determined by a biennial actuarial valuation performed by an independent actuarial firm. It is the policy of the retirement system to fund pension cost accrued. The contribution rates include funding for the cost of living provision and amortization of the supplemental liability on an actuarial reserve basis over a 40 year period which began in July of 1975. The employer contribution rates during the year ended June 30, 1987 were as follows:

Noncontributory State Employees	11.05%
K-12 Teachers	15.03%
Noncontributory Higher Education Teachers	20.23%
Political Subdivisions	Individually Determined

The employer reserve account represents the accumulation of employer contributions, investment income and contributions credited to retired members; reduced by benefits paid to retired members and their beneficiaries. Contributions credited to the employer reserve account during 1986-87 totaled \$310.8 million.

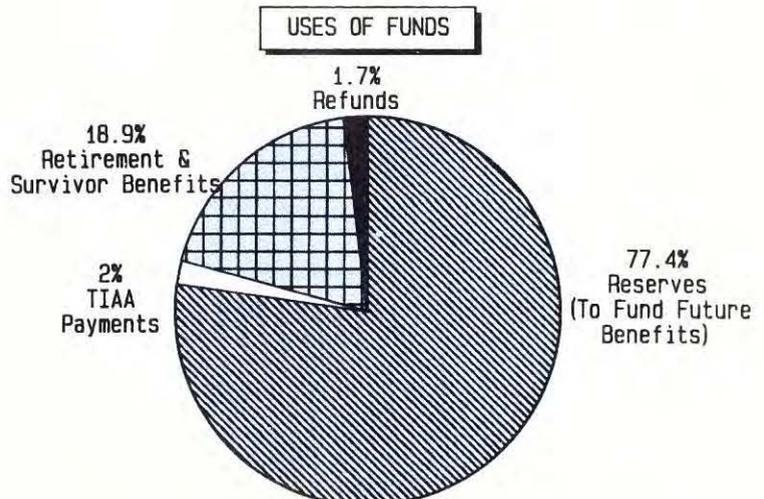
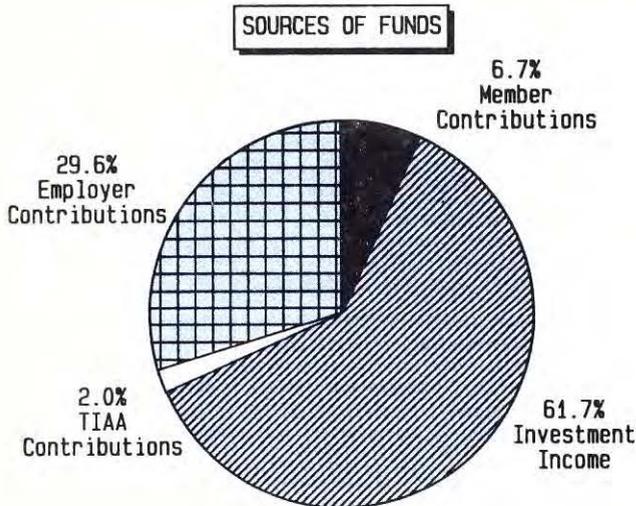
# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

## Retirement Benefits

Members become eligible to retire from the TCRS at age 60 with 10 years of service or at any age with 30 years of service. Retirement benefits are based on the average of the member's five highest consecutive years of employment and the years of creditable service. A reduced retirement benefit is available to vested members at age 55.

Disability benefits are available to active members with five years of service who become disabled from engaging in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is the result of an accident or injury occurring while the member was in the performance of duty.

As of June 30, 1987, 48,169 retirees were receiving monthly benefit payments. Benefits paid in fiscal year 1986-87 totaled \$221.2 million.



## DIVISION OF CLAIMS ADMINISTRATION

### Claims Against the State

Prior to January 1, 1985, the Board of Claims exercised sole jurisdiction to hear and determine all claims filed against the state for personal injuries and property damages resulting from work connected accidents and negligent acts and omissions of state officers and employees. Pursuant to Chapter 972 of the Acts of 1984, the General Assembly implemented a limited waiver of the state's sovereign immunity and created the Tennessee Claims Commission to hear and determine all claims filed against the state wherein the state has waived its immunity. Actions falling within the waiver of immunity include: the negligent operation of motor vehicles or machinery; negligent care, custody or control of persons or property; professional malpractice; workers' compensation claims by state employees; dangerous conditions on state maintained highways and bridges; and nuisances created or maintained by the state.

Chapter 972 created the Claims Award Fund from which all claims against the state are paid. This fund is supported by premiums paid by each state department, agency and institution with the required funding being based upon an actuarial estimate of the losses which will be incurred during each fiscal year.

The Act also redefined the role of the Board of Claims to be: (a) to review and approve the purchase of insurance policies by any department, agency or institution of the state; (b) to make recommendations to the Commissioner of Finance and Administration and the General Assembly regarding the required funding for the Claims Award Fund; and (c) to hear and determine any claims filed against the state wherein the state has maintained its sovereign immunity. Chapter 972 also created the Division of Claims Administration within the Treasury Department to act as the central intake point for all claims filed against the state of Tennessee.

**Tennessee Code Annotated**, Title 9, Chapter 8, details under what circumstances the Claims Commission, the Board of Claims and the State Treasurer (through the Division of Claims Administration) may compensate individuals injured by the activities of state government. As a precedent to filing a claim with the Claims Commission or the Board of Claims, an injured party must file a notice of claim with the Division of Claims Administration. The division immediately refers claims filed under the Board of Claims jurisdiction to the Board. The division has 90 days to act on all other claims filed. If at the end of this period the division has failed to act on a claim, the claim is automatically filed with the Claims Commission by the division. The claim is then processed in accordance with the rules and regulations of the Claims Commission.

The activities of the Division of Claims Administration for the fiscal year ended June 30, 1987 included the following:

	CLAIMS FILED	PAYMENTS MADE	
Workers' Compensation Claims	3,704		
Death Payments		\$ 408,880	
Medical Payments		2,327,552	
Assault Injury Payments		7,155	
Temporary Disability (Lost time)		624,332	
Permanent Disability		<u>1,512,946</u>	
Subtotal			\$4,880,865
Employee Property Damage	282		25,324
Tort Claims	2,681		
Death Payments		\$ 0	
Bodily Injury Payments		385,803	
Property Damage Payments		<u>425,294</u>	
Subtotal			\$ 811,097
TOTALS	<u>6,667</u>		<u>\$5,717,286</u>

## **Criminal Injury Compensation Program and Victims of Drunk Drivers Compensation Fund**

In addition to processing claims filed against the state, the Division of Claims Administration is responsible for the payment of awards made by Circuit Courts under the Criminal Injury Compensation Program pursuant to **TCA**, Title 29, Chapter 13. The Criminal Injury Compensation Program is funded through privilege taxes assessed in courts against criminal defendants and other offenders upon conviction, fees levied against parolees and probationers and the proceeds of bonds forfeitures in felony cases, as per **TCA**, 40-24-107.

Payments made under the Criminal Injury Compensation Program are intended to defray the costs of medical services, loss of earnings, burial costs and other pecuniary losses to either the victim of a crime or to the dependents of deceased victims. In the past, the revenues of the Criminal Injury Compensation Program had not been sufficient to meet the increasing number of awards being ordered by the circuit courts. In response to this problem, the General Assembly enacted several changes in the program which have provided a more substantial basis of funding.

During the 1986-87 fiscal year, the Division of Claims Administration made payments of \$3,404,179 to victims of crime. There were 679 criminal injury claims filed with the division where judgments have been issued by appropriate Circuit Courts in the state or by the Tennessee Claims Commission. Claims filed during fiscal year 1987 represent a total dollar value of \$3,201,606. These claims are paid in the order they are received and as funds become available. Throughout the year, most criminal injury claims were paid within six months after the date the claims were filed, provided that the orders were complete upon receipt and contained all information required by the criminal injury statutes.

The Criminal Injury Compensation Program ended the fiscal year 1987 with a balance of approximately \$593,242 in unpaid claims. In fiscal year 1987, the number of claims paid increased and the average dollar value per claim decreased.

A continued increasing number of criminal injury claims being filed is anticipated. Public knowledge of the Criminal Injuries Compensation Fund has increased as a result of public awareness programs and the utilization of victim-assistance co-ordinators, as established per **TCA** 8-7-206. These co-ordinators, located in each judicial district, are available to assist crime victims in obtaining benefits from the program.

In addition to criminal injuries compensation, assistance is now available to victims of drunk drivers. **TCA** 40-24-107 established the Victims of Drunk Drivers Compensation Fund. When the proximate cause of a death or injury is the operator's intoxication as prohibited by **TCA** 55-10-401, the victim's death or injury shall be eligible for compensation in the same manner as criminal injury compensation and not to exceed a maximum award of \$2,000 per claim plus attorney fees. During fiscal year 1987, three claims were paid from this fund for a total of \$6,456.

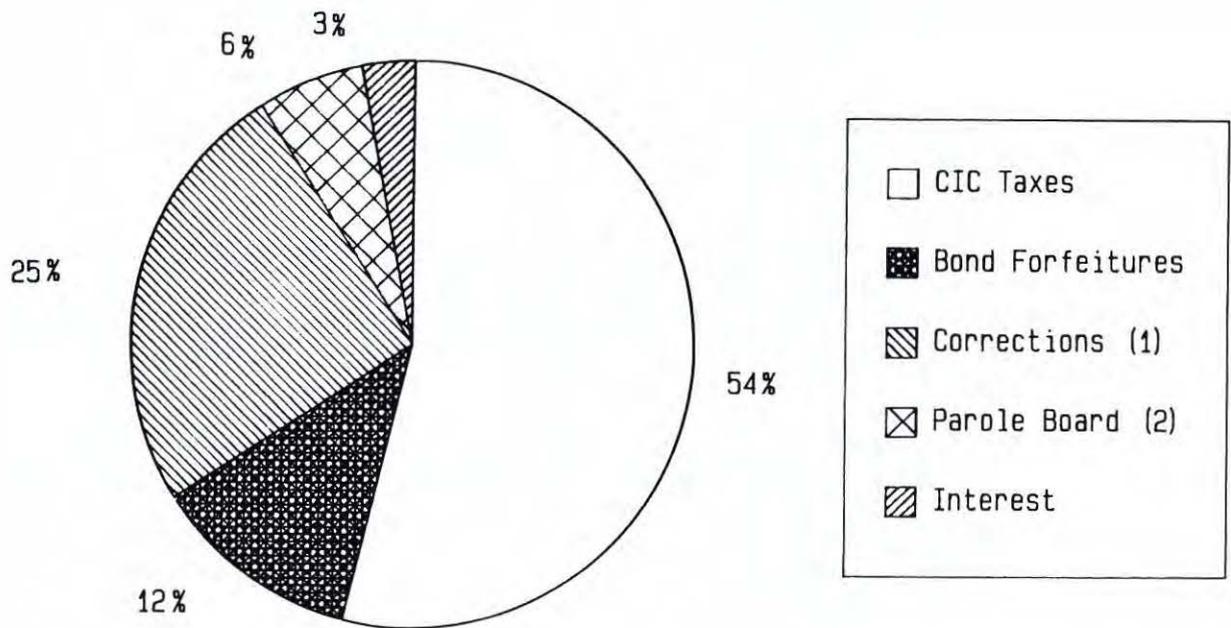
The following schedules outline the activity in the Criminal Injury Compensation Program for the 1986-87 fiscal year.

**DIVISION OF CLAIMS ADMINISTRATION**

**ANALYSIS OF  
CRIMINAL INJURY COMPENSATION AWARDS  
PAID DURING FISCAL YEAR 1987**

Classification of Crime	Number of Awards	Percent of Total	Dollar Value of Awards	Percent of Total	Average Award
Homicide	164	26.67%	\$1,002,526	29.45%	\$6,113
Sexual Assault	141	22.93%	664,081	19.51%	4,710
Robbery by Force	1	0.16%	1,102	0.03%	1,102
Assault	309	50.24%	1,736,470	51.01%	5,620
<b>TOTAL</b>	<b>615</b>	<b>100.00%</b>	<b>\$3,404,179</b>	<b>100.00%</b>	<b>\$5,535</b>

**Sources of Funds For  
Criminal Injury Compensation Awards**



### Defense Counsel Commission

Chapter 128, Tennessee Public Acts of 1973, established the Defense Counsel Commission and empowered it to pay attorney's fees incurred by state employees in defense of certain civil actions for damages brought against them. The State Treasurer was designated Commission Chairman on April 22, 1982 pursuant to Chapter 810 of the Acts of 1982.

The circumstances under which the Commission is authorized to pay attorney fees are set out in **TCA**, Section 8-42-103. This section was amended by Chapter 67 of the Acts of 1983 to establish specific standards for approval of requests for private counsel, to enable the Commission to consolidate counsel requests as appropriate and to prescribe standards for determining a reasonable fee. **TCA**, Section 8-42-107 provides for a sum sufficient appropriation to the Commission for the purpose of making payments to attorneys and payments for court costs.

Chapter 166, Tennessee Public Acts of 1985, terminated the Defense Counsel Commission effective April 18, 1985, but continued it for the purposes mandated by **TCA**, Section 9-8-107. The Commission retains jurisdiction over all requests for counsel and compensation arising out of incidents occurring before January 1, 1985. The functions and responsibilities of the Commission are transferred to a subcommittee of the Board of Claims for incidents occurring after January 1, 1985.

During the fiscal year ending June 30, 1987 the Defense Counsel Commission authorized payments in the total amount of \$245,276.22. Requests for private counsel have decreased dramatically during the 1986-87 fiscal year. This decrease is related to the Office of the Attorney General now representing many state employees rather than the employee seeking approval of private counsel by the Defense Counsel Commission or subcommittee. During the year ending June 30, 1987, the Defense Counsel approved 18 requests for private counsel. As of June 30th there were 79 active cases in which payment of fees and expenses have been approved.

## DEFERRED COMPENSATION

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The Deferred Compensation Program is an optional employee benefit program designed to allow state employees to defer receipt of a portion of their current income until after retirement, thereby deferring income tax payments on that portion of salary and its earnings.

This program offers employees two plans. Plan I, authorized by Section 457(b) of the Internal Revenue Code and Section 8-25-101, et. seq. of **Tennessee Code Annotated**, completed its sixth year of operation at the end of the 1986-87 fiscal year. Plan II, authorized by Section 401(k) of the Internal Revenue Code and Section 8-25-301, et. seq. of **Tennessee Code Annotated** as the first governmental 401(k) plan, completed its fourth year of operation at the end of the 1986-87 fiscal year.

Employees may enroll in either plan at any time and may adjust or stop contributions at any time; however, IRS regulations stipulate that previous deferrals may not be withdrawn as long as the participant continues in state government, except in the case of severe financial hardship. Employees may participate in either plan with a minimum deferral of \$20 per month. Current IRS regulations allow a maximum deferral in Plan I of 25% of salary up to the maximum annual contribution of \$7,500, and a maximum deferral in Plan II of 20% of salary for Group I, II or III retirement system members up to the maximum annual contribution of \$7,000.

Participants in the program may direct the investment of their deferred salary to any of the investment products authorized and contracted by the state. Effective July 1, 1986, deferrals may be accumulated in Fidelity Federal's time deposit account, AETna's guaranteed accumulation account, Great-West Life's guaranteed certificate funds and three of Fidelity Investments' mutual funds. Fixed or variable annuity payouts are available from AETna or Great-West. Also effective July 1, 1986, The Holden Group was selected as administrator for the program. The use of a separate administrator enables the program to offer a wider variety of investment products and to offer participants the flexibility to transfer accumulated funds among investment providers without penalty.

At June 30, 1987, 4,229 state employees and 258 University of Tennessee employees were actively participating in the program. The average individual monthly deferral by state employees was \$144.56 in Plan I and \$195.94 in Plan II. Participation was widely spread among age and salary levels, as illustrated by the accompanying charts.

For the year ending June 30, 1987, participants deferred a total of \$9,099,789 through both plans of the program. Accumulated account balances reported by the vendors totaled \$49,851,629. Distribution of these funds is shown on the following schedule.

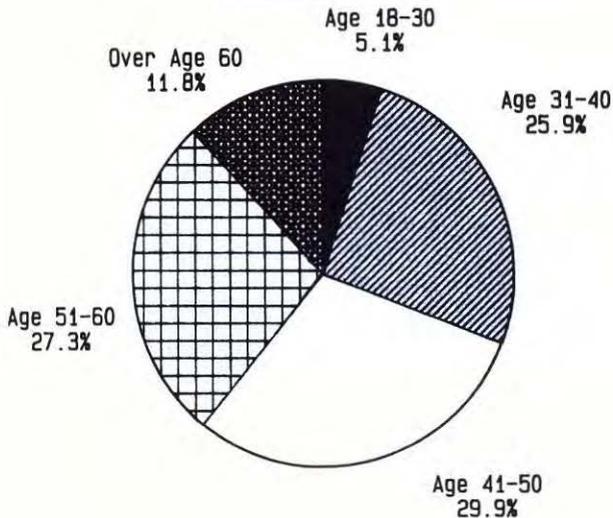
## DEFERRED COMPENSATION

### DISTRIBUTION OF DEFERRALS AS OF JUNE 30, 1987

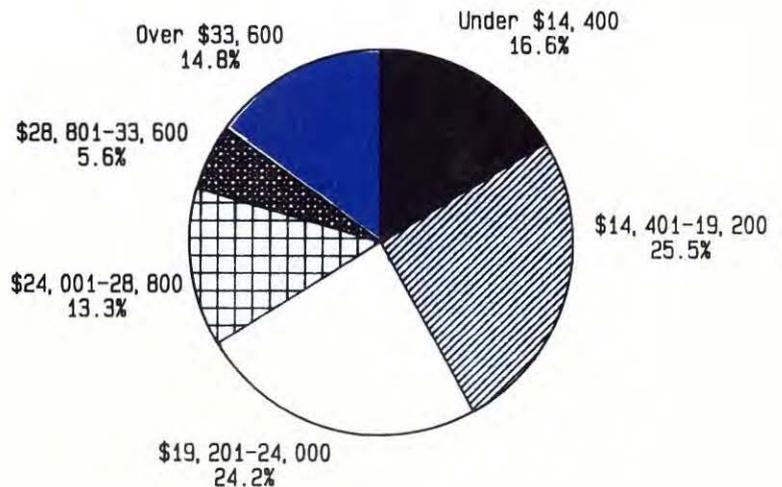
	Deferrals July 1, 1986- June 30, 1987	Market Value of of Account Balances at June 30, 1987
<b>Plan I (457)</b>		
Aetna—Closed Contract	\$ -0-	\$19,395,618
Aetna—New Contract	231,820	294,386
American General	233,514	652,624
Fidelity Federal	1,246,565	7,282,067
Fidelity Investments	1,819,878	3,576,150
Great West	437,461	851,721
<b>TOTAL</b>	<u><u>\$3,969,238</u></u>	<u><u>\$32,052,566</u></u>
<b>Plan II (401k)</b>		
Aetna—Closed Contract	\$ -0-	\$10,802,665
Aetna—New Contract	422,744	427,488
Fidelity Federal	1,068,167	1,985,358
Fidelity Investments	3,289,584	4,545,802
Great West	584,570	690,374
<b>TOTAL</b>	<u><u>\$5,365,065</u></u>	<u><u>\$18,451,687</u></u>

### DISTRIBUTION OF PARTICIPANTS AS OF JUNE 30, 1987

#### AGE DISTRIBUTION



#### ANNUAL SALARY DISTRIBUTION



## UNCLAIMED PROPERTY AND ESCHEAT

The Treasury Department has administered the Uniform Disposition of Unclaimed Property Act since it was enacted in 1978.

The act provides that personal property which an organization or individual is holding for another person will be reported to the Treasurer if the holder of the property has had no contact with the owner for a period of seven years and if the holder cannot locate the owner. The Treasurer then advertises the names and last known addresses of the owners and attempts to direct the owners to their property. \$3,425,484 in unclaimed property accounts was reported to the Treasurer for advertisement during the 1986-87 fiscal year.

Property which is not claimed from the holder as a result of the advertising is turned over to the Treasurer's custody. During the period July 1, 1986 through June 30, 1987, \$2,689,954 of cash property was turned over to the Treasurer. The Unclaimed Property Division also completed a stock sale in July 1987. The Division sold 5,942 shares of stock in various companies and netted \$108,052. Following is an analysis of the cash collections:

<b>Unclaimed Property Collected July 1, 1986—June 30, 1987</b>			
<b>Reporting Entity</b>	<b>Number of Accounts</b>	<b>Final Value</b>	<b>Percentage of Total Value</b>
Utilities	2,822	\$ 307,207	11.42%
Banks	2,387	772,361	28.71
Credit Agencies	581	316,200	11.76
Insurance Companies	4,724	724,151	26.92
Courts	441	148,725	5.53
Other	2,037	421,310	15.66
TOTAL	12,992	\$2,689,954	100.00%

The Treasurer then sends a notification to the last known address of each remaining owner. If the owner does not respond, additional search efforts are made through motor vehicle and drivers' license records, telephone directories, employment security records, retirement records, vital statistics, city directories, county court records and a variety of other sources. Cash property which is turned over to the Treasurer may be claimed by the owners or their heirs at any time.

During the period from July 1, 1986 through June 30, 1987, \$1,328,190 cash property was returned by holders and the Unclaimed Property Division to the owners or their heirs. Of this total, \$1,050,199 represented accounts reported for advertisement in 1986-87 and \$277,991 represented accounts reported and turned over in previous years. Following is an analysis of the property returned during the 1986-1987 fiscal year:

## UNCLAIMED PROPERTY AND ESCHEAT

<b>Property Returned July 1, 1986—June 30, 1987</b>			
<b>Reporting Entity</b>	<b>Number of Accounts</b>	<b>Value of Claims*</b>	<b>Percentage of Total Value</b>
Utilities	685	\$ 40,965	3.09%
Banks	975	787,890	59.32
Credit Agencies	282	160,749	12.10
Insurance Companies	847	187,969	14.15
TCRS	35	11,904	.90
Courts	22	9,193	.69
Other	510	129,520	9.75
<b>TOTAL</b>	<b>3,356</b>	<b>\$1,328,190</b>	<b>100.00%</b>

\*Paid by holders and the Unclaimed Property Division.

Since the program began in 1979, \$22.6 million in unclaimed property for 113,499 owners has been reported to the Treasurer and \$6.7 million (29.5%) of that property has been returned to 29,925 owners or their heirs. Following is a schedule of property reported and returned during each of the years since the program began.

### Schedule of Property Reported and Returned Fiscal Years 1979-80 through 1986-87

<b>Fiscal Year</b>	<b>Report Value Due During Fiscal Year</b>	<b>Property Returned During Fiscal Year</b>
1979-80	\$ 5,384,498	\$1,132,106
1980-81	1,878,882	519,912
1981-82	2,820,317	802,575
1982-83	1,864,748	678,635
1983-84	2,255,378	660,121
1984-85	2,468,702	766,112
1985-86	2,527,406	796,603
1986-87	3,425,484	1,328,190
<b>TOTAL</b>	<b>\$22,625,415</b>	<b>\$6,684,254</b>

Administration of the state's Escheat Law is also the responsibility of the Treasurer's Office. When an individual in Tennessee dies without any known heirs, his property becomes subject to escheat. The law provides that this property will be reported to the Treasurer and, after a determination by a court of law that there are no known surviving heirs, the property is turned over to the state. This property is then held in custody by the Treasurer and may be claimed by the rightful heirs.

During the past fiscal year the Treasurer's Office has received funds totaling \$87,789 representing 37 estates.

## CHAIRS OF EXCELLENCE

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The Chairs of Excellence Trust is a program authorized by the 94th General Assembly for the purpose of providing funds with which state colleges and universities are able to contract with persons of regional or national prominence to teach in specified academic areas. The program is open to all state 4-year colleges and universities, and the UT Space Institute. The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus, creating a chair. Income from the fixed income portion of the trust is then used to fund required expenditures for the chair. All other funds, including equity income and profit/loss, become part of the corpus of the fund for use in supporting the trust in future years. Since the start of the program in 1984, there have been 47 chairs created, with state appropriations totaling \$35,000,000 and matching contributions totaling \$22,935,863. For the year ending June 30, 1987, net income totaled \$4,168,226.

### The University of Tennessee

#### Knoxville

- Racheff Chair of Ornamental Horticulture
- Racheff Chair of Material Science & Engineering
- Chair of Excellence in English
- Condra COE in Computer Integrated Engineering & Manufacturing
- Condra COE in Power Electronics Applications
- Pilot Chair of Excellence in Management
- Holly Chair of Excellence in Political Economy
- Schmitt Chair of Excellence in History
- COE in Science, Technology & Medical Writing

#### Memphis

- Van Vleet COE in Microbiology & Immunology
- Van Vleet COE in Pharmacology
- Van Vleet COE in Biochemistry
- Van Vleet COE in Virology
- Muirhead COE in Pathology
- COE in Obstetrics & Gynecology
- Lebonheur COE in Pediatrics
- Crippled Children's Hospital COE in Biomedical Engineering
- Plough COE in Pediatrics
- Gerwin COE in Physiology
- Hyde COE in Rehabilitation
- Dunavant COE in Pediatrics
- First Tennessee Bank COE in Pediatrics
- Federal Express COE in Pediatrics
- Semmes-Murphey COE in Neurology

#### Martin

- Hendrix COE in Free Enterprise & Economics

#### Chattanooga

- Miller COE in Management & Technology
- American National Bank COE in Humanities
- Provident Life & Accident Ins. Co. COE in Applied Math
- West COE in Communications & Public Affairs
- Chair of Excellence in Judaic Studies
- Cline COE in Rehabilitation Technology
- Frierson COE in Business Leadership

### The State Board of Regents

#### A.P.S.U.

- Acuff COE in Creative Arts

#### E.T.S.U.

- Quillen COE of Medicine in Geriatrics & Gerontology
- AFG Industries COE in Business & Technology

#### M.T.S.U.

- Seigenthaler Chair of First Amendment Studies
- Jones Chair of Free Enterprise

#### M.S.U.

- Chair of Excellence in Molecular Biology
- Herff Chair of Excellence in Law
- Fogelman COE in Real Estate
- Sales & Marketing Exec.'s of Memphis COE in Sales
- Chair of Excellence in Accounting
- Arthur Andersen & Co. Alumni COE in Accounting
- Moss COE in Philosophy
- Wunderlich COE in Finance
- Herff COE in Biomedical Engineering
- Bornblum COE in Judaic Studies

## DUTIES OF THE STATE TREASURER

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The office of the State Treasurer is a constitutional office established by Article 7, Section 3 of the State Constitution. References to the various duties and responsibilities of the office set forth in the code are indexed below.

<b>Administrative Agencies</b>	<b>Tennessee Code Annotated Section</b>
Board of Claims	9-8-101
Board of Equalization	4-3-5101
Board of Trustees of the Tennessee Consolidated Retirement System	8-34-301—8-34-319
Council on Pensions and Retirement Funding Board	3-9-101
Investment Advisory Council	9-9-101
Public Records Commission	8-37-108
State Building Commission	10-7-302
State Insurance Committee	4-15-101
State School Bond Authority	8-27-101
State Trust of Tennessee	49-3-1204
Tennessee Competitive Export Corporation	9-4-801, et seq.
Tennessee Housing Development Authority	13-27-104
Tennessee Local Development Authority	13-23-106
Tennessee Student Assistance Corporation	4-31-103
	49-4-202
Board of Claims	9-8-101, et seq.
Chairs of Excellence Trust	49-7-501—49-7-502
Criminal Injury Compensation Fund	29-13-101, et seq.
Deferred Compensation	8-25-101, et seq. and 8-25-301, et seq.
Defense Counsel Commission	9-8-107
Escheat	31-6-101, et seq.
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Receipt and Disbursement of Public Funds	8-5-106—8-5-101
	9-4-301, et seq.
Tennessee Consolidated Retirement System and Miscellaneous Systems	Title 8, Chs. 34, 35, 36, 37 and 39
Unclaimed Property	66-29-101, et seq.
Victims of Drunk Drivers Compensation Fund	40-24-107

## PAST TREASURERS

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Miller Francis	1836-1843	Porter Dunlap	1915-1919
Matthew Nelson	1843-1845	Hill McAlister	1919-1927
Robert B. Turner	1845-1847	John F. Nolan	1927-1931
Anthony Dibrell	1847-1855	Hill McAlister	1931-1933
G. C. Torbett	1855-1857	James J. Bean	1933-1937
W. Z. McGregor	1857-1865	Grover Keaton	1937-1939
R. L. Standford	1865-1866	John W. Harton	1939-1945
John R. Henry	1866-1868	Cecil C. Wallace	1945-1948
W. H. Stilwell	1868-1869	J. Floyd Murray	1948-1949
J. E. Rust	1869-1871	W. N. Estes	1949-1953
William Morrow	1871-1877	J. B. Walker, Sr.	1953-1955
M. T. Polk	1877-1883	Ramon Davis	1955-1963
Atha Thomas	1883-1885	James H. Alexander	1963-1964
J. W. Thomas	1885-1886	Nobel Caudill	1964-1964
Atha Thomas	1886-1889	James H. Alexander	1964-1967
M. F. House	1889-1893	Charlie Worley	1967-1971
E. B. Craig	1893-1901	Thomas A. Wiseman	1971-1974
Reau Folk	1901-1911	Harlan Mathews	1974-1987
G. T. Taylor	1911-1913	Steve Adams	1987-Present
W. P. Hickerson	1913-1915		



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3697

December 18, 1987

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Local Government Investment Pool as of June 30, 1987 and 1986, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Local Government Investment Pool as of June 30, 1987 and 1986, and the results of its operations and changes in fund balance for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedule following the notes to the financial statements is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in such schedule has been subjected to the auditing procedures applied in the examination 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.

Sincerely,

A handwritten signature in cursive script, appearing to read "Frank L. Greathouse".

Frank L. Greathouse, CPA, Director  
Division of State Audit

**Local Government Investment Pool  
Comparative Balance Sheet**

	June 30, 1987	June 30, 1986
<b>ASSETS</b>		
Cash and Cash Equivalents	<u>\$328,432,417</u>	<u>\$170,108,123</u>
Total Assets	<u>\$328,432,417</u>	<u>\$170,108,123</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Member Deposits	\$268,528,548	\$144,340,964
Due to Special Revenue	0	0
Due to Highway Fund	1,228,819	667,165
Due to Bond Fund	8,188,757	7,707,066
Due to College & Universities	<u>49,989,728</u>	<u>17,228,330</u>
Total Liabilities	<u>\$327,935,852</u>	<u>\$169,943,525</u>
Fund Balance	<u>\$ 496,565</u>	<u>\$ 164,598</u>
Total Liabilities and Fund Balance	<u>\$328,432,417</u>	<u>\$170,108,123</u>

See Accompanying Footnotes to the Financial Statements.

**Local Government Investment Pool  
Statement of Revenues, Expenditures and Changes in Fund Balance**

	July 1, 1986 through June 30, 1987	July 1, 1985 through June 30, 1986
<b>Revenues:</b>		
Investment Income	<u>\$19,944,729</u>	<u>\$10,030,223</u>
Total Revenues	<u>\$19,944,729</u>	<u>\$10,030,223</u>
<b>Expenditures:</b>		
Interest on Deposits	\$19,466,138	\$ 9,826,337
Administrative Fees	<u>146,624</u>	<u>77,323</u>
Total Expenditures	<u>\$19,612,762</u>	<u>\$ 9,903,660</u>
Excess of Revenues over Expenditures	<u>\$ 331,967</u>	<u>\$ 126,563</u>
Fund Balance, Beginning of Year	<u>\$ 164,598</u>	<u>\$ 38,035</u>
Fund Balance, End of Year	<u>\$ 496,565</u>	<u>\$ 164,598</u>

See Accompanying Footnotes to the Financial Statements.

### **Description of the Local Government Investment Pool**

The LGIP was authorized by the 91st General Assembly to enable local governments and other political subdivisions to participate with the state in providing maximum opportunities for the investment of public funds. LGIP participants can invest any amount for any length of time in the pool. Transfer procedures for making deposits to the pool or withdrawals therefrom specify that an immediate credit process be used, i.e. wire transfers or correspondent banking transactions.

An average rate of return is calculated on the investment made each month from such pool and is used to credit LGIP participants with earnings. An administrative fee of .15 percent is charged against each participant's average daily LGIP balance to provide for recovery of administrative cost. This fee may be changed as the ratio of administrative cost to the pool balance changes.

Some deposits made to the LGIP are contractually committed to the State Department of Transportation. The only withdrawals allowed from these accounts are to pay the Department of Transportation per progress billings for construction projects contracted between the entity and DOT.

Some deposits are contractually committed to the office of Old Age and Survivors Insurance and the Bond Fund. Withdrawals from these accounts require authorization by the administering agency.

### **Significant Accounting Policies**

The LGIP is considered an Expendable Trust Fund and is accounted for on the modified accrual basis. Revenues are recorded as received and expenditures are recorded at the time liabilities are incurred.

Monies deposited in the LGIP are invested in the Pooled Investment Fund administered by the State Treasurer. The Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States.

Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Local Government Investment Pool forms and integral part of the state government and in as such has been included as an expendable trust fund in the Tennessee Comprehensive Annual Financial Report.

Local Government Investment Pool  
**Schedule of Cash Receipts and Disbursements**

---

	July 1, 1986 through June 30, 1987	July 1, 1985 through June 30, 1986
Cash Balance, Beginning of Year	\$ 170,108,123	\$ 74,687,632
<b>Add Cash Receipts:</b>		
Member Deposits	\$1,169,714,363	\$493,434,700
Investment Income	19,944,729	10,030,223
Total Cash Receipts	\$1,189,659,092	\$503,464,923
<b>Deduct Cash Disbursements:</b>		
Member Withdrawals	\$1,031,188,174	\$407,967,109
Administrative Fees Paid	146,624	77,323
Total Cash Disbursements	\$1,031,334,798	\$408,044,432
Cash Balance, End of Year	\$ 328,432,417	\$170,108,123

See Accompanying Footnotes to the Financial Statements.

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3697

December 18, 1987

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Tennessee Consolidated Retirement System as of June 30, 1987 and 1986, 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 government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Tennessee Consolidated Retirement System as of June 30, 1987 and 1986, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

A handwritten signature in cursive script, reading "Frank L. Greathouse".

Frank L. Greathouse, CPA, Director  
Division of State Audit

FLG/pn

**Tennessee Consolidated Retirement System  
Comparative Balance Sheet**

(Expressed in Thousands)

ASSETS	June 30, 1987	June 30, 1986
CURRENT INVESTMENTS:		
Cash and Cash Equivalents	\$ 808,666	\$ 509,008
Reverse Repurchase Agreements	<u>0</u>	<u>10,015</u>
Total Current Investments	\$ 808,666	\$ 519,023
LONG TERM INVESTMENTS:		
Domestic Securities:		
Certificates of Deposit	\$ 1,550	\$ 1,550
Government Bonds (Amortized Cost)	1,492,185	1,351,076
Corporate Bonds (Amortized Cost)	1,076,240	1,016,257
Corporate Stocks (Cost)	1,676,913	1,608,364
Mortgages	2,833	3,199
Securities on Loan		
Government Bonds (Amortized Cost)	146,023	60,000
Corporate Bonds (Amortized Cost)	0	17,500
Corporate Stocks (Cost)	3,020	0
International Securities:		
Government Bonds (Amortized Cost)	173,557	29,235
Corporate Bonds (Amortized Cost)	39,210	35,232
Corporate Stocks (Cost)	169,012	43,616
American Depository Receipts (Cost)	<u>1,848</u>	<u>1,671</u>
Total Long Term Investments	<u>\$4,782,391</u>	<u>\$4,167,700</u>
Total Investments	\$5,591,057	\$4,686,723
RECEIVABLES:		
Investments Sold	\$ 50,576	\$ 40,734
Member Contributions Receivable	8,012	6,486
Employer Contributions Receivable	11,134	10,212
Accrued Interest Receivable	54,698	52,212
Accrued Dividends Receivable	3,347	4,962
Accrued Loan Income Receivable	553	420
Political Subdivisions Receivable	<u>2,409</u>	<u>3,236</u>
Total Receivables	<u>\$ 130,729</u>	<u>\$ 118,262</u>
<b>TOTAL ASSETS</b>	<u><u>\$5,721,786</u></u>	<u><u>\$4,804,985</u></u>

continued

**Tennessee Consolidated Retirement System  
Comparative Balance Sheet**

**LIABILITIES AND FUND BALANCE**

LIABILITIES:	June 30, 1987	June 30, 1986
Retired Payroll Payable	\$ 10,885	\$ 10,564
Warrants Payable	375	627
Accounts Payable	11,447	4,105
Obligations Under Reverse Repurchase Agreements	0	10,015
Investments Purchased	80,767	67,663
Options Written	<u>5,522</u>	<u>2,078</u>
 Total Liabilities	 \$ 108,996	 \$ 95,052
 FUND BALANCE:		
Member Reserve	\$1,108,532	\$1,003,755
Employer Reserve	<u>4,504,258</u>	<u>3,706,178</u>
 Total Fund Balance	 <u>\$5,612,790</u>	 <u>\$4,709,933</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <b><u>\$5,721,786</u></b>	 <b><u>\$4,804,985</u></b>

See Accompanying Footnotes to the Financial Statements.

**Tennessee Consolidated Retirement System**  
**Statement of Revenues, Expenses, and Changes in Fund Balance**

(Expressed in Thousands)

		For the Year Ended June 30, 1987		For the Year Ended June 30, 1986
Revenues:				
Member Contributions	\$ 78,730		\$ 71,692	
Employer Contributions	319,346		302,932	
Political Subdivisions Contributions	29,168		39,947	
TIAA Contributions	<u>22,995</u>		<u>20,118</u>	
		\$ 450,239		\$434,689
Investment Income:				
Loan Revenue	\$ 791		\$ 1,449	
Options Gain (Loss)	7,447		841	
Interest	219,324		221,553	
Dividends	57,910		50,910	
Foreign Investment Income	5,450		521	
Net Discount (Premium) Amortization	75,440		64,689	
Currency Gain (Loss) on Sale of Foreign Investments	7,956		5,002	
Net Profit (Loss) on Sale of Investments	<u>352,346</u>	<u>\$ 726,664</u>	<u>219,332</u>	<u>\$564,297</u>
Total Revenues		<u>\$1,176,903</u>		<u>\$998,986</u>
Expenses:				
Annuity Benefits	\$227,487		\$202,905	
Death Benefits	1,814		1,740	
Refunds	21,751		21,302	
TIAA Payments	<u>22,994</u>	<u>\$ 274,046</u>	<u>20,118</u>	<u>\$ 246,065</u>
Total Expenses		<u>\$ 274,046</u>		<u>\$ 246,065</u>
Excess of Revenues Over Expenses		<u>\$ 902,857</u>		<u>\$ 752,921</u>
Other Financing Sources:				
Operating Transfer from General Fund		\$ 0		\$ 5,500
Excess of Revenues and Other Sources Over Expenses		<u>\$ 902,857</u>		<u>\$ 758,421</u>
Fund Balance, Beginning of Year		<u>\$4,709,933</u>		<u>\$3,951,512</u>
Fund Balance, End of Year		<u>\$5,612,790</u>		<u>\$4,709,933</u>

See Accompanying Footnotes to the Financial Statements.

**Tennessee Consolidated Retirement System  
Statement of Changes in Financial Position**

(Expressed in Thousands)

	For the Year Ended June 30, 1987	For the Year Ended June 30, 1986
<b>Sources of Working Capital:</b>		
Working Capital Provided by Net Income from Operations	\$902,856	\$752,921
Operating Transfer from General Fund	0	5,500
Item Not Requiring (Providing) Working Capital		
Net Amortization (Accretion)	( 75,440)	( 64,689)
 Total Sources of Working Capital	 <u>\$827,416</u>	 <u>\$693,732</u>
 <b>Uses of Working Capital:</b>		
Purchase of Long Term Investments	\$539,251	\$593,692
 Net Increase (Decrease) in Working Capital:	 <u>\$288,165</u>	 <u>\$100,040</u>
 <b>Elements of Net Increase (Decrease) in Working Capital:</b>		
Cash and Cash Equivalents	\$299,658	\$128,531
Reverse Repurchase Agreements	( 10,015)	( 33,020)
Receivables	12,467	20,950
Warrants Payable	252	0
Retired Payroll Payable	( 321)	( 809)
Accounts Payable	( 7,342)	( 369)
Due to Other Funds	0	0
Obligations Under Reverse Repurchase Agreements	10,015	33,020
Investment Purchases	( 13,105)	( 46,635)
Options Written	( 3,444)	( 1,628)
 Net Increase (Decrease) in Working Capital:	 <u>\$288,165</u>	 <u>\$100,040</u>

See Accompanying Footnotes to the Financial Statements.

**I. Significant Accounting Policies**

1. **Basis of Presentation**—The accompanying financial statement has been prepared in conformity with generally accepted accounting principles.

2. **Basis of Accounting**—The TCRS is accounted for on the accrual basis of accounting.

**3. Cash and Investments**

A. **Current Investments.** The classification of “Cash and Cash Equivalents” includes short term investments such as repurchase agreements, U.S. Treasuries, and commercial paper as well as cash. These investments are stated at amortized cost. The TCRS is authorized by its investment policy to enter into repurchase and reverse repurchase agreements. Cash on deposit with the TCRS that is not immediately invested in securities is invested in the Pooled Investment Fund administered by the State Treasurer. The Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States.

B. **Long-Term Investments.** State statutes authorize the TCRS to invest in bonds, debentures, preferred stock and common stock, and in other good and solvent securities subject to the approval of the Board of Trustees and further subject to the following restrictions:

1. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75%) of the total of the funds of the retirement system.
2. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75%) of the total funds of the retirement system.
3. Within the restrictions in 1 and 2 above, an amount not to exceed eleven percent (11%) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in the following countries: Japan, the United Kingdom, West Germany, Switzerland, France, the Netherlands, Canada and Australia. Investments are valued at their book value in determining the compliance with these restrictions.

The TCRS investments at June 30, 1987 are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the TCRS or its agent in the name of the TCRS. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the name of the TCRS. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the name of the TCRS.

**Tennessee Consolidated Retirement System  
Notes to Financial Statements**

	Category			Carrying Amount	Market Value 06/30/87	Market Value 06/30/86
	1	2	3			
Current Investments						
Cash				\$ 3,620,012	\$ 3,620,012	\$ 2,690,030
Commercial Paper	805,045,865			805,045,865	805,248,041	506,318,071
Total Current Investments	<u>805,045,865</u>			<u>808,665,877</u>	<u>808,868,053</u>	<u>509,008,101</u>
Long Term Investments						
Domestic Securities						
Certificates of Deposit	1,550,000			1,550,000	1,550,000	1,550,000
Government Bonds	1,492,185,440			1,492,185,440	1,521,278,573	1,529,568,145
Corporate Bonds	1,076,239,869			1,076,239,869	1,062,238,695	1,106,055,676
Corporate Stocks	1,676,913,367			1,676,913,367	2,237,415,704	2,117,679,038
Mortgages	2,832,802			2,832,802	2,595,951	2,892,027
International Securities						
Government Bonds	173,556,823			173,556,823	173,339,255	28,447,000
Corporate Bonds	39,210,238			39,210,238	37,397,845	43,533,754
Corporate Stocks	169,011,868			169,011,868	191,708,689	52,901,845
American Depository Receipts	1,848,337			1,848,337	3,500,000	2,381,687
Currency Gain (Loss)					16,421,487	3,315,227
	<u>4,633,348,744</u>	<u>0</u>	<u>0</u>	<u>4,633,348,744</u>	<u>5,247,446,199</u>	<u>4,888,324,399</u>
Investments held by broker- dealers under securities on loan contracts						
Government Bonds				146,022,885	159,735,625	69,106,250
Corporate Bonds				0	0	17,723,750
Corporate Stocks				3,019,890	4,774,000	0
Total Long Term Investments				<u>\$4,782,391,519</u>	<u>\$5,411,955,824</u>	<u>\$4,975,154,399</u>
Total Investments				<u>\$5,591,057,396</u>	<u>\$6,220,823,877</u>	<u>\$5,484,162,500</u>

Investments in repurchase agreements were made during the year but the TCRS did not have an investment in repurchase agreements at June 30, 1987. There was one reverse repurchase agreement outstanding at the beginning of the year which matured during the year.

**Securities on Loan**—The TCRS is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that the TCRS loan a specific security from its holdings to the broker in return for U.S. Treasuries as collateral. Collateral pledged to the TCRS against securities loaned is registered in the name of the TCRS. The incidence of ownership is retained by the TCRS for securities loaned while the incidence of ownership is retained by the broker for collateral pledged. Securities are returned upon maturity of the loan contract or upon termination by either party. The broker pays a fee to the TCRS for the use of the loaned securities. At June 30, 1987 the market value of TCRS securities on loan to brokers was \$164,509,625.00. The market value of collateral pledged by brokers for securities on loan was \$170,127,150.00

4. **Receivables**—Receivables primarily consist of interest which is recorded when earned.

5. **Options**—During the 1987 fiscal year the TCRS engaged in the issuance of options. Activity is limited, by policy, to selling covered call options. Outstanding options at June 30, 1987 are as follows:

Company Name	# of Shares	Cost
General Electric	350,000	\$6,824,125.00

6. Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Tennessee Consolidated Retirement System forms an integral part of state government and as such has been included as a pension trust fund in the Tennessee Comprehensive Annual Financial Report.

**II. OTHER ACCOUNTING DISCLOSURES**

**1. Tennessee Consolidated Retirement System**—The Tennessee Consolidated Retirement System (TCRS) is a defined benefit retirement plan covering general employees and teachers of the state as well as employees of political subdivisions who have elected coverage. Benefits are determined by a formula using the high five-year average salary and years of service of each employee. Contributions to the system are determined on an actuarial reserve basis and provide funding for both normal and accrued liability costs. The frozen initial liability method, a projected benefit cost method, is used to value the plan. By using the frozen initial liability method it was assumed that the accrued liability was frozen as of June 30, 1981. For prior actuarial valuations the entry age normal cost method was used. Effective July 1981, pursuant to noncontributory legislation, contributions of up to 5% of the earnable compensation of most classes of general employees, formerly paid by those employees, were assumed by the state. This legislation similarly affected electing political subdivisions and their employees.

It is the policy of the state to fund pension costs accrued. For the year ended June 30, 1987 the state contributed \$319.3 million to the plan and state employees and teachers contributed \$59.1 million. Political subdivisions contributed \$29.1 million to the plan and the employees of political subdivisions contributed \$19.6 million. The employer contributions included funding for a cost-of-living provision and amortization of the accrued liability on an actuarial basis over a 40 year period which began in 1975.

An experience study of the system is conducted every four years, the most recent being as of June 30, 1984. A new set of actuarial assumptions resulting from this study was adopted effective June 30, 1985, the most significant being an 8½% interest rate (formerly 7%), an 8% annual salary growth (formerly 6%), and improved mortality rates for active and retired members.

An actuarial valuation is made every two years. The most recently completed valuation, that as of June 30, 1987, incorporated the new assumptions. For actuarial purposes, investments were valued using a five year moving market average for equity securities and amortized cost for debt securities. At June 30, 1987 the present assets of the pension fund exceeded the actuarially computed present value of vested benefits by over \$1 billion of which \$899 million is attributable to the state. The balance of \$153 million is attributable to political subdivisions for which the state assumes no liability. The present value of vested benefits also includes the liability associated with a closed group of University of Tennessee faculty who participate in the Teachers Insurance and Annuity Association retirement plan (TIAA/CREF), discussed below. The unamortized accrued liability of the retirement system, based on the present value of benefits for past and future service, was estimated to be \$1.61 billion at June 30, 1987. Of this amount, \$6 million is attributable to political subdivisions for which the state assumes no liability.

2. **Litigation**—The courts' decision regarding a class action lawsuit affecting a small group of Class B teachers became final in October, 1987. Under the final orders of the courts certain Class B teachers will receive a lump sum payment of approximately \$7,960,000.00 from TCRS. This liability has been accrued at June 30, 1987 and is included in Accounts Payable. The June 30, 1987 actuarial valuation takes into consideration the liability resulting from this case.
3. **Other than TCRS**—Eligible faculty of the various state universities and community colleges may elect to become members of either TIAA/CREF, a privately administered retirement plan, or the TCRS. The state assumes no liability for this group of TIAA/CREF members other than payment of contributions.

A second, now closed group of University of Tennessee faculty also participates in TIAA/CREF with certain supplemental benefits guaranteed by the state. Prior to fiscal year 1978 these guaranteed benefits were funded by the university on a pay-as-you-go basis; they since have been assumed by the TCRS and are included in the actuarial calculations disclosed in 1 above.

For the year ended June 30, 1987 the state contributed \$23.0 million to the TIAA/CREF plan.

**Tennessee Consolidated Retirement System  
Actuarial Balance Sheet — Schedule I**

**June 30, 1987**

**TOTAL SYSTEM**

<b>ASSETS</b>	<b>Total</b>	<b>State</b>	<b>Political Subdivisions</b>
Present assets creditable to:			
State Accumulation Fund	\$4,907,278,073	\$4,360,160,940	\$547,117,133
Members' Fund	<u>1,205,410,209</u>	<u>1,036,710,182</u>	<u>168,700,027</u>
Total Present Assets	<u>\$6,112,688,282</u>	<u>\$5,396,871,122</u>	<u>\$715,817,160</u>
Present value of prospective contributions payable to:			
State Accumulation Fund:			
Normal	\$ 889,162,383	\$ 761,916,988	\$127,245,395
Accrued Liability	<u>1,613,913,046</u>	<u>1,607,799,848</u>	<u>6,113,198</u>
Total	<u>\$2,503,075,429</u>	<u>\$2,369,716,836</u>	<u>\$133,358,593</u>
Members' Fund:	<u>\$ 822,085,377</u>	<u>\$ 675,758,983</u>	<u>\$146,326,394</u>
Total Prospective Contributions	<u>\$3,325,160,806</u>	<u>\$3,045,475,819</u>	<u>\$279,684,987</u>
Total Assets	<u>\$9,437,849,088</u>	<u>\$8,442,346,941</u>	<u>\$995,502,147</u>
<b>LIABILITIES</b>			
Present value of prospective benefits payable on account of:			
Present retired members and contingent annuitants	\$2,219,836,842	\$2,002,061,583	\$217,775,259
Present active members	7,156,263,216	6,387,783,450	768,479,766
Former members	<u>61,749,030</u>	<u>52,501,908</u>	<u>9,247,122</u>
Total Liabilities	<u>\$9,437,849,088</u>	<u>\$8,442,346,941</u>	<u>\$995,502,147</u>



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3897

December 18, 1987

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Claims Award Fund as of June 30, 1987 and 1986, and the related statements of revenues, expenses, and changes in fund equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Claims Award Fund as of June 30, 1987 and 1986, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

A handwritten signature in cursive script, reading "Frank L. Greathouse".

Frank L. Greathouse, CPA, Director  
Division of State Audit

FLG/pn

**Claims Award Fund  
Balance Sheet**

---

<b>ASSETS</b>	<b>June 30, 1987</b>	<b>June 30, 1986</b>
Cash and Cash Equivalents	\$27,798,536	\$13,569,581
Due from Other Funds	0	2,715,874
Total Assets	<u>\$27,798,536</u>	<u>\$16,285,455</u>
 <b>LIABILITIES AND FUND EQUITY</b>		
Liabilities		
Accounts Payable	\$23,214,227	\$22,925,056
Warrants Payable	128,804	281,933
Total Liabilities	<u>\$23,343,031</u>	<u>\$23,206,989</u>
Fund Equity	\$ 4,455,505	(\$6,921,534)
Total Liabilities and Fund Equity	<u>\$27,798,536</u>	<u>\$16,285,455</u>

See accompanying Footnotes to the Financial Statements.

**Claims Award Fund  
Statement of Changes in Financial Position**

---

	<b>For the Year Ended June 30, 1987</b>	<b>For the Year Ended June 30, 1986</b>
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	<u>\$11,377,039</u>	<u>(\$760,974)</u>
Net Increase (Decrease) in Working Capital	<u>\$11,377,039</u>	<u>(\$760,974)</u>
Elements of Net Increase (Decrease) in Working Capital:		
Cash and Cash Equivalents	\$14,228,955	\$5,910,541
Due from Other Funds	(2,715,874)	2,715,874
Accounts Payable	(289,171)	(9,105,456)
Warrants Payable	153,129	(281,933)
Net Increase (Decrease) in Working Capital	<u>\$11,377,039</u>	<u>(\$760,974)</u>

See accompanying Footnotes to the Financial Statements.

Claims Award Fund

**Statement of Revenues, Expenses, and Changes in Fund Equity**

---

	For the Year Ended June 30, 1987	For the Year Ended June 30, 1986	
Revenues:			
Insurance Premiums	\$17,707,483	\$14,196,804	
Interest Income	<u>1,316,178</u>	<u>1,097,445</u>	
Total Revenue	19,023,661		\$15,294,249
Expenses:			
Torts			
Death	\$ 0	\$ 1,238,375	
Bodily Injury	399,267	706,947	
Property Damage	<u>440,136</u>	<u>1,010,395</u>	
	\$ 839,403		\$ 2,955,717
Workers Compensation			
Death	\$ 423,150	\$ 490,952	
Medical	2,408,783	6,714,158	
Assault Injury	7,405	7,767	
Temporary Disability	646,121	1,578,564	
Permanent Disability	<u>1,565,747</u>	<u>2,551,919</u>	
	\$ 5,051,206		\$ 11,343,360
Employee Property Damage	\$26,208		\$ 57,769
Professional/Administrative	\$ 1,729,805		\$ 1,698,377
Total Expenses	<u>\$ 7,646,622</u>		<u>\$ 16,055,223</u>
Net Change in Fund Equity	\$11,377,039		\$ (760,974)
Fund Equity, Beginning of Year	\$(6,921,534)		\$(6,160,560)
Fund Equity, End of Year	<u>\$ 4,455,505</u>		<u>\$(6,921,534)</u>

See accompanying Footnotes to the Financial Statements.

## Claims Award Fund Notes to the Financial Statements

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### A. Significant Accounting Policies

1. **Basis of Presentation**—The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.
2. **Basis of Accounting**—The Claims Award Fund is accounted for on the modified accrual basis of accounting.
3. **Cash and Cash Equivalents**—Cash deposited in the Claims Award Fund is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States.
4. Pursuant to NCGA Statement No. 7 the Claims Award Fund forms an integral part of state government and as such has been included as an internal service fund in the Tennessee Comprehensive Annual Report.

### B. Other Accounting Disclosures

1. **Claims Award Fund**—Chapter 972 of the Acts of 1984 created the Claims Award Fund from which all claims against the state are paid. This fund is supported by premiums paid by each state department, agency and institution with the required funding being based upon an actuarial estimate of the losses which will be incurred during each fiscal year. As of June 30, 1987, 6,667 claims were filed with payments totaling \$5,717,286.
2. The liability for claims against the state, which is included in accounts payable, is \$23,102,092 at June 30, 1987 and \$22,902,561 at June 30, 1986. A formal actuarial study was performed in 1987 to determine the state's liability for claims at June 30, 1987. The liability at June 30, 1986, was based upon estimates by the state which were not the results of a formal actuarial study.

CRIMINAL INJURY COMPENSATION FUND



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3897

December 18, 1987

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Criminal Injuries Compensation Fund as of June 30, 1987 and 1986, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Criminal Injuries Compensation Fund as of June 30, 1987 and 1986, and the results of its operations and changes in fund balance for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

A handwritten signature in cursive script that reads "Frank L. Greathouse".

Frank L. Greathouse, CPA, Director  
Division of State Audit

FLG/pn

**Criminal Injuries Compensation Fund  
Comparative Balance Sheet**

---

<b>ASSETS</b>	<b>June 30, 1987</b>	<b>June 30, 1986</b>
Cash and Cash Equivalents	<u>\$3,671,063</u>	<u>\$2,250,270</u>
Total Assets	<u>\$3,671,063</u>	<u>\$2,250,270</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Warrants Payable	\$ 313,754	\$ 326,126
Accounts Payable	<u>769,981</u>	<u>757,854</u>
Total Liabilities	<u>\$1,083,735</u>	<u>\$1,083,980</u>
Fund Balance		
Reserved for Future Benefits	<u>\$2,587,328</u>	<u>\$1,166,290</u>
Total Fund Balance	<u>\$2,587,328</u>	<u>\$1,166,290</u>
Total Liabilities and Fund Balance	<u>\$3,671,063</u>	<u>\$2,250,270</u>

See Accompanying Footnotes to the Financial Statements.

Criminal Injuries Compensation Fund

**Statement of Revenues, Expenditures, and Changes in Fund Balance**

---

	For the Year Ended June 30, 1987	For the Year Ended June 30, 1986
Revenues:		
State	\$4,516,928	\$3,945,553
Federal	0	495,000
Investment Income	<u>143,718</u>	<u>39,325</u>
Total Revenues	\$4,660,646	\$4,479,878
Expenditures:		
Death Claims	\$ 909,843	\$ 852,184
Personal Injury Claims	1,916,076	2,614,636
Attorney Fees	<u>413,689</u>	<u>529,328</u>
Total Expenditures	<u>\$3,239,608</u>	<u>\$3,996,148</u>
Excess of Revenues Over Expenditures	\$1,421,038	\$ 483,730
Other Financing Sources:		
Operating Transfer from General Fund	<u>\$ 0</u>	<u>\$ 450,000</u>
Excess of Revenues and Other Sources Over Expenditures	<u>\$1,421,038</u>	<u>\$ 933,730</u>
Fund Balance, Beginning of Year	<u>\$1,166,290</u>	<u>\$ 232,560</u>
Fund Balance, End of Year	<u><u>\$2,587,328</u></u>	<u><u>\$1,166,290</u></u>

See Accompanying Footnotes to the Financial Statements.

**A. Significant Accounting Policies**

1. **Basis of Presentation**—The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.
2. **Basis of Accounting**—The Criminal Injuries Compensation Program is accounted for on the modified accrual basis of accounting.
3. **Cash and Cash Equivalents**—Cash deposited in the Criminal Injuries Compensation Fund is invested in the Pooled Investment Fund administered by the State Treasurer. The Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest of the United States.
4. Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Criminal Injuries Compensation Program is an integral part of state government and as such has been included as a special revenue fund in the Tennessee Comprehensive Annual Report.

**B. Other Accounting Disclosures**

1. **Criminal Injuries Compensation Program**—The Criminal Injuries Compensation Program is funded through privilege taxes assessed in courts against criminal defendants upon conviction, fees levied against parolees, probationers, and employeeed releasees, and the proceeds from sales of illegal contraband and bond forfeitures in felony cases. Payments made under the Criminal Injuries Compensation Program are intended to defray the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either the victim of a crime or to the dependents of deceased victims.

VICTIMS OF DRUNK DRIVERS COMPENSATION FUND



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3697

December 18, 1987

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Victims of Drunk Drivers Compensation Fund as of June 30, 1987 and 1986, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Victims of Drunk Drivers Compensation Fund as of June 30, 1987 and 1986, and the results of its operations and changes in fund balance for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

A handwritten signature in cursive script that reads "Frank L. Greathouse".

Frank L. Greathouse, CPA, Director  
Division of State Audit

FLG/pn

**Victims of Drunk Drivers Compensation Fund  
Balance Sheet**

---

<b>ASSETS</b>	<b>June 30, 1987</b>	<b>June 30, 1986</b>
Cash and Cash Equivalents	<u>\$1,280,191</u>	<u>\$450,000</u>
Total Assets	<u>\$1,280,191</u>	<u>\$450,000</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Warrants Payable	\$ 4,156	\$ 0
Accounts Payable	<u>2,300</u>	<u>0</u>
Total Liabilities	<u>\$ 6,456</u>	<u>\$ 0</u>
Fund Balance		
Reserved for Future Benefits	<u>\$1,273,735</u>	<u>\$450,000</u>
Total Fund Balance	<u>\$1,273,735</u>	<u>\$450,000</u>
Total Liabilities and Fund Balance	<u>\$1,280,191</u>	<u>\$450,000</u>

See Accompanying Footnotes to the Financial Statements.

Victims of Drunk Drivers Compensation Fund  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**

---

	For the Year Ended June 30, 1987	For the Year Ended June 30, 1986
Revenues:		
State	\$788,272	\$ 0
Federal	0	0
Investment Income	<u>41,919</u>	<u>0</u>
Total Revenues	\$ 830,191	\$ 0
Expenditures:		
Death Claims	\$ 0	\$ 0
Personal Injury Claims	5,614	0
Attorney Fees	<u>842</u>	<u>0</u>
Total Expenditures	\$ 6,456	<u>\$ 0</u>
Excess of Revenues Over Expenditures	\$ 823,735	\$ 0
Other Financing Sources:		
Operating Transfer from General Fund	<u>\$ 0</u>	<u>\$450,000</u>
Excess of Revenues and Other Sources Over Expenditures	<u>\$ 823,735</u>	<u>\$450,000</u>
Fund Balance, Beginning of Year	<u>\$ 450,000</u>	<u>\$ 0</u>
Fund Balance, End of Year	<u><u>\$1,273,735</u></u>	<u><u>\$450,000</u></u>

See Accompanying Footnotes to the Financial Statements.

**Victims of Drunk Drivers Compensation Fund**  
**Notes to Financial Statements**

---

**A. Significant Accounting Policies**

1. **Basis of Presentation**—The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.
2. **Basis of Accounting**—The Victims of Drunk Drivers Compensation Program is accounted for on the modified accrual basis of accounting.
3. **Cash and Cash Equivalents**—Cash deposited in the Victims of Drunk Drivers Compensation Program is invested in the Pooled Investment Fund administered by the State Treasurer. The Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States.
4. Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Victims of Drunk Drivers Compensation Program is an integral part of state government and as such has been included as a special revenue fund in the Tennessee Comprehensive Annual Report.

**B. Other Accounting Disclosures**

1. **Victims of Drunk Drivers Compensation Program**—The Victims of Drunk Drivers Compensation Program is funded through privilege taxes assessed in courts. Payments made under the Drunk Drivers Compensation Program are intended to defray the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either the victim of a crime or to the dependents of deceased victims, subject to a maximum payment of \$2,000 per claimant.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3697

December 18, 1987

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the IRC Section 457 Deferred Compensation Plan as of June 30, 1987 and 1986, and the related statements of changes in assets and liabilities for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the IRC Section 457 Deferred Compensation Plan as of June 30, 1987 and 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

A handwritten signature in cursive script, reading "Frank L. Greathouse".

Frank L. Greathouse, CPA, Director  
Division of State Audit

FLG/pn

**IRC Section 457 Deferred Compensation Plan  
Comparative Balance Sheet**

<b>ASSETS</b>	<b>June 30, 1987</b>	<b>June 30, 1986</b>
Investments Held by Vendors		
AEtna	\$19,690,004	\$18,573,535
American General	652,624	538,757
Fidelity Federal	7,282,067	6,912,022
Fidelity Investments	3,576,150	—
Great West	851,721	—
TOTAL	<u>\$32,052,566</u>	<u>\$26,024,314</u>
Accounts Receivable		
AEtna	\$ 8,577	\$ 11,129
American General	8,164	10,863
Fidelity Federal	42,804	53,187
Fidelity Investments	84,935	41,505
Great West	17,445	11,246
TOTAL	<u>\$ 161,925</u>	<u>\$ 127,930</u>
 TOTAL ASSETS	 <u><u>\$32,214,491</u></u>	 <u><u>\$26,152,244</u></u>
 <b>LIABILITIES</b>		
Amounts Held in Custody for Others	<u>\$32,214,491</u>	<u>\$26,152,244</u>
TOTAL LIABILITIES	<u><u>\$32,214,491</u></u>	<u><u>\$26,152,244</u></u>

**IRC Section 457 Deferred Compensation Plan  
Statement of Changes in Assets and Liabilities**

	<b>Balance July 1, 1986</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 1987</b>
<b>Assets</b>				
Investments, at Market	\$26,024,314	\$7,301,311	\$1,273,059	\$32,052,566
Accounts Receivable	127,930	161,925	127,930	161,925
Total Assets	<u>\$26,152,244</u>	<u>\$7,463,236</u>	<u>\$1,400,989</u>	<u>\$32,214,491</u>
<b>Liabilities</b>				
Amounts Held in Custody for Others	\$26,152,244	\$7,463,236	\$1,400,989	\$32,214,491
Total Liabilities	<u>\$26,152,244</u>	<u>\$7,463,236</u>	<u>\$1,400,989</u>	<u>\$32,214,491</u>

**IRC Section 457 Deferred Compensation Plan  
Notes to Financial Statements**

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the state, (without being restricted to the provisions of benefits under the plan), subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of general creditors of the state in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the state's legal counsel that the state has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The state believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3697

December 18, 1987

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Chairs of Excellence as of June 30, 1987 and 1986, 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 government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Chairs of Excellence as of June 30, 1987 and 1986, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

A handwritten signature in cursive script, reading "Frank L. Greathouse".

Frank L. Greathouse, CPA, Director  
Division of State Audit

FLG/pn

Chairs of Excellence  
Comparative Balance Sheet

ASSETS	June 30, 1987	June 30, 1986
Current Investments		
Cash & Cash Equivalents	\$12,594,688	\$ 3,335,053
Long Term Investments		
Government Bonds (Amortized Cost)	\$49,067,838	\$28,021,120
Corporate Stocks (Cost)	<u>4,776,250</u>	<u>1,398,415</u>
Total Long Term Investments	<u>\$53,844,088</u>	<u>\$29,419,535</u>
Total Investments	\$66,438,776	\$32,754,588
Receivables		
Income Receivable	<u>\$ 856,092</u>	<u>\$ 440,466</u>
Total Assets	<u>\$67,294,868</u>	<u>\$33,195,054</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Inter-Fund Payable	\$ 1,479,456	\$ 46,230
Fund Balance		
Contributed Capital		
State	\$35,000,000	\$20,000,000
College & University	4,425,500	1,250,000
Private	<u>18,510,362</u>	<u>8,187,500</u>
Total Contributed Capital	\$57,935,862	\$29,437,500
Special Reserve		
State	\$ 1,742,182	\$ 622,479
College & University	214,662	56,260
Private	<u>684,224</u>	<u>322,377</u>
Total Special Reserve	\$ 2,641,068	\$ 1,001,116
Restricted Reserve		
State	\$ 4,387,752	\$ 2,411,484
College & University	41,528	24,533
Private	<u>809,202</u>	<u>274,191</u>
Total Restricted Reserve	\$ 5,238,482	\$ 2,710,208
Total Fund Balance	<u>\$65,815,412</u>	<u>\$33,148,824</u>
Total Liabilities & Fund Balance	<u>\$67,294,868</u>	<u>\$33,195,054</u>

See Accompanying Footnotes to the Financial Statements.

**Chairs of Excellence**  
**Statement of Revenues, Expenses, and Changes in Fund Balance**

---

		<b>For the Year Ended June 30, 1987</b>	<b>For the Year Ended June 30, 1986</b>
Operating Revenues:			
Investment Income		\$ 4,989,416	\$ 2,940,821
Operating Expenses:			
Payments	\$ 735,710	\$ 269,476	
Administrative Cost	<u>85,480</u>	<u>42,388</u>	
Total Operating Expenses		<u>\$ 821,190</u>	<u>\$ 311,864</u>
Net Operating Income		\$ 4,168,226	\$ 2,628,957
Transfer of Equity			
State General Fund	\$15,000,000	\$10,000,000	
College & University	3,175,500	625,000	
Private	<u>10,322,862</u>	<u>4,562,500</u>	
Total Transfers		<u>\$28,498,362</u>	<u>\$15,187,500</u>
Change in Fund Equity		<u>\$32,666,588</u>	<u>\$17,816,457</u>
Fund Balance, Beginning of Year		<u>\$33,148,824</u>	<u>\$15,332,367</u>
Fund Balance, End of Year		<u>\$65,815,412</u>	<u>\$33,148,824</u>

See Accompanying Footnotes to the Financial Statements.

Chairs of Excellence  
Statement of Changes in Financial Position

	For the Year Ended June 30, 1987	For the Year Ended June 30, 1986
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	\$ 4,168,226	\$ 2,628,957
Equity Transfer from General Fund	15,000,000	10,000,000
Equity Transfer from College and University Fund	3,175,500	625,000
Equity Transfer from Private Sources	<u>10,322,862</u>	<u>4,562,500</u>
Total Sources of Working Capital	\$32,666,588	\$17,816,457
Uses of Working Capital:		
Purchase of Long-Term Investments	<u>\$24,424,553</u>	<u>\$29,419,534</u>
Net Increase (Decrease) in Working Capital	<u>\$ 8,242,035</u>	<u>(\$11,603,077)</u>
Elements of Net Increase in Working Capital:		
Cash and Cash Equivalents	\$ 9,259,634	(\$11,997,313)
Receivables	415,627	440,466
Inter Fund Payable	<u>( 1,433,226)</u>	<u>( 46,230)</u>
Net Increase (Decrease) in Working Capital:	<u>\$ 8,242,035</u>	<u>(\$11,603,077)</u>

See Accompanying Footnotes to the Financial Statements.

Chairs of Excellence  
Notes to Financial Statements

**A. Significant Accounting Policies**

1. **Basis of Presentation**—The accompanying financial statement has been prepared in conformity with generally accepted accounting principles.
2. **Basis of Accounting**—The Chairs of Excellence Trust is accounted for on the accrual basis of accounting.
3. **Cash and Cash Equivalents**—The classification of "Cash and Cash Equivalents" includes funds invested with the Tennessee Consolidated Retirement System in short term investments such as repurchase agreements, U.S. Treasuries and commercial paper as well as cash.
4. **Investments**—The investment policy of the Chairs of Excellence Trust requires that not less than 80% of the total trust (based on book value) be invested in debt securities. The remaining funds may be invested in equity securities including domestic common and preferred stocks and convertible bonds.

**Chairs of Excellence  
Notes to Financial Statements**

The Chairs of Excellence Trust investments at June 30, 1987 are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the Chairs of Excellence Trust or its agent in the name of the COE trust. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the name of the Chairs of Excellence Trust. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the name of the Chairs of Excellence Trust.

	Category			Carrying Amount	Market Value 06/30/87	Market Value 06/30/86
	1	2	3			
Cash and Cash Equivalents	\$12,594,688			\$12,594,688	\$12,594,688	\$ 3,335,054
Long Term Investments						
Domestic Corporation Stock	4,776,250			4,776,250	5,875,512	1,617,925
Domestic Government Bonds	49,067,838			49,067,838	47,807,576	28,229,969
Total Long Term Investments	<u>53,844,088</u>	<u>0</u>	<u>0</u>	<u>53,844,088</u>	<u>53,683,088</u>	<u>29,847,894</u>
Total Investments	<u>\$66,438,776</u>	<u>\$0</u>	<u>\$0</u>	<u>\$66,438,776</u>	<u>\$66,277,776</u>	<u>\$33,182,948</u>

- Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Chairs of Excellence Trust forms an integral part of state government and as such has been included as a non-expendable trust fund in the Tennessee Comprehensive Annual Financial Report.

**B. Other Accounting Disclosures**

- Chairs of Excellence Endowment Trust—The Chairs of Excellence Trust (COE) is a non-expendable trust fund authorized by the 94th General Assembly to further the cause of education in Tennessee. The Trust is set up into two general accounts which equally divide any state appropriations: one for the University of Tennessee and one for the Board of Regents. As each Chair is designated, a portion of the appropriation is transferred to a sub-account for that Chair. The awarding school must provide matching contributions, of which at least 50% of the funds are from private contributions.

Income earned on the COE fund is distributed between two reserve accounts: special reserve and restricted reserve. The special reserve consists of income earned on the fixed assets which was not expended by the schools during the year it was earned. At the discretion of the COE Trust Board, this reserve may be used for future payments when current earnings do not meet current needs. The restricted reserve is non-expendable, consisting of income earned on equity investments and profit and loss from both fixed and equity investments. This income becomes part of the Trust corpus.

As of June 30, 1987, 47 Chairs have been established with matching contributions received totaling \$22,935,863.00. This is an increase of 23 Chairs and \$13,498,363.00 since 6/30/86.

- Funds from the Tennessee Student Assistance Corporation (TSAC) are combined with the Chairs of Excellence Trust for investment purposes only. The TSAC general account receives only the income earned on its principal and does not receive any COE state contributions or appropriations. The TSAC funds are invested in fixed income securities.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3897

December 18, 1987

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheet of the Bond Refunding Trust as of June 30, 1987, and the related statement of changes in assets and liabilities for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Bond Refunding Trust as of June 30, 1987, in conformity with generally accepted accounting principles.

Sincerely,

Frank L. Greathouse, CPA, Director  
Division of State Audit

FLG/pn

**Bond Refunding  
Balance Sheet**

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June 30, 1987

**ASSETS**

Cash and Cash Equivalents	\$ 26,425
Investments (amortized cost)	44,094,572
Accounts Receivable	1,389,365
Total Assets	<u>\$45,510,362</u>

**LIABILITIES**

Amounts Held in Custody for Others	\$45,510,362
Total Liabilities	<u>\$45,510,362</u>

See accompanying Notes to the Financial Statements.

**Bond Refunding  
Statement of Changes in Assets and Liabilities**

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	Balance June 30, 1986	Additions	Deductions	Balance June 30, 1987
<b>ASSETS</b>				
Cash and Cash Equivalents	\$0	\$ 26,425	\$0	\$ 26,425
Investments	0	44,094,572	0	44,094,572
Accounts Receivable	0	1,389,365	0	1,389,365
Total Assets	<u>\$0</u>	<u>\$45,510,362</u>	<u>\$0</u>	<u>\$45,510,362</u>
<b>LIABILITIES</b>				
Amounts Held in Custody for Others	\$0	\$45,510,362	\$0	\$45,510,362
Total Liabilities	<u>\$0</u>	<u>\$45,510,362</u>	<u>\$0</u>	<u>\$45,510,362</u>

See accompanying Notes to the Financial Statements.

The State Treasurer is trustee for the Tennessee Local Development Authority. In January 1987, the Authority issued refunding bonds of \$39,206,000 to refund \$36,666,000 of the 1985 Series A bonds maturing after March 1, 1997. The refunding bonds were issued to take advantage of lower interest rates. The proceeds resulting from the advance refunding are held by the trustee in an irrevocable trust to provide for the debt service payments for bonds maturing after March 1, 1997, on the 1985 Series A bonds.

Cash held by the trustees is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States.

The investments held by the trustee at year-end are shown below. The trust is restricted by the Authority's General Bond Resolution to investing in direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America, which are non-callable at the option of issuer. All securities are held in the state's account in the Federal Reserve Bank.

**U.S. Government Securities**

**Carrying Amount**  
\$44,094,572

**Market Value**  
\$41,098,178

Treasury Department; December, 1987. Authorization Number 309051; 450 copies. This public document was promulgated at a total cost of \$1,137 or \$2.50 per copy.