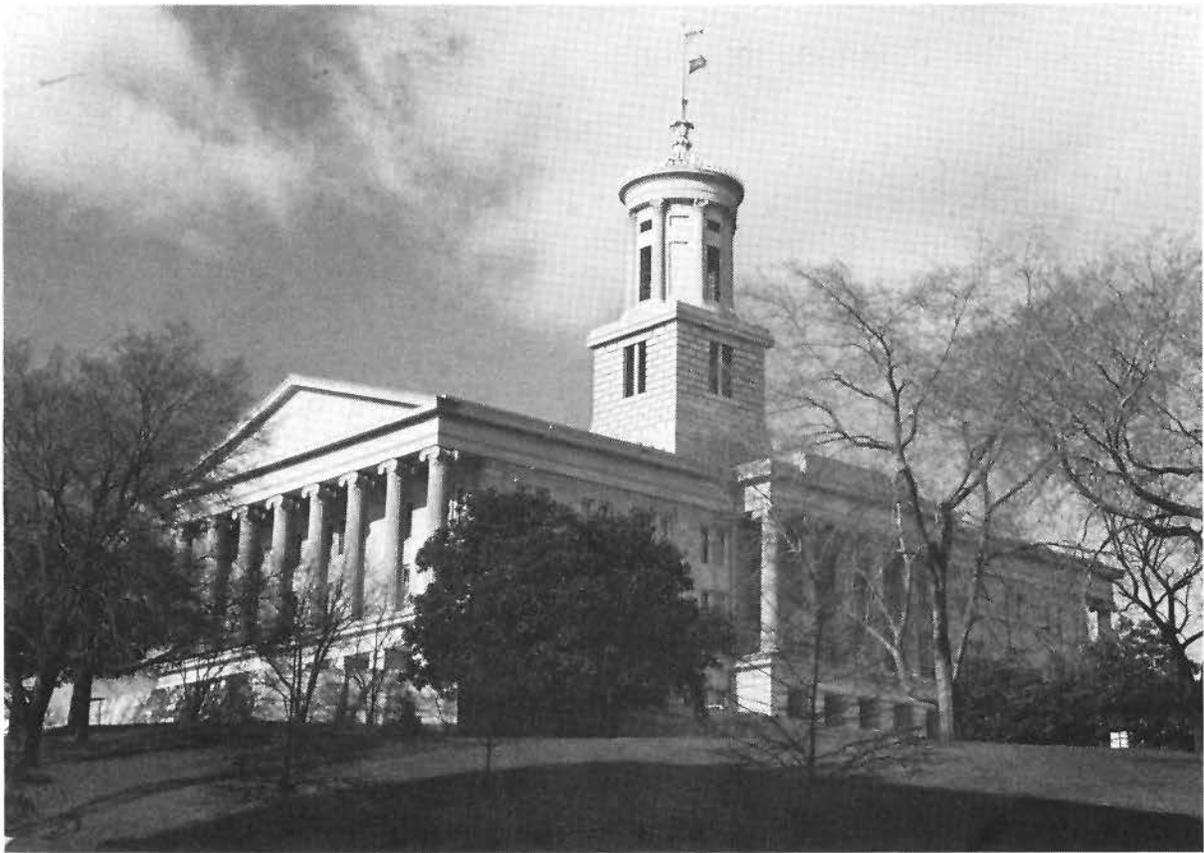


# TREASURER'S REPORT 1988



**Steve Adams, Treasurer**

*For the fiscal year ended June 30, 1988*

# 1988 Report of the Treasurer

Steve Adams, Treasurer  
State of Tennessee



Year Ended June 30, 1988

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## STATE OF TENNESSEE



**Steve Adams**  
Treasurer

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

**Dale Sims**  
Executive Assistant  
**Janice Cunningham**  
Executive Assistant

December 31, 1988

The Honorable Ned McWherter, Governor

The Honorable John S. Wilder, Lieutenant  
Governor and 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 respectfully submit the annual report of the Treasurer's office for the fiscal year ended June 30, 1988. This report includes a summary of the performance and year end status of all programs administered by the Treasury Department. I believe this information will illustrate our continuing dedication to discharge our duties in a responsible manner.

We have experienced some trying times in the investment world this past year. In spite of the difficulties in the financial markets, TCRS investments produced \$573,406,134 in income during this fiscal year. Our total cash management earnings for the year continued to increase. A summary of our investment earnings for the past five years is outlined in the following table.

**Summary of Investment Program Earnings  
Fiscal Years 1983-84 through 1987-88**

<b>Fiscal Year</b>	<b>Cash Management Earnings</b>	<b>TCRS Portfolio Earnings</b>	<b>Total Treasury Earnings</b>
1987-88	\$119,443,968	\$ 573,406,134	\$ 692,850,102
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
TOTAL	<u>\$493,350,062</u>	<u>\$2,561,430,590</u>	<u>\$3,054,780,652</u>

My first term as State Treasurer has been a rewarding and challenging experience. I wish to express my appreciation to the members of the General Assembly whose support and encouragement has been most beneficial. I would also like to commend the efforts of my staff whose dedication and hard work made our accomplishments possible.

The Treasurer's office looks forward to the future and the financial challenges which will surely confront us as we move ahead. We will continue to make every effort to further improve our operations to ensure that the citizens of this great state benefit as much as possible from the services we provide.

Sincerely,



Steve Adams

- TCRS assets at June 30, 1988 totaled \$6.3 billion at book value, an increase of \$751.6 million during the year.
- TCRS investments produced \$573.4 million in income (for a realized rate of return of 10.0%).
- Investments of the state's cash produced \$119.4 million with an average rate of return of 6.95%. Cash investments averaged \$1.73 billion.
- Local governments participating in the Local Government Investment Pool received \$27.1 million interest at a net rate averaging 6.76%.
- As of June 30, 1988, there were 49,598 TCRS retirees: 15,329 state employees; 10,992 political subdivision employees; and 23,277 K-12 teachers and higher education employees. TCRS paid out \$242.2 million in benefits during fiscal year 1987-88.
- As of June 30, 1988, there were 148,998 active TCRS members: 41,036 state employees, 49,426 K-12 teachers; 40,868 political subdivision employees and 17,668 higher education employees.
- The State of Tennessee Deferred Compensation Program had 4,674 state employees contributing at June 30, 1988. Accumulated account balances in the two plans totaled \$60.7 million.
- The Division of Claims Administration received 7,907 claims against the state during fiscal year 1987-88, an increase of 1,240 claims from the previous year. Payments made during the year totaled \$7.3 million.
- During the period July 1, 1987 through June 30, 1988, \$3.3 million of unclaimed property was turned over to the Treasurer; \$1.4 million was returned to owners or their heirs.
- The Chairs of Excellence Trust created 22 chairs during fiscal year 1987-88 for a total of 69 chairs. The fund totaled \$78.5 million at June 30, 1988.
- Under legislation passed during the 1987-88 fiscal year, the Treasury Department and the Department of Finance and Administration began development of the State of Tennessee Flexible Benefits Plan. This "cafeteria" plan will offer state employees the opportunity to pay for medical insurance premiums and out-of-pocket medical and dependent care expenses with tax-free salary.

The 1988 Treasurer's Report contains reports on various programs administered by the Treasury Department, including Investments, the Tennessee Consolidated Retirement System, the Deferred Compensation Program, Claims Administration, the Unclaimed Property and Escheat Program and the Chairs of Excellence Program.

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 these programs' activities during the 1987-88 fiscal year.

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

**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 1987-88 averaged \$1.7 billion, producing \$119 million in income for an average rate of return of 6.95%. During the 1988 fiscal year, new agreements were signed with securities dealers covering repurchase agreement transactions as well as with all financial institutions designated as state depositories.

**Pension Fund Investments—**This section manages the assets of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 1988 totaled \$6.3 billion. For the year, investments produced \$573.4 million in income for a realized rate of return of 10.0% on book value. This section also manages the Chairs of Excellence Trust which at June 30, 1988 totaled \$78.5 million. The division upgraded its equipment during the year to improve quotations and expanded its securities lending program.

**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, 1988, there were 148,998 active members and 49,598 retirees. Over 800 state employees applied for retirement under the Retirement Incentive Plan. During the 1988 fiscal year, TCRS developed a program to report service and salary history to members.

**Deferred Compensation Program:** The State of Tennessee Deferred Compensation Program offers state employees the opportunity to accumulate supplemental retirement income on a tax deferred basis. By making salary reduction contributions to the 457 plan and/or the 401(k) plan offered under the program, employees are able to postpone income taxes on contributions and earnings until the funds are withdrawn. Participants may direct the investment of their deferred salary into a variety of investment products contracted for the program. Since the first of the program's two plans was implemented in 1981, state employees have deferred over \$50 million in salary. As of June 30, 1988, 4,674 state employees were actively contributing to the program and accumulated account balances totaled \$60.7 million. Development of a loan program in the 401(k) plan was completed during the year, making it possible for 401(k) participants to borrow from their account without incurring a tax liability.

**Division of Claims Administration:** The Division of Claims Administration is responsible for investigating and making determinations on claims made against the state for workers' compensation by state employees, employee property damage and tort liability. The division also processes payments to victims of criminal injury and drunk drivers once an order has been issued by the Tennessee Claims Commission. Staff support from the Division of Claims Administration assists the Defense Counsel Commission and the Board of Claims. The Defense Counsel Commission/Subcommittee hears and determines requests by state employees for approval of private counsel when an employee has been sued in civil litigation. The Board of Claims has the authority to hear and determine certain claims which do not fall within the jurisdiction of the Tennessee Claims Commission. During fiscal year 1987-88 the Division of Claims Administration received 7,907 claims. The Defense Counsel Commission heard requests for representation on 21 cases, the Board of Claims took action on 48 cases and 1,031 victims of criminal injury and drunk driver claims were approved for payment.

**Unclaimed Property and Escheat Division:** This division is responsible for the administration of the state's Uniform Disposition of Unclaimed Property Act which has been in effect since 1978. Under this act the state provides one centralized location for the owners of abandoned property, or their heirs, to turn to when searching for forgotten assets. As part of this service, owner location attempts are made for all accounts turned over to the Treasurer. If the owner can not be located, his property will be held in trust in perpetuity. The types of property covered by this act are primarily cash property such as bank accounts, insurance policies, utility deposits, etc. Since the program began, over \$26.2 million in unclaimed property has been reported to the Treasurer and over \$8 million of that property has been returned to 33,937 owners or their heirs. Administration of the state's escheat law is handled in conjunction with unclaimed property. Escheat of property occurs when an individual in Tennessee dies without any known heirs. Development of a new computer system began during the 1988 fiscal year and the state entered into a contract with a national clearinghouse designed to improve reporting by out-of-state holders.

**Chairs of Excellence:** The Chairs of Excellence Trust is a non-expendable trust fund authorized in 1984 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. Income from the chair is used to offset the expenditures of nationally or regionally recognized persons at state colleges and universities teaching in specified academic areas. During the 1988 fiscal year, 22 chairs were created with matching contributions totaling \$6.6 million. Since 1984, a total of 69 chairs have been created. The fund totaled \$78.5 million at June 30, 1988 and produced \$4.5 million in income during the fiscal year.

The state of Tennessee receives revenues from many sources such as taxes, licenses, fees, and the federal government. As these monies are collected, they are deposited into one of the 300 financial institutions in Tennessee that have contracted with the state to serve as depositories. Under the state Constitution, the state may not spend more money on its programs than it has collected in revenues. Consequently, at any point in time the state has a sizable sum of money collected but not yet spent. These monies are invested by the Treasury Department until needed to pay for state expenses, payroll, or benefit program disbursements. During the 1987-88 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was \$1,726,705,000 per month and interest income of \$119,444,000 was earned. This includes deposits in the Local Government Investment Pool administered by the Treasury Department.

The State Funding Board sets the investment policy for the state. The State Funding Board is composed of the Governor, Commissioner of Finance and Administration, Comptroller, Secretary of State, and Treasurer. 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. To ensure 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 or in safekeeping with a third party trustee.

Up to 20% of the portfolio or \$150,000,000, whichever is less, may be invested for maturity greater than one year but less than five years. Funds may be invested in collateralized certificates of deposit with Tennessee financial institutions; bills, notes and bonds of the U.S. Treasury; 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. In March 1988, the General Assembly approved investment in prime commercial paper, prime banker's acceptances, and money market mutual funds subject to passage of a resolution by the State Funding Board approving policy guidelines applicable to these investment instruments. Constant change in financial markets makes diversification an important tool for enhancing return.

At June 30, 1988, investments had an average maturity of 323 days, and an average weighted yield of 7.11%. The total invested balance at June 30, 1988 (\$1,807,088,500 par value) was allocated as follows: U.S. Treasury securities, 46%; repurchase agreements, 19%; and collateralized certificates of deposit, 35%. 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**

<b>Fiscal Year</b>	<b><sup>1</sup>Total State Funds</b>	<b><sup>2</sup>Merrill Lynch Institutional Fund</b>	<b><sup>3</sup>New State Funds</b>	<b><sup>4</sup>90 Day Treasury (CD Equivalent Yield)</b>
1987-88	6.95%	6.61%	6.91%	6.11%
1986-87	6.78	6.38	6.23	5.67
1985-86	8.35	7.27	7.52	7.06
1984-85	9.98	9.26	9.30	9.22
1983-84	9.46	9.31	9.59	9.43

<sup>1</sup>Investment return on total portfolio.

<sup>2</sup>This index most closely resembles the structures and objectives of the total cash portfolio.

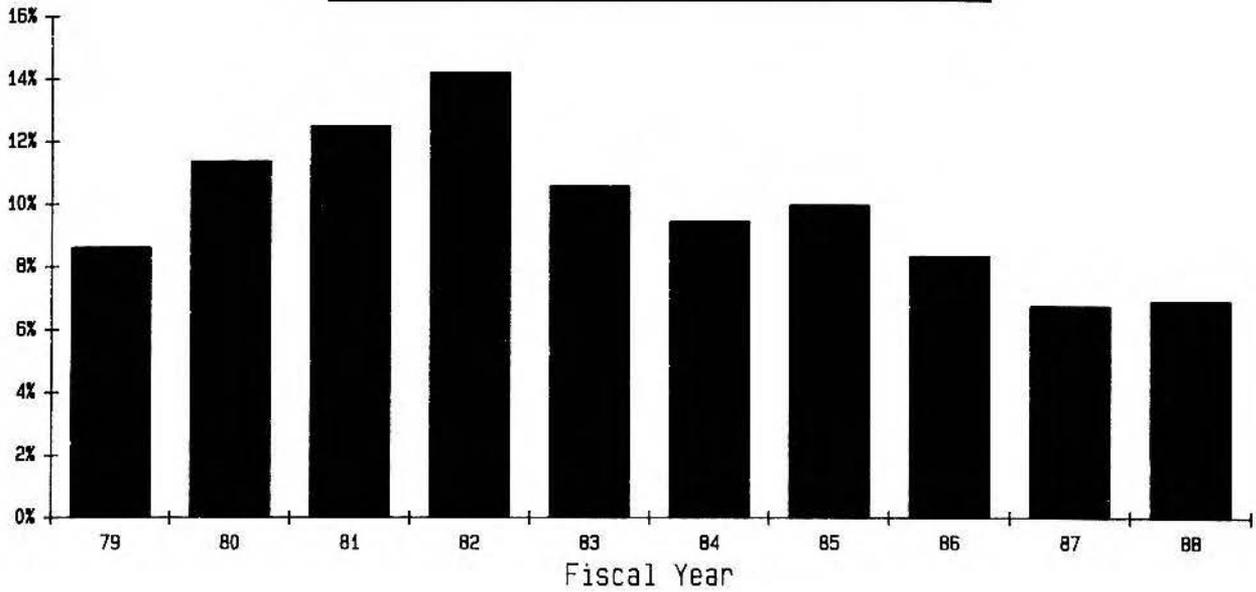
<sup>3</sup>Investment return on funds invested during the year.

<sup>4</sup>This approximates the reinvestment period for new funds.

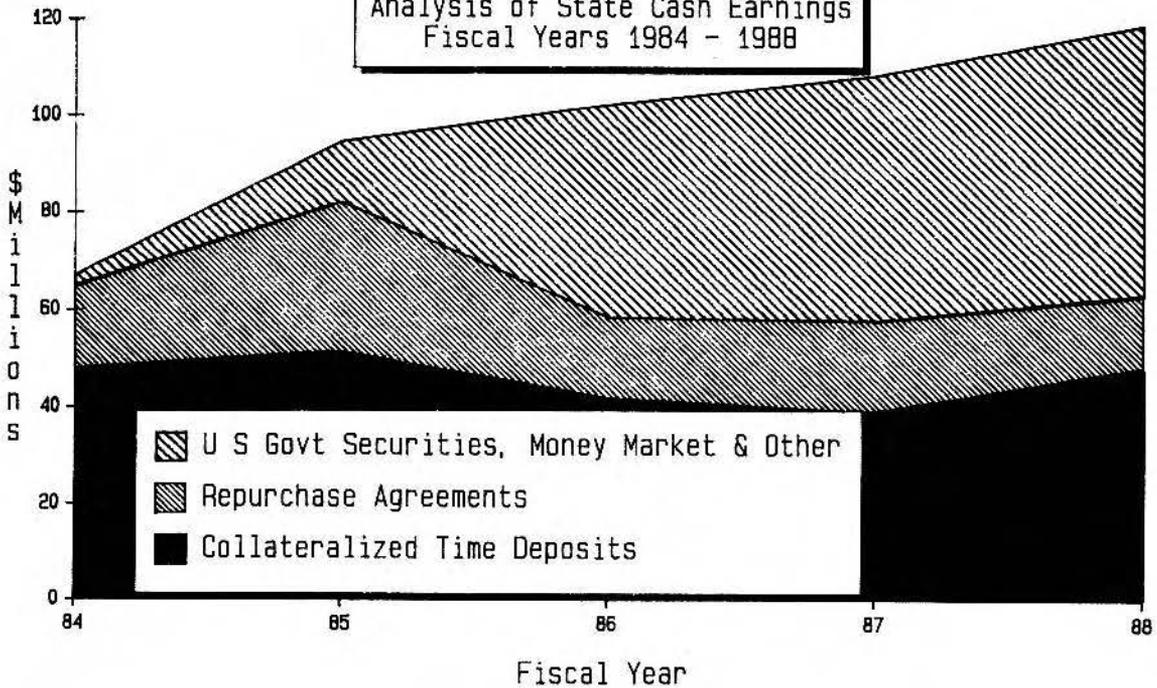
## ANALYSIS OF STATE CASH INVESTMENTS

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return	
<b>COLLATERALIZED TIME DEPOSITS</b>				
1987-88	\$679,024,771	\$48,090,904	7.07%	
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%	
<b>REPURCHASE AGREEMENTS</b>				
1987-88	\$225,662,529	\$15,078,114	6.70%	
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%	
<b>U.S. GOVERNMENT SECURITIES</b>				
1987-88	\$810,127,768	\$55,735,584	6.91%	
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%	
1983-84	6,129,813	2,076,087	10.35%	
<b>MONEY MARKET DEPOSIT ACCOUNTS AND OTHER</b>				
1987-88	\$ 11,890,553	\$ 539,365	4.54%	
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%	
1983-84	7,251,704	520,686	7.18%	
<b>TOTAL FUNDS</b>				
Fiscal Year	Average Total Funds Invested	Total Cash Management Earnings	Percent Of Total Available Cash Invested	Composite Weighted Average Rate of Return
1987-88	\$1,726,705,621	\$119,443,968	100.0%	6.95%
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%

Cash Management Investments  
Composite Weighted Average Rate of Return  
1979 - 1988



Analysis of State Cash Earnings  
Fiscal Years 1984 - 1988



**Cash Management Analysis  
For The Year Ended June 30, 1988**

**New Investments by Month of Purchase**

Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Weighted Average Interest Rate
7/87	7.04%	6.49%	7.45%	4.17%	6.70%
8/87	6.99	6.64	7.54	4.18	6.77
9/87	7.38	7.01	8.50	4.57	7.16
10/87	7.96	6.85	9.00	4.71	7.29
11/87	7.33	6.55	9.00	4.55	6.72
12/87	7.32	6.80	7.59	4.67	7.03
1/88	7.24	6.77	7.17	4.24	6.93
2/88	6.73	6.44	6.80	4.23	6.57
3/88	6.75	6.50	6.79	4.67	6.58
4/88	6.89	6.74	7.04	5.20	6.82
5/88	7.07	6.92	7.33	4.48	7.00
6/88	7.49	7.28	7.69	4.82	7.34
Dollar Weighted Average	7.20%	6.69%	7.03%	4.54%	6.91%

**Total Portfolio Rate of Return**

Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Total Portfolio Cumulative Return
7/87	6.54%	6.50%	6.78%	4.17%	6.66%
8/87	6.64	6.64	6.79	4.18	6.72
9/87	6.78	7.01	6.78	4.57	6.80
10/87	7.03	6.85	6.82	4.71	6.91
11/87	7.18	6.55	6.87	4.55	6.98
12/87	7.25	6.78	6.93	4.67	7.06
1/88	7.31	6.77	6.93	4.24	7.08
2/88	7.30	6.44	7.00	4.23	7.03
3/88	7.27	6.50	7.02	4.67	7.02
4/88	7.21	6.68	7.03	5.20	7.01
5/88	7.21	6.77	7.02	4.48	7.04
6/88	7.23	7.04	7.03	4.82	7.10
Dollar Weighted Average	7.07%	6.70%	6.91%	4.54%	6.95%

The average rate on investments made each month during the year was 6.91% as shown above. The actual rate of return allocated to LGIP participants and other dedicated trust funds was reduced by 15 basis points administrative fee. The weighted average interest rate credited to these funds was 6.76%.

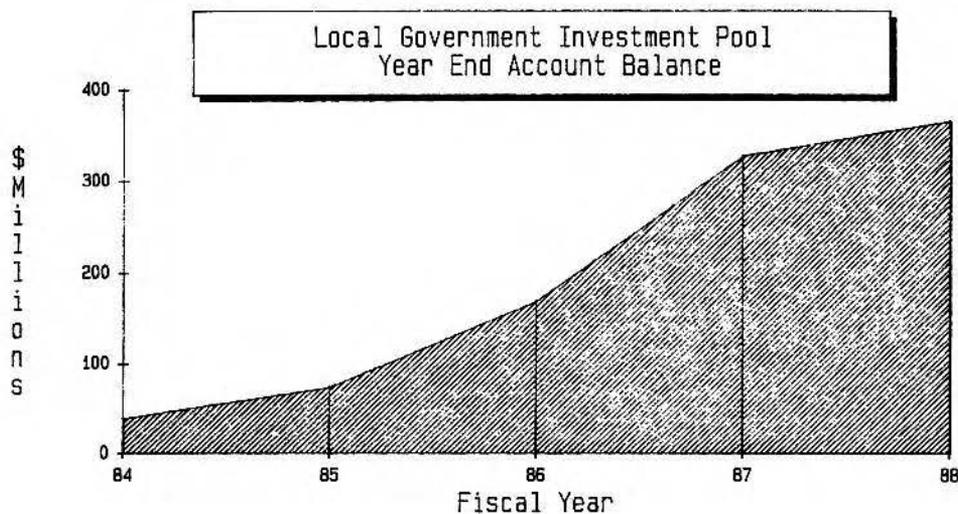
**Local Government Investment Pool**

Tennessee municipalities, counties, school districts, utility districts, local government units, and political subdivisions can deposit monies with the State Treasurer to be invested in the state cash management investment pool. Of course these local governments can invest their monies directly in the money market if they so desire. However, by allowing their dollars to be invested by the state they eliminate the complexities of managing day to day investment and collateral relationships with banks and/or securities dealers. This allows cash managers who have previously been limited either by the relatively small amount of funds available for investment or the complexities of today's investment environment to take advantage of the volume and expertise of the Treasurer's cash management program.

The Local Government Investment Pool began operations in November of 1980. Since that time, over 150 local government units have taken the opportunity to participate in the LGIP program. Participants earn interest on LGIP deposits based on the average rate of interest earned on the investments acquired for the entire cash management pool each month. This average earnings rate is reduced each month by fifteen one hundredths of one percent (.15%) as an administrative fee for participating in the LGIP program. During the 1987-88 fiscal year, the average rate participants earned on their deposits after the fee reduction was 6.76%. Other activity by participant groups is scheduled below.

**Schedule of Activity by Entity Type  
Fiscal Year Ended June 30, 1988**

	<b>Account Balance 7/1/87</b>	<b>Amount Deposited FY 1987-88</b>	<b>Amount Withdrawn FY 1987-88</b>	<b>Net Interest Credited FY 1987-88</b>	<b>Account Balance 6/30/88</b>
Cities	\$137,360,019	\$ 473,544,798	\$ 488,126,733	\$10,525,748	\$133,303,832
Counties	50,299,165	124,360,387	115,565,972	3,652,950	62,746,530
Commitments to D.O.T.	25,505,847	2,575,233	6,919,836	1,638,327	22,799,571
Educational Institutions	109,364,484	832,631,939	819,849,558	10,622,171	132,769,036
Restricted Accounts	0	5,400,000	232,432	261,629	5,429,197
Other	5,406,337	7,267,365	3,933,655	368,908	9,108,955
	<u>\$327,935,852</u>	<u>\$1,445,779,722</u>	<u>\$1,434,628,186</u>	<u>\$27,069,733</u>	<u>\$366,157,121</u>



**Reconciliation of  
Cash and Cash Equivalents  
June 30, 1988**

**(Expressed in Thousands)**

Cash and cash equivalents per Department of Finance and Administration		\$2,881,620
Add: Net reconciling items to bank statements		627
Deduct: Petty cash, travel advances and other departmental cash in accounts not in possession of the Treasurer		<u>(353,200)</u>
Cash and cash equivalents per Treasury		<u>\$2,529,047</u>
Represented by:		
TCRS short term investments	\$698,473	
Cash in banks	19,052	
Time deposits	634,006	
Repurchase agreements	341,813	
Treasury bills	<u>835,703</u>	
Total		<u>\$2,529,047</u>

The cash and cash equivalents per Finance and Administration as reported in the State of Tennessee Annual Financial Report for June 30, 1988 is \$2.88 billion as shown. The \$698 million shown as short term investments for TCRS was invested in commercial paper and medium term corporate notes.

The investment objective for the TCRS Investment Division is to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient liquidity to pay beneficiaries in a timely manner.

TCRS Investment Division's policies and strategies serve to benefit plan members in several ways. The emphasis on conservative and high quality securities and allocations helps to ensure the soundness of the system and the ability to provide the needed funds upon the members' retirement.

Funds in the retirement system are actively managed with a diversified portfolio of high quality domestic and international bonds, domestic and international stocks, mortgages, and money market instruments. Investment policy for TCRS funds is subject to the approval of the Board of Trustees. 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.

The assets of the TCRS are managed internally by the Retirement Investment Division. The investment staff is comprised of 10 individuals, 6 of whom are investment professionals, and one of whom is a full time equity trader. During the 1987-88 fiscal year, the Investment Division upgraded its facilities and equipment, enhancing stock and bond quotations with security analysis capabilities, securities trading information and same-day quotes on the international portfolio. Investment Division staff also developed an expanded securities lending program which will enable the fund to realize \$2 million to \$3 million in earnings annually.

Investment performance for the 1987-88 fiscal year ranked in the upper half of state funds. Some of the favorable investment results can be attributed to the investment staff's success in anticipating and taking advantage of several major investment trends which occurred during the fiscal year. For the two months preceding the October 19, 1987 stock market crash, TCRS was a large net seller of stocks. At the same time, TCRS was buying bonds at double digit yields. This helped reduce the equity market exposure from approximately 40% of total assets in August, 1987 to 32.8% on October 18, 1987. TCRS was thus able to minimize stock depreciation and to benefit from the bond market rally which occurred. In anticipation of an upward trend in interest rates during the year, the market exposure of the bond portfolio (or duration) was reduced by 23% during the year. This occurred while the overall quality and yield of the portfolio was improved. The percentage of AAA rated bonds was increased from 40% at June 30, 1987 to 60% at June 30, 1988.

**Retirement Fund Investments**

	June 30, 1988		June 30, 1987	
	Book Value	Market Value	Book Value	Market Value
<b>Domestic Securities:</b>				
Certificates of Deposit	\$ 1,550,000	\$ 1,550,000	\$ 1,550,000	\$ 1,550,000
Government Bonds	1,666,620,862	1,679,874,123	1,638,208,325	1,681,014,198
Corporate Bonds	1,458,340,933	1,420,221,249	1,065,207,243	1,050,550,695
Corporate Stocks	1,875,829,466	2,067,632,624	1,690,965,883	2,253,877,704
Mortgages	2,451,993	2,221,867	2,832,802	2,595,951
<b>International Securities:</b>				
Government Bonds	210,409,864	203,217,526	173,556,823	173,339,255
Corporate Bonds	90,643,818	90,728,954	39,210,238	37,397,845
Corporate Stocks	331,908,715	320,396,609	169,011,868	191,708,689
American Depository Receipts	2,809,588	4,000,000	1,848,337	3,500,000
Currency Gain (Loss)		10,238,597		16,421,487
Cash Equivalents	<u>702,053,008</u>	<u>702,906,212</u>	<u>808,665,877</u>	<u>808,868,053</u>
Total Investments	<u>\$6,342,618,247</u>	<u>\$6,502,987,761</u>	<u>\$5,591,057,396</u>	<u>\$6,220,823,877</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
DOMESTIC BOND PORTFOLIO**

BOND NAME	RATING	COUPON	MATURITY	PAR VALUE	BOOK VALUE	YIELD
GOVERNMENTS:						
Bonds and Notes						
Cert. of Accrual Treasury—Ser. E	Aaa	0.000	11 15 1991	20,000,000	\$ 14,259,805.70	10.67%
Cert. of Accrual Treasury—Ser. G	Aaa	0.000	5 15 1992	17,850,000	10,958,803.00	13.00
Cert. of Accrual Treasury—Ser. L	Aaa	0.000	11 15 1991	15,000,000	9,992,417.35	12.40
Cert. of Accrual Treasury—Ser. P	Aaa	0.000	11 15 1991	10,000,000	7,346,055.72	9.35
Cert. of Accrual Treasury—Ser. S	Aaa	0.000	2 15 1990	20,000,000	17,212,314.71	9.45
Cert. of Accrual Treasury—Ser. T	Aaa	0.000	5 15 1996	34,280,000	14,199,258.92	11.43
Cert. of Accrual Treasury—Ser. T	Aaa	0.000	11 15 1996	9,404,000	3,419,475.44	12.45
Cert. of Accrual Treasury—Ser. V	Aaa	0.000	5 15 2002	24,820,000	5,186,120.39	11.61
Coupon Treasury Receipts	Aaa	0.000	5 15 1992	6,625,000	3,963,919.15	13.71
Coupon Treasury Receipts	Aaa	0.000	8 15 1992	17,280,000	10,132,765.74	13.36
Coupon Treasury Receipts	Aaa	0.000	2 15 1993	15,000,000	8,475,456.69	12.73
Coupon Treasury Receipts	Aaa	0.000	2 15 1998	39,720,000	13,149,460.51	11.77
Coupon Treasury Receipts	Aaa	0.000	8 15 1998	49,140,000	14,574,371.22	12.37
Coupon Treasury Receipts	Aaa	0.000	8 15 2003	100,000,000	18,585,564.00	11.44
Coupon Treasury Receipts	Aaa	0.000	8 15 2004	10,134,000	2,187,706.40	9.74
Coupon Treasury Receipts	Aaa	0.000	8 15 2004	23,075,400	4,981,468.36	9.74
Treasury Invest. Growth Receipts	Aaa	0.000	11 15 1994	17,812,500	8,447,493.36	12.05
Treasury Invest. Growth Receipts	Aaa	0.000	5 15 1994	17,803,000	8,951,684.20	12.05
Treasury Invest. Growth Receipts	Aaa	0.000	11 15 1995	17,803,000	7,510,684.56	12.05
Treasury Invest. Growth Receipts	Aaa	0.000	5 15 1995	8,208,000	3,671,388.98	12.05
Treasury Invest. Growth Receipts	Aaa	0.000	5 15 1996	8,312,500	3,307,573.40	12.05
Treasury Invest. Growth Receipts	Aaa	0.000	5 15 2000	13,678,000	3,273,486.07	12.41
Treasury Invest. Growth Receipts	Aaa	0.000	5 15 2000	15,513,500	3,712,766.87	12.41
Treasury Invest. Growth Receipts	Aaa	0.000	5 15 2000	4,723,875	1,130,540.94	12.41
Treasury Invest. Growth Receipts	Aaa	0.000	5 15 2005	100,000,000	18,817,050.47	10.15
United States Treasury Bonds	Aaa	8.500	5 15 1999	25,000,000	25,000,111.35	8.49
United States Treasury Bonds	Aaa	10.750	8 15 2005	125,000,000	148,767,595.52	8.60
United States Treasury Bonds	Aaa	7.625	2 15 2007	53,000,000	53,079,437.60	7.61
United States Treasury Bonds	Aaa	8.750	11 15 2008	66,832,000	69,681,782.36	8.31
United States Treasury Bonds	Aaa	9.125	5 15 2009	40,000,000	39,993,751.71	9.13
United States Treasury Bonds	Aaa	10.375	11 15 2012	70,000,000	81,333,356.17	8.73
United States Treasury Bonds	Aaa	12.000	8 15 2013	54,000,000	63,021,701.05	10.13
United States Treasury Bonds	Aaa	9.250	2 15 2016	25,000,000	26,776,227.83	8.61
United States Treasury Corpus	Aaa	0.000	11 15 2001	76,000,000	19,174,498.30	10.84
United States Treasury Notes	Aaa	8.250	8 15 1992	57,450,000	58,149,375.73	7.90
United States Treasury Notes	Aaa	7.125	10 15 1993	34,150,000	34,522,573.65	6.88
United States Treasury Notes	Aaa	9.500	10 15 1994	25,000,000	26,189,902.07	8.50
United States Treasury Notes	Aaa	7.375	5 15 1996	46,425,000	46,603,750.22	7.31
United States Treasury Notes	Aaa	7.250	11 15 1996	56,850,000	55,631,104.06	7.60
United States Treasury (Strip. Int)	Aaa	0.000	5 15 1995	13,664,000	8,291,330.13	7.40
United States Treasury (Strip. Int)	Aaa	0.000	5 15 2003	39,460,000	<u>7,572,333.46</u>	11.41
Total Bonds and Notes					<u>\$ 981,236,463.36</u>	
Agencies						
Amer. SW Financial CMO Ser. 37-C	NR	9.200	12 1 2006	11,500,000	\$ 11,340,398.32	9.36%
CMO Trust 15-D	Aaa	5.000	12 20 2016	29,550,000	19,833,306.83	7.92
CMO Trust One 1-D	Aaa	10.150	5 1 2007	10,000,000	9,975,903.23	10.18
FHLMC A-1	AAA	6.700	2 28 1991	15,991,170	15,807,301.81	7.18
FHLMC CAP DEB	AAA	8.650	10 1 1996	38,000,000	37,910,929.80	8.69
FHLMC PC #170220	AAA	8.000	4 1 2017	24,215,145	23,630,842.45	8.22
FHLMC PC #189272	AAA	8.500	12 1 2007	15,784,990	14,458,710.75	9.45
FHLMC PC #20006	AAA	8.750	8 1 2001	9,731,977	9,709,210.63	8.78
FHLMC PC #220010	AAA	8.750	8 1 2001	11,217,089	11,190,848.45	8.78
FHLMC PC #256498	AAA	8.000	4 1 2009	9,054,299	7,766,859.80	9.58
FHLMC PC #286896	AAA	7.500	2 1 2017	16,398,333	15,638,161.76	7.91

BOND NAME	RATING	COUPON	MATURITY	PAR VALUE	BOOK VALUE	YIELD
FNMA MBS #18742	AAA	8.500	11 1 2008	28,616,852	25,001,019.04	9.95
FNMA MBS #2426	AAA	7.750	4 1 2008	7,478,373	6,491,170.38	9.20
FNMA MBS #7238	AAA	8.000	6 1 2008	29,805,728	28,200,944.13	8.56
GMAC MTG SECS CMO Ser. B-2	NR	7.800	5 20 2011	15,177,507	14,267,473.83	8.39
GNMA MBS #193196	NR	9.000	8 15 2016	30,305,709	30,324,432.10	8.99
International Bk. for Rec. & Dev.	Aaa	9.875	10 1 1997	20,000,000	20,511,521.88	9.45
International Bk. for Rec. & Dev.	Aaa	8.250	9 1 2016	17,000,000	16,723,183.09	8.40
International Bk. for Rec. & Dev.	Aaa	8.625	10 15 2016	68,000,000	69,415,670.59	8.43
International Bk. for Rec. & Dev.	Aaa	9.250	7 15 2017	15,000,000	14,832,311.98	9.36
Investors GNMA Mtg. Back. Sec. C2	Aaa	11.900	2 25 2012	12,757,941	12,445,254.79	12.22
Investors GNMA Mtg. Back. Sec. C3	Aaa	7.875	6 25 2001	11,350,000	9,410,785.91	10.26
Investors GNMA Mtg. Back. Sec. C4	Aaa	8.875	2 25 2004	30,000,000	26,573,769.38	10.35
Investors GNMA Mtg. Back. Sec. E5	Aaa	10.875	12 25 2010	33,000,000	29,402,760.88	12.31
Investors GNMA Mtg. Back. Sec. J	Aaa	11.375	8 25 2013	10,700,000	11,130,297.75	10.90
Mtg. Bnks. Fin. Corp. 1 87A-2	NR	7.200	7 25 2000	47,284,045	45,119,469.94	7.79
Rural Electric Coop Cert.	Aaa	9.200	9 30 2001	20,000,000	20,000,000.00	9.20
Ryan Mtg CMO IV 8-C	Aaa	9.000	9 1 2007	16,000,000	15,428,184.93	9.40
Ryan Mtg.CMO IV 4-2	Aaa	9.400	1 1 2010	22,600,000	22,545,124.60	9.43
Salomon Capital CMO Ser. 85-C	Aaa	8.625	10 1 2004	39,500,000	34,298,549.36	10.30
Small Bus. Admin. PC 1986-A	Aaa	8.750	9 1 1996	20,000,000	20,000,000.00	8.75
Small Bus. Admin. PC 1987-A	Aaa	7.950	2 1 1997	10,000,000	10,000,000.00	7.95
Student Loan Mkt. Assoc.	Aaa	13.150	9 1 1989	26,000,000	26,000,000.00	13.15
Total Agencies					\$ 685,384,398.39	
TOTAL GOVERNMENTS					\$1,666,620,861.75	
CORPORATES:						
A C F Industries	A	11.000	10 1 1989	267,000	\$ 267,000.00	11.00%
American Tel & Tel	A1	7.000	2 15 2001	10,000,000	8,848,693.12	8.50
Amoco	Aaa	8.375	6 15 2005	11,500,000	9,672,256.64	10.34
Anheuser Busch	Aa3	8.875	9 1 1994	10,000,000	9,863,507.55	9.17
Anheuser Busch	Aa3	8.000	10 1 1996	10,000,000	9,940,211.84	8.10
Anheuser Busch	Aa3	8.625	12 1 2016	16,000,000	15,545,372.49	8.90
Anheuser Busch	Aa3	8.500	3 1 2017	5,000,000	4,117,007.31	10.45
Arkla Inc.	A2	8.900	12 15 2006	12,500,000	12,500,000.00	8.90
Associated Dry Goods	A2	8.850	3 1 2006	10,000,000	10,035,699.20	8.81
Associated Dry Goods	A2	0.000	5 1 1989	35,500,000	33,718,622.38	13.50
Atlantic Richfield	A1	9.125	3 1 2011	10,000,000	10,643,973.67	8.48
Atlantic Richfield	A1	9.875	3 1 2016	10,000,000	10,079,805.89	9.79
Baltimore Gas & Electric	Aa2	7.125	1 1 2002	10,160,000	6,755,488.84	12.26
Baltimore Gas & Electric	Aa2	9.125	3 1 2016	12,000,000	10,998,921.63	10.02
Bell Atlantic MT Notes	Aa3	8.450	8 6 1990	10,500,000	10,500,000.00	8.45
Bell Atlantic MT Notes	Aa3	8.400	5 13 1991	18,000,000	17,808,825.10	8.83
Bell Atlantic MT Notes	Aa3	8.650	6 24 1992	5,000,000	4,957,302.85	8.91
Bell Tel Pennsylvania	Aa1	8.000	8 1 2009	4,000,000	3,314,929.53	9.96
Borden	Aa3	8.375	4 15 2016	47,000,000	45,812,865.99	8.61
British Gas Finance	Aaa	8.750	3 15 1998	10,000,000	9,987,719.53	8.77
British Gas Finance	Aaa	9.500	3 15 2018	10,000,000	10,000,000.00	9.50
Ches & Potomac Tel (Virg.)	Aaa	8.500	9 1 2026	5,000,000	4,835,679.03	8.80
Coca-Cola Enterprises	A2	8.750	4 1 2017	5,000,000	4,249,166.99	10.40
Coca-Cola Enterprises MT Notes	A2	9.500	12 5 1994	10,000,000	10,000,000.00	9.50
Coca-Cola Enterprises MT Notes	A2	9.050	2 2 1998	25,000,000	25,000,000.00	9.05
Consolidated Edison	Aa1	6.850	10 1 1998	5,000,000	3,767,834.87	10.90
Consolidated Edison	Aa1	7.900	4 15 2002	7,750,000	6,839,927.36	9.44
Consolidated Edison	Aa1	7.750	2 15 2003	14,500,000	11,227,131.81	10.84
CSX Corp.	A2	8.400	8 1 1996	11,000,000	10,988,093.06	8.42
Dominion Fin. Inc. MT Notes	NR	8.820	6 25 1991	20,000,000	20,000,000.00	8.82
Duke Power	Aa2	8.500	2 1 2017	42,200,000	41,732,638.69	8.60
Duke Power	Aa2	7.750	6 1 2003	9,750,000	6,889,668.17	12.06
Dupont,(El) Denemours & Co.	Aa1	6.000	12 1 2001	30,000,000	23,024,832.89	9.02
Dupont,(El) Denemours & Co.	Aa1	8.500	4 15 2016	25,000,000	21,019,791.46	10.24
Eastman Kodak	A2	8.750	11 1 1991	15,000,000	14,979,648.65	8.80

BOND NAME	RATING	COUPON	MATURITY	PAR VALUE	BOOK VALUE	YIELD
Farmers Insurance Group	Aa2	8.250	7 15 1996	21,000,000	20,819,109.31	8.40
Florida Power & Light	Aa3	9.875	2 1 2016	15,000,000	15,364,878.37	9.62
Florida Power & Light	Aa3	9.750	4 1 2017	5,000,000	4,813,234.37	10.15
Ford Motor Credit	Aa2	9.750	7 1 1998	15,000,000	15,000,000.00	9.75
Ford Motor Credit MT Notes	Aa2	9.350	8 20 1997	5,000,000	4,679,382.93	10.46
Ford Motor Credit MT Notes	Aa2	9.500	8 26 1997	30,000,000	30,000,000.00	9.50
Ford Motor Credit Notes	Aa2	9.350	9 5 1995	30,000,000	30,000,000.00	9.35
Ford Motor Credit Notes	Aa2	8.000	8 15 1993	10,000,000	9,818,556.20	8.44
General Electric	Aaa	8.625	4 1 2016	20,000,000	16,334,469.19	10.70
General Electric Capital	Aaa	8.250	1 15 1991	35,000,000	35,338,763.99	7.82
General Electric Capital	Aaa	9.000	6 1 1993	10,000,000	9,933,279.00	9.17
General Electric Credit	Aaa	8.250	3 1 1993	10,000,000	9,744,940.68	8.93
General Electric Credit	Aaa	5.500	11 1 2001	20,000,000	14,007,261.32	9.51
General Electric Credit	Aaa	6.750	11 1 1991	7,000,000	6,515,922.85	9.20
General Motors Accept. Corp.	Aa3	8.500	2 1 1993	5,000,000	5,000,000.00	8.50
General Motors Accept. Corp.	Aa3	9.250	2 15 1993	10,000,000	10,031,873.61	9.16
General Motors Accept. Corp. MT Nts.	Aa3	7.650	2 8 1990	20,000,000	19,713,675.00	8.62
General Motors Accept. Corp. MT Nts.	Aa3	8.125	2 5 1991	11,500,000	11,518,230.26	8.06
General Motors Accept. Corp. MT Nts.	Aa3	8.800	1 30 1992	10,000,000	10,000,000.00	8.80
General Motors Accept. Corp. MT Nts.	Aa3	8.500	2 25 1993	10,000,000	9,948,369.33	8.64
General Motors Corp.	Aa3	7.500	8 15 1993	5,000,000	4,651,979.48	9.24
General Motors Corp.	Aa3	8.125	4 15 2016	10,000,000	7,978,769.36	10.35
General Tel (Florida)	Aa2	8.750	4 15 2026	13,750,000	13,526,811.54	8.90
General Tel (South)	A2	8.750	9 1 2016	10,000,000	9,549,581.19	9.20
General Tel (California)	Aa3	8.625	12 1 2016	18,000,000	17,644,212.90	8.82
Gulf Power	A1	10.125	2 1 2016	15,000,000	14,926,069.38	10.18
Hershey Foods	Aa2	9.500	3 15 2008	43,870,000	42,973,149.01	9.74
Hershey Foods MT Notes	Aa2	8.875	2 3 1998	15,000,000	15,000,000.00	8.88
Honeywell	A2	9.875	6 1 2017	25,950,000	25,725,454.40	9.97
Int'l. Bus. Machines Credit Corp.	Aaa	9.780	10 15 1992	12,000,000	12,139,236.94	9.44
Johnson & Johnson	Aaa	8.875	10 15 1990	10,000,000	10,000,000.00	8.88
Johnson & Johnson	Aaa	9.125	9 15 1992	10,000,000	9,958,555.09	9.25
Kansas Power & Light	Aa1	8.250	7 1 1996	10,000,000	10,234,124.86	7.85
McDoanld's Corp.	Aa2	9.750	11 1 2017	5,000,000	4,941,863.32	9.87
McDonald's Corp.	Aa2	8.875	3 1 2016	20,000,000	19,846,729.45	8.95
MDU Resources Group	A2	11.250	11 15 2010	9,684,000	9,684,000.00	11.25
Mobil Oil Canada	Aa2	8.375	2 15 1993	25,000,000	24,981,332.88	8.39
Morgan (JP) & Co.	Aa1	8.500	2 15 1989	3,000,000	3,008,632.81	8.02
Morgan (JP) & Co.	Aa1	8.000	3 15 1996	15,000,000	14,095,210.34	9.11
National Fuel Gas	A2	9.875	9 1 2006	8,000,000	8,155,134.55	9.65
New England Tel & Tel	Aa1	9.500	10 1 1992	15,000,000	15,000,000.00	9.50
New Jersey Bell Tel	Aaa	7.750	9 1 2013	21,000,000	15,414,249.94	10.87
New Jersey Bell Tel	Aaa	8.000	9 15 2016	5,000,000	3,893,980.96	10.45
Nissan Mtr Accept Corp. MT Notes	A2	8.600	6 28 1990	20,000,000	20,000,000.00	8.60
Northern Illinois Gas	Aa1	8.250	3 15 1993	10,000,000	9,985,683.32	8.29
Northern Illinois Gas	Aa1	9.250	7 1 1996	5,000,000	4,977,500.00	9.33
Northern States Power (Wisc.)	Aa1	9.750	3 1 2018	15,000,000	14,939,882.07	9.79
Northwestern Bell Tel	Aa2	7.500	4 1 2005	11,000,000	8,443,145.03	10.41
Norton Simon Inc.	Ba3	9.875	6 1 2004	3,810,000	3,810,000.00	9.88
Pacific Gas & Electric	A1	8.500	2 1 2020	15,000,000	14,629,812.72	8.73
Pacific Gas & Electric	A1	8.125	1 1 1997	5,000,000	4,537,024.45	9.75
Pacific Gas & Electric	A1	9.000	8 1 2019	5,000,000	4,656,974.98	9.70
Pacific Bell	Aa3	11.375	8 15 2024	27,000,000	31,740,494.51	9.63
Potomac Electric Capital	Aa	9.500	1 10 1995	10,000,000	9,961,898.16	9.58
Potomac Electric Capital	Aa	9.800	1 20 1998	10,000,000	10,030,934.82	9.75
Potomac Electric Power	Aa1	8.250	3 1 2017	7,500,000	6,266,000.58	10.00
Private Export Funding	Aaa	8.600	6 30 1994	10,000,000	10,000,000.00	8.60
Provident Life Cap. Corp.	Aa3	0.000	11 1 1997	25,000,000	24,843,851.60	10.10
Sears Roebuck & Co.	Aa2	7.000	11 15 2001	15,000,000	11,933,073.24	9.77
Southern Bell Tel & Tel	Aaa	7.375	7 15 2010	5,000,000	4,123,515.48	9.25
Southern Bell Tel & Tel	Aaa	8.625	9 1 2026	34,000,000	32,724,248.20	8.97
Southern Calif Edison	Aa2	8.375	12 1 2017	10,000,000	9,554,803.63	8.80

BOND NAME	RATING	COUPON	MATURITY	PAR VALUE	BOOK VALUE	YIELD
Southwestern Elec Power	Aa2	11.375	8 1 2015	15,000,000	14,815,047.71	11.52
Travelers Corp.	Aa2	7.625	1 15 1997	25,000,000	24,350,253.04	8.03
Union Camp	Aa3	10.875	7 1 2010	38,904,000	34,986,980.45	12.24
Union Pacific	A1	8.500	1 15 2017	13,000,000	12,726,833.83	8.70
Virginia Elec & Power	A1	9.875	6 1 2017	15,000,000	14,739,096.15	10.06
Virginia Elec & Power MT Notes	A2	7.500	12 5 1991	10,000,000	9,598,331.20	8.88
Washington Gas Light	A2	4.500	11 1 1988	791,000	791,000.00	4.50
Weyerhaeuser	A1	8.375	2 15 2007	15,000,000	14,945,352.74	8.41
Whirlpool	Aa2	9.100	2 1 2008	6,000,000	6,000,000.00	9.10
Wisconsin Electric Power	Aaa	9.625	1 15 2018	26,000,000	26,395,554.19	9.47
<b>TOTAL CORPORATES</b>					<b>\$1,458,340,933.45</b>	
<b>MORTGAGES:</b>						
Farmers Home Administration	AAA	6.000	2 10 1992	301,680	\$ 30,680.00	6.00%
Farmers Home Administration	AAA	6.000	12 9 1991	115,212	115,211.82	6.00
Farmers Home Administration	AAA	6.000	10 27 1991	101,826	101,826.41	6.00
Farmers Home Administration	AAA	6.000	11 14 1991	223,578	223,577.89	6.00
Farmers Home Administration	AAA	5.000	12 21 1990	20,862	20,861.81	5.00
Farmers Home Administration	AAA	8.750	11 26 1994	128,921	128,921.17	8.75
Farmers Home Administration	AAA	5.750	6 30 1999	73,839	73,839.30	5.75
Farmers Home Administration	AAA	6.250	10 10 1992	135,703	135,702.50	6.25
Farmers Home Administration	AAA	5.750	6 29 2001	434,095	434,095.06	5.75
Farmers Home Administration	AAA	6.500	3 26 1993	410,302	410,301.81	6.50
Farmers Home Administration	AAA	8.500	8 28 1994	232,005	232,004.64	8.50
F H A and V A Mortgages	AAA	5.250	11 1 1995	111,439	110,586.13	5.38
F H A and V A Mortgages	AAA	6.000	10 1 1997	165,706	163,385.01	6.20
<b>TOTAL MORTGAGES</b>					<b>\$ 2,451,993.55</b>	
<b>CERTIFICATES OF DEPOSIT</b>						
Century Federal Savings & Loan	NR	13.275	8 28 1989	200,000	\$ 200,000.00	13.28%
Charter Federal Savings & Loan	NR	13.275	8 28 1989	100,000	100,000.00	13.28
First Federal Saving Bank	NR	13.275	8 28 1989	100,000	100,000.00	13.28
First Federal Savings & Loan	NR	13.275	8 28 1989	100,000	100,000.00	13.28
First Federal Savings & Loan	NR	13.275	8 28 1989	400,000	400,000.00	13.28
Liberty Federal Savings & Loan	NR	13.275	8 28 1989	100,000	100,000.00	13.28
Lincoln State Savings & Loan	NR	13.275	8 28 1989	400,000	400,000.00	13.28
Volunteer Fed Savings & Loan	NR	13.275	8 28 1989	150,000	150,000.00	13.28
<b>TOTAL CERTIFICATES OF DEPOSIT</b>					<b>\$ 1,550,000.00</b>	
<b>TOTAL DOMESTIC BOND PORTFOLIO</b>					<b>\$3,128,963,788.75</b>	

## INTERNATIONAL BOND PORTFOLIO

BOND NAME	RATING	COUPON	MATURITY	PAR VALUE	BOOK VALUE	YIELD
<b>GOVERNMENTS:</b>						
Bundesrepublik	NR	6.000	3 20 1997	110,000,000	\$ 62,028,391.19	6.01%
Govt. of France Treasury Bills	NR	0.000	7 21 1988	80,000,000	12,913,472.71	7.83
Japan L.T. Govt. Bonds #100	NR	4.000	6 20 1997	800,000,000	5,402,822.50	5.21
Japan L.T. Govt. Bonds #104	NR	4.900	9 22 1997	750,000,000	5,393,988.04	5.24
Japan L.T. Govt. Bonds #106	NR	4.900	3 20 1998	750,000,000	5,892,058.90	4.80
Japan L.T. Govt. Bonds #99	NR	4.700	6 20 1997	1,710,000,000	12,350,591.78	5.14
Metropolis Of Tokyo	Aaa	10.375	10 20 1997	10,000,000	10,000,000.00	10.38
Nova Scotia (Province)	A2	8.875	3 15 2016	20,000,000	19,852,591.46	8.95
Quebec (Province)	Aa3	8.625	12 1 2026	10,000,000	9,960,199.03	8.66
UK Treasury Gilt Stock	NR	12.750	11 15 1995	9,000,000	17,267,445.48	9.42
UK Treasury Gilt Stock	NR	13.250	1 22 1997	11,000,000	23,900,338.68	9.61
UK Treasury Gilt Stock	NR	8.500	7 16 2007	15,000,000	25,447,964.07	8.99
<b>TOTAL GOVERNMENTS</b>					<b>\$ 210,409,863.84</b>	

BOND NAME	RATING	COUPON	MATURITY	PAR VALUE	BOOK VALUE	YIELD
<b>CORPORATES:</b>						
Amcors Limited Conv.	NR	9.000	1 1 1999	5,000,000	\$ 4,016,500.00	9.00
Canadian National Ry	Aa2	12.000	3 15 2013	8,500,000	8,500,000.00	12.00
Hydro-Quebec	Aa3	8.250	1 15 2027	30,000,000	29,711,241.05	8.33
Hydro-Quebec	Aa3	10.700	10 15 2007	10,000,000	9,911,563.16	10.81
Hydro-Quebec MT Notes	Aa3	9.640	12 29 1997	10,000,000	10,295,313.61	9.17
Hydro-Quebec MT Notes	Aa3	9.810	11 6 1997	10,000,000	10,000,000.00	9.81
Pearson Inc. MT Notes	A	8.950	3 30 1995	15,000,000	15,000,000.00	8.95
Pioneer Concrete Conv.	NR	9.500	6 21 1998	4,000,000	3,209,200.00	9.50
<b>TOTAL CORPORATES</b>					<u>\$ 90,643,817.82</u>	
<b>TOTAL INTERNATIONAL BOND PORTFOLIO</b>					<u>\$ 301,053,681.66</u>	
<b>GRAND TOTAL FIXED INCOME PORTFOLIO</b>					<u>\$3,430,017,470.41</u>	

KEY TO RATINGS: All ratings presented are from Moody's Investors Service with the exception of FHLMC, FNMA, FHA and VA mortgages and mortgage backed securities. Moody's does not rate these securities. Standard and Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating). Moody's rates securities as follows:

Aaa—Best quality      Aa—High quality      A— Upper medium quality      Baa—Medium quality

Moody's applies numerical modifiers in each rating classification (1 indicates higher end, 2 mid-range and 3 lower end). NR indicates that the security is not rated.

\*Yield represents the purchase yield to maturity.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
DOMESTIC STOCK PORTFOLIO**

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
Abbott Labs	325,000	\$ 8,566,725.00	\$ 14,625,000.00
Acuson	100,000	2,891,870.00	2,850,000.00
Affiliated Publications	430,000	11,701,570.90	12,255,000.00
Air Products & Chemicals	360,000	16,411,325.00	18,225,000.00
Albertson's Inc.	261,400	7,749,362.00	8,756,900.00
Alexander & Baldwin	45,000	1,321,562.50	1,361,250.00
Aluminum Company of America	550,000	22,102,174.79	29,287,500.00
Amdahl Corp.	60,000	2,752,947.55	3,240,000.00
Amerada-Hess	290,000	11,437,939.00	7,503,750.00
American Telephone & Telegraph	760,000	19,104,856.00	20,330,000.00
American Television Comm. Corp.	125,000	3,021,875.00	3,156,250.00
Amoco Corp.	352,000	22,563,868.00	25,608,000.00
AMP, Inc.	175,000	10,358,308.00	9,034,375.00
AMR Corp.	225,000	13,767,117.44	11,446,875.00
Arco Chemical Co.	255,000	8,836,950.00	9,084,375.00
Aristech Chemical Corp.	142,900	4,850,434.90	4,965,775.00
Atlanta Gas Light	150,000	4,032,782.00	4,012,500.00
Atlantic Richfield	375,000	23,664,741.41	30,187,500.00
Automatic Data Processing	400,000	18,649,225.34	16,200,000.00
Baxter International Inc.	450,500	11,174,967.50	9,178,937.50
Baxter International Inc. Pref.	102,000	7,119,430.00	6,974,250.00
Bemis Co.	26,500	593,145.00	655,875.00
Birmingham Steel Corp.	122,100	3,856,614.55	3,891,937.50
Block (H&R)	106,000	3,301,987.84	2,901,750.00
Borden Inc.	450,000	25,172,380.80	22,950,000.00
Bristol-Myers	500,000	11,981,116.67	20,250,000.00
Browning-Ferris Ind.	599,000	15,529,684.72	14,975,000.00
Browning-Ferris Ind. Conv. (6.25%)	2,500,000	2,227,760.97	2,237,500.00

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
Capital Cities ABC	75,000	13,924,589.10	23,831,250.00
Caterpillar Tractor	350,000	20,768,845.60	23,712,500.00
Champion Int'l Corp.	550,000	22,366,529.80	19,868,750.00
Champion Int'l Corp. Conv. (6.5%)	500,000	571,695.37	585,000.00
Cincinnati Bell	15,000	404,900.00	451,875.00
Citicorp	422,000	13,005,168.00	10,497,250.00
Clark Equipment	100,000	3,451,095.80	3,450,000.00
Clorox Co.	300,000	9,527,714.20	8,662,500.00
Coca-Cola	600,000	10,852,434.51	23,400,000.00
Comdisco, Inc.	125,000	4,335,157.62	3,046,875.00
Community Psychiatric Centers	250,000	7,525,783.33	6,281,250.00
Compaq Computer	110,000	1,624,250.00	7,163,750.00
Compaq Computer Conv. (5.25%)	6,200,000	7,737,873.34	10,230,000.00
Compaq Computer Conv. (6.5%)	6,750,000	7,319,836.79	7,948,125.00
Computer Sciences Corporation	150,000	7,708,631.60	6,600,000.00
Consolidated Edison NY Inc.	750,000	26,162,180.00	33,000,000.00
CPC International	400,000	19,000,372.75	18,400,000.00
CPI Corp.	50,000	1,236,250.00	1,000,000.00
Cross (AT) Company	300,000	5,105,874.80	10,012,500.00
Deere & Co.	433,000	19,793,579.90	19,918,000.00
Dekalb Corporation	140,000	4,251,260.00	4,742,500.00
Delmarva Power & Light	730,000	12,559,548.67	13,596,250.00
Digital Equipment	60,000	11,468,208.00	6,892,500.00
Disney (Walt)	200,000	13,275,907.25	12,600,000.00
Diversified Energies	100,000	2,851,559.80	2,912,500.00
Dollar General Corp.	295,000	6,721,000.00	2,544,375.00
Dow Chemical	250,000	17,921,710.00	22,718,750.00
Dresser Industries	668,000	18,915,595.00	19,455,500.00
Duke Power	600,000	23,187,450.00	27,375,000.00
Duquesne Light	100,000	1,491,860.00	1,500,000.00
Durr-Fillauer	20,000	259,375.00	277,500.00
Eastman Kodak	75,000	4,428,983.33	3,393,750.00
EQK Realty Investors 1	1,250,000	21,292,600.01	16,875,000.00
Exxon Corp.	675,000	28,338,062.50	30,628,125.00
First Chicago Corp.	100,000	3,079,386.40	3,137,500.00
First Financial Mgmt.	186,000	4,194,911.00	5,254,500.00
First Mississippi Corp.	179,400	2,628,412.00	2,713,425.00
First Wachovia Corp.	265,000	7,074,767.50	10,467,500.00
FlightSafety International	100,000	4,097,369.36	4,150,000.00
Flowers Inds.	450,000	5,632,255.92	7,706,250.00
Flowers Inds. Conv. (8.25%)	2,000,000	2,359,169.57	2,260,000.00
Ford Motor	700,000	17,148,049.15	37,275,000.00
General Electric	800,000	19,059,544.89	35,100,000.00
General Instrument	100,000	3,781,658.00	3,775,000.00
General Mills	300,000	14,940,841.00	14,062,500.00
General Motors	350,000	31,047,790.00	28,043,750.00
Genuine Parts	389,000	15,512,250.00	14,830,625.00
Georgia Gulf	132,000	7,890,125.00	8,943,000.00
Giant Food Inc.	200,000	3,734,186.50	4,100,000.00
Goodyear Tire & Rubber	410,000	24,923,780.10	26,496,250.00
Gotaas-Larsen Shipping	150,000	4,721,850.00	5,025,000.00
Grainger (WW)	110,000	6,921,946.80	6,696,250.00
Great Atlantic & Pacific	205,000	8,069,177.00	7,969,375.00
Handleman Co.	100,000	3,148,495.00	3,050,000.00
Hanna (MA) Co.	50,000	1,553,500.00	1,550,000.00
Hewlett-Packard	380,000	22,500,307.90	21,185,000.00
Hillenbrand Ind.	50,000	1,703,500.00	1,750,000.00
Hilton Hotels	250,000	11,374,968.84	12,437,500.00
Hospital Corp. of America Conv. (8.5%)	150,000	144,021.36	151,500.00
House of Fabrics	150,000	2,835,366.10	2,793,750.00
Humana Inc.	100,000	2,834,625.00	2,700,000.00
IBP Inc.	450,000	8,550,000.00	5,737,500.00

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
IC Industries	480,600	17,143,283.60	15,499,350.00
Illinois Tool Works	425,000	5,540,083.60	18,434,375.00
Intel Corp.	100,000	3,475,000.00	3,612,500.00
Intergraph Corp.	525,000	14,114,085.50	16,800,000.00
International Business Machines	100,000	13,127,046.09	12,737,500.00
Johnson Controls	100,000	3,577,664.00	3,550,000.00
Johnson & Johnson	400,000	20,158,450.00	31,750,000.00
Kennametal Inc.	150,000	5,455,663.60	5,512,500.00
Kinder-Care Inc.	205,000	2,610,312.46	2,101,249.97
Lafarge Corp.	300,000	5,146,551.20	5,325,000.00
Lafarge Corp. Conv. (7.0%)	1,000,000	1,000,000.00	1,000,000.00
Laidlaw Transportation Ltd.	200,000	3,001,874.00	2,800,000.00
LIN Broadcasting	295,000	13,424,401.00	18,843,125.00
LSI Logic Corp.	100,000	1,300,000.00	1,275,000.00
McDonald's Corp.	350,000	18,434,538.07	16,143,750.00
MCI Communications	450,000	4,968,750.00	6,300,000.00
MCI Communications Conv. (7.75%)	2,300,000	2,092,641.21	2,064,250.00
Merck & Co.	555,000	27,384,780.00	31,218,750.00
Michigan Consolidated Gas	74,475	74,475.00	2,802,121.88
Michigan National Corp.	80,000	3,812,500.00	3,620,000.00
Micron Technology Inc.	100,000	2,299,420.00	2,212,500.00
Minnesota Mining & Mfg.	240,000	14,575,349.00	15,840,000.00
Mobil Corp.	675,000	23,541,150.00	29,362,500.00
Monsanto	250,000	11,923,604.55	21,812,500.00
Morgan Stanley Group Inc.	175,000	11,854,608.00	13,890,625.00
Morgan (JP) & Co.	300,000	13,997,654.30	11,662,500.00
Morrison, Inc.	72,666	1,637,672.26	1,625,901.88
Motorola, Inc.	200,000	12,929,075.00	10,825,000.00
Nalco Chemical	258,000	9,860,870.00	9,642,750.00
Nat'l Medical Enter. Conv. (0%)	10,000,000	2,983,911.94	3,025,000.00
Newell Co.	25,700	1,087,855.75	1,098,675.00
NICOR Inc.	100,000	2,980,000.00	2,912,500.00
NIKE Inc.	300,000	7,553,130.00	8,550,000.00
Nordson Corp.	22,500	877,500.00	1,035,000.00
Norfolk Southern	953,000	20,268,994.81	27,756,125.00
Norton Co. Conv. (7.75%)	3,600,000	4,277,076.09	4,284,000.00
NYNEX Corp.	350,000	15,269,750.00	23,362,500.00
Outboard Marine	200,000	6,385,303.59	6,925,000.00
PACCAR Inc.	100,000	7,460,078.80	7,500,000.00
Penney (JC)	400,000	18,915,359.20	19,450,000.00
PepsiCo, Inc.	675,000	21,106,165.00	25,143,750.00
Phillip Morris Cos.	350,200	34,088,776.10	29,373,025.00
Potomac Electric Power	1,054,000	15,222,595.00	23,451,500.00
Premark International	200,000	6,253,025.37	6,800,000.00
Premier Industrial	28,200	911,097.80	930,600.00
Primark Corp.	150,000	3,403,946.80	843,750.00
Procter & Gamble	250,000	15,392,189.30	19,375,000.00
Quaker Oats	300,000	15,579,707.00	13,350,000.00
Quantum Chemical Corp.	75,000	6,944,973.10	7,687,500.00
Raychem Corp.	205,000	10,491,360.50	10,198,750.00
Rohm & Haas	193,400	9,365,980.00	6,720,650.00
Rollins Environmental Serv. Inc.	175,000	3,863,870.00	3,565,625.00
Rowan Companies	1,477,300	12,399,498.50	9,602,450.00
Ryder System	400,000	12,681,435.47	11,350,000.00
Safety-Kleen Corp.	100,000	943,056.22	2,637,500.00
Schering-Plough Corp.	328,100	18,157,114.15	16,815,125.00
SCI Systems	450,000	4,955,625.00	6,075,000.00
Scott Paper	225,000	8,789,148.70	9,056,250.00
Selective Ins. Group	190,000	4,516,875.00	4,655,000.00
Shorewood Packaging Corp.	75,000	1,038,750.00	1,256,250.00
Sigma-Aldrich	60,000	2,751,250.00	2,820,000.00
SmithKline Beckman	416,500	22,845,347.45	18,586,312.50

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
Standex International	74,500	1,613,751.66	1,666,937.50
Stone Container	170,000	5,134,610.00	6,205,000.00
Stride Rite Corp.	200,000	4,724,374.50	5,875,000.00
Student Loan Marketing	105,000	8,291,262.00	8,465,625.00
Student Loan Marketing Conv.	600,000	1,280,699.99	1,212,000.00
SunTrust Banks	900,000	16,337,138.84	21,150,000.00
Syntex	150,000	5,771,250.00	6,281,250.00
Sysco Corp.	260,000	7,783,371.50	7,800,000.00
Tandy Corp.	100,000	4,745,800.00	4,800,000.00
TECO Energy	335,000	8,062,730.76	7,872,500.00
Tele-Communications Inc.	400,000	5,302,551.67	9,950,000.00
Tenneco Inc.	475,000	22,144,130.91	22,681,250.00
Texas Utilities	200,000	6,571,769.00	5,275,000.00
Tiger International	300,000	4,592,491.30	4,162,500.00
Time Inc.	125,000	6,961,647.64	12,000,000.00
Times Mirror Co.	150,000	4,063,500.00	5,062,500.00
Torchmark Corp.	150,000	4,779,308.10	4,931,250.00
Trinity Industries Conv. (6.75%)	3,350,000	4,085,940.99	4,120,500.00
TRW Inc.	500,000	18,590,782.00	24,500,000.00
Unifi, Inc.	150,000	3,405,940.00	3,525,000.00
Union Camp	625,000	13,895,380.37	23,437,500.00
Union Pacific	275,000	23,087,939.69	17,840,625.00
Unisys Corp.	150,000	5,466,750.00	5,362,500.00
Unisys Corp. Conv. Pref.	144,000	9,359,840.00	9,288,000.00
United Telecommunications	740,000	20,710,175.00	23,865,000.00
Unocal Corp.	650,000	18,231,598.00	22,262,500.00
US West NewVector Group Inc.	105,000	2,100,000.00	2,086,875.00
USAir Group	190,000	9,908,399.00	7,053,750.00
UST	609,000	18,417,176.70	18,574,500.00
Vista Chemical	100,000	5,175,000.00	5,800,000.00
Wal-Mart Stores	1,075,000	29,728,247.50	32,921,875.00
Warner Communications	460,000	16,468,103.00	16,732,500.00
Warner Communications Conv. Pref.	110,000	7,022,562.60	7,301,250.00
Westinghouse Electric	315,500	21,904,067.30	17,746,875.00
Weyerhaeuser Co.	675,000	13,663,067.50	18,478,125.00
Willamette Inds. Inc.	80,000	3,800,000.00	4,060,000.00
Xerox	250,000	18,835,000.00	13,750,000.00
<b>TOTAL DOMESTIC STOCK PORTFOLIO</b>		<u><b>\$1,875,829,465.94</b></u>	<u><b>\$2,067,632,623.73</b></u>

## INTERNATIONAL STOCK PORTFOLIO

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
Adia PC	10,100	\$ 3,844,722.50	\$ 4,467,243.09
Akzo N.V.	60,000	4,531,454.86	3,694,790.90
Allianz AG Holding	6,000	4,927,317.42	4,661,737.11
Amstrad PLC	1,400,000	4,063,524.54	4,961,479.19
Asahi Organic Chem Ind Co Ltd.	775,000	6,558,125.75	6,637,866.26
Atlantic Computers PLC	600,000	6,449,210.11	3,944,530.04
Bayerische Motoren Werke AG	36,000	13,043,721.38	10,071,736.01
Boral Ltd.	550,000	2,593,468.67	2,060,253.44
BPB Industries	850,000	5,111,554.34	4,001,883.23
British Gas PLC (American Dep. Receipt)	125,000	2,809,587.50	4,000,000.00
Centre Parc NV	137,250	3,768,941.30	4,900,586.94
CKD Corp.	660,000	2,757,362.66	5,603,305.78
Collins & Leahy Holdings Ltd.	878,200	2,424,130.90	1,749,820.67
Cominco Ltd.	124,100	1,859,739.55	2,238,363.70
Commerical Union	820,000	5,167,806.06	5,334,702.96
Continental AG	40,333	6,990,776.38	5,530,708.80
Cookson Group	600,000	3,436,385.95	2,814,586.54
Credit Suisse Bearer	2,450	3,586,098.25	4,122,713.66

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
Daiwa Securities Co. Ltd.	315,000	2,111,171.10	5,561,607.81
Dai-Tokyo Fire & Marine	480,000	2,940,269.57	3,750,563.48
Deutsche Bank AG	13,633	5,150,371.04	3,277,727.75
Elders IXL Ltd.	1,528,125	4,159,390.55	3,690,299.47
Fanuc, Ltd.	124,000	3,545,971.20	5,664,312.54
Getronics NV	58,935	612,704.74	619,883.00
Hino Motors Ltd.	627,000	2,402,169.74	4,296,198.34
Honda Motor Co. Ltd.	425,000	5,015,861.57	5,332,456.79
INCO Ltd.	125,000	3,313,750.00	4,032,500.00
Ito Yokado Co., Ltd.	200,000	4,876,064.17	6,521,412.47
Kobori Juken Co. Ltd.	327,000	5,309,387.94	4,569,646.88
Lvmh L. Vuitton—Moet Hennessy	10,200	2,665,841.53	4,135,698.52
Magnet & Southern PLC	900,000	4,515,436.73	3,605,546.99
Marui Co. Ltd.	220,000	4,953,378.81	4,958,677.68
Mikuni Coca-Cola Bottling	400,000	2,024,072.58	5,770,097.67
Mount Charlotte Invest. PLC	3,000,000	6,347,198.17	7,139,188.49
National Westminster Bank PLC	700,000	7,177,255.97	6,950,864.57
NCR Japan Ltd.	247,500	3,249,439.39	3,644,628.09
Nixdorf Computer AG Preferred	18,000	7,307,938.74	4,544,200.41
Noranda Forest Inc.	500,000	7,312,682.82	6,493,238.78
Nova Corp of Alberta	250,000	1,988,928.43	2,499,381.59
Pacific Dunlop Ltd.	1,050,000	2,843,680.25	3,548,258.54
Pearson PLC	250,000	3,101,308.87	3,030,303.03
Peugeot SA	40,000	6,433,045.88	8,442,736.85
Philips Gloeilampenfabrieken	400,000	10,641,701.76	6,436,781.60
Pioneer Concrete	900,000	3,044,283.21	2,209,293.05
Racal Electronics PLC	1,700,000	8,247,676.80	9,866,461.22
Reuters Holdings B	800,000	8,557,042.41	7,450,778.97
Royal Dutch Petroleum	100,000	10,644,049.38	11,068,720.95
Seiyu Ltd.	154,000	1,975,506.12	2,464,462.80
Shimachu Company Ltd.	308,000	4,750,399.52	7,867,768.59
Siemens AG	10,000	3,970,424.97	2,353,492.99
Soc Auxiliaire D'Entreprises	25,250	5,999,358.27	3,847,461.78
Societe Generale	20,000	1,324,438.66	1,173,873.94
Sony Corp.	100,000	4,164,359.13	3,966,942.14
Sumitomo Forestry Co. Ltd.	250,000	2,670,989.86	2,685,950.41
Sumitomo Marine & Fire Inc. Co.	367,500	2,925,932.44	3,120,022.53
Sun Alliance	100,000	1,424,325.19	1,691,491.18
Sunwave Industrial Co.	248,000	3,998,287.24	3,912,847.48
Swiss Reinsurance Co. PC	6,000	10,194,336.48	7,901,563.01
Takasago Thermal Engineering	462,000	2,812,299.70	4,512,396.69
Takashimaya Co., Ltd.	500,000	3,850,308.29	8,339,594.29
Teikoku Kako Co. Ltd.	644,000	5,337,977.01	5,177,160.03
Thompson CSF	40,200	1,393,078.47	1,393,345.86
Tokyo Denki Komusho	209,000	2,303,418.02	2,119,834.71
Tokyu Corp.	256,000	1,764,683.27	2,673,478.58
Unilever NV	380,000	24,859,221.15	20,426,510.14
United Biscuit Hldgs. PLC	900,000	5,071,869.86	4,622,496.14
Viag SA	40,000	5,010,438.41	4,844,939.85
VPI Group	665,000	5,469,392.73	3,643,211.77
Western Mining Corp. Hldgs. Ltd.	1,250,000	5,057,816.70	5,818,123.85
Wharf Resources Ltd.	425,000	3,039,954.40	1,883,554.58
Willis Faber PLC	150,000	933,485.41	675,398.04
<b>TOTAL INTERNATIONAL STOCK PORTFOLIO</b>		<b>\$ 334,718,302.77</b>	<b>\$ 337,023,695.23</b>
<b>GRAND TOTAL STOCK PORTFOLIO</b>		<b>\$ 2,210,547,768.71</b>	<b>\$2,404,656,318.96</b>

**Rate of Return Analysis  
On Retirement Investments For the  
Fiscal Years 1978-79 Through 1987-88**

Fiscal Year	EXCLUDING GAINS AND LOSSES			INCLUDING GAINS AND LOSSES		
	Average Amount Invested	Amount Earned	Percentage Earned on Book Value	Average Amount Invested	Amount Earned	Percentage Earned on Book Value
1987-88	\$5,790,721,402	\$412,547,763	7.12%	\$5,710,292,216	\$573,406,134	10.04%
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

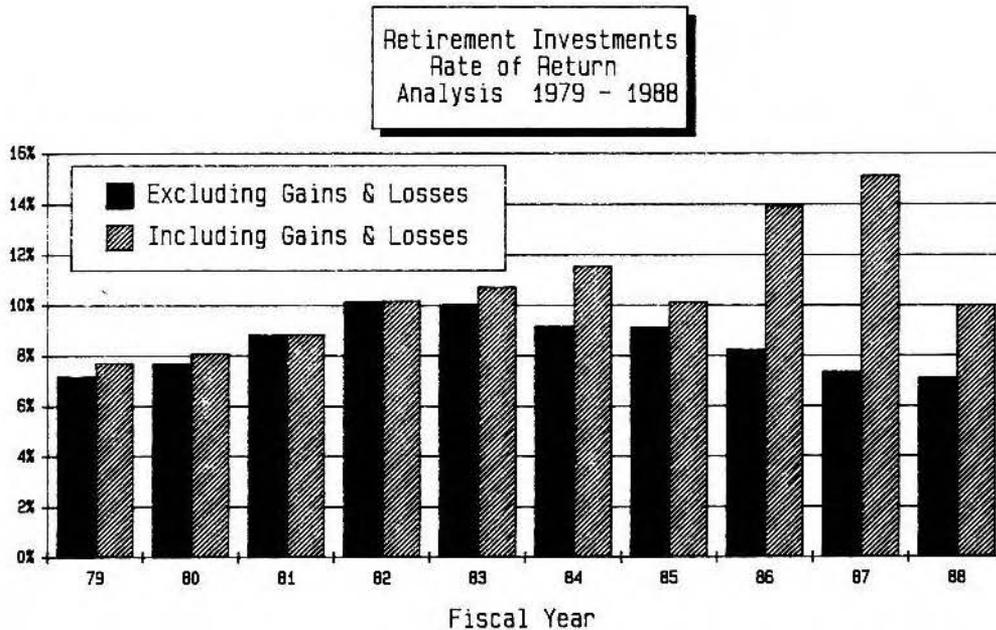
NOTE: The formula used to calculate the above figures has been devised consistent with authoritative sources absent specific generally accepted accounting principles promulgating such and is as follows:

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

WHERE

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

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



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> Public Fund Index Median Total Return	<sup>2</sup> TCRS Total Return	<sup>3</sup> Income Yield On Average Available Funds	<sup>4</sup> Yield To Maturity New Bonds
1987-88	0.3%	1.5%	5.49%	9.21%
1986-87	10.8	10.3	4.92	8.50
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

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

<sup>2</sup>This is the time weighted method used 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 percentage 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.

The State Trust of Tennessee, a not-for-profit corporation, 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, transfer and control funds movement expediently under the State Treasurer's management. Both state agencies and local entities benefit from the services provided by State Trust operations such as LGIP, investment of TCRS funds, Deferred Compensation, and direct payroll deposits. 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 1987-88**

<b>Transaction Type</b>	<b>Number</b>	<b>Amount</b>
Wire Disbursements (1)	4,599	\$18,696,049,833
Wire Receipts (2)	8,763	22,693,083,268
Security Disbursements (3)	940	13,456,100,249
Security Receipts (4)	881	12,739,881,330
ACH Transactions (5)	627,362	348,052,484
Check Redemptions (6)	<u>5,257,991</u>	<u>6,062,251,106</u>
TOTAL	<u>5,900,536</u>	<u>\$73,995,418,270</u>

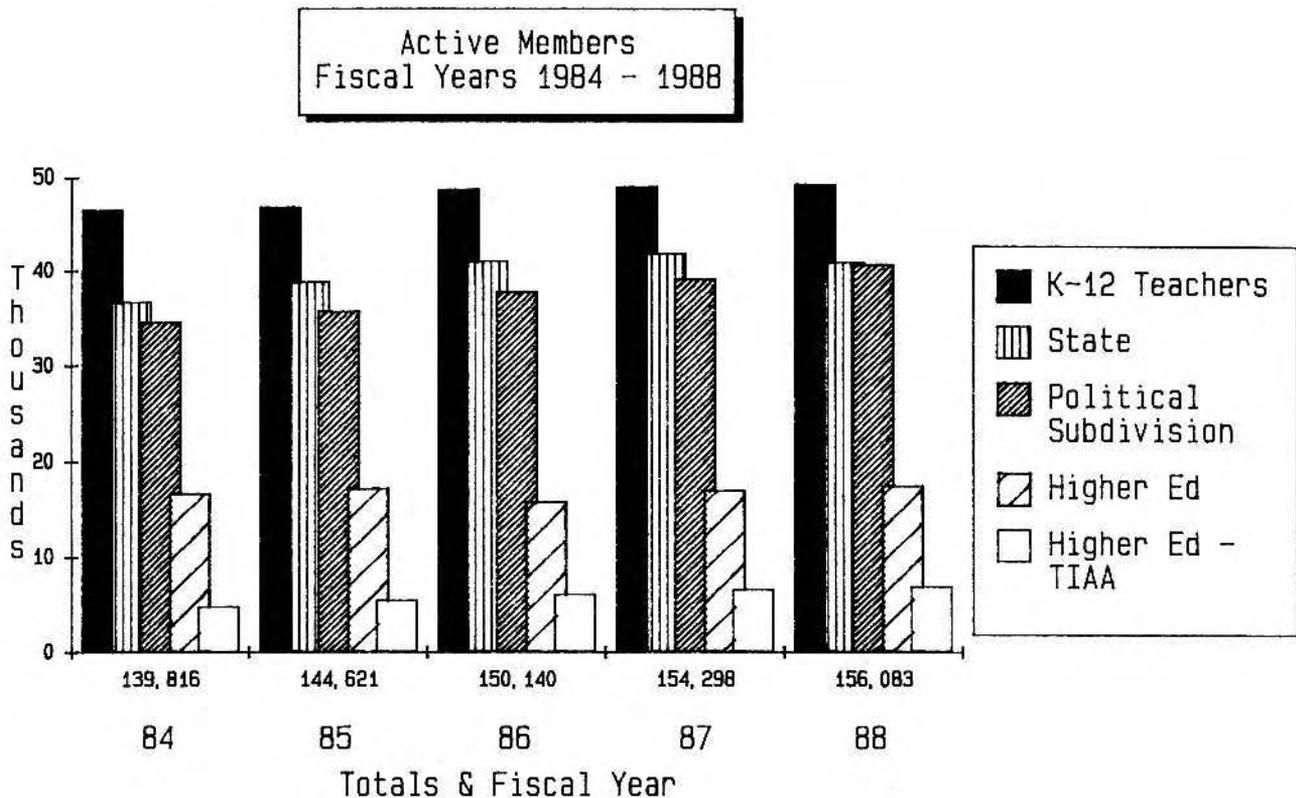
**Explanation of Transaction Types:**

- (1) Disbursements of cash for the purpose of non-Fed eligible securities, payment of TIAA/CREF contributions, payment of Deferred Compensation, and payment of Local Government Investment Pool (LGIP).
- (2) Receipt of cash for payment of interest and principal for non-Fed eligible securities, concentration of cash deposited in local banks, drawdown of Federal funds, and Local Government Investment Pool (LGIP).
- (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 warrants, drafts, and checks issued by the state.

The Tennessee Consolidated Retirement System (TCRS) was established July 1, 1972. Prior to this date, there were seven different public employee retirement systems. The TCRS, a defined benefit plan which is qualified under 401(a) of the Internal Revenue Code (IRC), is a retirement system for state employees, higher education employees, teachers, and local government employees.

**Membership**

Membership in the retirement system is a condition of employment for full-time state employees, teachers, general employees in higher education, and employees of local governments that participate in TCRS. Membership is optional for certain part-time employees. Faculty employees in higher education may participate in either TCRS or TIAA/CREF, a nationwide defined contribution plan designed for faculty employees in institutions of higher education. When an employee joins TCRS, he is sent an introductory letter and membership pamphlet outlining various aspects of retirement membership. Members joining TCRS after June 30, 1979 become vested with 10 years of service. A vested member is one who has accrued enough years of service to guarantee him a retirement benefit once age requirements are met. As of June 30, 1988, there were 148,998 active members of TCRS and 7,085 higher education employees participating in TIAA/CREF.



Since July 1, 1976, all new members of the TCRS have been classified as Group I members. From July 1, 1972 to June 30, 1976, state policemen, wildlife officers, firemen and policemen were classified as Group II members while Group III was composed of judges and elected officials. Members of the seven superseded systems were permitted to retain their original rights and benefits.

**Contributions**

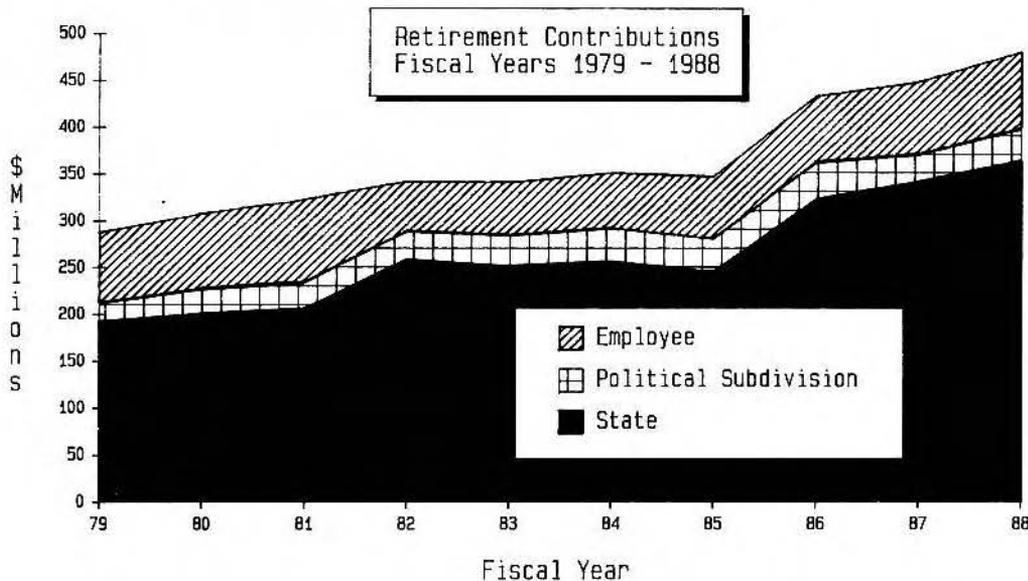
The funding of retirement benefits is financed by member contributions, employer contributions, and the earnings of the invested assets. Effective July 1, 1981, the employee contributions of certain state employees and higher education employees were assumed by the state. Local governments can also adopt these noncontributory provisions for their employees. Group I teachers and contributory local government employees contribute to TCRS at the rate of 5% of gross salary. Employee contribution rates vary for superseded classifications. Effective January 1, 1987, all members who contribute a portion of their income to the retirement system became covered by the provisions of 414(h) of the Internal Revenue Code. Under 414(h), payment of federal income tax on an employee's retirement contributions is deferred until these contributions are withdrawn in the form of a refund or monthly contributions. Political subdivisions may pass a resolution adopting the provisions of 414(h) for their employees.

Upon termination of employment, a member may elect to withdraw his contributions and accumulated interest from the retirement system in a lump sum. By obtaining a lump sum refund, a member waives all rights and benefits in the retirement system. A vested member may leave his account balance in TCRS and apply for benefits upon meeting the age requirements. A non-vested member who terminates employment may only leave his account balance in TCRS for up to seven years; after seven years, he automatically loses membership. During the 1987-88 fiscal year, 6,400 refunds totaling \$19.6 million were issued.

The contribution rate for the employers participating in the retirement system is determined by a biennial actuarial valuation performed by an independent actuarial firm. The contribution rates include funding for the basic benefit, the cost-of-living increase provisions, and amortization of the accrued liability over a 40 year period which began in July of 1975. The employer contribution rates for the year ending June 30, 1988 were as follows:

Noncontributory State Employees	11.05%
K-12 Teachers	15.03%
Noncontributory Higher Education Teachers	20.23%
Political Subdivisions	Individually Determined
Faculty Members Electing to Participate in TIAA/CREF	10.00%*

\*11% for salary above the social security wage base.



**Retirement Service Credit**

The amount of service credit accumulated by each TCRS member is a component in determining his vesting rights, retirement eligibility and the dollar value of the benefit at retirement. Each year of service credit will increase the dollar value of the monthly annuity.

A year of service credit is granted for each year of employment during which employee and/or employer contributions are paid into the system. A member may earn a fraction of a year's credit if full-time employment ceases during the year or he is employed on a part-time basis. Teachers and employees of boards of education earn a full year's credit for each school year completed.

A member will not receive credit for more than one year of service per calendar year. A member is prohibited from receiving credit in TCRS based on service for which he is receiving credit in another publicly supported retirement system.

The following types of service may qualify as creditable if the necessary conditions are met:

- (1) Previously Withdrawn Service
- (2) Military Service
- (3) Educational Leaves of Absence
- (4) Accumulated Unused Sick Leave
- (5) Out-of-State Service
- (6) Service Prior to an Employer's Participation Date

**Prior Service Credit Established  
During The 1987-88 Fiscal Year**

Type of Service	Number of Employees	Service Established		Employee Payment
		Years	Months	
Military				
Interrupted Employment	7	7	11	\$ 2,285.68
Purchased Peacetime	168	172	1	392,901.44
Armed Conflict	474	1,010	4	0.00
Redeposit of Withdrawn Service	539	1,977	6	1,396,037.27
State Service Prior to 1945	2	3	4	0.00
Teaching Service Prior to 1945	10	25	6	0.00
Out-of-State Service	3	3	4	10,059.78
Political Subdivision				
Enrollment Service:				
Employee Paid	43	258	11	96,978.33
Employer Paid	53	297	8	0.00
Noncontributory Service	49	37	7	0.00
<b>GRAND TOTAL</b>	<u>1,348</u>	<u>3,794</u>	<u>2</u>	<u>\$1,898,262.50</u>

### Retirement Benefits

The benefits provided by TCRS are designed, when combined with the benefit payable from social security, to allow career employees to maintain their standard of living at retirement.

Group I 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 salary and the years of creditable service. A reduced retirement benefit is available to vested members at age 55 or upon completion of 25 years of service.

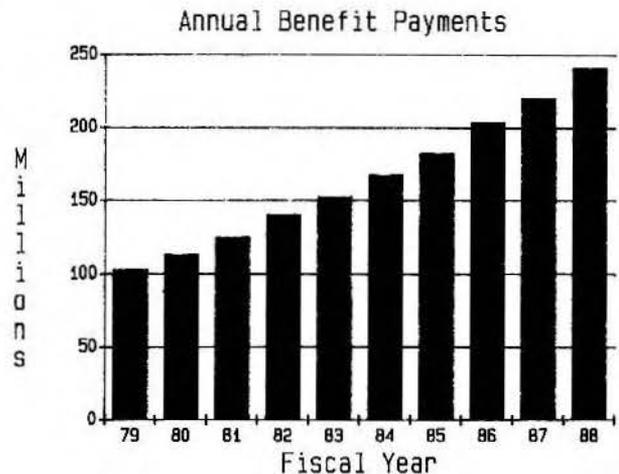
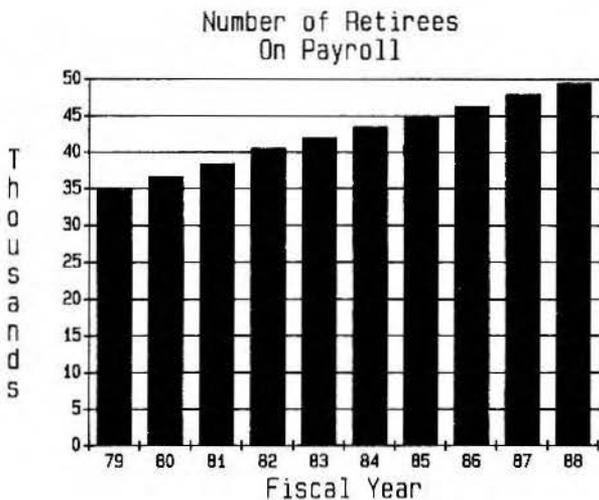
Disability benefits are available to active members with five years of service who become disabled and can not engage in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is a result of an accident or injury occurring while the member was in the performance of duty.

Cost-of-living adjustments after retirement are based on the Consumer Price Index (CPI). If there is an increase or decrease in the CPI of as much as 1% in any calendar year, the retired member's benefit will be adjusted by an amount equal to the increase or decrease in the CPI, not to exceed 3%.

Certain death benefits are available to the beneficiary(s) of a member who dies prior to retirement. At retirement, a member can select an optional benefit which is actuarially reduced so that his beneficiary may continue to receive a benefit after his death.

As of June 30, 1988, 49,598 retirees were receiving monthly benefit payments. Benefits paid in the fiscal year 1987-88 totaled \$242.2 million.

#### TCRS Retirements



**Financial Data**

The legislation which created the TCRS established two funds, the Employee Reserve Fund and the Employer Reserve Fund, to account for the financial transactions of the pension plan.

The Employee Reserve Fund represents the accumulation of employee contributions plus interest.

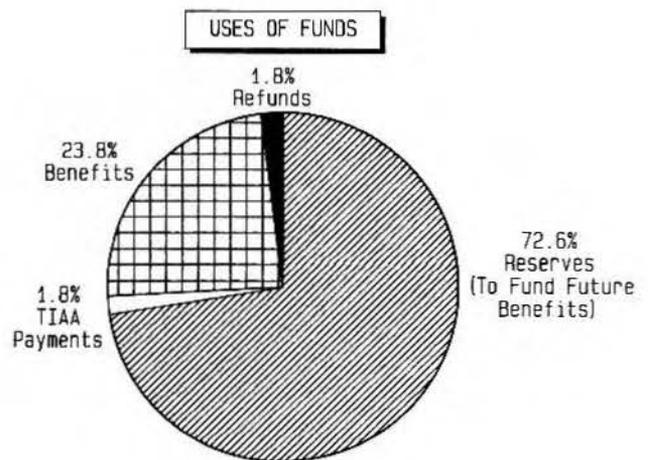
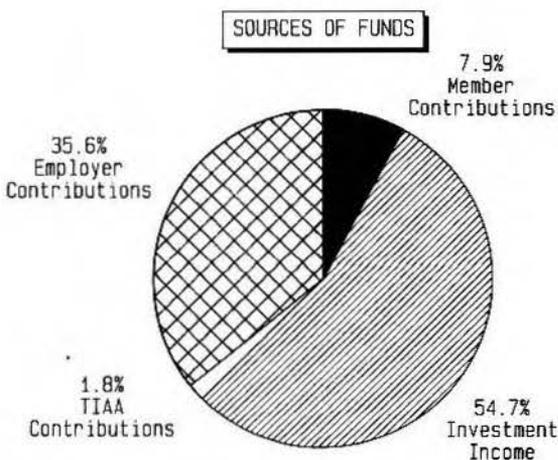
June 30, 1987 Employee Reserve Fund	\$1,108,532,245.48
Employee Contributions	83,021,879.19
Employer Provided Contributions	39,202,586.83
Interest	53,055,290.20
Refunded Account Balances	( 17,801,882.05)
Transfers to Employer Fund of Retiring Members Accounts	( 44,238,433.83)

June 30, 1988 Employee Reserve Fund	<u>\$1,221,771,685.82</u>
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The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the employee fund for retiring members. Benefit payments and interest credited to employees' accounts are reductions to the Employer Reserve Fund.

June 30, 1987 Employer Reserve Fund	\$4,504,257,685.75
Employer Contributions	373,778,518.31
Investment Income	573,406,133.88
Transfers from Retiring Members' Accounts	44,238,433.83
TIAA/CREF Contributions	19,323,703.46
Employer Provided Contributions	( 39,202,586.83)
Interest Credited to Employees' Accounts	( 53,055,290.20)
Lump Sum Death Benefits	( 1,804,974.07)
Retirement and Survivor Annuities	( 242,188,970.92)
TIAA Payments	( 19,323,703.46)

June 30, 1988 Employer Reserve Fund	<u>\$5,159,428,949.75</u>
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## Actuarial Valuation

An actuarial valuation of the TCRS is performed by an independent actuarial firm every two years. The purpose of the valuation is to determine the funding requirements for the employers participating in the TCRS. The latest valuation was performed June 30, 1987 to establish employer contribution rates for a two year period beginning July 1, 1988. At the June 30, 1987 valuation, the state system had an accrued liability of \$1.6 billion. The accrued liability is being amortized over a 40 year period which began in 1975. Prior to 1975, only the interest on the accrued liability was being funded. In 1977, the system began actuarially funding the cost-of-living provisions for retirees. Prior to that date, the cost-of-living adjustments were funded on a pay-as-you-go basis.

In addition to the biennial actuarial valuation, an experience study is conducted every four years for the purpose of establishing actuarial and economic assumptions to be used in the actuarial valuation process. The assumptions used in the last two actuarial valuations of the plan are:

### Economic Assumptions

- (1) 8½% annual return on investments
- (2) 8% salary increases annually
- (3) 6% annual increase in social security wage base

### Actuarial Assumptions

- (1) Pre-Retirement mortality based on age and sex
- (2) Post-Retirement mortality based on age and sex
- (3) Disability rate based on age
- (4) Turnover rate based on age and length of service
- (5) Retirement age distribution based on age and service

## Political Subdivisions

Political subdivisions may participate in the TCRS if the chief governing body passes a resolution authorizing coverage and accepting the liability associated with the coverage. Each political subdivision is responsible for the retirement cost of its employees and, in addition to employer contributions, pays the TCRS a fee for the administration of its plan under TCRS.

### Political Subdivision Participation at June 30, 1988

Cities	105
Counties	80
Utility Districts	21
Special School Districts	18
Joint Ventures	17
Regional Libraries	12
Development Agencies	6
Housing Authorities	9
Miscellaneous Organizations	9
TOTAL	<u>277</u>

**Social Security**

The State Old Age & Survivors 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 employees in positions 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 TCRS coverage group.

In 1985, the 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 year 1984-1986 continues until the statute of limitations precludes such liability.

**Schedule of Historical Social Security Contribution Rates**

Calendar Year	Employee Rate	Employer Rate	Wage Base
1957	2.250%	2.250%	\$ 4,200
1962	3.125	3.125	4,800
1967	4.400	4.400	6,600
1972	5.200	5.200	9,000
1977	5.850	5.850	16,500
1982	6.700	6.700	32,400
1983	6.700	6.700	35,700
1984	6.700	7.000	37,800
1985	7.050	7.050	39,600
1986	7.150	7.150	42,000
1987	7.150	7.150	43,800
1988	7.510	7.510	45,000
1989	7.510	7.510	48,000

The Deferred Compensation Program is a voluntary program designed to provide state employees with the opportunity to accumulate supplemental retirement income on a tax deferred basis. Participants may postpone income taxes on contributions and earnings by agreeing to defer receipt of a portion of their current income until retirement.

At June 30, 1988, 4,674 state employees and 281 University of Tennessee employees were actively participating in the program. The program is used by state employees of all ages and salary levels; the majority are under age 50 and earn below \$2,000 per month. For the year ending June 30, 1988, participants deferred a total of \$10,868,583 through the program. The reduction in taxable income, resulting from the deferral of this \$10.86 million in new contributions and \$1.89 million in net earnings on accumulated contributions, averaged \$2,575 per participant.

This program offers employees two plans. Plan I, authorized by Section 457(b) of the Internal Revenue Code, was implemented in the 1981-82 fiscal year. Plan II, authorized by Section 401(k) of the Internal Revenue Code, was implemented as the first governmental 401(k) plan in the 1983-84 fiscal year.

Employees may enroll in either plan at any time and may adjust contributions at any time; however, IRS regulations generally prohibit the withdrawal of deferrals during state employment. Employees may participate in either plan with a minimum deferral of \$20 per month. IRS regulations for 1988 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 \$7,313. At retirement, participants may elect a lump sum payment, periodic payments, or fixed or variable annuity payments of their accumulations in either plan.

Participants in the program may direct the investment of their deferred salary to any of the investment products authorized and contracted by the state. Contributions are wired through the State Trust of Tennessee for immediate crediting. Deferrals may be accumulated in Fidelity Federal's time deposit account, Aetna's guaranteed accumulation account, Great-West Life's guaranteed certificate fund and three of Fidelity Investments' mutual funds. At June 30, 1988, accumulated account balances totaled \$60,715,522. Distribution of these funds is shown on the accompanying schedule. Enrollment and recordkeeping services for the program are provided by The Holden Group. The use of a separate administrator enables the program to offer a wide variety of investment products and to offer participants the flexibility to transfer accumulated funds among investment providers without penalty.

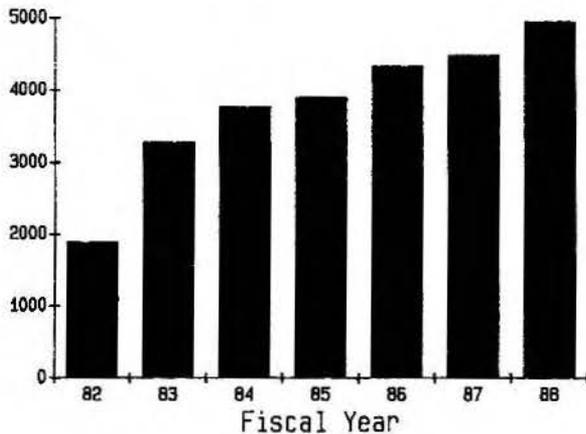
Active involvement on the Executive Committee of the National Association of Government Deferred Compensation Administrators aids the department in staying abreast of changes in federal laws and regulations affecting the plans and developments in the industry. This association also works jointly with the National Conference of State Legislators and other associations to favorably impact federal deferred compensation laws. The communication maintained between Tennessee's legislators and state officers and U.S. Congressmen has been extremely important to preserving the tax advantages of these plans for state employees.

**DISTRIBUTION OF DEFERRALS  
AS OF JUNE 30, 1988**

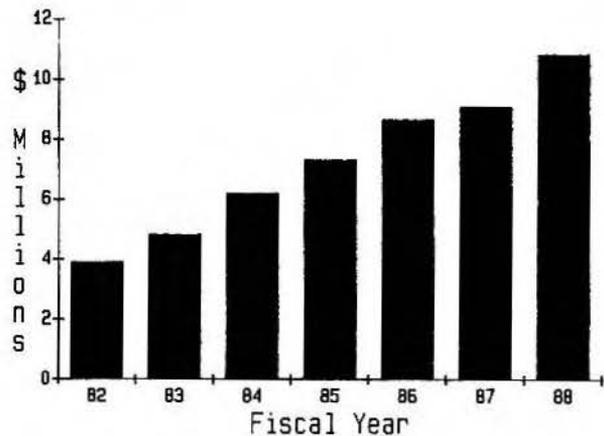
	<b>Deferrals July 1, 1987– June 30, 1988</b>	<b>Market Value of of Account Balances at June 30, 1988</b>
<b>Plan I (457)</b>		
AEtna—Closed Contract	\$ -0-	\$18,682,924
AEtna—New Contract	286,258	645,483
American General	180,442	714,014
Fidelity Federal	1,280,321	8,260,272
Fidelity Investments	2,698,627	6,250,804
Great West	759,947	2,087,576
<b>TOTAL</b>	<u><u>\$5,205,595</u></u>	<u><u>\$36,641,073</u></u>
<b>Plan II (401k)</b>		
AEtna—Closed Contract	\$ -0-	\$10,609,524
AEtna—New Contract	392,246	886,686
Fidelity Federal	961,502	2,905,537
Fidelity Investments	3,597,154	7,920,441
Great West	712,086	1,752,261
<b>TOTAL</b>	<u><u>\$5,662,988</u></u>	<u><u>\$24,074,449</u></u>

**PARTICIPATION**

Number of Active Participants



Annual Deferrals



The Division of Claims Administration processes claims filed against the state for the negligent operation of motor vehicles or machinery; negligent care, custody and 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. The Division of Claims Administration operates in conjunction with the Attorney General's Office and the Tennessee Claims Commission in this claims process. The Division of Claims Administration handles all workers' compensation claims, employee property damage claims and tort claims up to a certain monetary limit. During fiscal year 1987-88, the Division of Claims Administration received a total of 7,907 claims.

In order for a claim to be acted upon by the Division of Claims Administration, notice must be filed with the division. The division then has 90 days to make a determination on the claim. If the division is unable to act, the claim is automatically referred to the Tennessee Claims Commission. This process ensures that claims will be processed in a timely fashion. The Division of Claims Administration has published employee handbooks and participated in seminars to make state employees aware of the workers' compensation program and the benefits to which they are entitled should an on the job injury occur.

This division also provides staff support to the Board of Claims. The Board of Claims has the authority to hear claims which do not fall within the jurisdiction of the Tennessee Claims Commission. Claims which come under the jurisdiction of the Board of Claims are immediately referred to the Board. During fiscal year 1987-88, the Board took action on a total of 48 claims. The Board also reviews and approves the purchase of insurance policies by the state and makes recommendations to the Commissioner of Finance and Administration and the General Assembly regarding the required funding for the Claims Award Fund.

The primary function of the Division of Claims Administration, Board of Claims, and Tennessee Claims Commission is to provide an avenue for persons who have been damaged by the state to be heard and, if appropriate, compensated for their loss or damage. All claims are paid through the Claims Award Fund. This fund is supported by premiums paid by each state department, agency and institution. The required funding is based upon an actuarial study which reflects risk assessment and estimated losses.

**Claims and Payment Activity**  
**Fiscal Year 1987-88**

	<b>Claims Filed</b>	<b>Payments Made</b>	
Workers' Compensation Claims	3,879		
Death Payments		\$ 458,726.41	
Medical Payments		2,839,478.24	
Assault Injury Payments		13,606.12	
Temporary Disability (Lost Time)		67,632.56	
Permanent Disability		<u>1,468,327.42</u>	
Subtotal			\$5,457,770.75
Employee Property Damage	258		21,988.51
Tort Claims	3,770		
Death Payments		\$ 221,041.55	
Bodily Injury Payments		1,052,139.06	
Property Damage Payments		501,919.79	
Miscellaneous		<u>63,453.29</u>	
Subtotal			<u>1,838,553.69</u>
TOTALS	<u>7,907</u>		<u>\$7,318,312.95</u>

The purpose of the Criminal Injury Compensation Program is to assist persons who are innocent victims of crime. 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. This 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.

Once an Order on a criminal injury claim is received from the Tennessee Claims Commission, the staff of the Division of Claims Administration reviews the Order to ensure its compliance with the applicable statutes and processes the claim for payment in a timely manner.

During the 1987-88 fiscal year, the Division of Claims Administration made payments on 1,002 criminal injury claims for a total \$3,745,676. The claims are processed in the order they are received. Payments are issued promptly to the victim and, if appropriate, his or her attorney. Federal funding assistance for the program has aided in allowing prompt claim payment.

The Criminal Injury Compensation Program ended fiscal year 1988 with a fund balance of \$6,151,147. A recent amendment to the criminal injury statute provides that a supplemental award program shall be operative if the Board of Claims determines that the estimated balance in the fund at June 30 is equal to at least 50% of actual claims paid during that fiscal year. This supplemental award program allows for additional payments to be made to victims whose injury occurred on or after July 1, 1988.

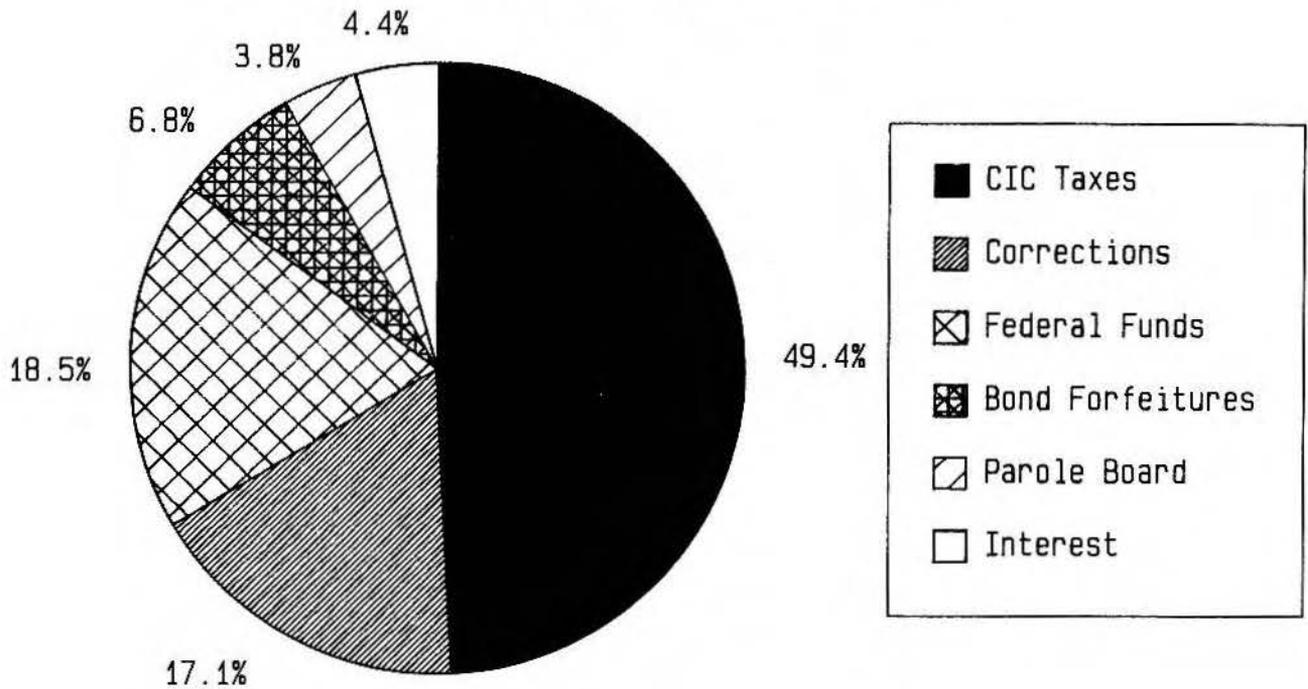
In addition to criminal injuries compensation, assistance is now available to victims of drunk drivers. T.C.A. 40-24-107 established the Victims of Drunk Drivers Compensation Fund. When the proximate cause of a death or injury is the operator's intoxication as prohibited by T.C.A. 55-10-401, the victim's death or injury is eligible for compensation in the same manner as criminal injury compensation, not to exceed a maximum award of \$2,000 per claim plus attorney fees. During fiscal year 1988, 29 claims were paid from this fund for a total of \$56,769.

The Division of Claims Administration has made an effort to educate members of the public of the existence and benefits of the Criminal Injury Compensation Program by printing and distributing informative brochures explaining the program. Public awareness programs and the utilization of victim- assistance coordinators located in each judicial district have also aided in providing the public with information about the availability of criminal injury compensation.

**Analysis of  
Criminal Injury Compensation Awards  
Paid During Fiscal Year 1987-88**

<b>Classification of Crime</b>	<b>Number of Awards</b>	<b>Percent of Total</b>	<b>Dollar Value of Awards</b>	<b>Percent of Total</b>	<b>Average Award</b>
Homicide	236	23.55%	\$ 938,937	25.07%	\$3,979
Sexual Assault	311	31.04	1,047,535	27.97	3,368
Robbery	3	.30	9,675	.26	3,225
Assault	452	45.11	1,749,529	46.70	3,871
	<u>1,002</u>	<u>100.00%</u>	<u>\$3,745,676</u>	<u>100.00%</u>	<u>\$3,738</u>

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



The Defense Counsel Commission was established for the purpose of hearing and making decisions on requests for private legal representation by state employees who have been sued in civil litigation. The members of the Defense Counsel Commission are empowered to review the case to determine if the incident occurred in the course of the employee's assigned official duties while under apparent lawful authority. If the appropriate statutory findings have been made, the members are empowered to approve payment of attorney's fees incurred by state employees in the defense of the lawsuit against them.

The Defense Counsel Commission has authority to act on cases when the incident which gave rise to the lawsuit occurred before January 1, 1985. Jurisdiction for incidents which arise on or after January 1, 1985 was transferred to a subcommittee of the Board of Claims.

During fiscal year 1987-88, the Defense Counsel Commission/Subcommittee authorized payments of attorney's fees and litigation expenses which totaled \$336,861.30. The Defense Counsel Commission/Subcommittee considered requests on a total of 21 lawsuits of which 19 were approved. At the end of the fiscal year there were 82 active Defense Counsel Commission/Subcommittee files.

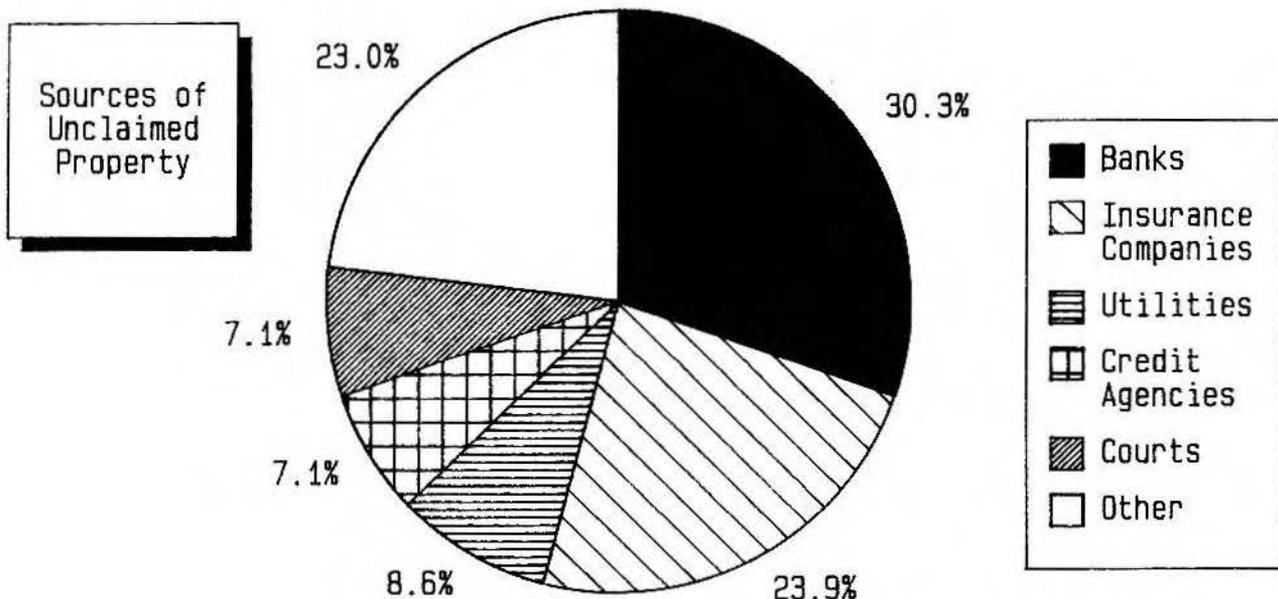
Prior to seeking approval through the Defense Counsel Commission/Subcommittee, a state employee must first contact the Attorney General's Office and request defense through the Attorney General's staff. If the Attorney General cannot represent the state employee, an employee must make a formal request to the Defense Counsel Commission/Subcommittee.

The Division of Claims Administration serves as staff to the Defense Counsel Commission/Subcommittee and maintains the records and minutes of the Defense Counsel Commission/Subcommittee. It also houses the files and processes bills for payment after approval by the members. A staff attorney position was added during the year to monitor Defense Counsel Commission files and to review bills for legal fees.

The Treasury Department has administered the Uniform Disposition of Unclaimed Property Act since it was enacted in 1978. Specifically, the administration of this act is carried out by the Unclaimed Property Division which operates the program in a manner designed to return unclaimed property to the rightful owner.

The Unclaimed Property Act provides that cash 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. Once property is reported, the Treasurer advertises the owner's name and last known address and attempts to direct the owners to their property. A total of \$3,534,135 was advertised during the 1987-88 fiscal year.

Property which is not claimed from the holder as a result of advertising is turned over to the Treasurer's custody. During the period July 1, 1987 through June 30, 1988, \$3,254,791 of cash property was turned over to the Treasurer. The Unclaimed Property Division also completed a stock sale in July 1988 in which 5,038 shares of stock in various companies were sold for \$72,070. The following chart illustrates the sources of cash collections for fiscal year 1987-88.



After the Treasurer receives the property from the holders, additional efforts are made to locate the rightful owner. The first location method used is to send notification to the last known address of each owner. If no response is received, additional search efforts are made through employment security records, telephone directories, city directories, retirement records, and other sources. In addition, the records of unclaimed property owners are available for viewing by the public in the Unclaimed Property office. Property which is turned over to the Treasurer may be claimed by the owners or their heirs at any time. While this property is being held by the Treasurer it is deposited in the General Fund where it is used to help finance state government. All property turned over to the Treasurer is held in trust for the rightful owner or his heirs in perpetuity.

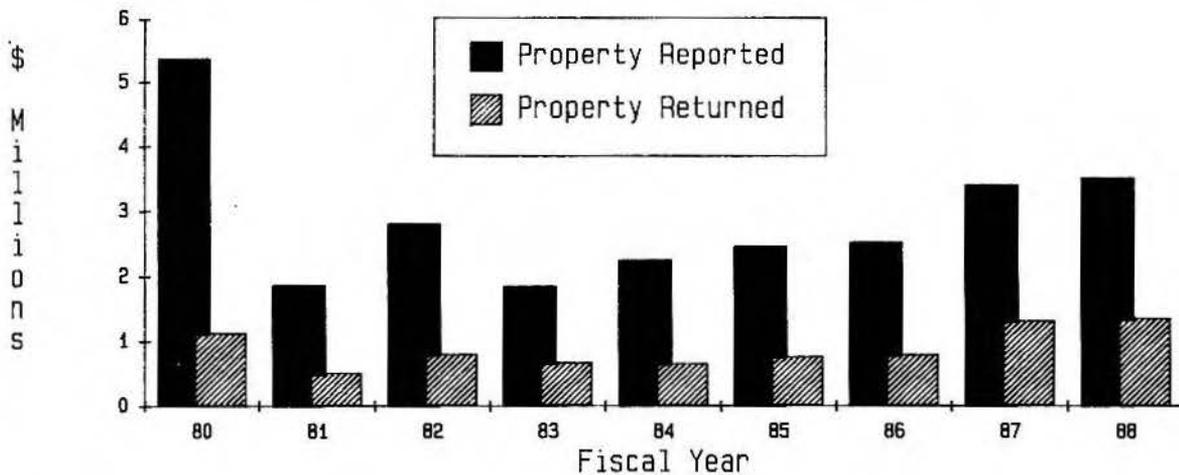
During the period July 1, 1987 through June 30, 1988, \$1,366,715 of cash property was returned by holders and the Unclaimed Property Division to the owners or their heirs. Of this total, \$913,433 represented accounts advertised in 1987-88 and \$453,282 represented accounts reported and turned over in previous years. Following is an analysis of the property returned during the 1987-88 fiscal year.

**Property Returned  
July 1, 1987-June 30, 1988**

<b>Reporting Entity</b>	<b>Number of Accounts</b>	<b>Value of Claims</b>	<b>Percentage of Total Value</b>
Banks	1,050	\$ 647,706	47.39%
Insurance Companies	1,278	218,530	15.99
Credit Agencies	305	199,089	14.57
Utilities	570	32,655	2.39
Courts	40	22,452	1.64
TCRS	43	14,449	1.06
Other	<u>726</u>	<u>231,834</u>	<u>16.96</u>
<b>TOTAL</b>	<b>4,012</b>	<b>\$1,366,715</b>	<b>100.00%</b>

Since the program began in 1979, \$26.2 million in unclaimed property has been reported to the Treasurer and \$8 million (30%) has been returned to 33,937 owners or their heirs. Following is a schedule of property reported and returned since the program began.

Unclaimed Property Reported & Returned  
Fiscal Years 1980 - 1988



Negotiations during the past fiscal year have resulted in a contract being signed with the Unclaimed Property Clearinghouse. This organization identifies and acts as a transfer agent for unclaimed property which would normally go unreported. Currently, the Clearinghouse has identified and is preparing to turn over to the state approximately \$1 million in unclaimed property due Tennessee citizens.

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 \$220,369 representing 46 estates. Since fiscal year 1981-82, a total of \$544,387 representing 114 estates has been received.

The Chairs of Excellence (COE) Trust provides 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 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 69 chairs created, with state appropriations totaling \$35,000,000 and matching contributions totaling \$29,558,807. For the year ending June 30, 1988, net income totaled \$4,539,036 with expenditures of \$1,293,901.

### The University of Tennessee

#### Knoxville

Racheff Chair Ornamental Horticulture  
 Racheff Chair of Material Science & Engineering  
 COE in English  
 Condra COE in Computer Integrated  
 Engineering & Manufacturing  
 Condra COE in Power Electronics Applications  
 Pilot COE in Management  
 Holly COE in Political Economy  
 Schmitt COE in History  
 COE in Science, Technology & Medical Writing  
 \*Shumway COE in Romance Languages  
 \*Goodrich COE in Civil Engineering  
 \*Clayton Homes COE in Finance

#### 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  
 \*Bronstein COE in Cardiovascular Physiology

#### Martin

Hendrix COE in Free Enterprise & Economics

#### Chattanooga

Miller COE in Management & Technology  
 American National Bank COE in the Humanities  
 Provident Life & Accident Ins. Co. COE in  
 Applied Math  
 West COE in Communications & Public Affairs  
 COE in Judaic Studies  
 Cline COE in Rehabilitation Technology  
 Frierson COE in Business Leadership  
 \*Harris COE in Business  
 \*Lyndhurst COE in Arts Education

#### Space Institute

\*Boling COE in Space Propulsion

### The State Board of Regents

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

Acuff COE in Creative Arts  
 \*Harper/Jones and Bourne COE in Business  
 \*The Foundation Chair of Free Enterprise

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

Quillen COE of Medicine in Geriatrics  
 & Gerontology  
 AFG Industries COE in Business  
 & Technology  
 \*Harris COE in Business

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

Seigenthaler Chair of First Amendment  
 Studies  
 Jones Chair of Free Enterprise  
 \*Adams COE in Health Care Services  
 \*National Healthcorp COE in Nursing  
 \*Russell COE in Manufacturing Excellence  
 \*Murfree Chair of Dyslexic Studies

#### M.S.U.

COE in Molecular Biology  
 Herff COE in Law  
 Fogelman COE in Real Estate  
 Sales & Marketing Executives of Memphis  
 COE in Sales  
 COE in Accounting  
 Arthur Andersen Company Alumni COE in  
 Accounting  
 Moss COE in Philosophy  
 Wunderlich COE in Finance  
 Herff COE in Biomedical Engineering  
 Bornblum COE in Judaic Studies  
 \*Shelby County Government COE in  
 International Economics  
 \*Wang COE in International Business  
 \*COE in Free Enterprise Management  
 \*COE in English Poetry  
 \*Herff COE in Computer Engineering  
 \*Lowenberg COE in Nursing  
 \*COE in Art History

#### T.T.U.

\*Owen Chair of Business Administration

\*Chair established during fiscal year 1987-88.

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>Boards and Commissions</b>	<b>Tennessee Code Annotated Section</b>
Board of Equalization	4-3-5101
Board of Trustees of the Tennessee Consolidated Retirement System	8-34-301—8-34-319
Commission to Purchase Federal Property	12-1-103
Council on Pensions and Retirement	3-9-101
Defense Counsel Commission	9-8-107
Funding Board	9-9-101
Investment Advisory Council	8-37-108
Public Records Commission	10-7-302
State Building Commission	4-15-101
State Insurance Committee	8-27-101
State Library and Archives Management Board	10-1-101, et seq.
State School Bond Authority	49-3-1204
State Teacher Insurance Committee	8-27-301
State Trust of Tennessee	9-4-801, et seq.
Tennessee Competitive Export Corporation	13-27-104
Tennessee Housing Development Agency	13-23-106
Tennessee Local Development Authority	4-31-103
Tennessee Student Assistance Corporation	49-4-202
<b>Administrative Agencies</b>	
Baccalaureate Education System Trust	49-7-801, et seq.
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.
Escheat	31-6-101, et seq.
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704
National Resources Trust Fund	11-14-304
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Pooled Investment Fund	9-4-704
Receipt and Disbursement of Public Funds	8-5-106—8-5-111 9-4-301 et. seq.
Tennessee Consolidated Retirement System and Miscellaneous Systems	Title 8, Chpts. 34,35,36,37 & 39
Unclaimed Property	66-29-101, et seq.
Victims of Drunk Drivers Compensation Fund	40-24-107

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



*Janice Cunningham and Dale Sims,  
Executive Assistants*



*Chuck Webb, Investments*



*Grady Martin, Management Services,  
and Steve Adams*



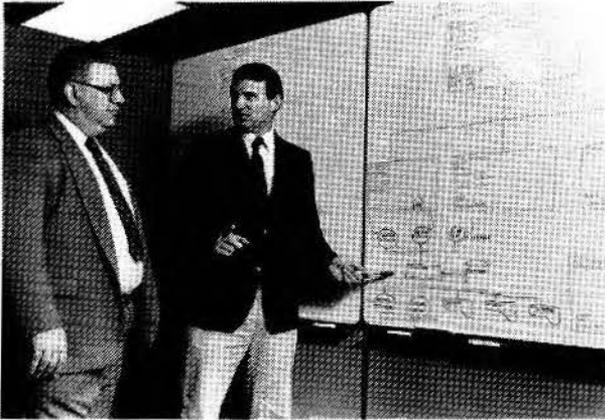
*Starr Bumbalough and Randy Graves  
Cash Management*



*Susan Clayton, Claims Administration  
and Unclaimed Property*



*Ed Hennessee and Steve Curry,  
Tennessee Consolidated Retirement System*



*Sam Baker and Newt Molloy,  
Information Systems*



*Rhonda Hicks, Internal Audit*



*Jill Bachus,  
Accounting*



*Ann Taylor-Tharpe,  
Personnel*



*Deana Reed, Deferred Compensation and Research,  
and Mary Roberts-Krause, Staff Attorney*



*Rick Dubray, Financial Control*



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 21, 1988

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

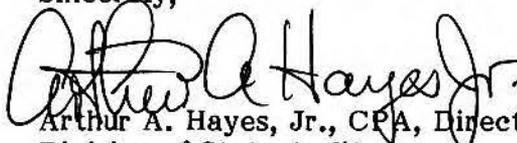
Dear Mr. Snodgrass:

We have examined the balance sheets of the Local Government Investment Pool as of June 30, 1988 and 1987, 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, 1988 and 1987, 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,

  
Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ams

	June 30, 1988	June 30, 1987
<b>ASSETS</b>		
Cash and Cash Equivalents	<u>\$366,986,252</u>	<u>\$328,432,417</u>
Total Assets	<u>\$366,986,252</u>	<u>\$328,432,417</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Member Deposits	\$290,488,073	\$268,528,548
Due to Highway Fund	580,006	1,228,819
Due to Bond Fund	8,761,397	8,188,757
Due to College & Universities	<u>66,327,645</u>	<u>49,989,728</u>
Total Liabilities	<u>\$366,157,121</u>	<u>\$327,935,852</u>
Fund Balance	<u>\$ 829,131</u>	<u>\$ 496,565</u>
Total Liabilities and Fund Balance	<u>\$366,986,252</u>	<u>\$328,432,417</u>

See Accompanying Footnotes to the Financial Statements.

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

	For the Year Ended June 30, 1988	For the Year Ended June 30, 1987
Revenues:		
Investment Income	<u>\$27,671,588</u>	<u>\$19,944,729</u>
Total Revenues	<u>\$27,671,588</u>	<u>\$19,944,729</u>
Expenditures:		
Interest on Deposits	\$27,069,732	\$19,466,138
Administrative Fees	<u>269,290</u>	<u>146,624</u>
Total Expenditures	<u>\$27,339,022</u>	<u>\$19,612,762</u>
Excess of Revenues over Expenditures	<u>\$ 332,566</u>	<u>\$ 331,967</u>
Fund Balance, Beginning of Year	<u>\$ 496,565</u>	<u>\$ 164,598</u>
Fund Balance, End of Year	<u>\$ 829,131</u>	<u>\$ 496,565</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 an integral part of 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**

	<b>July 1, 1987 through June 30, 1988</b>	<b>July 1, 1986 through June 30, 1987</b>
Cash Balance, Beginning of Year	\$ <u>328,432,417</u>	\$ <u>170,108,123</u>
<b>Add Cash Receipts:</b>		
Member Deposits	\$1,445,779,722	\$1,169,714,363
Investment Income	<u>27,671,588</u>	<u>19,944,729</u>
Total Cash Receipts	\$1,473,451,310	\$1,189,659,092
<b>Deduct Cash Disbursements:</b>		
Member Withdrawals	\$1,434,628,186	\$1,031,188,174
Administrative Fees Paid	<u>269,290</u>	<u>146,624</u>
Total Cash Disbursements	\$1,434,897,476	\$1,031,334,798
Cash Balance, End of Year	\$ <u><u>366,986,251</u></u>	\$ <u><u>328,432,417</u></u>

See Accompanying Footnotes to the Financial Statements.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
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December 21, 1988

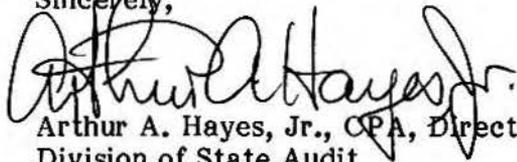
The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Tennessee Consolidated Retirement System as of June 30, 1988 and 1987, 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, 1988 and 1987, 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,

  
Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ams

(Expressed in Thousands)

	June 30, 1988	June 30, 1987
<b>ASSETS</b>		
<b>INVESTMENTS:</b>		
Cash and Cash Equivalents	\$ 702,053	\$ 808,666
Domestic Securities:		
Certificates of Deposit	1,550	1,550
Government Bonds (Amortized Cost)	1,666,621	1,492,185
Corporate Bonds (Amortized Cost)	1,458,341	1,065,207
Corporate Stocks (Cost)	1,875,829	1,687,946
Mortgages	2,452	2,833
Securities on Loan		
Government Bonds (Amortized Cost)	0	146,023
Corporate Stock (Cost)	0	3,020
International Securities:		
Government Bonds (Amortized Cost)	210,410	173,557
Corporate Bonds (Amortized Cost)	90,644	39,210
Corporate Stocks (Cost)	331,909	169,012
Corporate Stocks—American Depository Receipts (Cost)	<u>2,809</u>	<u>1,848</u>
Total Investments	<u>\$6,342,618</u>	<u>\$5,591,057</u>
<b>RECEIVABLES:</b>		
Investments Sold	\$ 1,202	\$ 50,576
Member Contributions Receivable	8,910	8,012
Employer Contributions Receivable	9,407	11,134
Accrued Interest Receivable	70,563	54,698
Accrued Dividends Receivable	5,582	3,347
Accrued Loan Income Receivable	0	553
Political Subdivisions Receivable	<u>3,039</u>	<u>2,409</u>
Total Receivables	<u>\$ 98,703</u>	<u>\$ 130,729</u>
<b>TOTAL ASSETS</b>	<u><b>\$6,441,321</b></u>	<u><b>\$5,721,786</b></u>

*continued*

	June 30, 1988	June 30, 1987
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES:</b>		
Retired Payroll Payable	\$ 10,221	\$ 10,885
Warrants Payable	1,102	375
Accounts Payable	1,699	11,447
Investments Purchased	42,549	80,767
Options Written	<u>4,549</u>	<u>5,522</u>
Total Liabilities	\$ 60,120	\$ 108,996
<b>FUND BALANCE:</b>		
Member Reserve	1,221,772	\$1,108,532
Employer Reserve	<u>5,159,429</u>	<u>4,504,258</u>
Total Fund Balance	<u>\$6,381,201</u>	<u>\$5,612,790</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$6,441,321</u>	<u>\$5,721,786</u>

See Accompanying Footnotes to the Financial Statements.

(Expressed in Thousands)

		For the Year Ended June 30, 1988		For the Year Ended June 30, 1987
Revenues:				
Member Contributions	\$ 83,022			\$ 78,730
Employer Contributions	339,539			319,346
Political Subdivisions Contributions	34,240			29,168
TIAA Contributions	<u>19,324</u>	\$ 476,125		<u>22,995</u> \$ 450,239
Investment Income:				
Loan Revenue	\$ 455			\$ 791
Options Gain (Loss)	972			7,447
Interest	245,426			219,324
Dividends	59,807			57,910
Income from Foreign Investment	19,173			5,450
Net Discount (Premium) Amortization	86,714			75,440
Currency Gain (Loss) on Sale of Foreign Investments	28,980			7,956
Net Profit (Loss) on Sale of Investments	<u>131,878</u>	\$ 573,405		<u>352,346</u> \$ 726,664
Total Revenues		\$1,049,530		\$1,176,903
Expenses:				
Annuity Benefits	\$242,188			\$227,487
Death Benefits	1,805			1,814
Refunds	17,802			21,751
TIAA Payments	<u>19,324</u>			<u>22,994</u>
Total Expenses		\$ 281,119		\$ 274,046
Excess of Revenues Over Expenses		\$ 768,411		\$ 902,857
Fund Balance, Beginning of Year		\$5,612,790		\$4,709,933
Fund Balance, End of Year		<u>\$6,381,201</u>		<u>\$5,612,790</u>

See Accompanying Footnotes to the Financial Statements.

(Expressed in Thousands)

	For the Year Ended June 30, 1988	For the Year Ended June 30, 1987
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	\$768,411	\$902,856
Item Not Requiring (Providing) Working Capital		
Net Amortization (Accretion)	<u>(86,714)</u>	<u>(75,440)</u>
Total Sources of Working Capital	\$681,697	\$827,416
Uses of Working Capital:		
Purchase of Long Term Investments	<u>\$771,460</u>	<u>\$539,251</u>
Net Increase (Decrease) in Working Capital:	<u>\$ (89,763)</u>	<u>\$288,165</u>
Elements of Net Increase (Decrease) in Working Capital:		
Cash and Cash Equivalents	\$(106,613)	\$299,658
Reverse Repurchase Agreements	0	(10,015)
Receivables	(32,026)	12,467
Warrants Payable	(727)	252
Retired Payroll Payable	664	(321)
Accounts Payable	9,749	(7,342)
Obligations Under Reverse Repurchase Agreements	0	10,015
Investment Purchases	38,218	(13,105)
Options Written	<u>972</u>	<u>(3,444)</u>
Net Increase (Decrease) in Working Capital:	<u>\$ (89,763)</u>	<u>\$288,165</u>

See Accompanying Footnotes to the Financial Statements.

**A. Plan Description**

- TCRS.** The Tennessee Consolidated Retirement System (TCRS) is a defined benefit, agent multiple-employer public employee retirement system. Members of the system consist of teachers and general employees of the state, higher education employees and employees of participating political subdivisions. The state of Tennessee is responsible for the retirement benefits of state employees, higher education employees and teachers, while participating political subdivisions are responsible for the retirement benefits provided their employees. The TCRS forms an integral part of Tennessee state government and as such has been included as a pension trust fund in the Tennessee Comprehensive Annual Financial Report.
- Membership.** Membership in the system is mandatory for state employees, teachers and employees of participating political subdivisions. At June 30, 1988 the number of participating local government employers and the TCRS membership was:

Cities	105	Retirees and beneficiaries	
Counties	80	currently receiving benefits	49,598
Other	<u>92</u>	Terminated members entitled to	
Total	<u>277</u>	benefits but not yet receiving them	4,416
		Current members:	
		Vested	78,660
		Nonvested	<u>77,423</u>
		Total	<u>210,097</u>

- Benefits.** The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 10 years of service or at any age with 30 years of 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 and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system on or after July 1, 1979 become vested after 10 years of service, and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established and amended by state statute.
- Contributions.** Effective July 1, 1981 the retirement system became noncontributory for most state and higher education employees. Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate is 5 percent of gross salary for teachers and contributory employees of political subdivisions. In addition, the employers contribute a set percentage of their payroll determined by an actuarial valuation. State statute provides that the contribution rates be adopted by the Board of Trustees of the TCRS.
- Plans Other Than TCRS.** Eligible faculty of the various state universities and community colleges may elect to become members of either the Teacher Insurance and Annuity Association/College Retirement Equity Fund (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 provided by the state. Prior to fiscal year 1978 these supplemental 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 below.

**B. Summary of Significant Accounting Policies and Plan Asset Matters**

- Basis of Accounting and Presentation.** The accompanying financial statements have been prepared in conformity with generally accepted accounting principles using the accrual basis of accounting.

2. **Method Used to Value Investments.** Equity securities are reported at cost subject to adjustment for market declines judged to be other than temporary. Fixed-income securities are reported at amortized cost with discounts or premiums amortized using the effective interest rate method, subject to adjustment for market declines judged to be other than temporary. Investment income is recognized as earned. Gains and losses on sales and exchanges of fixed-income and equity securities are recognized on the transaction date.
3. **Receivables.** Receivables primarily consist of interest which is recorded when earned.
4. **Fund Balance.** The Fund Balance consists of two reserves, the Employee Reserve and the Employer Reserve. The Employee Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the employee reserve for retiring members. Benefit payments and interest credited to the employees' accounts are reductions to the Employer Reserve.
5. **Options.** During the 1988 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, 1988 are as follows:
 

Company Name	Number of Shares	Cost
General Electric	700,000	\$6,824,125.00
6. **Reclassification.** Convertible bonds in the amount of \$11,032,626 classified as corporate bonds on the June 30, 1987 balance sheet have been reclassified as corporate stocks for comparative purposes.

**C. Investments**

State statute authorizes 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:

- a. 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.
- b. 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.
- c. Within the restrictions in a and b 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 classification of "Cash and Cash Equivalents" includes short term investments such as repurchase agreements, U. S. Treasuries, medium term notes 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.

The TCRS investments at June 30, 1988 are categorized below to give an indication of the level of risk assumed by the system. 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.

Investments	Category			Book Value 06/30/88	Market Value 06/30/88	Book Value 06/30/87	Market Value 06/30/87
	1	2	3				
Commercial Paper	\$649,256,217			\$ 649,256,217	\$ 650,121,173	\$ 805,045,865	\$ 805,248,041
Medium-term Notes	41,019,254			41,019,254	41,007,502	0	0
Domestic Securities							
Government Bonds	1,666,620,862			1,666,620,862	1,679,874,123	1,492,185,440	1,521,278,573
Corporate Bonds	1,458,340,933			1,458,340,933	1,420,221,249	1,065,207,243	1,050,550,695
Corporate Stocks	1,875,829,466			1,875,829,466	2,067,632,624	1,687,945,993	2,249,103,704
Mortgages	2,451,994			2,451,994	2,221,867	2,832,802	2,595,951
International Securities							
Government Bonds	210,409,864			210,409,864	203,217,526	173,556,823	173,339,255
Corporate Bonds	90,643,818			90,643,818	90,728,954	39,210,238	37,397,845
Corporate Stocks	331,908,716			331,908,716	320,396,609	169,011,868	191,708,639
American Depository Receipts	2,809,587			2,809,587	4,000,000	1,848,337	3,500,000
Currency Gain (Loss)					10,238,597		16,421,487
	<u>\$6,329,290,710</u>	<u>\$0</u>	<u>\$0</u>	<u>\$6,329,290,710</u>	<u>\$6,489,660,224</u>	<u>\$5,436,844,609</u>	<u>\$6,051,144,240</u>
Investments held by broker-dealers under securities on loan contracts							
Government Bonds				0	0	146,022,885	159,735,625
Corporate Stocks				0	0	3,019,890	4,774,000
Cash in State Treasurer's investment pool				11,777,537	11,777,537	3,620,012	3,620,012
Certificates of Deposit				1,550,000	1,550,000	1,550,000	1,550,000
Total Investments				<u>\$6,342,618,247</u>	<u>\$6,502,987,761</u>	<u>\$5,591,057,396</u>	<u>\$6,220,823,877</u>

At June 30, 1988 the TCRS had \$1,550,000 invested in certificates of deposit. The bank balance of these investments was \$1,620,874 which was fully covered by federal depository insurance. Investments in repurchase agreements were made during the year but the TCRS did not have an investment in repurchase agreements at June 30, 1988.

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, 1988 the TCRS had no outstanding loans to brokers. During the year, the TCRS had loans outstanding of up to \$154 million.

#### D. Funding Status and Progress

The amount shown below as "pension benefit obligation" (P.B.O.) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the funding status of the TCRS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the system.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1987 and an actuarial update performed at June 30, 1988. Significant actuarial assumptions used include (a) a rate of return on investment of present and future assets of 8½ percent per year compounded annually, (b) projected salary increases of 8 percent per year compounded annually, (c) a projected 6 percent annual

increase in the Social Security wage base, and (d) projected postretirement benefit increases of 3 percent of the retiree's initial benefit. No actuarial assumptions were changed during the year.

At June 30, 1988 the net assets exceeded the pension benefit obligation by \$5.1 million as follows (in millions):

	STATE	POLITICAL SUB- DIVISIONS	TOTAL
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$2,203.5	\$ 245.2	\$2,448.7
Current employees:			
Accumulated employee contributions including allocated investment earnings	1,046.9	176.0	1,222.9
Employer-financed vested	2,341.8	248.5	2,590.3
Employer-financed nonvested	<u>99.0</u>	<u>15.2</u>	<u>114.2</u>
Total pension benefit obligation	\$5,691.2	\$ 684.9	\$6,376.1
Net assets available for benefits at cost or amortized cost (market value is \$6,541.8)			
	<u>5,631.1</u>	<u>750.1</u>	<u>6,381.2</u>
Unfunded (Assets in excess of) pension benefit obligation	<u>\$ 60.1</u>	<u>\$ (65.2)</u>	<u>\$ (5.1)</u>

## E. Contributions Required and Contributions Made

It is the policy of the state to fund pension benefits by actuarially determined contributions which are intended to provide funding for both the normal liability cost and the unfunded actuarial accrued liability cost, so that sufficient assets will be available to pay benefits when due. The frozen initial liability method, a projected benefit cost method, is used to value the plan. The employer contributions include funding for a cost-of-living provision and amortization of the accrued liability using the level dollar contribution method over a 40 year period which began in 1975. A 30 year amortization period is used for political subdivisions joining the system after June 30, 1983. The state's unfunded actuarial liability as of the latest actuarial valuation of the plan totalled \$1.6 billion while the aggregate unfunded actuarial accrued liability for political subdivisions participating in TCRS totalled \$6.1 million.

For the year ended June 30, 1988 contributions totalling \$456.7 million were made in accordance with contribution requirements determined through an actuarial valuation performed at June 30, 1985. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in D above. The state contributed \$339.5 million (10.7 percent of current covered payroll) to the plan and state employees and teachers contributed \$63.3 million (2.0 percent of current covered payroll). Political subdivisions contributed \$34.2 million (1.1 percent of current covered payroll) to the plan and employees of political subdivisions contributed \$19.7 million (.6 percent of current covered payroll). These contributions consisted of (a) \$248.7 million normal cost (7.9 percent of current covered payroll) and (b) \$208.0 million amortization of the unfunded actuarial accrued liability (6.6 percent of current covered payroll). In addition, the state contributed \$19.3 million to the TIAA/CREF Plan for the year.

## F. Historical Trend Information

Required ten-year historical trend information designed to provide information about the TCRS' progress made in accumulating sufficient assets to pay benefits when due is presented on the following pages. Information regarding the pension benefit obligation is available for two years.

**Revenues by Source**

<b>Fiscal Year</b>	<b>Member Contributions</b>	<b>Employer Contribution</b>	<b>Investment Income</b>	<b>Contributions For TIAA/CREF</b>	<b>Total</b>
1979	\$76,535,547.11	\$202,075,615.47	\$ 98,853,056.13	\$ 9,888,148.03	\$ 387,352,366.74
1980	81,676,014.44	216,556,250.12	124,922,850.45	10,790,483.76	433,945,598.77
1981	89,451,747.44	222,702,017.81	162,071,267.70	11,554,575.87	485,779,608.82
1982	54,072,586.84	277,141,406.47	220,079,030.13	12,127,455.36	563,420,478.80
1983	57,318,039.25	271,439,203.48	272,632,717.21	13,202,604.96	614,592,564.90
1984	59,776,800.27	278,031,805.49	342,868,166.96	14,450,599.00	695,127,371.72
1985	66,725,960.18	313,438,263.15	354,196,261.88	17,597,621.93	751,958,107.14
1986	71,692,211.18	342,879,457.74	564,296,888.86	20,117,735.51	998,986,293.29
1987	78,729,737.28	348,514,508.85	726,663,407.84	22,994,583.68	1,176,902,237.65
1988	83,021,879.19	373,778,518.31	573,406,133.88	19,323,703.46	1,049,530,234.84

**Expenses by Type**

<b>Fiscal Year</b>	<b>Benefits</b>	<b>Refunds</b>	<b>Contributions TO TIAA/CREF</b>	<b>Total</b>
1979	\$104,676,176.97	\$17,613,455.66	\$ 9,872,490.53	\$132,162,123.16
1980	114,729,525.27	21,676,930.35	10,790,483.76	147,196,939.38
1981	125,476,961.20	21,877,293.22	11,560,078.69	158,914,333.11
1982	139,376,738.39	24,193,598.53	12,127,455.36	175,697,792.28
1983	154,443,137.65	20,707,938.89	13,202,604.96	188,353,681.50
1984	168,411,509.47	23,259,015.47	14,450,599.00	206,121,123.94
1985	185,665,724.00	22,774,019.29	17,597,621.93	226,037,365.22
1986	204,645,237.75	21,301,916.51	20,117,735.51	246,064,889.77
1987	229,300,595.94	21,750,625.72	22,994,583.68	274,045,805.34
1988	243,993,944.99	17,801,882.05	19,323,703.46	281,119,530.50

Contributions were made in accordance with actuarially determined contribution requirements. Member contributions decreased and employer contributions increased in fiscal year 1982 due to non-contributory legislation effective July 1, 1981.

**Analysis of Funding Progress**  
 (Expressed in Millions)

Fiscal Year	(1)	(2)	(3)	(4)	(5)	(6)
	Net assets Available for Benefits	Pension Benefit Obligation	Percentage Funded (1) ÷ (2)	Unfunded (Assets in Excess of) P.B.O. (2) - (1)	Annual Covered Payroll	Unfunded (Assets in Excess of) P.B.O. as percentage of Covered Payroll (4) ÷ (5)
1987	\$5,612.8	\$5,820.1	96.4%	\$207.3	\$2,973.4	7.0%
1988	6,381.2	6,376.1	100.1	(5.1)	3,160.0	(0.2)

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the system. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system. These analyses are shown only for the years available. Additional years will be added as data becomes available.

June 30, 1987

## TOTAL SYSTEM

ASSETS	Total	State	Political Subdivisions
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	\$6,112,688,282	\$5,396,871,122	\$715,817,160
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	\$2,503,075,429	\$2,369,716,836	\$133,358,593
Members' Fund:	<u>\$ 822,085,377</u>	<u>\$ 675,758,983</u>	<u>\$146,326,394</u>
Total Prospective Contributions	\$3,325,160,806	\$3,045,475,819	\$279,684,987
Total Assets	\$9,437,849,088	\$8,442,346,941	\$995,502,147
<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) 741-3697

December 21, 1988

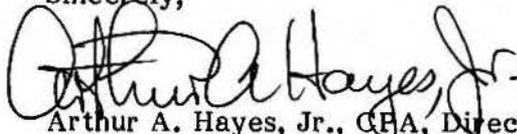
The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the IRC Section 457 Deferred Compensation Plan as of June 30, 1988 and 1987, 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, 1988 and 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

  
Arthur A. Hayes, Jr., CFA, Director  
Division of State Audit

AAH/ams

<b>ASSETS</b>	<b>June 30, 1988</b>	<b>June 30, 1987</b>
Investments Held by Vendors		
AEtna	\$19,328,407	\$19,690,004
American General	714,014	652,624
Fidelity Federal	8,260,272	7,282,067
Fidelity Investments	6,250,804	3,576,150
Great West	<u>2,087,576</u>	<u>851,721</u>
Total	\$36,641,073	\$32,052,566
Accounts Receivable		
AEtna	\$ 16,242	\$ 8,577
American General	6,580	8,164
Fidelity Federal	52,311	42,804
Fidelity Investments	105,280	84,935
Great West	<u>42,292</u>	<u>17,445</u>
Total	\$ 222,705	\$ 161,925
 TOTAL ASSETS	 <u>\$36,863,778</u>	 <u>\$32,214,491</u>
 <b>LIABILITIES</b>		
Amounts Held in Custody for Others	\$36,863,778	\$32,214,491
TOTAL LIABILITIES	<u>\$36,863,778</u>	<u>\$32,214,491</u>

<b>Assets</b>	<b>Balance July 1, 1987</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 1988</b>
Investments, at Market	\$32,052,566	\$8,791,693	\$4,203,186	\$36,641,073
Accounts Receivable	<u>161,925</u>	<u>222,705</u>	<u>161,925</u>	<u>222,705</u>
<b>Total Assets</b>	<b><u>\$32,214,491</u></b>	<b><u>\$9,014,398</u></b>	<b><u>\$4,365,111</u></b>	<b><u>\$36,863,778</u></b>
 <b>Liabilities</b>				
Amounts Held in Custody for Others	<u>\$32,214,491</u>	<u>\$9,014,398</u>	<u>\$4,365,111</u>	<u>\$36,863,778</u>
<b>Total Liabilities</b>	<b><u>\$32,214,491</u></b>	<b><u>\$9,014,398</u></b>	<b><u>\$4,365,111</u></b>	<b><u>\$36,863,778</u></b>

**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.

The deferred compensation investments are not required to be classified into the risk categories specified by the Governmental Accounting Standards Board Statement No. 3 because the investments are in pools or mutual funds where the specific securities related to the plan can not be identified.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
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December 21, 1988

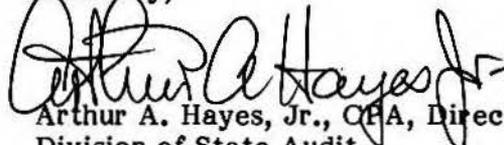
The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Claims Award Fund as of June 30, 1988 and 1987, 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, 1988 and 1987, 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,

  
Arthur A. Hayes, Jr., CFA, Director  
Division of State Audit

AAH/ams

<b>ASSETS</b>	<b>June 30, 1988</b>	<b>June 30, 1987</b>
Cash and Cash Equivalents	\$39,229,896	\$27,798,536
Due from Other Funds	<u>0</u>	<u>0</u>
Total Assets	<u>\$39,229,896</u>	<u>\$27,798,536</u>
 <b>LIABILITIES AND FUND EQUITY</b>		
Liabilities		
Accounts Payable	\$34,550,578	\$23,214,227
Warrants Payable	<u>253,557</u>	<u>128,804</u>
Total Liabilities	<u>\$34,804,135</u>	<u>\$23,343,031</u>
Fund Equity	<u>\$ 4,425,761</u>	<u>\$ 4,455,505</u>
Total Liabilities and Fund Equity	<u>\$39,229,896</u>	<u>\$27,798,536</u>

See Accompanying Footnotes to the Financial Statements.

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

	<b>For the Year Ended June 30, 1988</b>	<b>For the Year Ended June 30, 1987</b>
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	\$ (29,744)	\$11,377,039
Net Increase (Decrease) in Working Capital	<u>\$ (29,744)</u>	<u>\$11,377,039</u>
Elements of Net Increase (Decrease) in Working Capital:		
Cash and Cash Equivalents	\$11,431,360	\$14,228,955
Due from Other Funds	0	(2,715,874)
Accounts Payable	(11,336,351)	(289,171)
Warrants Payable	<u>(124,753)</u>	<u>153,129</u>
Net Increase (Decrease) in Working Capital	<u>\$ (29,744)</u>	<u>\$11,377,039</u>

See Accompanying Footnotes to the Financial Statements.

	For the Year Ended June 30, 1988		For the Year Ended June 30, 1987	
<b>Revenues:</b>				
Insurance Premiums	\$17,824,100		\$17,707,483	
Interest Income	<u>2,920,099</u>		<u>1,316,178</u>	
Total Revenue		\$20,744,199		\$19,023,661
<b>Expenses:</b>				
<b>Torts</b>				
Death	\$ 221,042		\$ 0	
Bodily Injury	1,052,139		385,803	
Property Damage	501,920		425,293	
Miscellaneous	<u>63,453</u>	\$1,838,554	<u>0</u>	\$ 811,096
<b>Workers Compensation</b>				
Death	\$ 458,726		\$ 408,880	
Medical	2,839,478		2,327,552	
Assault Injury	13,606		7,155	
Temporary Disability	677,633		624,333	
Permanent Disability	<u>1,468,327</u>	\$ 5,457,770	<u>1,512,946</u>	\$ 4,880,866
Employee Property Damage		\$ 21,989		\$ 25,324
Professional/Administrative		\$ 2,019,157		\$ 1,729,805
Additional Funding Liability		<u>\$11,436,473</u>		<u>\$ 199,531</u>
Total Expenses		<u>\$20,773,943</u>		<u>\$ 7,646,622</u>
Net Change in Fund Equity		<u>\$ (29,744)</u>		<u>\$11,377,039</u>
Fund Equity, Beginning of Year		<u>\$ 4,455,505</u>		<u>\$(6,921,534)</u>
Fund Equity, End of Year		<u>\$ 4,425,761</u>		<u>\$ 4,455,505</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 Claims Award Fund is accounted for on the 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 the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Claims Award Fund is 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, 1988, 7907 claims were filed with payments totaling \$7,318,312.95.
2. The liability for claims against the state, which is included in accounts payable, is \$34,538,565 at June 30, 1988 and \$23,102,092 at June 30, 1987. A formal actuarial study was performed in 1988 to determine the state's liability for claims at June 30, 1988.



STATE OF TENNESSEE  
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December 21, 1988

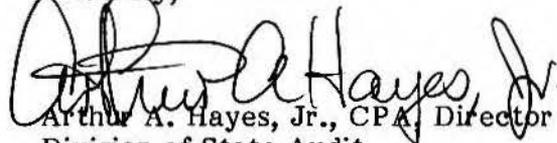
The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Criminal Injuries Compensation Fund as of June 30, 1988 and 1987, 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, 1988 and 1987, 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,

  
Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ams

**Criminal Injuries Compensation Fund  
Balance Sheet**

<b>ASSETS</b>	<b>June 30, 1988</b>	<b>June 30, 1987</b>
Cash and Cash Equivalents	<u>\$6,708,089</u>	<u>\$3,671,063</u>
Total Assets	<u>\$6,708,089</u>	<u>\$3,671,063</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Warrants Payable	\$ 356,108	\$ 313,754
Accounts Payable	<u>200,834</u>	<u>769,981</u>
Total Liabilities	<u>\$ 556,942</u>	<u>\$1,083,735</u>
Fund Balance		
Reserved for Future Benefits	<u>\$6,151,147</u>	<u>\$2,587,328</u>
Total Fund Balance	<u>\$6,151,147</u>	<u>\$2,587,328</u>
Total Liabilities and Fund Balance	<u>\$6,708,089</u>	<u>\$3,671,063</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, 1988	For the Year Ended June 30, 1987
Revenues:		
State	\$5,314,061	\$4,516,928
Federal	1,278,000	0
Interest Income	<u>302,615</u>	<u>143,718</u>
Total Revenues	<u>\$6,894,676</u>	<u>\$4,660,646</u>
Expenditures:		
Death Claims	\$ 671,920	\$ 909,843
Personal Injury Claims	2,242,495	1,916,076
Attorney Fees	<u>416,442</u>	<u>413,689</u>
Total Expenditures	<u>\$3,330,857</u>	<u>\$3,239,608</u>
Excess of Revenues Over Expenditures	<u>\$3,563,819</u>	<u>\$1,421,038</u>
Other Financing Sources:		
Operating Transfer from General Fund	<u>\$ 0</u>	<u>\$ 0</u>
Excess of Revenues and Other Sources Over Expenditures	<u>\$3,563,819</u>	<u>\$1,421,038</u>
Fund Balance, Beginning of Year	<u>\$2,587,328</u>	<u>\$1,166,290</u>
Fund Balance, End of Year	<u>\$6,151,147</u>	<u>\$2,587,328</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 Fund is accounted for on the modified accrual basis of accounting.
3. **Cash and Cash Equivalents**—Cash deposited in the Criminal Injuries Compensation 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 the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Criminal Injuries Compensation Fund 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 certain criminal defendants upon conviction, fees levied against parolees, probationers, and employeed 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.



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December 21, 1988

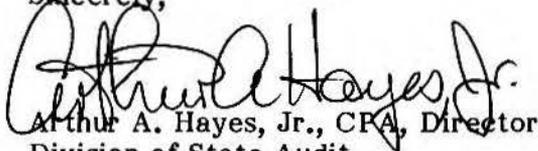
The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Victims of Drunk Drivers Compensation Fund as of June 30, 1988 and 1987, 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, 1988 and 1987, 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,

  
Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ams

	<b>June 30, 1988</b>	<b>June 30, 1987</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	<u>\$3,549,948</u>	<u>\$1,280,191</u>
Total Assets	<u>\$3,549,948</u>	<u>\$1,280,191</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Warrants Payable	\$ 4,800	\$ 4,156
Accounts Payable	<u>212</u>	<u>2,300</u>
Total Liabilities	<u>\$ 5,012</u>	<u>\$ 6,456</u>
Fund Balance		
Reserved for Future Benefits	<u>\$3,544,936</u>	<u>\$1,273,735</u>
Total Fund Balance	<u>\$3,544,936</u>	<u>\$1,273,735</u>
Total Liabilities and Fund Balance	<u>\$3,549,948</u>	<u>\$1,280,191</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, 1988	For the Year Ended June 30, 1987
Revenues:		
State	\$2,179,865	\$ 788,272
Federal	0	0
Interest Income	<u>148,317</u>	<u>41,919</u>
Total Revenues	\$2,328,182	\$ 830,191
Expenditures:		
Death Claims	\$ 10,000	\$ 0
Personal Injury Claims	39,247	5,614
Attorney Fees	<u>7,734</u>	<u>842</u>
Total Expenditures	\$ 56,981	\$ 6,456
Excess of Revenues Over Expenditures	\$2,271,201	\$ 823,735
Other Financing Sources:		
Operating Transfer from General Fund	<u>\$ 0</u>	<u>\$ 0</u>
Excess of Revenues and Other Sources Over Expenditures	<u>\$2,271,201</u>	<u>\$ 823,735</u>
Fund Balance, Beginning of Year	<u>\$1,273,735</u>	<u>\$ 450,000</u>
Fund Balance, End of Year	<u>\$3,544,936</u>	<u>\$1,273,735</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 Victims of Drunk Drivers Compensation Fund is accounted for on the modified accrual basis of accounting.
3. **Cash and Cash Equivalents**—Cash deposited in the Victims of Drunk Drivers Compensation 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 the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Victims of Drunk Drivers Compensation Fund 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.



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December 21, 1988

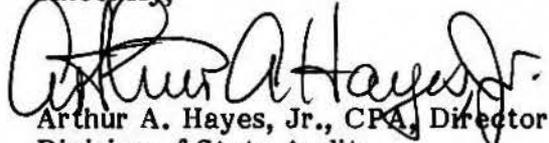
The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Chairs of Excellence as of June 30, 1988 and 1987, 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, 1988 and 1987, 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,

  
Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ams

<b>ASSETS</b>	<b>June 30, 1988</b>	<b>June 30, 1987</b>
Current Investments		
Cash & Cash Equivalents	\$ 8,197,642	\$12,594,688
Long Term Investments		
Government Bonds (Amortized Cost)	\$42,713,585	\$49,067,838
Corporate Bonds (Amortized Cost)	15,239,934	0
Corporate Stocks (Cost)	<u>12,350,078</u>	<u>4,776,250</u>
Total Long Term Investments	<u>\$70,303,597</u>	<u>\$53,844,088</u>
Total Investments	\$78,501,239	\$66,438,776
Receivables		
Income Receivable	\$ 1,165,587	\$ 856,092
Total Assets	<u>\$79,666,826</u>	<u>\$67,294,868</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Inter Fund Payable	\$ 1,553,886	\$ 1,479,456
Investments Purchased	<u>1,135,548</u>	<u>0</u>
Total Liabilities	\$ 2,689,434	\$ 1,479,456
Fund Balance		
Fund Balance Reserved for Endowments		
State	\$35,000,000	\$35,000,000
College & University	6,488,000	4,425,500
Private	<u>23,070,807</u>	<u>18,510,362</u>
Total Reserved for Endowments	\$64,558,807	\$57,935,862
Special Reserve		
State	\$ 3,722,563	\$ 1,742,182
College & University	710,156	214,662
Private	<u>1,271,704</u>	<u>684,224</u>
Total Special Reserve	\$ 5,704,423	\$ 2,641,068
Restricted Reserve		
State	\$ 5,254,946	\$ 4,387,752
College & University	45,434	41,528
Private	<u>1,413,782</u>	<u>809,202</u>
Total Restricted Reserve	<u>\$ 6,714,162</u>	<u>\$ 5,238,482</u>
Total Fund Balance	<u>\$76,977,392</u>	<u>\$65,815,412</u>
Total Liabilities & Fund Balance	<u>\$79,666,826</u>	<u>\$67,294,868</u>

See Accompanying Footnotes to the Financial Statements.

		For the Year Ended June 30, 1988		For the Year Ended June 30, 1987
Operating Revenues:				
Investment Income		\$ 5,832,937		\$ 4,989,416
Operating Expenses:				
Payments	\$ 1,182,909		\$ 735,710	
Administrative Cost	<u>110,992</u>		<u>85,480</u>	
Total Operating Expenses		<u>\$ 1,293,901</u>		<u>\$ 821,190</u>
Net Income Before Operating Transfer		\$ 4,539,036		\$ 4,168,226
Operating Transfer:				
From State General Fund	\$ 0		\$15,000,000	
From College & University Funds	<u>2,062,500</u>	<u>2,062,500</u>	<u>3,175,500</u>	<u>18,175,500</u>
Net Income		\$ 6,601,536		\$22,343,726
Other Changes in Fund Equity:				
Contributions from Private Sources		<u>\$ 4,560,444</u>		<u>\$10,322,862</u>
Net Change in Fund Equity		<u>\$11,161,980</u>		<u>\$32,666,588</u>
Fund Balance, Beginning of Year		<u>\$65,815,412</u>		<u>\$33,148,824</u>
Fund Balance, End of Year		<u>\$76,977,392</u>		<u>\$65,815,412</u>

See Accompanying Footnotes to the Financial Statements.

	<b>For the Year Ended June 30, 1988</b>	<b>For the Year Ended June 30, 1987</b>
<b>Sources of Working Capital:</b>		
Working Capital Provided by Net Income from Operations	\$ 6,601,536	\$ 7,343,726
Equity Transfer from General Fund	0	15,000,000
Contributions from Private Sources	<u>4,560,444</u>	<u>10,322,862</u>
Total Sources of Working Capital	\$11,161,980	\$32,666,588
<b>Uses of Working Capital:</b>		
Purchase of Long-Term Investments	<u>\$16,459,509</u>	<u>\$24,424,553</u>
Net Increase (Decrease) in Working Capital	<u>\$(5,297,529)</u>	<u>\$ 8,242,035</u>
<b>Elements of Net Increase in Working Capital:</b>		
Cash and Cash Equivalents	\$(4,397,046)	\$ 9,259,634
Receivables	309,494	415,627
Inter Fund Payable	(74,430)	(1,433,226)
Investment Purchases	<u>(1,135,547)</u>	<u>0</u>
Net Increase (Decrease) in Working Capital:	<u>\$(5,297,529)</u>	<u>\$ 8,242,035</u>

See Accompanying Footnotes to the Financial Statements.

**A. Significant Accounting Policies**

- Basis of Presentation**—The accompanying financial statement has been prepared in conformity with generally accepted accounting principles.
- Basis of Accounting**—The Chairs of Excellence Trust is accounted for on the accrual basis of accounting.
- 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.
- 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. The Chairs of Excellence Trust investments at June 30, 1988 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			Book Value 06/30/88	Market Value 06/30/88	Book Value 06/30/87	Market Value 06/30/87
	1	2	3				
Cash and Cash Equivalents	\$ 8,197,642	—	—	\$ 8,197,642	\$ 8,197,642	\$12,594,688	\$12,594,688
Long Term Investments							
Domestic Corporate Stock	12,350,078			12,350,078	12,497,225	\$ 4,776,250	\$ 5,875,512
Domestic Government Bonds	42,713,585			42,713,585	41,037,098	49,067,838	47,807,576
Domestic Corporate Bonds	15,239,934			15,239,934	15,288,355	0	0
Total Long Term Investments	<u>70,303,597</u>	<u>0</u>	<u>0</u>	<u>70,303,597</u>	<u>68,822,678</u>	<u>\$53,844,088</u>	<u>\$53,683,088</u>
Total Investments	<u>\$78,501,239</u>	<u>\$0</u>	<u>\$0</u>	<u>\$78,501,239</u>	<u>\$77,020,320</u>	<u>\$66,438,766</u>	<u>\$66,277,776</u>

- Fund Equity**—The Fund Balance Reserved for Endowments consists of funds provided from contributions from the state, colleges and universities and private sources. 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 and consists of income earned on equity investments and profit and loss from both fixed and equity investments. This income becomes part of the Trust corpus.
- 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.

As of June 30, 1988 69 Chairs have been established with matching contributions received totaling \$29,558,807. This is an increase of 22 Chairs and \$6,622,944 since 6/30/87.

- 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.



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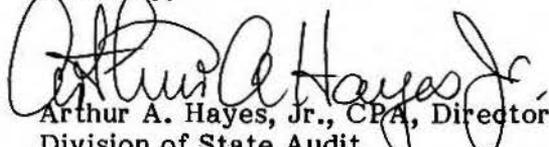
The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheets of the Bond Refunding Trust as of June 30, 1988, and June 30, 1987, and the related statements of changes in assets and liabilities for the years 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, 1988, and June 30, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

  
Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ams

	June 30, 1988	June 30, 1987
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 35,826	\$ 26,425
Investments (amortized cost)	43,419,926	44,094,572
Accounts Receivable	<u>1,389,480</u>	<u>1,389,365</u>
Total Assets	<u>\$44,845,232</u>	<u>\$45,510,362</u>
<b>LIABILITIES</b>		
Amounts Held in Custody for Others	\$44,845,232	\$45,510,362
Total Liabilities	<u>\$44,845,232</u>	<u>\$45,510,362</u>

See Accompanying Notes to the Financial Statements.

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

	Balance June 30, 1987	Additions	Deductions	Balance June 30, 1988
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 26,425	\$10,981,800	\$10,972,399	\$ 35,826
Investments	44,094,572	24,885	699,531	43,419,926
Accounts Receivable	<u>1,389,365</u>	<u>1,389,503</u>	<u>1,389,388</u>	<u>1,389,480</u>
Total Assets	<u>\$45,510,362</u>	<u>\$12,396,188</u>	<u>\$13,061,318</u>	<u>\$44,845,232</u>
<b>LIABILITIES</b>				
Amounts Held in Custody for Others	\$45,510,362	\$ 8,892,879	\$ 9,558,010	\$44,845,232
Total Liabilities	<u>\$45,510,362</u>	<u>\$ 8,892,879</u>	<u>\$ 9,558,010</u>	<u>\$44,845,232</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 trustee 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 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 the issuer. All securities are held in the state's account in the Federal Reserve Bank.

**U.S. Government Securities**

**Carrying Amount**  
\$43,419,926

**Market Value**  
\$40,202,821