TREASURER'S REPORT 1989

Steve Adams, Treasurer

For the fiscal year ended June 30, 1989

1989 Report of the Treasurer

Steve Adams, Treasurer
State of Tennessee

Year Ended June 30, 1989

TABLE OF CONTENTS

STATE OF TENNESSEE

Steve Adams
Treasurer

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37219

Dale Sims
Executive Assistant

Janice Cunningham
Executive Assistant

December 31, 1989

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 again welcome the opportunity to share with you a report of the Treasurer's Office for the fiscal year ending June 30, 1989. This report provides you an opportunity to become more acquainted with the programs we administer and what our experience has been in these areas during the year. Upon completion of your review, I am hopeful you will recognize our sincere efforts to discharge our duties in a responsible and prudent manner.

During this past year, the Treasury Department has made significant strides toward improving the efficiency of our operations. These improvements are reflected in enhancements to our retired payroll system, office automation capabilities, the check processing and deposit area as well as our cash management and collateral monitoring process. We have also worked with other state agencies to improve the collection and deposit of funds due the state. During this year, Tennessee Consolidated Retirement System investments earned $549,550,134. In addition, cash management earnings were $134,874,854, exceeding those of the previous year.

During the current fiscal year, we plan to complete the design and implementation of our new retired payroll system. In the cash management area we have instituted a new securities lending arrangement which is estimated to increase earnings by $700,000. Beginning January 1, 1990, claims for criminal injuries compensation will be filed directly with the Division of Claims Administration rather than the Tennessee Claims Commission. In our Unclaimed Property Program, we hope to fully implement a new computer system that will enhance processing and record keeping of owners and property. Implementing these improvements is consistent with our goal of developing and maintaining the most efficient and productive operation possible.

I would like to take this opportunity to acknowledge and thank the Treasury Department staff for their outstanding work. I appreciate their dedication and commitment to the department and the State of Tennessee.

My thanks and appreciation are also extended to the members of the General Assembly as well as the Governor's Administration. We gladly accept the challenge of further improving the services provided to all Tennesseans. I look forward to your continued participation and cooperation as we work together to meet our goal of an efficient and effective government.

Sincerely,

Steve Adams

Steve Adams

—TCRS assets at June 30, 1989 totaled $7.0 billion at book value, an increase of $687.7 million during the year.

—TCRS investments produced $549.6 million in income (for a realized rate of return of 8.5%).

—Investments of the state's cash produced $134.9 million with an average rate of return of 8.08%. Cash investments averaged $1.67 billion.

—Local governments participating in the Local Government Investment Pool received $37.7 million interest at a net rate averaging 8.64%.

—As of June 30, 1989, there were 51,155 TCRS retirees: 12,325 state employees; 12,450 political subdivision employees; 21,896 K-12 teachers; and 4,484 higher education employees. TCRS paid out $256 million in benefits during fiscal year 1988-89.

—As of June 30, 1989, there were 153,882 active TCRS members: 42,175 state employees, 49,641 K-12 teachers; 42,141 political subdivision employees; and 19,925 higher education employees.

—The TCRS received a Certificate of Achievement for Excellence in Financial Reporting for its first Component Unit Financial Report. The Government Finance Officers Association issued the certificate after a comprehensive review and evaluation of the financial report.

—A complete service credit and salary history has been provided to each state employee member of TCRS. Higher education employees, teachers, and political subdivision employees will be provided the same history within the next two years.

—Retirement activities included 2,705 retirements; 6,243 refunds; approximately 8,000 estimates provided to members; and approximately 7,500 requests to purchase prior service. During the year, TCRS also began deductions for the new Medigap insurance program for retirees.

—The State of Tennessee Deferred Compensation Program had 4,844 employees actively contributing at June 30, 1989. Accumulated account balances in the two plans totaled $76.7 million, an increase of $16 million during the year.

—The Division of Claims Administration received 8,307 claims against the state during fiscal year 1988-89, an increase of 400 claims from the previous year. Payments made during the year totaled $6.7 million.

—During the period July 1, 1988 through June 30, 1989, $4.7 million of unclaimed property was turned over to the Treasurer; $1.4 million was returned to owners or their heirs.

—An audit position was added to the department this year as part of an effort to increase holder compliance with the Unclaimed Property Act. Contracts with outside audit firms resulted in $1.2 million in cash and stock being turned over to the state.

—The Chairs of Excellence Trust created 5 chairs during fiscal year 1988-89 for a total of 74 chairs. The fund totaled $98.0 million at June 30, 1989.

—During the 1988-89 fiscal year, the Treasury Department and the Department of Finance and Administration began joint administration of the State of Tennessee Flexible Benefits Plan. This new "cafeteria" plan offers state employees the opportunity to pay for medical insurance premiums and out-of-pocket medical and dependent care expenses with tax-free salary.

The 1989 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 1988-89 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 1988-89 averaged $1.7 billion, producing $134.9 million in income for an average rate of return of 8.08%. Additional investment authority was granted by the General Assembly in 1988, permitting the State Pooled Investment Fund to invest in commercial paper, bankers' acceptances and money market mutual funds.

Pension Fund Investments—This section manages the assets of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 1989 totaled $7.0 billion at book value and $7.6 billion at market value. For the year, investments produced $549.6 million in income for a realized rate of return of 8.5% on book value. This section also manages the Chairs of Excellence Trust which at June 30, 1989 totaled $98 million at book value. The division again expanded its securities lending program during the year.

Tennessee Consolidated Retirement System: The TCRS was established July 1, 1972 with legislation which consolidated seven separate state retirement plans. 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. 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, 1989 there were 153,882 active members and 51,155 retirees. Teachers contribute 5% to TCRS while state employees and higher education employees do not contribute. Political subdivisions can establish a contributory or non-contributory program for their employees.

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 $61 million in salary. As of June 30, 1989, 4,844 state and university employees were actively contributing to the program and the market value of accumulated account balances totaled $76.7 million. During the 1988-89 fiscal year, 22 participants received loans from the 401(k) plan's new loan program.

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. Effective January 1, 1990, applications for victims of criminal injury and drunk drivers compensation are filed with the Division of Claims Administration. The division is responsible for investigating the claim and determining the eligibility and amount of compensation due to a crime victim. 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 1988-89 the Division of Claims Administration received 8,307 claims. The Defense Counsel Commission heard requests for representation on 22 lawsuits, the Board of Claims took action on 21 cases and 1,167 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 $37 million in unclaimed property has been reported to the Treasurer and over $9.6 million of that property has been returned to 39,647 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 1989 fiscal year. The state has entered into two contracts with national clearinghouses designed to improve reporting by out-of-state holders; one of these contracts has already increased revenues by one million dollars.

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 1989 fiscal year, 5 chairs were created with matching contributions totaling $8.3 million. Since 1984, a total of 74 chairs have been created. The fund totaled $98.0 million book value at June 30, 1989 and produced $4.6 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 1988-89 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was $1,666,551,000 per month and interest income of $134,875,000 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.

Up to 20% of the portfolio or $300,000,000, 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. The State Funding Board passed a resolution approving such policy guidelines in June 1989. Constant change in financial markets makes diversification an important tool for enhancing return.

At June 30, 1989, investments had an average maturity of 176 days, and an average weighted yield of 9.13%. The total invested balance at June 30, 1989 ($1,806,777,000 par value) was allocated as follows: U.S. Treasury securities, 46%; repurchase agreements, 20%; and collateralized certificates of deposit, 34%. 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

Fiscal Year	[1] Total State Funds	[2] Merrill Lynch Institutional Fund	[3] New State Funds	[4] 90 Day Treasury (CD Equivalent Yield)
1988-89	8.08%	8.34%	8.79%	8.24%
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

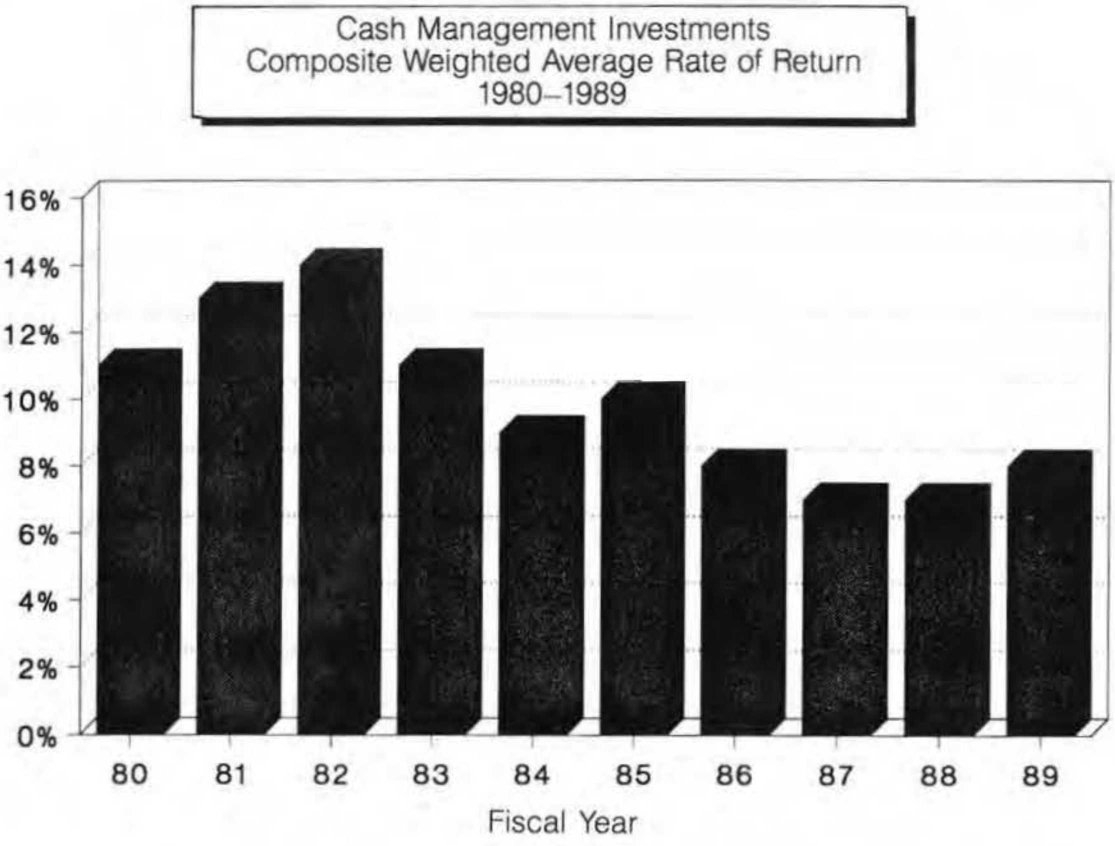
[1] Investment return on total portfolio.
[2] This index most closely resembles the structures and objectives of the total cash portfolio.
[3] Investment return on funds invested during the year.
[4] This approximates the reinvestment period for new funds.

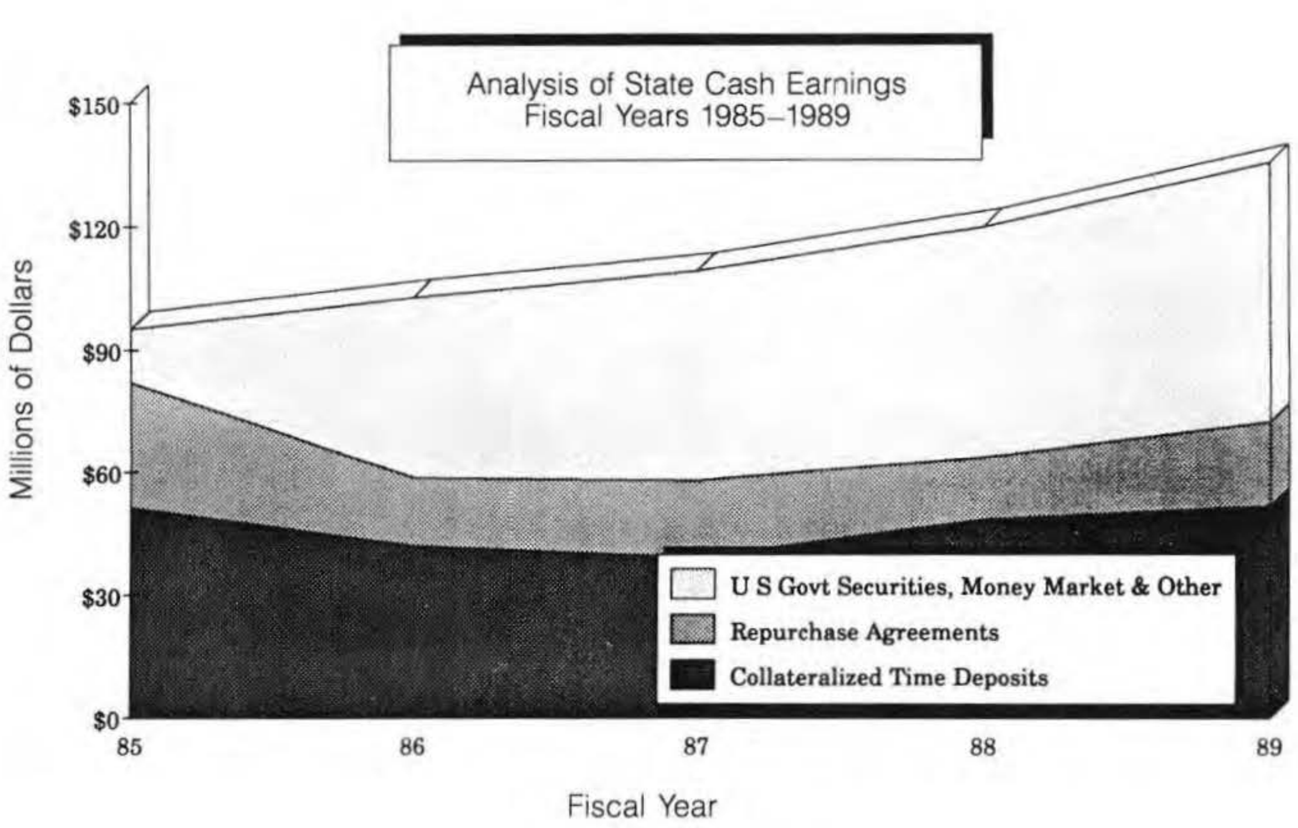
ANALYSIS OF STATE CASH INVESTMENTS

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
	COLLATERALIZED TIME DEPOSITS		
1988-89	$627,977,376	$51,357,880	8.18%
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%
	REPURCHASE AGREEMENTS		
1988-89	$226,195,963	$20,365,993	8.90%
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%
	U.S. GOVERNMENT SECURITIES		
1988-89	$801,265,661	$62,644,827	7.77%
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%
	MONEY MARKET DEPOSIT ACCOUNTS AND OTHER		
1988-89	$ 11,111,732	$ 506,154	4.57%
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%

TOTAL FUNDS

Fiscal Year	Average Total Funds Invested	Total Cash Management Earnings	Percent Of Total Available Cash Invested	Composite Weighted Average Rate of Return
1988-89	$1,666,550,732	$134,874,854	100.0%	8.08%
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%


Cash Management Investments
Composite Weighted Average Rate of Return
1980–1989
16%
14%
12%
10%
8%
6%
4%
2%
0%
80
81
82
83
84
85
86
87
88
89
Fiscal Year


Analysis of State Cash Earnings
Fiscal Years 1985–1989
Millions of Dollars
$150
$120
$90
$60
$30
$0
85
86
87
88
89
Fiscal Year
U S Govt Securities, Money Market & Other
Repurchase Agreements
Collateralized Time Deposits

Cash Management Analysis
Fiscal Year Ended June 30, 1989

New Investments by Month of Purchase

Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Weighted Average Interest Rate
7/88	7.60%	7.57%	8.17%	3.89%	7.63%
8/88	8.04	7.72	8.24	4.54	7.91
9/88	8.15	8.10	—	4.75	8.11
10/88	8.23	8.20	8.27	5.19	8.21
11/88	8.34	8.32	8.41	4.58	8.33
12/88	8.74	8.75	—	5.04	8.74
1/89	8.91	9.00	9.16	4.76	8.99
2/89	9.07	9.14	9.27	3.79	9.16
3/89	9.58	9.62	10.07	4.58	9.66
4/89	9.68	9.76	9.73	4.35	9.75
5/89	9.38	9.70	9.00	4.95	9.55
6/89	9.00	9.55	8.81	4.41	9.38
Dollar Weighted Average	8.75%	8.93%	9.07%	4.57%	8.79%

Total Portfolio Rate of Return

Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Total Portfolio Cumulative Return
7/88	7.27%	7.35%	7.07%	3.89%	7.19%
8/88	7.39	7.69	7.16	4.54	7.31
9/88	7.52	8.10	7.19	4.75	7.40
10/88	7.62	8.19	7.21	5.19	7.47
11/88	7.77	8.32	7.31	4.58	7.60
12/88	7.99	8.75	7.37	5.04	7.76
1/89	8.21	9.00	7.47	4.76	8.00
2/89	8.48	9.14	8.07	3.79	8.33
3/89	8.75	9.65	8.29	4.58	8.65
4/89	8.97	9.80	8.66	4.35	9.02
5/89	9.11	9.81	8.76	4.95	9.09
6/89	9.14	9.74	8.84	4.41	9.08
Dollar Weighted Average	8.18%	8.90%	7.77%	4.57%	8.08%

The average rate on investments made each month during the year was 8.79% 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 8.64%.

Local Government Investment Pool

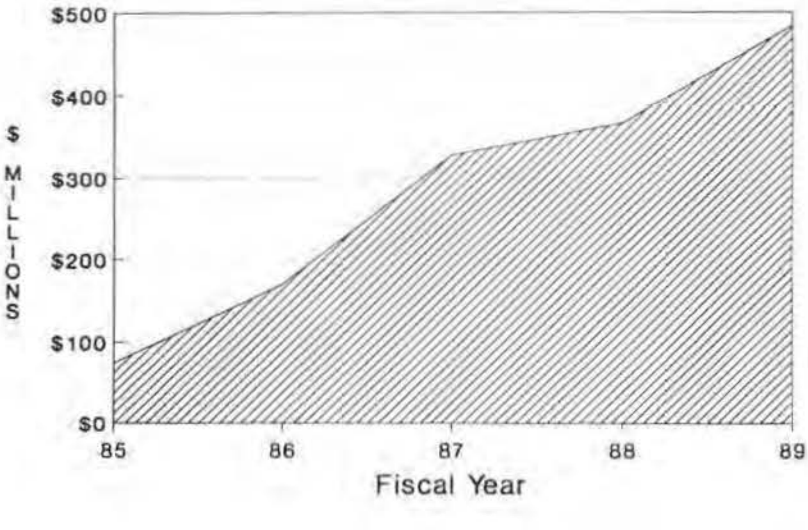
Tennessee municipalities, counties, school districts, utility districts, local government units, and political subdivisions can deposit monies with the State Treasurer to be invested in the state cash management investment pool. Of course these local governments can invest their monies directly in the 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 1988-89 fiscal year, the average rate participants earned on their deposits after the fee reduction was 8.64%. Other activity by participant groups is scheduled below.

Schedule of Activity by Entity Type
Fiscal Year Ended June 30, 1989

	Account Balance 7/1/88	Amount Deposited FY 1988-89	Amount Withdrawn FY 1988-89	Net Interest Credited FY 1988-89	Account Balance 6/30/89
Cities	$133,303,832	$ 584,084,231	$ 557,687,328	$12,574,797	$172,275,532
Counties	62,746,530	83,442,399	107,257,576	4,582,897	43,514,250
Commitments to D.O.T.	22,799,571	7,134,381	4,291,382	2,309,183	27,951,753
Educational Institutions	132,769,036	971,153,134	911,069,280	16,184,792	209,037,682
Commitments to OASI	60,328	98	9,992	4,669	55,103
Restricted Accounts	5,429,197	0	461,197	465,594	5,433,594
Other	9,048,627	37,616,765	23,179,830	1,541,155	25,026,717
	$366,157,121	$1,683,431,008	$1,603,956,585	$37,663,087	$483,294,631

Local Government Investment Pool
Year End Account Balance



Reconciliation of Cash and Cash Equivalents June 30, 1989

(Expressed in Thousands)

Cash and cash equivalents per Department of Finance and Administration		$2,810,203
Add: Net reconciling items to bank statements		(1,329)
Deduct: Petty cash, travel advances and other departmental cash in accounts not in possession of the Treasurer		(422,256)
Cash and cash equivalents per Treasury		$2,386,618
Represented by:		
TCRS short term investments	$548,143	
Cash in banks	20,042	
Time deposits	615,366	
Repurchase agreements	363,305	
Treasury bills	839,762	
Total		$2,386,018

The cash and cash equivalents per Finance and Administration as reported in the State of Tennessee Annual Financial Report for June 30, 1989 is $2.81 billion as shown. The $548 million shown as short term investments for TCRS was invested in commercial paper, U.S. Treasuries 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 11 individuals, 7 of whom are investment professionals, and one of whom is a full time equity trader. During the 1988-89 fiscal year, the Investment Division continued to upgrade its facilities and equipment, enhancing stock and bond quotations with security analysis capabilities, securities trading information and real-time quotes on international securities.

Investment performance for the 1988-89 fiscal year ranked in the upper quartile of public 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. The assets of the system were essentially fully invested throughout the year and at a time early in the year when there was considerable question as to the viability of the financial markets. The equity portfolio benefitted from a restructuring which increased diversification and lessened the portfolio's vulnerability to the volatile market and futures-related trading practices used by others.

The fixed income portfolio benefitted significantly from its very high quality standards and credit worthiness emphasis. This is evidenced by the fact that not a single security was directly impacted by last year's crisis in the leveraged buyout/takeover debacle which severely damaged many corporate debt securities. In addition, the bond portfolio benefitted greatly from a maturity/duration extension as interest rates declined over the course of the year in response to signs of a slowing economy. This occurred while the overall quality and yield of the portfolio was improved.

Retirement Fund Investments

	June 30, 1989		June 30, 1988	
	Book Value	Market Value	Book Value	Market Value
Domestic Securities:				
Certificate of Deposit	$ 1,550,000	$ 1,550,000	$ 1,550,000	$ 1,550,000
Government Bonds	2,070,543,698	2,192,044,696	1,666,620,862	1,679,874,123
Corporate Bonds	1,734,472,148	1,782,693,233	1,494,421,561	1,459,339,124
Corporate Stocks	1,978,491,968	2,443,316,928	1,839,748,838	2,028,514,749
Mortgages	2,056,610	1,897,716	2,451,994	2,221,867
International Securities:				
Government Bonds	178,984,505	174,264,481	210,409,864	203,217,526
Corporate Bonds	114,074,332	115,815,470	90,643,818	90,728,954
Corporate Stocks	395,068,945	418,050,741	331,908,715	320,396,609
American Depository Receipts	7,118,032	7,970,875	2,809,587	4,000,000
Currency Gain (Loss)		(23,028,078)		10,238,597
Cash and Cash Equivalents	547,946,751	548,555,608	702,053,008	702,906,212
Total Investments	$7,030,306,989	$7,663,131,670	$6,342,618,247	$6,502,987,761

DOMESTIC FIXED INCOME PORTFOLIO

Description	Rating	Coupon	Maturity			Par Value	Market Value
GOVERNMENTS:							
Bonds and Notes							
Cert. of Accrual Treasury-Ser. E	Aaa	0.000	11	15	1991	20,000,000	$ 16,450,200.00
Cert. of Accrual Treasury-Ser. G	Aaa	0.000	5	15	1992	17,850,000	14,083,293.00
Cert. of Accrual Treasury-Ser. L	Aaa	0.000	11	15	1991	15,000,000	12,337,650.00
Cert. of Accrual Treasury-Ser. P	Aaa	0.000	11	15	1991	10,000,000	8,225,100.00
Cert. of Accrual Treasury-Ser. S	Aaa	0.000	2	15	1990	20,000,000	19,019,000.00
Cert. of Accrual Treasury-Ser. T	Aaa	0.000	5	15	1996	34,280,000	19,514,232.80
Cert. of Accrual Treasury-Ser. T	Aaa	0.000	11	15	1996	9,404,000	5,137,499.24
Coupon Treasury Receipts	Aaa	0.000	5	15	1992	6,625,000	5,226,992.50
Coupon Treasury Receipts	Aaa	0.000	8	15	1992	17,280,000	13,372,646.40
Coupon Treasury Receipts	Aaa	0.000	2	15	1993	15,000,000	11,156,850.00
Coupon Treasury Receipts	Aaa	0.000	8	15	1998	49,140,000	23,245,185.60
Coupon Treasury Receipts	Aaa	0.000	2	15	1998	39,720,000	19,578,385.20
Coupon Treasury Receipts	Aaa	0.000	11	15	2003	74,236,964	22,798,913.94
Coupon Treasury Receipts	Aaa	0.000	8	15	2003	100,000,000	31,349,000.00
Coupon Treasury Receipts	Aaa	0.000	8	15	2004	23,075,400	6,662,560.24
Coupon Treasury Receipts	Aaa	0.000	8	15	2004	10,134,000	2,925,989.82
Treasury Invest. Growth Receipts	Aaa	0.000	11	15	1994	17,812,500	11,471,962.50
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	1994	17,803,000	11,947,415.27
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	1995	8,208,000	5,073,200.64
Treasury Invest. Growth Receipts	Aaa	0.000	11	15	1995	17,803,000	10,560,205.51
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	1996	8,312,500	4,731,973.75
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	2000	15,513,500	6,354,329.60
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	2000	4,723,875	1,934,899.20
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	2000	13,678,000	5,602,508.80
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	2005	100,000,000	27,145,000.00
United States Treasury Bonds	Aaa	7.625	2	15	2007	53,000,000	50,449,110.00
United States Treasury Bonds	Aaa	7.875	2	15	2000	30,000,000	29,306,100.00
United States Treasury Bonds	Aaa	8.500	5	15	1999	15,000,000	15,304,650.00
United States Treasury Bonds	Aaa	8.750	11	15	2008	66,832,000	70,027,237.92
United States Treasury Bonds	Aaa	8.750	5	15	2017	15,000,000	16,078,050.00
United States Treasury Bonds	Aaa	8.875	2	15	2019	35,000,000	38,292,100.00
United States Treasury Bonds	Aaa	9.125	5	15	2009	25,000,000	26,984,250.00
United States Treasury Bonds	Aaa	9.250	2	15	2016	70,000,000	78,575,000.00
United States Treasury Bonds	Aaa	10.375	11	15	2012	100,000,000	120,062,000.00
United States Treasury Bonds	Aaa	10.750	8	15	2005	110,000,000	134,784,100.00
United States Treasury Bonds	Aaa	12.000	8	15	2013	80,000,000	108,600,000.00
United States Treasury Corpus	Aaa	0.000	11	15	2001	76,000,000	27,515,040.00
United States Treasury Notes	Aaa	7.125	10	15	1993	50,000,000	48,203,000.00
United States Treasury Notes	Aaa	7.250	11	15	1996	56,850,000	54,025,123.50
United States Treasury Notes	Aaa	7.375	5	15	1996	50,000,000	47,968,500.00
United States Treasury Notes	Aaa	8.125	5	31	1990	35,000,000	34,956,250.00
United States Treasury Notes	Aaa	8.250	8	15	1992	60,000,000	60,243,600.00
United States Treasury Notes	Aaa	11.375	5	15	1990	15,000,000	15,375,000.00
United States Treasury Strip	Aaa	0.000	5	15	1995	59,664,000	37,297,756.32
United States Treasury Strip	Aaa	0.000	5	15	2002	25,000,000	8,900,250.00
United States Treasury Strip	Aaa	0.000	5	15	2003	39,460,000	12,964,583.00
Total Bonds and Notes							$ 1,351,816,694.75
Agencies							
Amer. SW Financial CMO 37-C	AAA	9.200	12	1	2006	11,500,000	$ 11,363,495.00
CMO Trust 15-D	AAA	5.000	12	20	2016	29,550,000	21,432,910.50
CMO Trust One 1-D	Aaa	10.150	5	1	2007	10,000,000	10,153,100.00
FHLM CORP A-1	Aaa	6.700	2	28	1991	9,693,725	9,548,319.60
FHLMC B PC#220007	Aaa	8.750	8	1	2001	9,524,503	9,189,430.56
FHLMC B PC#286896	Aaa	7.500	2	1	2017	15,078,504	13,646,045.76

Description	Rating	Coupon	Maturity			Par Value	Market Value
FHLMC CAP DEB	Aaa	8.650	10	1	1996	38,000,000	37,905,000.00
FHLMC CAP DEB	Aaa	11.400	5	1	1995	20,000,000	22,500,000.00
FHLMC DEB	Aaa	8.125	9	30	1996	5,000,000	4,843,750.00
FHLMC PC #170220	Aaa	8.000	4	1	2017	22,494,707	20,807,604.43
FHLMC PC #189272	Aaa	8.500	12	1	2007	13,874,070	13,197,709.17
FHLMC PC #220010	Aaa	8.750	8	1	2001	10,723,941	10,408,871.34
FHLMC PC #256498	Aaa	8.000	4	1	2009	7,971,836	7,413,807.30
FHLMC SERIES 20-J CLASS Z	Aaa	9.500	3	15	2018	29,180,000	27,866,900.00
FNMA	Aaa	8.700	6	10	1999	10,000,000	10,175,000.00
FNMA 1989-31Z	Aaa	10.000	6	25	2019	5,000,000	4,825,000.00
FNMA MBS #18742	Aaa	8.500	11	1	2008	25,560,475	24,418,177.29
FNMA MBS #2426	Aaa	7.750	4	1	2008	6,646,177	6,126,911.03
FNMA MBS #7238	Aaa	8.000	6	1	2008	27,246,611	25,424,357.98
FNMA MT Notes	Aaa	10.350	4	1	2019	25,000,000	26,343,750.00
GMAC MTG SECS CMO SER B-2	Aaa	7.800	5	20	2011	14,052,059	13,050,850.23
GNMA MBS #193196	Aaa	9.000	8	15	2016	27,363,423	26,764,711.64
GNMA #174621	Aaa	9.500	8	15	2016	16,665,854	16,504,362.09
GNMA #235870	Aaa	9.500	10	15	2017	4,878,315	4,872,216.96
GNMA #250734	Aaa	9.500	6	15	2018	4,965,869	4,962,740.95
GNMA #266932	Aaa	9.500	1	15	2019	5,086,924	5,083,719.27
GNMA #270849	Aaa	9.500	2	15	2019	5,071,629	5,068,433.67
GNMA #271685	Aaa	9.500	4	15	2019	9,176,316	9,170,534.76
Government Trust Certificates	Aaa	9.250	11	15	2001	50,000,000	52,375,000.00
Government Trust Certificates	Aaa	9.400	5	15	2002	20,000,000	21,130,000.00
International Bk. for Rec. & Dev.	Aaa	8.250	9	1	2016	17,000,000	16,188,590.00
International Bk. for Rec. & Dev.	Aaa	8.625	10	15	2016	68,000,000	67,526,040.00
International Bk. for Rec. & Dev.	Aaa	9.250	7	15	2017	5,000,000	5,286,850.00
International Bk. for Rec. & Dev. MT Notes	Aaa	9.320	10	29	2003	10,000,000	10,252,100.00
International Bk. for Rec. & Dev. MT Notes	Aaa	9.570	11	1	2018	10,000,000	10,702,600.00
International Bk. for Rec. & Dev. MT Notes	Aaa	10.030	9	15	1997	5,000,000	5,301,350.00
Investors GNMA Mtg. Back. Sec. C2	Aaa	11.900	2	25	2012	6,729,471	6,872,472.75
Investors GNMA Mtg. Back. Sec. C3	Aaa	7.875	6	25	2001	11,350,000	10,998,831.00
Investors GNMA Mtg. Back. Sec. C4	Aaa	8.875	2	25	2004	30,000,000	29,821,800.00
Investors GNMA Mtg. Back. Sec. J	Aaa	11.375	8	25	2013	10,700,000	11,556,000.00
Mtg. Bnks. Fin. Corp. 1 87A-2	AAA	7.200	7	25	2000	40,547,268	38,937,946.64
Rural Electric Coop Trust Cert.	Aaa	9.200	9	30	2001	20,000,000	20,178,200.00
Ryan Mtg. CMO IV 4-C	AAA	9.400	1	1	2010	22,600,000	22,600,000.00
Ryan Mtg. CMO IV 8-C	AAA	9.000	9	1	2007	16,000,000	15,644,960.00
Salomon Capital CMO Ser. 1985-C	Aaa	8.625	10	1	2004	39,500,000	38,734,885.00
Small Bus. Admin. PC 1986-A	AAA	8.750	9	1	1996	18,898,646	18,709,659.34
Small Bus. Admin. PC 1987-A	AAA	7.950	2	1	1997	8,466,382	8,127,727.10
Student Loan Mtg. Assn.	Aaa	13.150	9	1	1989	26,000,000	26,215,280.00
Total Agencies							$ 840,228,001.36
TOTAL GOVERNMENTS							$ 2,192,044,696.11
CORPORATES:							
A C F Industries	NR	11.000	10	1	1989	134,000	$ 134,556.10
American Express Credit	Aa2	10.875	5	15	2013	18,000,000	19,550,520.00
Anheuser Busch	Aa3	8.000	10	1	1996	10,000,000	9,486,300.00
Anheuser Busch	Aa3	8.625	12	1	2016	16,000,000	14,922,080.00
Arkla Inc.	A2	8.900	12	15	2006	12,500,000	12,335,625.00
Associated Dry Goods	A2	8.850	3	1	2006	7,000,000	6,866,650.00
Atlantic Richfield	A1	9.125	3	1	2011	10,000,000	10,259,500.00
Atlantic Richfield	A1	9.875	3	1	2016	10,000,000	11,016,900.00
Baltimore Gas & Electric	Aa2	7.125	1	1	2002	10,160,000	8,907,475.20
Bell Atlantic MT Notes	Aa3	8.400	5	13	1991	18,000,000	17,727,660.00

Description	Rating	Coupon	Maturity			Par Value	Market Value
Bell Atlantic MT Notes	Aa3	8.450	8	6	1990	10,500,000	10,419,990.00
Bell Atlantic MT Notes	Aa3	8.650	6	24	1992	5,000,000	4,917,250.00
Bell Atlantic MT Notes	Aa3	8.730	6	14	1991	10,000,000	9,823,300.00
Bell Atlantic MT Notes	Aa3	9.000	11	4	1991	10,000,000	10,020,300.00
Bell Tel Pennsylvania	Aa1	8.000	8	1	2009	4,000,000	3,718,160.00
Borden	Aa3	8.375	4	15	2016	22,000,000	20,421,500.00
BP America	A1	9.875	3	15	2004	10,000,000	10,768,300.00
BP America	A1	10.000	7	1	2018	13,000,000	13,718,770.00
British Gas Finance	Aaa	8.750	3	15	1998	10,000,000	10,052,000.00
British Gas Finance	Aaa	9.500	3	15	2018	10,000,000	10,378,800.00
British Tel Finance	Aaa	9.375	2	15	1999	10,000,000	10,458,100.00
Cajun Electric Power	Aaa	8.780	3	15	1993	5,000,000	4,988,000.00
Ches & Potomac Tel (Virg.)	Aaa	8.500	9	1	2026	5,000,000	4,733,300.00
Coca-Cola Enterprises MT Notes	A2	9.500	12	5	1994	10,000,000	10,229,900.00
Coca-Cola Enterprises MT Notes	A2	9.660	1	29	2018	25,000,000	26,388,000.00
Consolidated Edison	Aa1	6.850	10	1	1998	5,000,000	4,460,800.00
Consolidated Edison	Aa1	7.750	2	15	2003	14,500,000	13,326,660.00
Consolidated Edison	Aa1	7.900	4	15	2002	10,000,000	9,350,200.00
Consolidated Natural Gas	Aa2	8.625	12	1	2011	5,000,000	4,813,850.00
CSX Corp.	A3	8.400	8	1	1996	11,000,000	10,528,650.00
Dominion Fin. Inc. MT Notes	Aaa	8.820	6	25	1991	20,000,000	19,970,200.00
Duke Power	Aa2	7.750	6	1	2003	9,750,000	8,982,480.00
Duke Power	Aa2	8.500	2	1	2017	42,200,000	41,371,614.00
Dupont (El) Denemours & Co.	Aa2	6.000	12	1	2001	30,000,000	23,700,000.00
Exxon Capital	Aaa	10.300	3	15	1990	10,000,000	10,097,100.00
Farmers Insurance Group	Aa2	8.250	7	15	1996	21,000,000	20,177,220.00
Florida Power & Light	Aa3	9.750	4	1	2017	5,000,000	5,039,350.00
Florida Power & Light	Aa3	9.875	2	1	2016	15,000,000	15,465,900.00
Ford Motor Credit	Aa2	8.000	8	15	1993	10,000,000	9,743,600.00
Ford Motor Credit	Aa2	8.875	3	1	1996	10,000,000	9,912,000.00
Ford Motor Credit MT Notes	Aa2	9.350	9	5	1995	30,000,000	30,622,500.00
Ford Motor Credit	Aa2	9.750	7	1	1998	15,000,000	15,294,300.00
Ford Motor Credit MT Notes	Aa2	9.000	3	25	1998	30,000,000	30,171,900.00
Ford Motor Credit MT Notes	Aa2	9.500	8	26	1997	30,000,000	31,019,700.00
Ford Motor Credit MT Notes	Aa2	9.700	10	6	1998	10,000,000	10,366,800.00
Ford Motor Credit MT Notes	Aa2	10.050	4	21	1994	15,000,000	15,626,400.00
General Electric	Aaa	8.250	3	1	1993	10,000,000	9,823,200.00
General Electric	Aaa	8.625	4	1	2016	20,000,000	19,196,600.00
General Electric Capital	Aaa	8.250	1	15	1991	35,000,000	34,705,300.00
General Electric Capital	Aaa	9.000	6	1	1993	5,000,000	5,027,200.00
General Electric Capital	Aaa	9.500	2	1	1999	25,000,000	25,326,500.00
General Electric Capital	Aaa	10.150	3	15	1990	7,000,000	7,053,900.00
General Electric Credit	Aaa	5.500	11	1	2001	20,000,000	15,218,000.00
General Electric Credit	Aaa	6.750	11	1	1991	7,000,000	6,715,660.00
General Motors	Aa3	7.500	8	15	1993	5,000,000	4,771,100.00
General Motors	Aa3	8.125	4	15	2016	10,000,000	9,087,100.00
General Motors Accept. Corp.	Aa3	8.000	11	15	1994	10,000,000	9,674,200.00
General Motors Accept. Corp.	Aa3	8.500	2	1	1993	5,000,000	4,950,050.00
General Motors Accept. Corp. MT Notes	Aa3	7.650	2	8	1990	20,000,000	19,854,400.00
General Motors Accept. Corp. MT Notes	Aa3	8.125	2	5	1991	11,500,000	11,354,410.00
General Tel Northwest	Aa3	8.750	4	15	2016	5,000,000	4,963,800.00
General Tel (California)	Aa3	8.625	12	1	2016	18,000,000	17,261,640.00
General Tel (Florida)	Aa2	8.750	4	15	2026	14,750,000	14,021,792.50
GTE	A3	10.250	5	1	2019	15,000,000	15,875,850.00
GTE MT Notes	A3	9.680	2	18	1999	10,000,000	10,204,300.00
Gulf Power	A1	10.125	2	1	2016	15,000,000	15,910,650.00
Hershey Foods	Aa2	9.500	3	15	2008	46,240,000	46,411,088.00
Honeywell	A3	9.875	6	1	2017	23,000,000	22,894,660.00

Description	Rating	Coupon	Maturity			Par Value	Market Value
Illinois Bell Tel	Aa1	8.500	4	22	2026	5,000,000	4,747,100.00
Int'l Bus. Machines Credit MT Notes	Aaa	9.780	10	15	1992	12,000,000	12,290,280.00
Johnson & Johnson	Aaa	8.875	10	15	1990	10,000,000	10,020,200.00
Johnson & Johnson	Aaa	9.125	9	15	1992	10,000,000	10,095,800.00
Kansas Power & Light	Aa3	8.250	7	1	1996	10,000,000	9,561,200.00
Kansas Power & Light	Aa3	9.350	10	15	1998	10,000,000	9,898,400.00
Knight Ridder	A1	9.875	4	15	2009	6,000,000	6,450,120.00
McDonalds Corp.	Aa2	8.875	3	1	2016	20,000,000	19,600,600.00
McDonalds Corp.	Aa2	9.750	11	1	2017	5,000,000	5,134,250.00
MDU Resources Group	Baa1	11.250	11	15	2010	9,518,000	10,347,398.52
Michigan Bell Tel	Aa1	7.750	6	1	2011	11,500,000	10,502,145.00
Michigan Bell Tel	Aa1	8.125	6	1	2015	5,000,000	4,812,350.00
Michigan Bell Tel	Aa1	8.625	2	1	2010	11,500,000	11,141,085.00
Mobil Oil	Aa2	8.375	2	15	1993	25,000,000	24,742,500.00
Morgan (JP) & Co.	Aa1	8.000	3	15	1996	15,000,000	14,249,850.00
National Fuel Gas	A2	9.875	9	1	2006	8,000,000	8,234,800.00
New England Tel	Aa1	9.500	10	1	1992	15,000,000	15,348,000.00
New Jersey Bell Tel	Aaa	7.750	9	1	2013	11,000,000	10,066,100.00
New Jersey Bell Tel	Aaa	8.750	6	1	2018	10,000,000	9,732,500.00
Nissan Mtr. Accept. Corp. MT Notes	A2	8.600	6	28	1990	10,000,000	10,037,700.00
Northern Illinois Gas	Aa1	8.250	3	15	1993	10,000,000	9,842,100.00
Northern Illinois Gas	Aa1	9.250	7	1	1996	5,000,000	5,045,400.00
Northern States Power (Wisc.)	Aa1	9.750	3	1	2018	15,000,000	16,119,300.00
Northwestern Bell Tel	Aa3	7.500	4	1	2005	11,000,000	9,819,920.00
Ohio Bell Tel	Aaa	8.750	4	15	2026	10,000,000	9,858,400.00
Pacific Gas & Electric	A1	8.125	1	1	1997	5,000,000	4,689,950.00
Pacific Gas & Electric	A1	8.500	2	1	2020	15,000,000	13,958,250.00
Pacific Gas & Electric	A1	9.000	8	1	2019	5,000,000	4,839,100.00
Pacific Tel & Tel	Aa3	11.375	8	15	2024	27,000,000	29,525,040.00
Potomac Electric Capital MT Notes	Aa2	9.500	1	10	1995	10,000,000	10,063,300.00
Potomac Electric Capital MT Notes	Aa2	9.690	8	11	1997	10,000,000	10,325,300.00
Potomac Electric Capital MT Notes	Aa2	9.800	1	20	1998	10,000,000	10,259,900.00
Potomac Electric Capital MT Notes	Aa2	9.870	7	30	1998	10,000,000	10,435,800.00
Potomac Electric Power	Aa1	8.750	11	15	2016	10,000,000	9,601,900.00
Private Export Funding	Aaa	8.600	6	30	1994	10,000,000	9,998,800.00
Procter & Gamble	Aa1	8.625	4	1	2016	10,000,000	9,598,300.00
Provident Life Cap. Corp.	Aa3	10.000	11	1	1997	25,000,000	25,379,500.00
Public Serv. Elec. & Gas MT Notes	A3	9.300	11	13	1995	20,000,000	19,948,200.00
Public Serv. Elec. & Gas MT Notes	A3	9.690	8	24	1993	10,000,000	10,145,900.00
Public Serv. Elec. & Gas MT Notes	A3	9.720	8	25	1993	10,000,000	10,327,900.00
Shell Oil MT Notes	Aa1	8.250	8	9	1989	25,000,000	24,972,250.00
Shell Oil MT Notes	Aa1	8.450	2	15	1990	25,000,000	24,939,250.00
Sohio Pipeline	A1	8.750	5	1	2001	5,000,000	4,867,500.00
South Central Bell	Aaa	8.250	12	1	2004	5,000,000	4,781,200.00
South Central Bell	Aaa	9.625	3	1	2019	6,700,000	6,848,740.00
Southern Bell Tel	Aaa	7.375	7	15	2010	5,000,000	4,396,800.00
Southern Bell Tel	Aaa	8.625	9	1	2018	14,000,000	13,477,660.00
Southern Bell Tel	Aaa	8.625	9	1	2026	46,500,000	44,739,975.00
Southern Bell Tel	Aaa	8.750	11	1	2024	8,000,000	7,852,720.00
Southern California Edison	Aa2	8.375	12	1	2017	10,000,000	9,265,800.00
Southwestern Electric Power	Aa2	11.375	8	1	2015	14,550,000	17,663,554.50
Standard Oil Ohio (BP)	A1	6.300	7	1	2001	10,000,000	8,141,200.00
Standard Oil Ohio (BP)	A1	9.000	6	1	2019	15,000,000	14,640,000.00
Travelers Corp.	Aa2	7.625	1	15	1997	25,000,000	22,530,750.00
Union Camp	A1	10.875	7	1	2010	34,904,000	37,465,604.56
Virginia Elec. & Power	A1	9.875	6	1	2017	15,000,000	15,564,150.00
Virginia Elec. & Power MT Notes	A2	7.500	12	5	1991	10,000,000	9,660,200.00
Weyerhaeuser	A1	8.375	2	15	2007	15,000,000	14,276,700.00
Wisconsin Electric Power	Aaa	9.625	1	15	2018	21,000,000	22,189,650.00
Subtotal Corporates							$ 1,707,653,903.38

Description	Rating	Coupon	Maturity			Par Value	Market Value
Convertible Corporates							
Browning Ferris Ind. Conv.	A3	6.250	8	15	2012	9,500,000	$ 9,666,250.00
Compaq Computer Conv.	Ba2	6.500	5	1	2013	10,750,000	15,480,000.00
First Financial Mgmt. Conv.	Ba3	7.000	7	15	2013	1,400,000	1,386,000.00
General Instruments Conv.	Baa2	7.250	6	15	2012	5,000,000	4,900,000.00
Humana Inc. Conv.	Baa1	8.500	8	15	2009	5,000,000	5,212,500.00
Int'l Business Machines Conv.	Aaa	7.875	11	21	2004	4,000,000	3,980,000.00
Int'l Mineral & Chemical Conv.	Ba1	0.000	11	14	2005	13,000,000	3,477,500.00
Mead Corporation Conv.	Baa1	6.750	9	15	2012	1,000,000	960,000.00
Nat'l Medical Enterprises Conv.	Baa2	0.000	12	30	2004	10,000,000	3,575,000.00
Norton Co. Conv.	A3	7.750	6	1	2012	3,600,000	3,924,000.00
Novell Inc. Conv.	B1	7.250	9	15	2013	4,000,000	4,100,000.00
Pfizer Inc. Conv.	Aa1	8.750	2	15	2006	1,412,000	2,852,240.00
Student Loan Mtg. Assn. Conv.	Aaa	7.750	11	15	2009	4,606,000	12,159,840.00
Trinity Industires Conv.	Ba2	6.750	4	1	2012	2,550,000	3,366,000.00
Subtotal Convertible Corporates							$ 75,039,330.00
TOTAL CORPORATES							$ 1,782,693,233.38
MORTGAGES:							
Farmers Home Administration	AAA	5.000	12	21	1990	10,484	$ 10,408.52
Farmers Home Administration	AAA	5.750	6	30	1999	47,951	37,294.43
Farmers Home Administration	AAA	5.750	6	29	2001	384,126	371,964.23
Farmers Home Administration	AAA	6.000	12	9	1991	102,129	94,973.02
Farmers Home Administration	AAA	6.000	10	27	1991	98,067	97,208.64
Farmers Home Administration	AAA	6.000	11	14	1991	186,716	174,086.77
Farmers Home Administration	AAA	6.000	2	10	1992	245,661	223,315.41
Farmers Home Administration	AAA	6.250	10	10	1992	120,939	111,159.53
Farmers Home Administration	AAA	6.500	3	26	1993	363,002	325,257.39
Farmers Home Administration	AAA	8.500	8	28	1994	164,796	159,227.78
Farmers Home Administration	AAA	8.750	11	26	1994	119,504	109,968.66
F H A and V A Mortgages	AAA	6.000	10	1	1997	125,418	106,463.85
F H A and V A Mortgages	AAA	5.250	11	1	1995	90,038	76,387.70
TOTAL MORTGAGES							$ 1,897,715.93
CERTIFICATES OF DEPOSITS:							
Century Federal Savings & Loan	NR	13.275	8	28	1989	200,000	$ 200,000.00
Charter Federal Savings & Loan	NR	13.275	8	28	1989	100,000	100,000.00
First Federal Savings Bank	NR	13.275	8	28	1989	100,000	100,000.00
First Federal Savings & Loan	NR	13.275	8	28	1989	400,000	400,000.00
First Federal Savings & Loan	NR	13.275	8	28	1989	100,000	100,000.00
Liberty Federal Savings & Loan	NR	13.275	8	28	1989	100,000	100,000.00
Lincoln State Savings & Loan	NR	13.275	8	28	1989	400,000	400,000.00
Volunteer Federal Savings & Loan	NR	13.275	8	28	1989	150,000	150,000.00
TOTAL CERTIFICATES OF DEPOSIT							$ 1,550,000.00
TOTAL DOMESTIC FIXED INCOME PORTFOLIO							$ 3,978,185,645.42

INTERNATIONAL FIXED INCOME PORTFOLIO

Description	Rating	Coupon	Maturity			Par Value		Market Value
GOVERNMENTS:								
Bundesrepublik	Aaa	6.000	3	20	1997	70,000,000	$	34,004,101.51
Japan L.T. Govt. Bonds #100	Aaa	4.000	6	20	1997	800,000,000		5,052,840.27
Japan L.T. Govt. Bonds #104	Aaa	4.900	9	22	1997	750,000,000		5,089,457.07
Japan L.T. Govt. Bonds #106	Aaa	4.900	3	20	1998	750,000,000		5,084,236.04
Japan L.T. Govt. Bonds #99	Aaa	4.700	6	20	1997	1,710,000,000		11,369,454.48
New South Wales Treasury Corp.	Aaa	11.500	7	1	1999	7,000,000		4,528,695.65
Nova Scotia (Province)	A2	8.875	3	15	2016	20,000,000		20,197,800.00
Quebec (Province)	Aa3	8.625	12	1	2026	10,000,000		10,040,100.00
South Australia Govt. Finance	Aaa	12.500	3	15	1998	7,000,000		4,795,039.69
UK Treasury Gilt Stock	Aaa	8.750	9	1	1997	15,000,000		21,082,466.22
UK Treasury Gilt Stock	Aaa	12.750	11	15	1995	9,000,000		15,217,813.32
UK Treasury Gilt Stock	Aaa	13.250	1	22	1997	11,000,000		19,218,822.79
Victorian Finance Authority	NR	12.500	7	15	2000	7,000,000		4,717,708.88
TOTAL GOVERNMENTS							$	160,398,535.92
CORPORATES:								
Amcor Limited Conv.	NR	9.000	1	1	1999	7,500,000	$	5,245,746.69
Hydro-Quebec	Aa3	8.250	1	15	2027	30,000,000		28,991,700.00
Hydro-Quebec	Aa3	10.700	10	15	2007	10,000,000		10,869,700.00
Hydro-Quebec MT Notes	Aa3	9.230	11	3	1998	5,000,000		5,175,300.00
Hydro-Quebec MT Notes	Aa3	9.640	12	29	1997	10,000,000		10,499,700.00
Hydro-Quebec MT Notes	Aa3	9.710	12	24	1997	10,000,000		10,437,200.00
Hydro-Quebec Notes	Aa3	9.810	11	6	1997	10,000,000		10,207,400.00
Nippon Tel & Tel	Aaa	9.500	7	27	1998	20,000,000		21,037,400.00
Pearson Inc. MT Notes	A	8.950	3	30	1995	5,000,000		4,868,750.00
Petro Canada	Aaa	8.800	6	1	2019	5,000,000		5,219,750.00
Pioneer Concrete Conv.	NR	9.500	6	21	1998	4,000,000		2,536,862.00
TOTAL CORPORATES							$	115,089,508.69
TOTAL INTERNATIONAL FIXED INCOME PORTFOLIO							$	275,488,044.61
GRAND TOTAL FIXED INCOME PORTFOLIO							$	4,253,673,690.03

KEY TO RATINGS: All ratings presented are from Moody's Investors Service with the exception of the FHA and VA mortgages and some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating). Government Securities are not rated per se' but are considered the best quality securities. By policy, TCRS considers convertible bonds as an equity investment, thus the ratings of the convertible bonds are not a factor when an investment decision is made. As a result, some of the convertible bond ratings are lower than other TCRS bond investments. In accordance with generally accepted accounting principles, the convertible bonds are classified as corporate bonds for financial reporting purposes.

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 the security is not rated by Moody's.

DOMESTIC STOCK PORTFOLIO

Description	Shares	Book Value	Market Value
Abbott Laboratories	300,000	$ 8,060,750.00	$ 17,400,000.00
Acuson	225,000	6,231,132.90	7,115,625.00
Adobe Systems	225,000	5,378,435.00	5,962,500.00
Ahmanson (H F) & Co.	600,000	10,931,642.50	13,200,000.00
Albertson's Inc.	362,000	11,043,306.20	17,285,500.00
Alexander & Baldwin	200,000	6,314,057.50	7,050,000.00
Allegheny Ludlum	100,000	4,056,861.50	3,312,500.00
Aluminum Company of America	350,000	14,036,174.79	22,443,750.00
Amdahl Corp.	200,000	4,788,097.55	3,350,000.00
American Int'l Group Inc.	125,000	9,796,599.40	10,234,375.00
American Telephone & Telegraph	560,000	14,106,440.00	19,600,000.00
American Television Comm.	225,000	5,788,125.00	11,446,875.00
Amoco Corp.	624,000	20,019,668.00	27,534,000.00
AMR Corp.	250,000	14,486,184.94	15,281,250.00
Archer Daniels Midland Co.	550,000	13,288,304.50	15,675,000.00
Aristech Chemical Corp.	412,500	9,054,499.30	8,714,062.50
Ashland Oil Inc.	325,000	12,144,844.20	12,553,125.00
Ask Computer Systems	250,000	4,312,500.00	3,125,000.00
Atlanta Gas Light	118,100	3,166,173.25	3,129,650.00
Atlantic Richfield	375,000	23,664,741.41	35,109,375.00
Autodesk Inc.	105,000	3,998,450.00	3,648,750.00
Automatic Data Processing	250,000	11,675,225.34	10,031,250.00
Banc One Corp.	250,000	6,367,425.00	8,375,000.00
Bard (C R) Inc.	275,000	6,127,137.05	5,946,875.00
Bausch & Lomb Inc.	150,000	7,177,524.40	8,231,250.00
Baxter Int'l Inc.	300,000	7,277,093.75	6,225,000.00
Baxter Int'l Inc. Pref.	102,000	7,119,430.00	6,681,000.00
Bergen Brunswig Corp.	175,000	5,145,761.97	5,162,500.00
Betz Laboratories Inc.	75,000	4,256,875.00	4,275,000.00
Biomet Inc.	393,750	5,587,510.00	8,367,187.50
Birmingham Steel Corp.	244,000	5,288,684.75	5,673,000.00
Boeing Company	450,000	18,567,250.00	21,600,000.00
Borden Inc.	400,000	22,383,363.80	26,550,000.00
Bristol Myers	300,000	7,448,849.03	14,362,500.00
Browning Ferris Ind.	325,000	8,663,307.20	10,806,250.00
Capital Cities ABC	35,000	6,481,496.80	16,275,000.00
Caterpillar Tractor	250,000	14,762,155.60	14,500,000.00
Chevron Corp.	275,000	14,983,222.50	14,850,000.00
Cincinnati Bell	140,000	2,782,670.00	4,532,500.00
Citicorp	422,000	13,005,168.00	13,134,750.00
Clark Equipment	325,000	10,715,369.30	11,862,500.00
Clorox Co.	350,000	11,413,064.20	13,212,500.00
CNW Corp.	200,000	5,627,411.50	9,725,000.00
Coastal Corp.	400,000	13,364,495.92	16,500,000.00
Coca-Cola	435,000	8,104,854.51	24,523,125.00
Community Psychiatric Centers	300,000	8,849,195.48	9,075,000.00
Compaq Computer	50,000	674,375.00	4,562,500.00
Computer Assoc. Int'l Inc.	700,000	12,552,792.16	12,862,500.00
Computer Sciences Corp.	125,000	6,523,110.60	6,546,875.00
Consolidated Edison of NY Inc.	650,000	22,791,680.00	32,987,500.00
Consolidated Papers Inc.	100,000	3,831,250.00	3,875,000.00
Contel Corporation	450,000	17,171,512.60	27,900,000.00
Cooper Tire & Rubber Co.	400,000	11,423,981.00	11,600,000.00
Corning Inc.	450,000	15,059,521.00	16,762,500.00
CPC Int'l Inc.	200,000	9,484,335.20	12,450,000.00
Cross (A T) Company	224,000	3,961,464.80	8,120,000.00
Cypress Minerals Co.	337,500	7,174,087.00	8,310,937.50
Cypress Minerals Co. Conv. Pref.	70,000	3,963,200.00	3,955,000.00
Deere & Co.	383,000	17,508,129.90	21,400,125.00
Dekalb Energy Corp.	190,000	3,482,236.05	4,441,250.00
Delmarva Power & Light	500,000	8,913,026.50	9,437,500.00

Description	Shares	Book Value	Market Value
Digital Microwave Corp.	112,000	3,528,000.00	2,562,000.00
Dillard Dept. Stores	200,000	10,538,466.00	11,850,000.00
Disney (Walt)	225,000	15,628,582.25	21,290,625.00
Dollar General Corp.	295,000	6,721,000.00	3,134,375.00
Dow Chemical	150,000	11,078,950.00	12,600,000.00
DPL Inc.	500,000	13,121,650.28	13,187,500.00
Dresser Industries	600,000	17,229,195.00	24,525,000.00
Duke Power Company	400,000	15,718,250.00	19,750,000.00
Duquesne Light	200,000	3,015,610.00	4,175,000.00
E Systems Inc.	175,000	5,339,165.00	5,271,875.00
Eastern Enterprises	175,000	5,436,717.41	5,250,000.00
EQK Realty Investors	1,250,000	21,292,600.01	14,850,000.00
Federal Nat'l Mtg. Assn.	300,000	14,203,900.05	26,737,500.00
First Chicago Corp.	550,000	18,661,069.96	22,618,750.00
First Financial Mgmt.	65,000	1,576,410.00	1,738,750.00
First Wachovia Corp.	300,000	8,699,817.50	13,500,000.00
Ford Motor	400,000	9,441,990.72	19,400,000.00
Forest Labs Inc.	225,000	5,137,283.00	6,975,000.00
Gannett Co.	300,000	12,512,199.15	13,087,500.00
General Electric Co.	625,000	14,339,464.49	32,265,625.00
General Instruments	250,000	7,971,927.00	8,656,250.00
General Mills	300,000	14,940,841.00	19,462,500.00
General Motors	600,000	26,544,970.00	25,050,000.00
General RE Corp.	250,000	14,467,437.50	16,312,500.00
Genuine Parts	389,000	15,512,250.00	15,171,000.00
Georgia Gulf	264,000	7,890,125.00	10,032,000.00
Gerber Products	150,000	10,268,796.04	11,550,000.00
Gerber Scientific	300,000	6,122,888.20	5,812,500.00
Grainger (W W)	85,000	5,381,000.86	5,291,250.00
Great Atlantic & Pacific Tea	325,000	13,428,180.56	18,687,500.00
GTE Corp.	375,000	15,126,035.00	19,828,125.00
Halliburton Co.	450,000	13,541,050.00	14,906,250.00
Handleman Co.	200,000	4,321,242.34	5,750,000.00
Hanna (M A) Co.	250,000	6,070,720.83	5,718,750.00
Hewlett Packard	200,000	11,035,697.90	10,350,000.00
Hilton Hotel	75,000	3,698,053.00	7,387,500.00
Homefed Corp.	150,000	5,972,255.00	5,812,500.00
Humana Inc.	425,000	11,165,673.20	14,450,000.00
IBP Inc.	450,000	8,550,000.00	6,525,000.00
Illinois Tool Works	150,000	1,911,895.80	5,531,250.00
Ingersoll Rand	100,000	4,222,466.44	4,125,000.00
Inland Steel Industries	366,720	14,450,375.00	14,714,640.00
Intel Corp.	350,000	12,133,728.00	10,150,000.00
Intermec Corp.	110,000	3,249,980.00	2,722,500.00
Int'l Business Machines	100,000	13,127,046.09	11,187,500.00
Johnson & Johnson	700,000	17,596,300.00	33,512,500.00
JWP Inc.	175,000	4,258,050.80	3,981,250.00
Kaufman & Broad Home Corp.	279,000	3,715,567.96	4,743,000.00
Kerr McGee Corp.	115,000	5,300,740.00	5,074,375.00
Liz Claiborne	215,000	5,008,790.00	4,568,750.00
Loews Corp.	200,000	15,866,030.60	21,850,000.00
LSI Logic Corp.	400,000	5,220,000.00	3,550,000.00
Mapco Inc.	390,000	12,791,667.68	15,161,250.00
Marion Laboratories Inc.	525,000	12,866,372.50	12,337,500.00
McDonalds Corp.	700,000	18,434,538.07	20,475,000.00
MCI Communications	300,000	3,311,875.00	10,837,500.00
Mead Corporation	200,000	8,057,008.72	7,775,000.00
Measurex Corp.	245,000	7,812,707.20	6,615,000.00
Melville Corp.	400,000	14,183,956.80	17,750,000.00
Merck and Co.	370,000	18,249,890.00	24,743,750.00
Michigan National	100,000	4,745,000.00	4,825,000.00

Description	Shares	Book Value	Market Value
Micron Technology Inc.	150,000	3,137,545.00	2,775,000.00
Minnesota Mining & Mfg.	240,000	14,575,349.00	17,040,000.00
Mobil Corp.	600,000	21,210,150.00	29,625,000.00
Monsanto Co.	150,000	8,333,554.50	15,806,250.00
Montana Power Co.	350,000	12,573,150.00	13,912,500.00
Morgan Stanley Group Inc.	200,000	8,927,274.67	13,000,000.00
Morgan (J P) & Co.	300,000	13,997,654.30	11,437,500.00
Morrison Inc.	200,000	4,805,807.05	6,575,000.20
Motorola Inc.	264,500	15,748,146.25	13,919,312.50
Nalco Chemical Co.	200,000	7,642,312.00	8,100,000.00
Nat'l Medical Enterprises	180,000	5,312,786.60	5,602,500.00
NCNB Corp.	275,000	9,686,561.95	12,478,125.00
NCNB Corp. Conv. Pref.	110,000	6,074,750.00	7,700,000.00
Newell Co.	190,000	5,033,328.47	7,267,500.00
Nicor Inc.	230,000	7,090,017.36	8,251,250.00
NIKE Inc.	300,000	7,553,130.00	12,225,000.00
Norfolk Southern Corp.	625,000	12,661,917.49	21,796,875.00
Northern States Power	450,000	15,006,723.34	16,425,000.00
Norwest Corp.	200,000	6,861,100.00	8,425,000.00
Novell Inc.	325,000	9,853,080.00	9,262,500.00
Owens Corning Fiberglas Corp.	275,000	6,927,517.34	8,112,500.00
Paccar Inc.	200,000	7,460,078.80	9,900,000.00
Pacific Gas & Electric	800,000	14,727,459.30	15,200,000.00
Pacific Telesis Group	550,000	16,197,235.00	22,137,500.00
Paramount Communications Inc.	150,000	7,912,500.00	8,887,500.00
Penney (J C)	300,000	14,245,269.20	16,650,000.00
Pepsico Inc.	525,000	16,019,115.00	27,956,250.00
Pfizer Inc.	50,000	2,891,995.60	2,868,750.00
Philip Morris Cos.	250,000	24,489,161.90	34,656,250.00
Phillips Petroleum	425,000	10,096,237.50	9,243,750.00
Pittston Co.	250,000	4,672,392.90	4,812,500.00
PPG Industries Inc.	250,000	11,151,167.63	11,031,250.00
Premark Int'l Inc.	225,000	7,192,312.87	8,325,000.00
Reynolds Metals Co.	175,000	9,288,260.00	8,793,750.00
Rowan Companies Inc.	1,477,300	12,399,498.50	12,372,387.50
Schering Plough Corp.	328,100	18,157,114.15	21,859,662.50
SCI Systems	425,000	5,254,500.00	4,781,250.00
Scott Paper Co.	300,000	11,941,098.70	13,425,000.00
Sonoco Products Co.	162,500	5,411,707.50	5,606,250.00
Southwestern Bell Corp.	285,000	13,684,899.80	14,535,000.00
Springs Industries Inc.	125,000	5,238,768.96	5,234,375.00
Stolt Tankers & Term Hldgs.	240,000	4,682,187.50	5,880,000.00
Stride Rite Corp.	141,800	4,311,062.70	6,948,200.00
Student Loan Marketing	50,000	4,794,176.65	5,012,500.00
Sun Microsystems Inc.	500,000	9,411,190.00	8,500,000.00
Sysco Corp.	260,000	7,783,371.50	12,317,500.00
Tandy Corp.	200,000	8,909,175.00	8,925,000.00
TECO Energy Inc.	400,000	9,659,130.76	10,150,000.00
Tele-Communications	100,000	2,131,458.33	3,487,500.00
Temple Inland Inc.	225,000	12,300,135.90	12,684,375.00
Tenneco Inc.	203,836	9,394,963.56	11,134,541.50
Texaco Inc.	300,000	14,254,004.00	15,150,000.00
Textron Inc.	185,000	5,032,182.70	4,740,625.00
Time Inc.	75,000	5,514,617.54	11,643,750.00
Torchmark Corp.	200,000	6,388,330.10	7,800,000.00
Toys 'R' Us Inc.	487,500	12,031,979.80	14,015,625.00
Tribune Company	100,000	5,436,780.00	5,175,000.00
Trinity Industries Inc.	151,000	5,551,824.37	5,983,375.00
Tyco Laboratories Inc.	350,000	12,598,889.22	13,518,750.00

Description	Shares	Book Value	Market Value
Unifi Inc.	200,000	4,584,065.00	6,800,000.00
Union Camp Corp.	275,000	6,497,069.33	9,659,375.00
United Telecommunications	450,000	12,572,525.00	29,700,000.00
Unocal Corp.	600,000	16,740,048.00	26,925,000.00
Unum Corp.	275,000	6,911,575.19	9,212,500.00
US West Inc.	325,000	19,403,026.68	22,425,000.00
UST Inc.	800,000	12,071,455.00	19,800,000.00
Wal-Mart Stores Inc.	700,000	19,299,765.00	26,687,500.00
Warner Communications	643,337	23,490,665.60	38,841,471.38
Waste Management Inc.	251,000	12,788,820.00	12,957,875.00
Wellman Inc.	155,000	3,774,521.60	4,165,625.00
Wells Fargo & Co.	250,000	16,167,474.40	18,750,000.00
Westinghouse Electric Corp.	315,500	21,904,067.30	19,561,000.00
Weyerhaeuser Co.	275,000	6,012,325.00	7,596,875.00
Williams Companies Inc.	350,000	11,599,722.60	13,081,250.00
Worthington Industries Inc.	200,000	4,764,799.00	4,425,000.00
Xerox	225,000	14,182,273.09	14,034,375.00
TOTAL DOMESTIC STOCK PORTFOLIO		$1,978,491,967.81	$2,443,316,928.08

INTERNATIONAL STOCK PORTFOLIO

Description	Shares	Book Value	Market Value
Adia SA	40	$ 5,372.73	$ 200,000.00
Adia SA-PTG	5,100	1,807,387.97	1,988,238.80
Akzo NV	62,500	4,531,454.86	4,220,705.06
Alcan Aluminum Ltd.	375,000	8,218,750.00	8,156,250.00
Allianz AG	10,000	8,280,923.27	9,689,823.12
Asahi Organic Chemical	775,000	6,558,125.75	5,988,517.91
Asko Deutsche Kaufhaus	9,650	3,970,515.11	4,081,645.73
Bayerische Motoren Werke	36,000	13,043,721.38	10,372,724.94
Beazer PLC	1,000,000	2,970,210.25	2,748,874.04
Blue Arrow	5,350,000	8,364,466.14	8,017,937.56
BPB Industries	800,000	3,903,570.32	2,944,556.60
Brambles Industries	623,094	5,183,254.78	6,289,833.57
British Gas PLC (American Dep. Receipt)	125,000	2,809,587.50	3,765,625.00
British Steel PLC (American Dep. Receipt)	378,000	4,308,444.90	4,205,250.00
British Telecommunications	500,000	2,044,675.61	1,956,825.59
Burton Group Ltd.	1,350,000	4,889,640.92	4,738,313.40
Centre Parcs NV	109,995	2,949,733.45	3,954,313.99
Chubu Electric Power	50,000	1,362,421.62	1,413,157.96
Ciba-Geigy AG (PTG)	5,000	6,991,925.84	9,074,626.86
Ciba-Geigy AG (REG)	250	402,178.34	482,835.82
Cie Fin Suez	90,000	4,750,911.58	4,577,422.27
Cie Generale D'Electricite	40,000	2,715,545.81	2,553,576.81
CKD Corp.	660,000	2,757,362.66	6,018,799.87
Collins & Leahy Holdings	1,009,250	2,694,888.98	1,488,119.09
Cominco Ltd.	126,400	1,893,843.00	2,759,882.99
Commerical Union Assn.	820,000	5,167,806.06	4,762,851.37
Continental AG	40,333	6,990,776.38	6,451,625.73
Cookson Group	600,000	3,436,385.95	3,140,239.16
Daiwa Securities	315,000	2,111,171.10	4,604,945.77
Dai-Tokyo Fire & Marine	480,000	2,940,269.57	4,176,821.56
Deutsche Bank AG	14,541	5,372,798.91	4,463,315.47
Elders IXL Ltd.	2,013,750	4,572,169.14	4,217,835.53
Fanuc, Ltd.	124,000	3,545,971.20	5,481,382.16
Fisons	1,250,000	5,032,035.18	5,843,298.64

Description	Shares	Book Value	Market Value
Getronics	305,000	3,488,889.56	3,691,922.63
Goodman Fielder Wattie	950,000	1,807,165.32	1,515,689.98
Honda Motor Co. Ltd.	100,000	1,364,913.68	1,315,698.79
Inco Ltd.	55,700	1,476,607.00	1,526,737.00
ITO Yokado Co. Ltd.	220,000	4,876,064.17	5,896,279.77
Kawada Industries	500,000	4,157,888.87	4,455,276.33
Kobori Juken Co. Ltd.	344,000	5,284,472.15	5,196,522.93
Marubeni Corp.	425,000	2,986,634.77	2,544,380.46
Marui Co. Ltd.	226,600	4,953,378.81	4,243,330.48
Mikuni Coca-Cola Bottling	400,000	2,024,072.58	5,429,868.03
Mitsui Real Estate Dev. Co. Ltd.	246,750	5,530,377.24	4,088,168.52
Mount Charlotte	5,500,000	5,819,882.27	7,772,946.10
Nat'l Westminister	2,000,000	9,889,489.38	8,945,488.42
NCR Japan Ltd.	140,000	1,771,257.38	1,900,453.81
Nippon Oil Co. Ltd.	360,000	5,098,332.89	3,583,712.90
Noranda Forest Inc.	500,000	7,312,682.82	5,798,161.30
Nova Corp. of Alberta	350,000	2,970,358.63	3,071,458.42
Oce' Van Der Grinten	40,000	5,292,280.02	5,633,674.63
Pacific Dunlop Ltd.	1,585,000	4,199,020.93	5,393,194.70
Pearson	250,000	3,101,308.87	2,791,582.54
Peugeot SA	38,000	6,110,688.96	9,812,556.59
Philips Gloeilampenfabrieken	416,000	10,641,701.76	7,288,282.13
Pioneer Int'l Ltd.	1,391,838	4,213,551.86	2,757,365.26
Polly Peck Int'l	900,000	4,623,629.04	3,899,673.86
Reuters Holdings	400,000	4,267,116.99	4,901,382.20
Royal Dutch Petroleum	200,000	10,644,049.38	12,505,118.54
Sankyo Co. Ltd.	280,000	5,043,119.82	4,775,499.32
Schindler Hldg. AG	688	2,446,039.82	2,546,626.86
Schindler Hldg.	4,785	2,268,076.04	3,056,686.56
Shimachu Co. Ltd.	333,000	5,342,206.20	6,908,045.18
Siemens AG	10,000	3,970,424.97	2,926,429.06
Soc Auxiliaire D'Entreprises	26,214	5,999,358.27	4,023,488.98
Sony Corp.	25,000	1,023,539.09	1,331,361.87
Sumitomo Forestry Co. Ltd.	330,000	3,187,384.93	4,594,503.72
Sumitomo Marine & Fire Inc. Co.	402,000	3,218,572.37	3,526,072.76
Sun Alliance	100,000	1,424,325.19	1,715,623.54
Sunwave Industrial Co.	310,000	4,902,145.55	5,179,258.73
Swiss Reinsurance Co. PC	4,500	7,645,752.36	4,486,567.16
Takasago Thermal Engineering	137,000	924,447.20	1,764,359.04
Takashimaya Co. Ltd.	505,000	4,279,072.74	9,421,517.17
Teikoku Kako Co. Ltd.	644,000	5,337,977.01	4,415,874.98
The Restaurant Seibu Ltd.	239,800	3,925,769.35	3,772,700.15
Thompson CSF	100,000	3,408,281.96	3,214,609.11
TNT	925,000	2,430,808.30	2,252,173.91
Tokyo Corp.	266,240	1,764,683.27	2,928,364.02
Total Petroles	120,000	8,395,315.41	9,417,446.42
Unilever NV	380,000	24,859,221.15	24,382,252.55
United Biscuits	900,000	5,071,869.86	5,185,587.82
Viag AG	40,000	5,010,438.41	7,280,184.56
VPI GROUP	1,330,000	5,469,392.73	2,334,058.08
Western Mining Corp. Hldg. Ltd.	1,100,000	4,448,858.70	4,491,493.38
Wharf Resources Ltd.	425,000	3,039,954.40	1,953,614.70
Wolters Kluwer	408,000	6,865,830.39	8,911,945.39
TOTAL INTERNATIONAL STOCK PORTFOLIO		$ 402,186,977.08	$ 417,585,443.71
GRAND TOTAL STOCK PORTFOLIO		$2,380,678,944.89	$2,860,902,371.79

Rate of Return Analysis On Retirement Investments For Fiscal Years 1979-80 Through 1988-89

	EXCLUDING GAINS AND LOSSES			INCLUDING GAINS AND LOSSES		
Fiscal Year	Average Amount Invested	Amount Earned	Percentage Earned on Book Value	Average Amount Invested	Amount Earned	Percentage Earned on Book Value
1988-89	$6,492,258,416	$474,648,937	7.31%	$6,454,807,817	$549,550,134	8.51%
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

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:

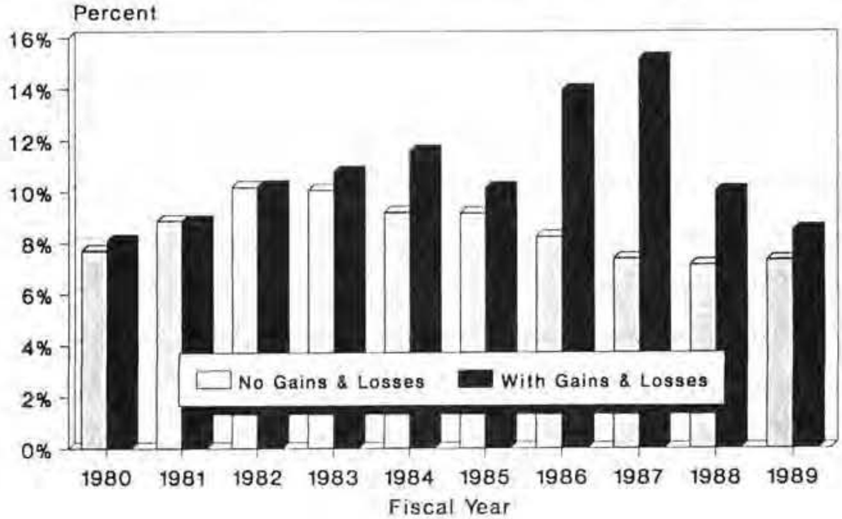
$$\frac{I}{(A + B - I)/2}$$

WHERE

I = Current earnings plus discount minus premium
A = Total assets less current 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.

RETIREMENT INVESTMENTS RATE OF RETURN ANALYSIS 1980 - 1989



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	[1] Public Fund Index Median Total Return	[2] TCRS Total Return	[3] Income Yield On Average Available Funds	[4] Yield To Maturity New Bonds
1988-89	14.2%	15.3%	6.35%	9.36%
1987-88	1.9	2.0	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

[1] This index most closely resembles TCRS' structure and objectives.

[2] This is the time weighted method used to calculate returns and is the most accurate way to measure performance.

[3] 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.

[4] This is the yield to maturity on bonds acquired with new funds during each fiscal year.

Summary of Investment Program Earnings
Fiscal Years 1984-85 through 1988-89

Fiscal Year	Cash Management Earnings	TCRS Portfolio Earnings	Total Treasury Earnings
1988-89	$134,874,854	$ 549,550,134	$ 684,424,988
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
TOTAL	$560,755,048	$2,768,112,557	$3,328,867,605

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. The State Trust of Tennessee utilizes the wire system to send, receive, transfer and control funds movement expediently under the State Treasurer's management. Effective in May, 1989 due to restrictions imposed upon state-owned trust companies by the Federal Reserve Board, the State Trust of Tennessee is limited to the number of daily outgoing wire transfers and can no longer settle ACH transactions through its account at the Federal Reserve. The State Trust of Tennessee has contracted with an agent bank to execute these transactions.

State Trust Of Tennessee

Federal Reserve Bank Transactions
Fiscal Year 1988-89

Transaction Type	Number	Amount
Wire Disbursements (1)	4,143	$12,799,234,192
Wire Receipts (2)	8,648	14,012,272,130
Security Disbursements (3)	969	12,833,819,515
Security Receipts (4)	819	12,010,251,908
ACH Disbursements (5)	516,217	912,165,605
ACH Receipts (6)	7,977	62,417,769
Check Redemptions (7)	5,465,638	6,411,905,520
TOTAL	6,004,411	$59,042,066,639

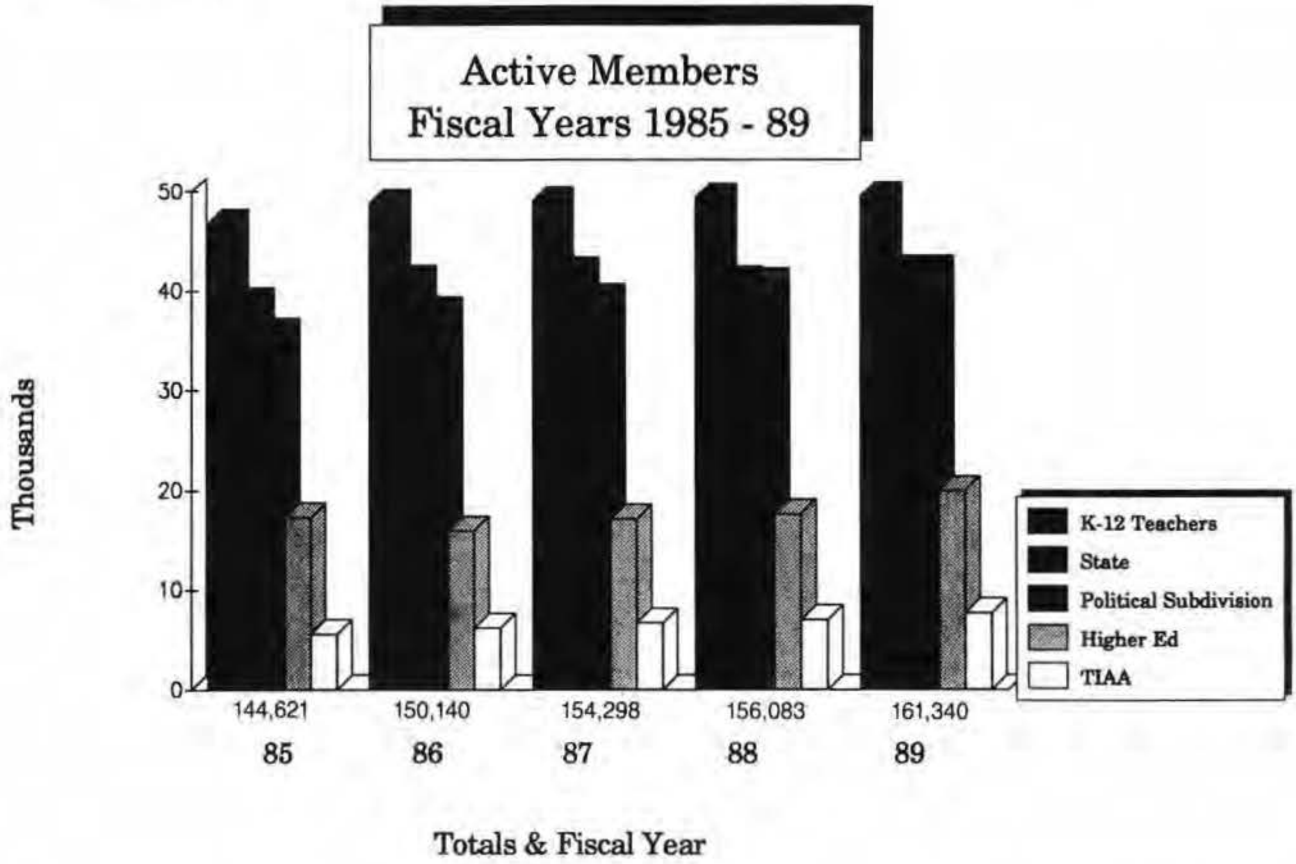
Explanation of Transaction Types:

(1) Disbursements of cash for the purpose of non-Fed eligible securities, 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, TCRS pension payments and state shared taxes.
(6) Funds received for various state agencies through the automated clearinghouse.
(7) 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 the 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, which is a nationwide defined contribution plan designed for faculty employees in institutions of higher education. When an employee joins TCRS, he receives an introductory letter and membership pamphlet outlining various aspects of retirement membership. Members currently become vested with 10 years of creditable service. A vested member is guaranteed a retirement benefit once the age requirements are met. As of June 30, 1989, there were 153,882 active members of TCRS and 7,458 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, all employees were classified as Group I with the exception of state policemen, wildlife officers, firemen and policemen who were classified as Group II and judges and elected officials who were classified as Group III. Members of seven superseded systems are permitted to retain their original rights and benefits.

Contributions

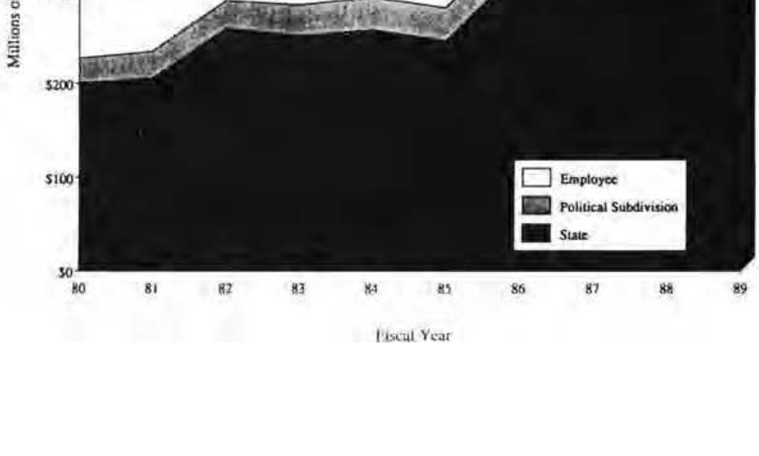
The funding of retirement benefits is financed by member contributions, employer contributions, and the earnings of the invested assets. Effective July 1, 1981, the employee contributions of certain state employees and higher education employees were assumed by the state. Local governments can also adopt these noncontributory provisions for their employees. Group I K-12 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 state employees and teachers 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 benefit payments. 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 1988-89 fiscal year, 6,243 refunds totaling $20.7 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, 1989 were as follows:

Noncontributory State and Higher Education Employees	9.86%
K-12 Teachers	12.82%
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 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 full 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 if 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
(7) Work-Related Temporary Disability

Prior Service Credit Established During The 1988-89 Fiscal Year

Type of Service	Number of Employees	Service Established		Employee Payment
		Years	Months	
Military				
Interrupted Employment	11	17	7	$ 2,700
Purchased Peacetime	83	76	3	224,118
Armed Conflict	470	993	7	0
Redeposit of Withdrawn Service	688	2,534	0	2,130,502
Teaching Service Prior to 1945	8	11	7	0
Out-of-State Service	6	17	1	59,196
Political Subdivision Enrollment Service:				
Employee Paid	183	1,067	7	389,680
Employer Paid	581	3,604	10	0
Noncontributory Service	119	246	4	0
GRAND TOTAL	2,149	8,568	10	$2,806,196

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.

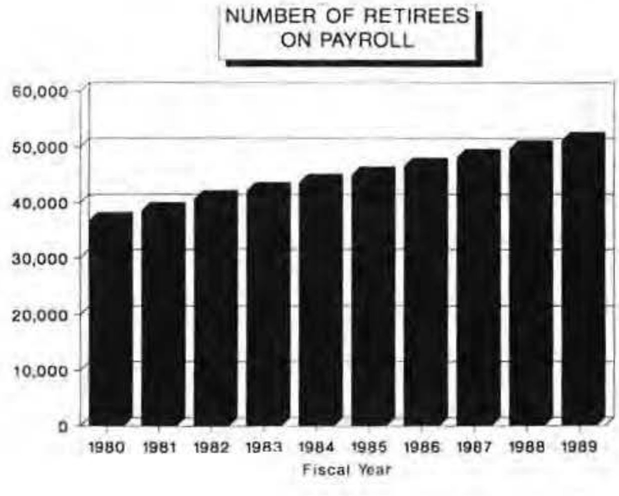
Disability benefits are available to active members with five years of service who become disabled and can not engage in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is a result of an accident or injury occurring while the member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

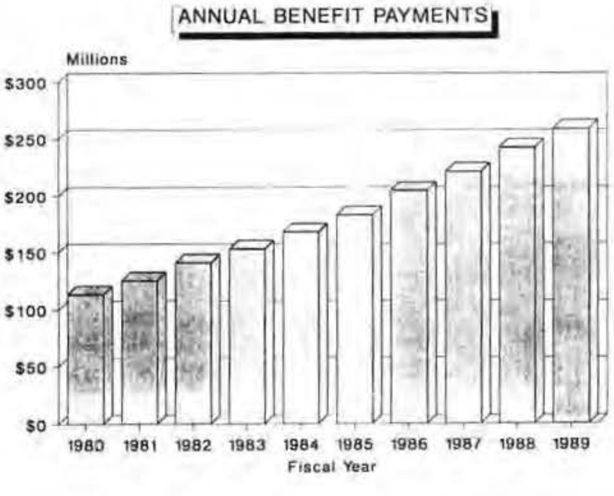
Cost-of-living adjustments after retirement are based on the Consumer Price Index (CPI). If there is an increase or decrease in the CPI of as much as 1% in any calendar year, the retired member's benefit will be adjusted by an amount equal to the increase or decrease in the CPI, not to exceed 3%.

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, 1989, 51,155 retirees were receiving monthly benefit payments. Benefits paid in fiscal year 1988-89 totaled $256 million.

TCRS Retirements





Financial Data

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

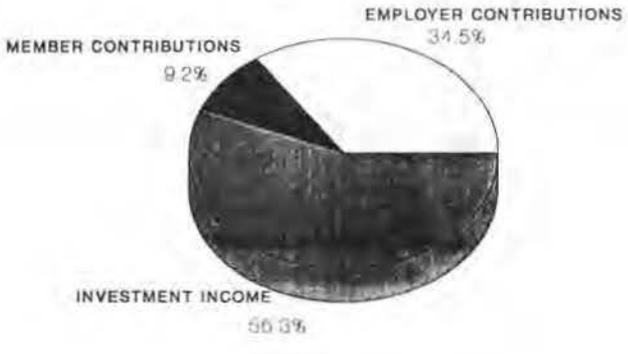
The Member Reserve Fund represents the accumulation of member contributions credited to the members' accounts plus interest.

June 30, 1988 Member Reserve Fund	$1,221,771,686
Member Contributions	89,906,776
Employer Provided Contributions	40,485,736
Interest	58,975,534
Refunded Account Balances	(20,613,918)
Transfers to Employer Fund of Retiring Members' Accounts	(38,485,818)
June 30, 1989 Member Reserve Fund	$1,352,039,996

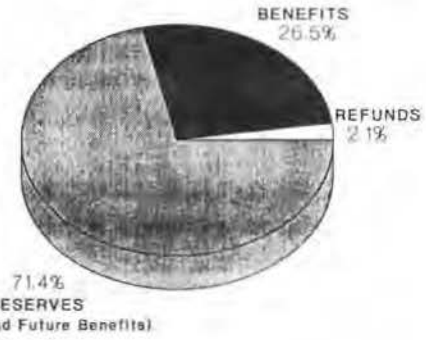
The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retiring members. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

June 30, 1988 Employer Reserve Fund	$5,159,428,950
Employer Contributions	336,279,227
Investment Income	549,550,133
Transfers from Retiring Members' Accounts	38,485,818
Employer Provided Contributions	(40,485,736)
Interest Credited to Members' Accounts	(58,975,534)
Lump Sum Death Benefits	(1,994,910)
Retirement and Survivor Annuities	(256,362,811)
June 30, 1989 Employer Reserve Fund	$5,725,925,137

SOURCES OF FUNDS



USES OF FUNDS



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, 1989 to establish employer contribution rates for a two year period beginning July 1, 1990. At the June 30, 1989 valuation, the state system had an accrued liability of $1.7 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 June 30, 1989 actuarial valuation of the plan are:

Economic Assumptions

(1) 8% annual return on investments
(2) 7% 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, 1989

Cities	107
Counties	81
Utility Districts	23
Special School Districts	19
Joint Ventures	19
Regional Libraries	12
Development Agencies	6
Housing Authorities	9
Miscellaneous Organizations	9
911 Emergency Communication District	5
TOTAL	290

Social Security

The 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 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. The master agreement as executed by the state and the Secretary of Health and Human Services provides for retirement, survivors, disability and health insurance coverage.

In 1985, the federal Budget Reconciliation Act mandated medicare coverage to public employees hired after March 31, 1986, in positions not covered under the full social security program. The 1986 Act relieves the state of its responsibility for collecting social security contributions and medicare taxes from public employers, 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 wages paid for calendar year 1986 continues until the federal statute of limitations precludes such liability.

Schedule of Historical Social Security Contribution Rates

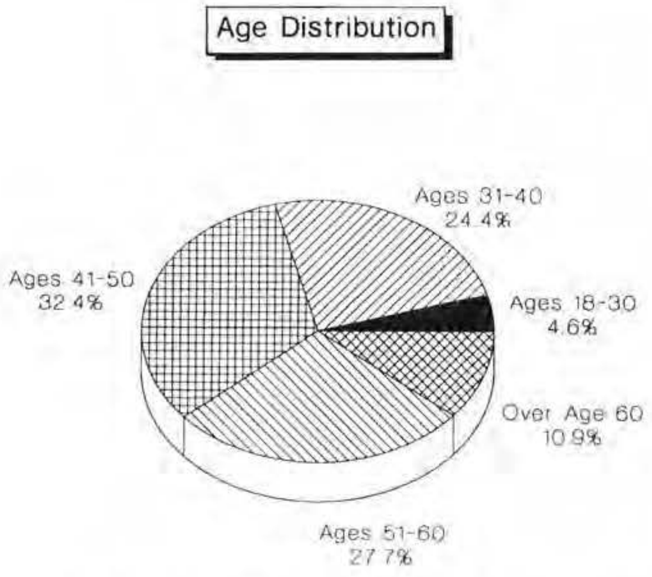
Calendar Year	Employee Rate	Employer Rate	Wage Base
1957	2.250%	2.250%	$ 4,200
1962	3.125	3.125	4,800
1967	4.400	4.400	6,600
1972	5.200	5.200	9,000
1977	5.850	5.850	16,500
1982	6.700	6.700	32,400
1983	6.700	6.700	35,700
1984	6.700	7.000	37,800
1985	7.050	7.050	39,600
1986	7.150	7.150	42,000
1987	7.150	7.150	43,800
1988	7.510	7.510	45,000
1989	7.510	7.510	48,000
1990	7.650	7.650	50,400

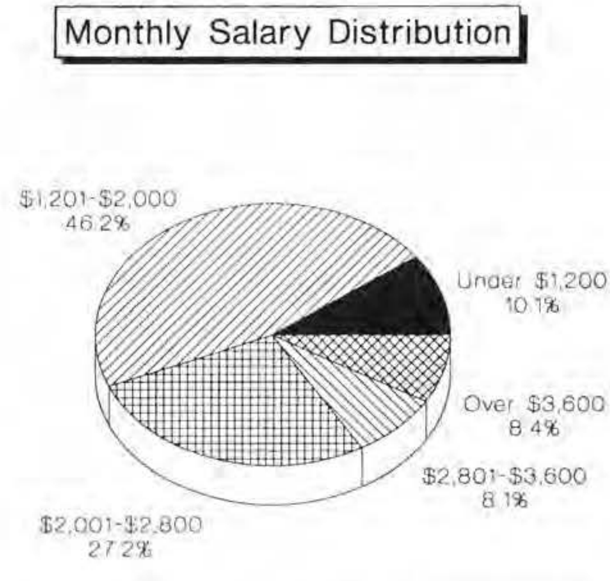
The Deferred Compensation Program is a voluntary program designed to provide state employees with the opportunity to accumulate supplemental retirement income on a tax deferred basis. Participants may postpone income taxes on contributions and earnings by agreeing to defer receipt of a portion of their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

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.

As of June 30, 1989 6,103 employees had accounts in the program: 46% were in Plan I only, 33% were in Plan II only, and 21% were in both plans. At June 30, 2,455 state employees and 89 University of Tennessee employees were actively contributing to Plan I and 2,022 state employees and 278 University of Tennessee employees were actively contributing to Plan II. As illustrated by the following charts, the program is used by state employees of all ages and salary levels. The majority are under age 50 and earn below $24,000 per year.

Participation





Employees may enroll in either plan at any time and may adjust contributions at any time. Employees may participate in either plan with a minimum deferral of $20 per month. IRS regulations for 1989 allow a maximum deferral in Plan I of 25% of salary up to the maximum annual contribution of $7,500. The maximum deferral in Plan II is 20% of salary for Group I, II or III retirement system members up to the maximum annual contribution of $7,627. Effective January 1, 1989, participants who use both plans are also subject to a combined plan limit of 25% of salary up to $7500. IRS regulations generally prohibit the withdrawal of deferrals during state employment. 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. 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.

For the year ending June 30, 1989, participants deferred a total of $11,118,717 through the program. At June 30, 1989, accumulated account balances totaled $76,743,244. Distribution of these funds is shown on the following schedule.

Distribution of Deferrals

	Deferrals		Market Value of Account Balances	
	FY 1987-88	**FY 1988-89**	**June 30, 1988**	**June 30, 1989**
Plan I (457)				
AEtna—Closed Contract	$ -0-	$ -0-	$18,682,924	$19,447,324
AEtna—New Contract	286,258	336,085	645,483	1,012,760
American General	180,442	151,493	667,260	763,961
Fidelity Federal	1,280,321	1,379,199	8,260,272	10,108,856
Fidelity Investments	2,698,627	2,381,184	6,250,804	9,120,820
Great West	759,947	1,089,810	2,087,576	3,978,035
TOTAL	$5,205,595	$5,337,771	$36,594,319	$44,431,756
Plan II (401k)				
AEtna —Closed Contract	$ -0-	$ -0-	$10,609,524	$11,282,450
AEtna—New Contract	392,246	417,789	886,686	1,379,686
Fidelity Federal	961,502	1,079,876	2,905,537	4,309,147
Fidelity Investments	3,597,154	3,347,329	7,920,441	12,085,860
Great West	712,086	935,952	1,752,261	3,254,375
TOTAL	$5,662,988	$5,780,946	$24,074,449	$32,311,518

During the 1988-89 fiscal year, 22 participants received loans from Plan II. Under this new program, active employees who have accumulated $4000 or more in Plan II may borrow up to half of their account value. Participants repay principal and interest to their Plan II accounts through salary deduction. Taxes continue to be deferred while funds accumulated in the plan are in loan status.

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 the U.S. Congress has been extremely important to preserving the tax advantages of these plans for state employees.

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 1988-89, the Division of Claims Administration received a total of 8,307 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 1988-89, the Board took action on a total of 21 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 1988-89

	Claims Filed	Payments Made	
Workers' Compensation Claims	3,881		
Death Payments		$ 124,332	
Medical Payments		2,221,919	
Assault Injury Payments		8,926	
Temporary Disability (Lost Time)		510,284	
Permanent Disability		1,702,086	
Subtotal			$4,567,547
Employee Property Damage	269		21,273
Tort Claims	4,157		
Death Payments		$ 0	
Bodily Injury Payments		1,604,548	
Property Damage Payments		475,868	
Miscellaneous		0	
Subtotal			$2,080,416
TOTALS	8,307		$6,669,236

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.

Effective January 1, 1990, applications for Criminal Injuries Compensation are filed with the Division of Claims Administration. The division's staff reviews the application and obtains supporting information from the appropriate District Attorney's Office to determine eligibility for payment from the Criminal Injuries Compensation fund. If the division cannot process a claim within 90 days, then the claim is referred to the Tennessee Claims Commission.

During the 1988-89 fiscal year, the Division of Claims Administration made payments on 1,143 criminal injury claims for a total $4,450,803. 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 1989 with a fund balance of $9,427,369. 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.

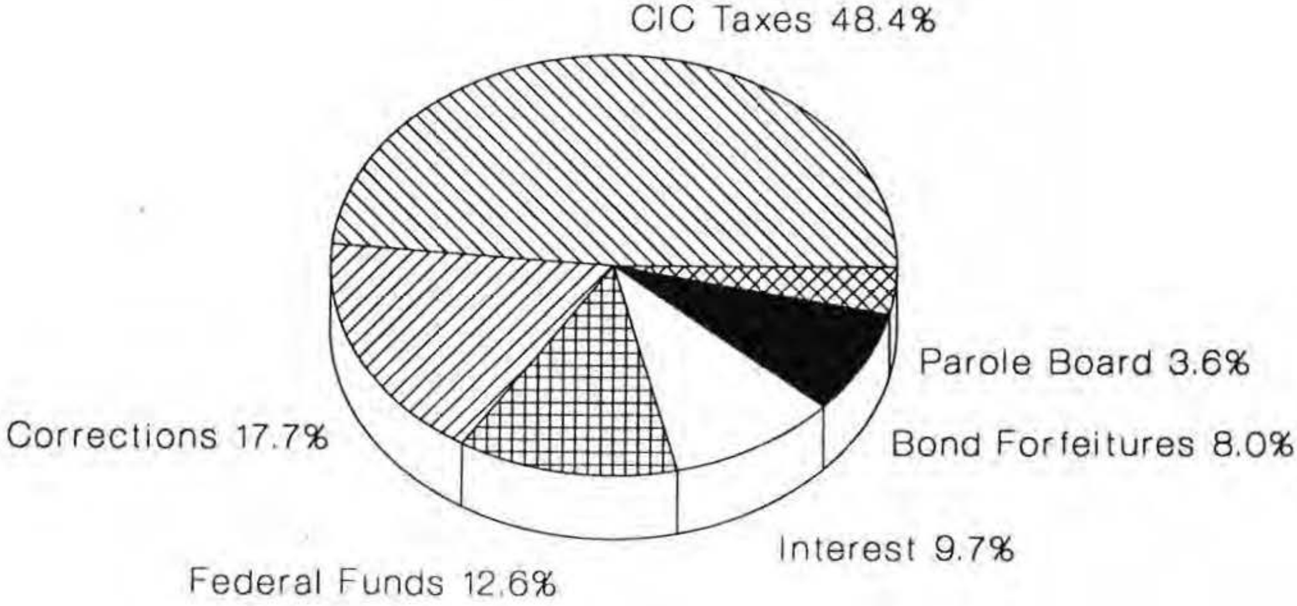
In addition to criminal injuries compensation, assistance is also available to victims of drunk drivers. T.C.A. 40-24-107 established the Victims of Drunk Drivers Compensation Fund. When the proximate cause of a death or injury is the operator's intoxication as prohibited by T.C.A. 55-10-401, the victim's 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 1989, 24 claims were paid from this fund for a total of $48,210.

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 1988-89

Classification of Crime	Number of Awards	Percent of Total	Dollar Value of Awards	Percent of Total	Average Award
Homicide	273	23.89%	$1,140,685	25.63%	$4,178
Sexual Assault	365	31.93	1,202,256	27.01	3,294
Robbery	7	.61	11,508	.26	1,644
Assault	498	43.57	2,096,354	47.10	3,941
	1,143	100.00%	$4,450,803	100.00%	$3,894

Criminal Injuries Compensation Fund Sources of Funds



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 1988-89, the Defense Counsel Commission/Subcommittee authorized payments of attorney's fees and litigation expenses which totaled $243,899. The Defense Counsel Commission/Subcommittee considered 59 requests on a total of 22 lawsuits of which 57 were approved. At the end of the fiscal year there were 28 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.

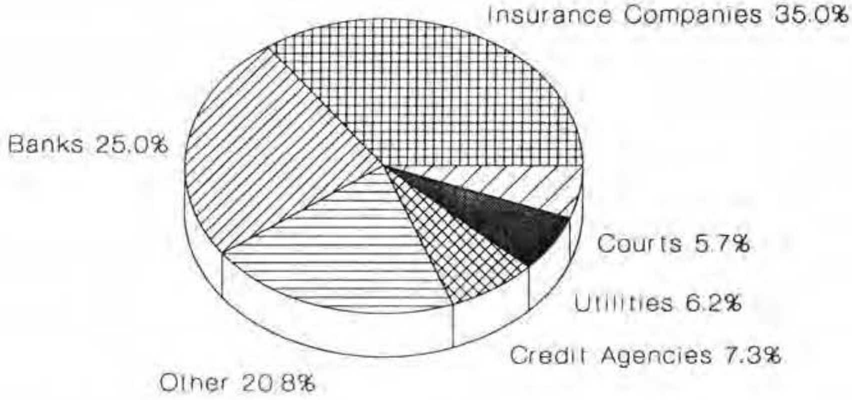
The Division of Claims Administration serves as staff to the Defense Counsel Commission/Subcommittee and maintains the records and minutes of the Defense Counsel Commission/Subcommittee. It also houses the files and processes bills for payment after approval by the members.

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 $4,316,109 was advertised during the 1988-89 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, 1988 through June 30, 1989, $4,769,760 of cash property was turned over to the Treasurer. The Unclaimed Property Division also completed a stock sale in June 1989 in which 1,564 shares of stock in various companies were sold for $34,352. The following chart illustrates the sources of cash collections for fiscal year 1988-89.

Sources of Unclaimed Property



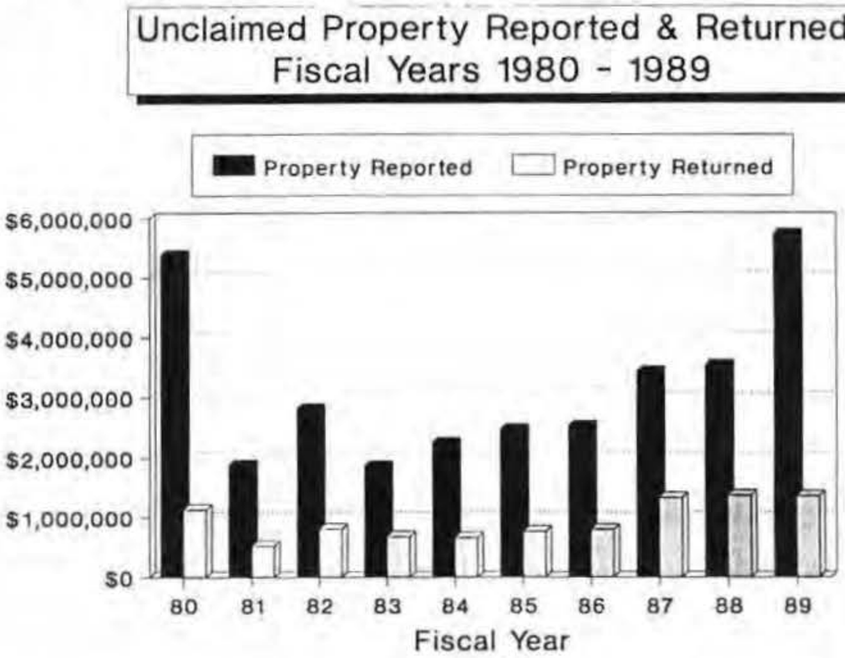
After the Treasurer receives the property from the holders, additional efforts are made to locate the rightful owner. The first location method used is to send notification to the last known address of each owner. If no response is received, additional search efforts are made through employment security 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, 1988 through June 30, 1989, $1,355,585 of cash property was returned by holders and the Unclaimed Property Division to the owners or their heirs. Of this total, $1,172,502 represented accounts advertised in 1988-89 and $183,083 represented accounts reported and turned over in previous years. Following is an analysis of the property returned during the 1988-89 fiscal year.

Property Returned
July 1, 1988—June 30, 1989

Reporting Entity	Number of Accounts	Value of Claims	Percentage of Total Value
Banks	1,137	$ 615,364	45.40%
Insurance Companies	1,311	217,637	16.05
Credit Agencies	295	80,964	5.97
Utilities	790	57,897	4.27
Courts	45	77,378	5.70
TCRS	29	13,677	1.01
Other	912	292,668	21.60
TOTAL	4,519	$1,355,585	100.00%

Since the program began in 1979, $37.1 million in unclaimed property has been reported to the Treasurer and $9.6 million (26%) has been returned to 39,647 owners or their heirs. Following is a schedule of property reported and returned since the program began.



The division has entered into contracts with two outside audit organizations that identify and act as transfer agent for unclaimed property that would normally go unreported by out-of-state non-reporting holders. These contracts have resulted in over $1.2 million in cash and stock being turned over to the Treasurer during the past fiscal year for Tennessee residents.

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 $119,188 representing 37 estates. Since fiscal year 1981-82, a total of $663,575 representing 151 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 74 chairs created, with state appropriations totaling $43,000,000 and matching contributions totaling $37,900,975. For the year ending June 30, 1989, net income totaled $4,677,127 with expenditures of $3,000,297.

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
- *COE in Policy Studies

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
- *Goodman COE in Medicine
- *LeBonheur COE in Pediatrics (II)

Martin
- Hendrix COE in Free Enterprise & Economics
- *Dunagan COE in Banking
- *Parker COE in Food & Fiber Industries

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

Austin Peay State University
- Acuff COE in Creative Arts
- Harper/Jones and Bourne COE in Business
- The Foundation Chair of Free Enterprise

East Tennessee State University
- Quillen COE of Medicine in Geriatrics & Gerontology
- AFG Industries COE in Business & Technology
- Harris COE in Business

Middle Tennessee State University
- 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

Memphis State University
- 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

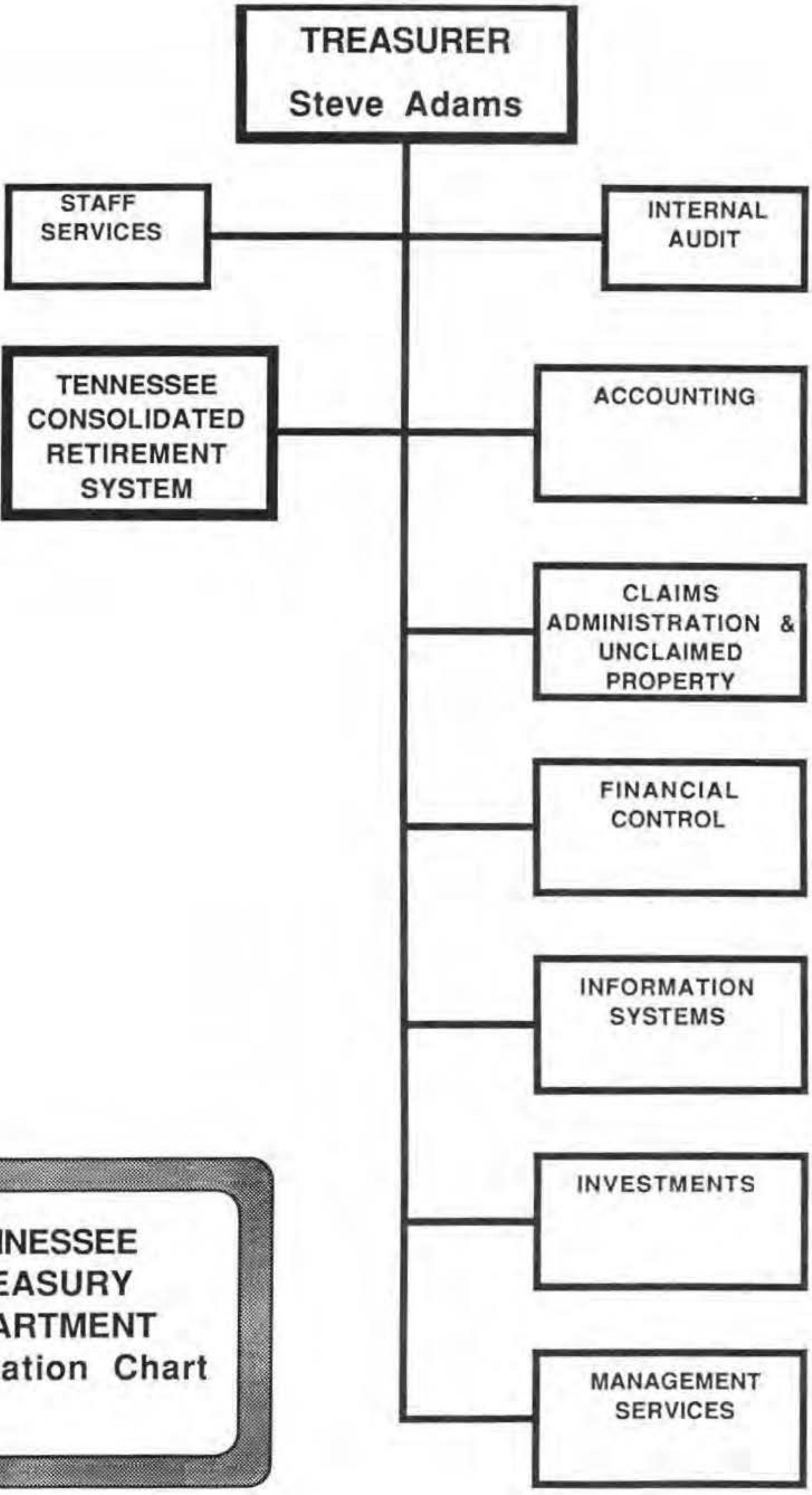
Tennessee Technological University
- Owen Chair of Business Administration

*Chair established during fiscal year 1988-89.

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.

Boards and Commissions	Tennessee Code Annotated Section
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 Insurance	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
Sick Leave Bank Board	8-50-903
State Building Commission	4-15-101
State Insurance Committee	8-27-101
State Library and Archives Management Board	10-1-101, et seq.
State Capitol Commission	4-8-301, 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 Child Care Loan Guarantee Board	4-37-101, 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
Tuition Guaranty Fund Board	49-7-2018
Administrative Agencies	
Baccalaureate Education System Trust	49-7-801, et seq.
Board of Claims	9-8-101, et seq.
Cafeteria Plan	8-25-305
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

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



TENNESSEE TREASURY DEPARTMENT Organization Chart

Treasury Department
Executive Staff

Treasurer	Steve Adams, CPA
Executive Assistant	Dale Sims
Executive Assistant	Janice Cunningham
Director of Internal Audit	Rhonda Hicks, CPA
Director of Personnel	Ann Taylor-Tharpe
Director of Financial Control	Rick DuBray
Director of Information Systems	Newton Molloy, III, CDP
Director of Computer Operations	Sam Baker, CDP, CCP
Director of Accounting	Jill Bachus
Director of Claims Administration and Unclaimed Property	Susan Clayton
Staff Attorney-Defense Counsel	Phyllis Simpson, J.D.
Director of Management Services	Grady Martin
Budget Officer	Wendy Padgett
TCRS Administration:	
Director of TCRS	Steve Curry, CPA
Assistant Director of TCRS	Ed Hennessee
Director of Publications and Deferred Compensation	Deana Reed
Staff Attorney	Mary Roberts-Krause, J.D.
Director of Old Age and Survivors Insurance	Mary E. Smith
Chief of Counseling	Donna Finley
Manager of Benefits and Retired Payroll	Velva Booker
Manager of Membership, Field and Prior Services	Blake McConnell
Investments:	
Chief Investment Officer	Chuck Webb, CFA
Assistant Director for Treasury Investments	Beth Jarrard, CPA
Equity Portfolio Manager	Jeremy Conlin
Assistant Equity Portfolio Manager	Deborah Sheffield
Fixed Income Portfolio Manager	Marshall Cox
Assistant Fixed Income Portfolio Manager	Andrew Watts
International Portfolio Manager	Roy Wellington, CFA
International Portfolio Manager	William Howard
Short-Term Cash Portfolio Manager	Randy Graves, CPA
Manager of Cash Investments	Starr Bumbalough

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37219-5047
PHONE (615) 741-3697

December 18, 1989

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Local Government Investment Pool as of June 30, 1989, and June 30, 1988,and the related statement of revenues, expenditures, and changes in fund balances for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Government Investment Pool as of June 30, 1989, and June 30, 1988, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

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

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

AAH/db

Comparative Balance Sheet

	June 30, 1989	June 30, 1988
ASSETS		
Cash and Cash Equivalents	$483,990,510	$366,986,252
Total Assets	$483,990,510	$366,986,252
LIABILITIES AND FUND BALANCE		
Liabilities:		
Member Deposits	$345,552,663	$290,488,073
Payable to State Highway Fund	580,006	580,006
Payable to Capital Projects Fund	9,548,192	8,761,397
Payable to College & University Funds	127,613,770	66,327,645
Total Liabilities	$483,294,631	$366,157,121
Fund Balance	$ 695,879	$ 829,131
Total Liabilities and Fund Balance	$483,990,510	$366,986,252

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, 1989	For the Year Ended June 30, 1988
Revenues:		
Investment Income	$38,306,874	$27,671,588
Total Revenue	$38,306,874	$27,671,588
Expenditures:		
Interest on Deposits	$37,663,087	$27,069,732
Administrative Fees	777,039	269,290
Total Expenditures	$38,440,126	$27,339,022
Excess of Revenues over Expenditures (Expenditures over Revenues)	$ (133,252)	$ 332,566
Fund Balance, Beginning of Year	$ 829,131	$ 496,565
Fund Balance, End of Year	$ 695,879	$ 829,131

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 to the Capital Projects 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 when they become both measurable and available and expenditures are recognized at the time fund 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, prime commercial paper, prime bankers' acceptances, 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 Treasurer is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian agent against simultaneous receipt of collateral securities.

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 as such has been included as an expendable trust fund in the Tennessee Comprehensive Annual Financial Report.

Schedule of Cash Receipts and Disbursements

	July 1, 1988 through June 30, 1989	July 1, 1987 through June 30, 1988
Cash Balance, Beginning of Year	$ 366,986,251	$ 328,432,417
Add Cash Receipts:		
Member Deposits	$1,683,431,009	$1,445,779,722
Investment Income	38,306,874	27,671,588
Total Cash Receipts	$1,721,737,883	$1,473,451,310
Deduct Cash Disbursements:		
Member Withdrawals	$1,603,956,585	$1,434,628,186
Administrative Fees Paid	777,039	269,290
Total Cash Disbursements	$1,604,733,624	$1,434,897,476
Cash Balance, End of Year	$ 483,990,510	$ 366,986,251

See Accompanying Footnotes to the Financial Statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37219-5047
PHONE (615) 741-3697

December 1, 1989

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Consolidated Retirement System as of June 30, 1989, and June 30, 1988, and the related statements of revenues, expenses, and changes in fund balance and changes in financial position for the years then ended. These financial statements are the responsibility of the system's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Consolidated Retirement System as of June 30, 1989, and June 30, 1988, and the results of its operations and the changes in financial position for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/db

(Expressed in Thousands)

	June 30, 1989	June 30, 1988
ASSETS		
INVESTMENTS:		
Cash and Cash Equivalents	$ 547,947	$ 702,053
Domestic Securities:		
Certificates of Deposit	1,550	1,550
Government Bonds (Amortized Cost)	1,343,402	1,666,621
Corporate Bonds (Amortized Cost)	1,734,472	1,494,421
Corporate Stocks (Cost)	1,978,492	1,839,749
Mortgages	2,057	2,452
Securities on Loan		
Government Bonds (Amortized Cost)	727,142	0
International Securities:		
Government Bonds (Amortized Cost)	178,984	210,410
Corporate Bonds (Amortized Cost)	114,074	90,644
Corporate Stocks (Cost)	395,069	331,909
American Depository Receipts (Cost)	7,118	2,809
Total Investments	$7,030,307	$6,342,618
RECEIVABLES:		
Investments Sold	$ 13,170	$ 1,202
Member Contributions Receivable	9,068	8,910
Employer Contributions Receivable	8,031	9,407
Accrued Interest Receivable	84,269	70,563
Accrued Dividends Receivable	8,484	5,582
Accrued Loan Income Receivable	213	0
Political Subdivisions Receivable	2,492	3,039
Total Receivables	$ 125,727	$ 98,703
TOTAL ASSETS	$7,156,034	$6,441,321

continued

LIABILITIES AND FUND BALANCE	June 30, 1989	June 30, 1988
LIABILITIES:		
Retired Payroll Payable	$ 11,901	$ 10,221
Warrants Payable	473	1,102
Accounts Payable:		
Death Benefits and Refunds Payable	1,712	1,605
Other	666	94
Investments Purchased	63,317	42,549
Options Written	0	4,549
Total Liabilities	$ 78,069	$ 60,120
FUND BALANCE:		
Member Reserve	$1,352,040	$1,221,772
Employer Reserve (Unfunded Accrued Liability totalled $1.7 billion as of June 30, 1989 and $1.6 billion as of June 30, 1987)	5,725,925	5,159,429
Total Fund Balance	$7,077,965	$6,381,201
TOTAL LIABILITIES AND FUND BALANCE	$7,156,034	$6,441,321

See Accompanying Footnotes to the Financial Statements.

Statement of Revenues, Expenses, and Changes in Fund Balance

(Expressed in Thousands)

		For the Year Ended June 30, 1989		For the Year Ended June 30, 1988
Revenues:				
Member Contributions	$ 89,907		$ 83,022	
Employer Contributions	307,704		339,539	
Political Subdivisions Contributions	28,588		34,240	
TIAA Contributions	0	$ 426,199	19,324	$ 476,125
Investment Income:				
Loan Revenue	$ 1,993		$ 455	
Options Gain (Loss)	1,524		972	
Interest	280,646		245,426	
Dividends	73,724		59,807	
Income from Foreign Investment	36,585		19,173	
Net Discount (Premium) Amortization	80,177		92,248	
Currency Gain (Loss) on Sale of Foreign Investments	(964)		23,446	
Net Profit (Loss) on Sale of Investments	75,865	$ 549,550	131,878	$ 573,405
Total Revenues		$ 975,749		$1,049,530
Expenses:				
Annuity Benefits:				
Retirement Benefits	$240,498		$227,759	
Survivor Benefits	9,660		8,718	
Disability Benefits	6,167		5,711	
Death Benefits	1,995		1,805	
Refunds	20,665		17,802	
TIAA Payments	0		19,324	
Total Expenses		$ 278,985		$ 281,119
Excess of Revenues Over Expenses		$ 696,764		$ 768,411
Fund Balance, Beginning of Year		$6,381,201		$5,612,790
Fund Balance, End of Year		$7,077,965		$6,381,201

See Accompanying Footnotes to the Financial Statements.

(Expressed in Thousands)

	For the Year Ended June 30, 1989	For the Year Ended June 30, 1988
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	$ 696,764	$ 768,411
Item Not Requiring (Providing) Working Capital		
Net Amortization (Acretion)	(80,177)	(92,248)
Total Sources of Working Capital	$ 616,587	$ 676,163
Uses of Working Capital:		
Purchase of Long Term Investments	$ 761,618	$ 765,926
Net Increase (Decrease) in Working Capital:	$ (145,031)	$ (89,763)

Elements of Net Increase (Decrease) in Working Capital:		
Cash and Cash Equivalents	$ (154,106)	$ (106,613)
Receivables	27,024	(32,026)
Warrants Payable	628	(727)
Retired Payroll Payable	(1,679)	664
Accounts Payable	(679)	9,749
Investment Purchases	(20,768)	38,218
Options Written	4,549	972
Net Increase (Decrease) in Working Capital:	$ (145,031)	$ (89,763)

See Accompanying Footnotes to the Financial Statements.

A. Plan Description

1. **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, 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.

2. **Membership.** Membership in the system is mandatory for state employees, teachers, higher education employees and employees of participating political subdivisions. At June 30, 1989 the number of participating local government employers and the TCRS membership was:

Cities	107	Retirees and beneficiaries currently receiving benefits	51,155
Counties	81	Terminated members entitled to benefits but not yet receiving them	4,246
Utility Districts	23	Current members:	
Special School Districts	19	Vested	68,639
Joint Ventures	19	Nonvested	85,243
Other	41		
Total	290	Total	209,283

3. **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.

4. **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.

5. **Plans Other Than TCRS.** Pursuant to State statute, the State may establish an optional retirement program for any State institution of higher education that requests such a program. Any teacher employed by a State-supported institution of higher education that has an optional retirement program may elect membership in TCRS or participation in the optional retirement program.

   The Teachers Insurance and Annuity Association and College Retirement Equity Fund (TIAA/CREF), a privately administered defined contribution retirement plan, has been designated as the vendor for the optional program. In a defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. Both the State Board of Regents institutions' and the University of Tennessee System's faculty are eligible to become members of TIAA/CREF in lieu of membership in TCRS.

   Until April 1988, the higher education institutions' contributions to TIAA/CREF flowed through TCRS and were presented on the Statement of Revenues, Expenses and Changes in Fund Balance as both a revenue and an expense. Subsequently, the State's contributions are remitted directly to TIAA/CREF by the higher education institutions. State statute requires the State supported institutions to make contributions to TIAA/CREF at the rate of ten percent of gross salary below the Social Security wage base and eleven percent of gross salary above the Social security wage base. The contributions for each employee (and interest allocated to the employee's account) are fully vested immediately. During the year ended June 30, 1989, the State of Tennessee contributed $28.6 million (10.06% of current covered payroll) to the TIAA/CREF plan. The total current-year covered payroll was $284.3 million.

A second, now closed group of University of Tennessee faculty also participates in TIAA/CREF with certain supplemental benefits provided by the State of Tennessee. Prior to fiscal year 1978, these supplemental benefits were funded by the university on a pay-as-you-go basis. The supplemental benefits have since been assumed by the TCRS and are included in the benefit expenses in the financial statements and in the actuarial calculations for TCRS. The TCRS is responsible for providing supplemental benefits for the difference between a calculated fixed income annuity as provided by TIAA/CREF and the basic benefit under TCRS.

B. Summary of Significant Accounting Policies and Plan Asset Matters

1. **Reporting Entity.** The TCRS is a component unit of the State of Tennessee Financial Reporting Entity. 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.

   In accordance with the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards Section 2100, the TCRS' oversight responsibilities have been examined to determine whether other State boards, commissions or agencies which benefit the members of the TCRS should be included within the TCRS Financial Reporting Entity. Oversight responsibility is defined to include financial interdependency, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and/or special financing relationships. Based upon this evaluation, the TCRS has not included any other governmental units in its Financial Reporting Entity.

2. **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. Under this method, revenues are recorded when earned and expenses at the time liabilities are incurred.

3. **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.

4. **Receivables.** Receivables primarily consist of interest which is recorded when earned. The receivables for contributions consist of $6,972,134 due from other funds within the State and $12,618,789 due from other governments.

5. **Fund Balance.** The Fund Balance consists of two reserves, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the member reserve for retiring members. Benefit payments and interest credited to the employees' accounts are reductions to the Employer Reserve.

6. **Options.** The TCRS is authorized by policy to engage in the issuance of options. Activity is limited to selling covered call options. The TCRS had no options outstanding at June 30, 1989.

7. **Reclassification.** Convertible Bonds in the amount of $36,080,627.62 (market value of $39,117,875) classified as Corporate Stocks on the June 30, 1988 Balance Sheet have been appropriately reclassified as Corporate Bonds.

   Currency Gain on Sale of Foreign Investments in the amount of $5,533,818 reported on the June 30, 1988 Statement of Revenues, Expenses, and Changes in Fund Balance has been reclassified as Amortization 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, prime commercial paper, prime bankers' acceptances, 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 Pooled Investment Fund is also authorized to enter into securities lending agreements in which U. S. Government securities may be loaned to brokers for a fee.

The TCRS investments at June 30, 1989 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 counterparty'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 counterparty's trust department or agent but not in the name of the TCRS. The categorization for the investments held at June 30, 1988 was the same as that shown below for investments held at June 30, 1989.

Investments	Category 1	Category 2	Category 3	Book Value 06/30/89	Market Value 06/30/89	Book Value 06/30/88	Market Value 06/30/88
Commercial Paper	$ 500,644,778			$ 500,644,778	$ 501,247,061	$ 649,256,217	$ 650,121,173
U. S. Treasury Notes	14,932,946			14,932,946	14,962,500	0	0
Medium-term Notes	26,925,960			26,925,960	26,902,980	41,019,254	41,007,502
Domestic Securities							
Government Bonds	1,343,401,501			1,343,401,501	1,414,976,357	1,666,620,862	1,679,874,123
Corporate Bonds	1,734,472,148			1,734,472,148	1,782,693,233	1,494,421,561	1,459,339,124
Corporate Stocks	1,978,491,968			1,978,491,968	2,443,316,928	1,839,748,838	2,028,514,749
Mortgages	2,056,610			2,056,610	1,897,716	2,451,994	2,221,867
International Securities							
Government Bonds	178,984,505			178,984,505	174,264,481	210,409,864	203,217,526
Corporate Bonds	114,074,332			114,074,332	115,815,470	90,643,818	90,728,954
Corporate Stocks	395,068,945			395,068,945	418,050,741	331,908,715	320,396,609
American Depository Receipts	7,118,032			7,118,032	7,970,875	2,809,587	4,000,000
Currency Gain (Loss)					(23,028,078)		10,238,597
	$6,296,171,725	$0	$0	$6,296,171,725	$6,879,070,264	$6,329,290,710	$6,489,660,224
Investments held by broker-dealers under securities on loan contracts							
Government Bonds				727,142,197	777,068,339	0	0
Cash in State Treasurer's Pooled Investment Fund				5,443,068	5,443,068	11,777,537	11,777,537
Certificates of Deposit				1,550,000	1,550,000	1,550,000	1,550,000
Total Investments				$7,030,306,990	$7,663,131,671	$6,342,618,247	$6,502,987,761

At June 30, 1989 the TCRS had $1,550,000 invested in certificates of deposit. The bank balance of these investments was $1,620,302 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, 1989.

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 specific securities from its holdings to the broker in return for collateral securities. The loaned securities are collateralized at 102 percent of their market value. The collateral is maintained by a third-party custodian. The TCRS receives a fee from the borrower for the use of the loaned securities. At June 30, 1989 the market value of TCRS securities on loan to brokers was $747,398,360 and the market value of collateral pledged for the securities on loan was $777,068,339.

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 as of June 30, 1989. Significant actuarial assumptions used include (a) a rate of return on investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 7 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.

At June 30, 1989 the pension benefit obligation exceeded the net assets by $29.2 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	$ 2,382.5	$ 285.3	$ 2,667.8
Current employees:			
Accumulated employee contributions including allocated investment earnings	1,154.6	197.4	1,352.0
Employer-financed vested	2,635.3	249.1	2,884.4
Employer-financed nonvested	179.5	23.5	203.0
Total pension benefit obligation	$ 6,351.9	$ 755.3	$ 7,107.2
Net assets available for benefits at cost or amortized cost (market value is $7,710.8)	6,248.8	829.2	7,078.0
Unfunded (Assets in excess of) pension benefit obligation	$ 103.1	$ (73.9)	$ 29.2

The TCRS Board of Trustees adopted more conservative actuarial assumptions in 1988 which were utilized in the June 30, 1989 actuarial valuation. At June 30, 1989 the pension benefit obligation totalled $7.107 billion based on the new assumptions, an increase of $237 million ($225 million for the State and $12 million for Political Subdivisions) when compared to a pension benefit obligation of $6.870 billion ($6.127 for the State and $743 million for Political Subdivisions) as calculated utilizing the previous assumptions.

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 assets of the Employer and Member Reserves are subtracted from the present value of each member's expected benefit accrual to arrive at the unfunded accrued liability. The unfunded accrued liability based upon the last two biennial actuarial valuations is as follows:

	June 30, 1989	June 30, 1987
Present Value of		
Actuarial Liability for Active and Inactive Accounts	$ 9,336,839,500	$7,726,601,328
Less:		
Employer Reserve	6,169,822,098	4,907,278,073
Member Reserve	1,453,979,871	1,205,410,209
Unfunded Accrued Liability	$ 1,713,037,531	$1,613,913,046

For the year ended June 30, 1989 contributions totalling $426.2 million were made in accordance with contribution requirements determined through an actuarial valuation performed at June 30, 1987. Significant actuarial assumptions used to compute contribution requirements are not the same as those used to compute the standardized measure of the pension benefit obligation discussed in D above because the new assumptions adopted by the Board of Trustees were incorporated in the June 30, 1989 valuation. This valuation computed the contribution rates that will become effective July 1, 1990. Significant actuarial assumptions for contribution rates that are different than the assumptions in D above are the rate of return of 8 1/2 percent instead of 8 percent and projected salary increases of 8 percent instead of 7 percent. The State contributed $307.7 million (9.5 percent of current covered payroll) to the plan and state employees and teachers contributed $68.8 million (2.1 percent of current covered payroll). Political subdivisions contributed $28.6 million (.9 percent of current covered payroll) to the plan and employees of political subdivisions contributed $21.1 million (.7 percent of current covered payroll). These contributions consisted of (a) $286.8 million normal cost (8.8 percent of current covered payroll) and (b) $139.4 million amortization of the unfunded actuarial accrued liability (4.3 percent of current covered payroll).

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 three years.

REVENUES BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Contributions For TIAA/CREF	Total
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
**1989	89,906,776.21	336,292,918.45	549,550,133.52	0.00	975,749,828.18

EXPENSES BY TYPE

Fiscal Year	Benefits	Refunds	Contributions to TIAA/CREF	Total
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
**1989	258,320,436.90	20,664,894.51	0.00	278,985,331.41

Contributions were made in accordance with actuarially determined contribution requirements.

*Member contributions decreased and employer contributions increased in fiscal year 1982 due to noncontributory legislation effective July 1, 1981.

**The State's contributions to TIAA/CREF flowed through the TCRS until April 1988. Subsequently, these contributions are remitted directly to TIAA/CREF by the higher education institutions.

ANALYSIS OF FUNDING PROGRESS
(in millions of dollars)

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1)÷(2)	(4) Unfunded (Assets in Excess of) P.B.O. (2) - (1)	(5) Annual Covered Payroll	(6) 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	$2,826.9	7.3 %
*1988	6,381.2	6,376.1	100.1	(5.1)	3,003.1	(0.2)
**1989	7,078.0	7,107.2	99.6	29.2	3,242.2	0.9

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the TCRS's 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 TCRS's 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.

*The annual covered payroll figures for 1987 and 1988 presented with the 1988 financial statements included the annual covered payroll for TIAA/CREF. These figures and the related percentages have been revised to eliminate the TIAA/CREF annual covered payroll.

**In fiscal year 1989, the use of more conservative actuarial assumptions in the calculation of the pension benefit obligation resulted in an increase of $237 million when compared to the pension benefit obligation calculated using the old actuarial assumptions.

June 30, 1989

TOTAL SYSTEM

	Political Subdivisions	State	Total
ASSETS			
Present Assets Creditable To:			
State Accumulation Fund	$ 678,632,933	$ 5,491,189,165	$ 6,169,822,098
Members' Fund	212,037,292	1,241,942,579	1,453,979,871
Total Present Assets	$ 890,670,225	$ 6,733,131,744	$ 7,623,801,969
Present value of prospective contributions payable to:			
State Accumulation Fund:			
Normal	$ 152,982,614	$ 824,174,982	$ 977,157,596
Accrued Liability	11,590,002	1,701,447,529	1,713,037,531
Total	$ 164,572,616	$ 2,525,622,511	$ 2,690,195,127
Members' Fund:	167,386,299	779,771,245	$ 947,157,544
Total Prospective Contributions	$ 331,958,915	$ 3,305,393,756	$ 3,637,352,671
Total Assets	$1,222,629,140	$10,038,525,500	$11,261,154,640
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and contingent annuitants	$ 273,989,462	$ 2,310,176,966	$ 2,584,166,428
Present active members	937,344,820	7,656,031,156	8,593,375,976
Former members	11,294,858	72,317,378	83,612,236
Total Liabilities	$1,222,629,140	$10,038,525,500	$11,261,154,640

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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PHONE (615) 741-3697

December 18, 1989

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the IRC Section 457 Deferred Compensation Plan as of June 30, 1989, and June 30, 1988, and the related statement of changes in assets and liabilities for the year ended June 30, 1989. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IRC Section 457 Deferred Compensation Plan as of June 30, 1989, and June 30, 1988, and the changes in assets and liabilities for the year ended June 30, 1989, in conformity with generally accepted accounting principles.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/db

Comparative Balance Sheet

ASSETS	June 30, 1989	June 30, 1988
Investments Held by Vendors		
AEtna	$20,460,084	$19,328,407
American General	763,961	667,260
Fidelity Federal	10,108,856	8,260,272
Fidelity Investments	9,120,820	6,250,804
Great West	3,978,035	2,087,576
Total	$44,431,756	$36,594,319
Receivables from State Funds For		
AEtna	$ 11,986	$ 16,242
American General	12,154	13,550
Fidelity Federal	48,604	52,311
Fidelity Investments	75,853	105,280
Great West	36,936	42,292
Total	$ 185,533	$ 229,675
TOTAL ASSETS	$44,617,289	$36,823,994
LIABILITIES		
Amounts Held in Custody for Others	$44,617,289	$36,823,994
TOTAL LIABILITIES	$44,617,289	$36,823,994

Statement of Changes in Assets and Liabilities

ASSETS	Balance July 1, 1988	Additions	Deductions	Balance June 30, 1989
Investments, at Market	$36,594,319	$13,067,036	$5,229,599	$44,431,756
Receivables from State Funds	229,675	185,533	229,675	185,533
Total Assets	$36,823,994	$13,252,569	$5,459,274	$44,617,289
LIABLITIES				
Amounts Held in Custody for Others	$36,823,994	$13,252,569	$5,459,274	$44,617,289
Total Liabilities	$36,823,994	$13,252,569	$5,459,274	$44,617,289

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.

The June 30, 1988 investments held by American General were overstated by $46,754 and have been restated to reflect the correct value of $667,260. The total assets and total liabilities as restated June 30, 1988 are $36,823,994.

Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the deferred compensation plan forms an integral part of state government and as such has been included as an agency fund in the Tennessee Comprehensive Annual Financial Report.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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PHONE (615) 741-3697

December 18, 1989

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Claims Award Fund as of June 30, 1989, and June 30, 1988, and the related statements of revenues, expenses, and changes in fund equity and changes in financial position for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Claims Award Fund as of June 30, 1989, and June 30, 1988, and the results of operations and the changes in financial position for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

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

AAH/db

Comparative Balance Sheet

ASSETS	June 30, 1989	June 30, 1988
Cash and Cash Equivalents	$54,190,147	$39,229,896
Total Assets	$54,190,147	$39,229,896
LIABILITIES AND FUND EQUITY		
Liabilities		
Warrants Payable	$ 199,187	$ 253,557
Accounts Payable	7,013	12,013
Claims Payable	53,834,981	34,538,565
Total Liabilities	$54,041,181	$34,804,135
Fund Equity	$ 148,966	$ 4,425,761
Total Liabilities and Fund Equity	$54,190,147	$39,229,896

See Accompanying Footnotes to the Financial Statements.

Claims Award Fund

Statement of Changes in Financial Position

	For the Year Ended June 30, 1989	For the Year Ended June 30, 1988
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	$(4,276,795)	$ (29,744)
Net Increase (Decrease) in Working Capital	$(4,276,795)	$ (29,744)
Elements of Net Increase (Decrease) in Working Capital:		
Cash and Cash Equivalents	$14,960,251	$11,431,360
Warrants Payable	54,370	(124,753)
Accounts Payable	5,000	100,122
Claims Payable	(19,296,416)	(11,436,473)
Net Increase (Decrease) in Working Capital	$(4,276,795)	$ (29,744)

See Accompanying Footnotes to the Financial Statements.

		For the Year Ended June 30, 1989		For the Year Ended June 30, 1988
Revenues:				
Insurance Premiums	$19,665,200		$17,824,100	
Interest Income	4,403,962		2,920,099	
Total Revenue		$24,069,162		$20,744,199
Expenses:				
Torts:				
Death	$ 0		$ 221,042	
Bodily Injury	1,604,548		1,052,139	
Property Damage	475,868		501,920	
Miscellaneous	0		63,453	
		2,080,416		1,838,554
Workers Compensation:				
Death	$ 124,332		$ 458,726	
Medical	2,221,919		2,839,478	
Assault Injury	8,926		13,606	
Temporary Disability	510,284		677,633	
Permanent Disability	1,702,086		1,468,327	
		4,567,547		5,457,770
Employee Property Damage		21,273		21,989
Professional/Administrative		2,380,305		2,019,157
Additional Funding Liability		19,296,416		11,436,473
Total Expenses		$28,345,957		$20,773,943
Net Change in Fund Equity		$ (4,276,795)		$ (29,744)
Fund Equity, Beginning of Year		$ 4,425,761		$ 4,455,505
Fund Equity, End of Year		$ 148,966		$ 4,425,761

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. Under this method, revenues are recorded when earned and expenses when liabilities are incurred.
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, prime commercial paper, prime bankers' acceptances, 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 Treasurer is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian against simultaneous receipt of collateral securities.
4. **Reclassification**—Accounts Payable in the amount of $34,538,565.00 on June 30, 1988 balance sheet have been reclassified as Claims Payable for comparative purposes.
5. **Reporting Entity**—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, 1989, 8,307 claims were filed with payments totaling $6,669,236.
2. The liability for claims against the State, which is included in accounts payable, is $53,834,981 at June 30, 1989 and $34,538,565 at June 30, 1988. A formal actuarial study was performed in 1989 to determine the state's liability for claims at June 30, 1989.

STATE OF TENNESSEE
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PHONE (615) 741-3697

December 18, 1989

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Criminal Injuries Compensation Fund as of June 30, 1989, and June 30, 1988, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Criminal Injuries Compensation Fund as of June 30, 1989, and June 30, 1988, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 4 to the financial statements, the State of Tennessee changed its method of accounting for taxes in 1989.

Sincerely,

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

AAH/db

Comparative Balance Sheet

ASSETS	June 30, 1989	June 30, 1988
Cash and Cash Equivalents	$ 9,677,037	$6,708,089
Accounts Receivable	370,520	0
Total Assets	$10,047,557	$6,708,089
LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants Payable	$ 378,544	$ 356,108
Accounts Payable	92,230	22,411
Claims Payable	149,414	178,423
Total Liabilities	$ 620,188	$ 556,942
Fund Balance		
Reserved for Future Benefits	$ 9,427,369	$6,151,147
Total Fund Balance	$ 9,427,369	$6,151,147
Total Liabilities and Fund Balance	$10,047,557	$6,708,089

See Accompanying Footnotes to the Financial Statements.

		June 30, 1989		June 30, 1988
Revenues:				
State	$5,790,473		$5,314,061	
Federal	928,000		1,278,000	
Interest Income	712,926		302,615	
Total Revenues		$7,431,399		$6,894,676
Expenditures:				
Death Claims	$ 873,545		$ 671,920	
Personal Injury Claims	3,017,058		2,242,495	
Attorney Fees	576,536		416,442	
Total Expenditures		4,467,139		3,330,857
Excess of Revenues Over Expenditures Before Cumulative Effect of Change in Accounting Principle		$2,964,260		$3,563,819
Cumulative Effect of Change in Accounting Principle		311,962		0
Excess of Revenues Over Over Expenditures		$3,276,222		$3,563,819
Fund Balance, Beginning of Year		$6,151,147		$2,587,328
Fund Balance, End of Year		$9,427,369		$6,151,147

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. Revenues are recorded when they become both measurable and available and expenditures are recognized at the time the fund liabilities are incurred.

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, prime commercial paper, prime bankers' acceptances, 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 Treasurer is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian against simultaneous receipt of collateral securities.

4. **Change in Accounting Principle**—During fiscal year 1989, the state changed its method of accounting for taxes from a cash basis to a modified accrual basis. Tax monies are recognized as revenue if received within 31 days of year-end. This method of accounting treatment for taxes is a more preferable method in that it meets the measurable and available criteria. In addition, it allows for a better matching of current available resources and current liabilities.

   The effect of the accounting change in the Excess of Revenues over Expenditures as previously reported for June 30, 1988 is:

Excess of Revenues over(under) Expenditures as previously reported June 30, 1988	$3,563,819
Adjustment for effect of a change in accounting principle assuming the change is applied retroactively.	(15,540)
Adjusted Excess of Revenues over(under) Expenditures	$3,548,279

   The effect of the accounting change on fund balance as previously reported for June 30, 1988 is:

Fund Balance as previously reported June 30, 1988	$6,151,147
Adjustment for effect of a change in accounting principle assuming the change is applied retroactively.	311,962
Adjusted Fund Balance, June 30, 1988	$6,463,109

5. **Reclassification**—Accounts Payable in the amount of $178,422.52 on the June 30, 1988 balance sheet have been reclassified as Claims Payable for comparative purposes.

6. **Reporting Entity**—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 defendents upon conviction, fees levied against parolees, probationers, employed 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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PHONE (615) 741-3697

December 18, 1989

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Victims of Drunk Drivers Compensation Fund as of June 30, 1989, and June 30, 1988, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Victims of Drunk Drivers Compensation Fund as of June 30, 1989, and June 30, 1988, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 4 to the financial statements, the State of Tennessee changed its method of accounting for taxes in 1989.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/db

Comparative Balance Sheet

ASSETS	June 30, 1989	June 30, 1988
Cash and Cash Equivalents	$6,280,861	$3,549,948
Accounts Receivable	224,885	0
Total Assets	$6,505,746	$3,549,948
LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants Payable	$ 6,300	$ 4,800
Accounts Payable	0	0
Claims Payable	6,100	212
Total Liabilities	$ 12,400	$ 5,012
Fund Balance		
Reserved for Future Benefits	$6,493,346	$3,544,936
Total Fund Balance	$6,493,346	$3,544,936
Total Liabilities and Fund Balance	$6,505,746	$3,549,948

See Accompanying Footnotes to the Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance

		June 30, 1989		June 30, 1988
Revenues:				
State	$2,395,671		$2,179,865	
Federal	0		0	
Interest Income	403,305		148,317	
Total Revenues		$2,798,976		$2,328,182
Expenditures:				
Death Claims	$ 25,047		$ 10,000	
Personal Injury Claims	22,199		39,247	
Attorney Fees	6,852		7,734	
Total Expenditures		54,098		56,981
Excess of Revenues Over Expenditures Before Cumulative Effect of Change in Accounting Principle		$2,744,878		$2,271,201
Cumulative Effect of Change in Accounting Principle		203,531		0
Excess of Revenues Over Expenditures		$2,948,409		$2,271,201
Fund Balance, Beginning of Year		$3,544,936		$1,273,735
Fund Balance, End of Year		$6,493,345		$3,544,936

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. Revenues are recorded when they become both measurable and available and expenditures are recognized at the time the fund liabilities are incurred.

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, prime commercial paper, prime bankers' acceptances, 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 Treasurer is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian against simultaneous receipt of collateral securities.

4. **Change in Accounting Principle**—During fiscal year 1989, the state changed its method of accounting for taxes from a cash basis to a modified accrual basis. Tax monies are recognized as revenue if received within 31 days of year-end. This method of accounting treatment for taxes is a more preferable method in that it meets the measurable and available criteria. In addition, it allows for a better matching of current available resources and current liabilities.

   The effect of the accounting change in the Excess of Revenues over Expenditures as previously reported for June 30, 1988 is:

Excess of Revenues over(under) Expenditures as previously reported June 30, 1988	$2,271,202
Adjustment for effect of a change in accounting principle assuming the change is applied retroactively.	20,500
Adjusted Excess of Revenues over(under) Expenditures	$2,291,702

   The effect of the accounting change on fund balance as previously reported for June 30, 1988 is:

Fund Balance as previously reported June 30, 1988	$3,544,936
Adjustment for effect of a change in accounting principle assuming the change is applied retroactively.	203,531
Adjusted Fund Balance, June 30, 1988	$3,748,467

5. **Reclassification**—Accounts Payable in the amount of $212.04 on the June 30, 1988 balance sheet have been reclassified as Claims Payable for comparative purposes.

6. **Reporting Entity**—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.

STATE OF TENNESSEE
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PHONE (615) 741-3697

December 18, 1989

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Chairs of Excellence as of June 30, 1989, and June 30, 1988, and the related statements of revenues, expenses, and changes in fund balances and changes in financial position for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chairs of Excellence as of June 30, 1989, and June 30, 1988, and the results of operations and the changes in financial position for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/db

Comparative Balance Sheet

ASSETS	June 30, 1989	June 30, 1988
Current Investments		
Cash & Cash Equivalents	$ 5,639,122	$ 8,197,642
Long Term Investments		
Government Bonds (Amortized Cost)	$ 49,115,809	$42,713,585
Corporate Bonds (Amortized Cost)	28,916,145	16,578,022
Corporate Stocks (Cost)	14,708,629	11,011,990
Total Long Term Investments	$ 92,740,583	$70,303,597
Total Investments	$ 98,379,705	$78,501,239
Receivables		
Income Receivable	$ 1,739,301	$ 1,165,587
Total Assets	$100,119,006	$79,666,826
LIABILITIES AND FUND BALANCE		
Liabilities		
Payable to Tennessee Student Assistance Corporation	$ 2,110,041	$ 1,553,886
Payable to State General Fund	12,278	0
Investments Purchased	0	1,135,548
Total Liabilities	$ 2,122,319	$ 2,689,434
Fund Balance		
Fund Balance Reserved for Endowments		
State	$ 43,000,000	$35,000,000
College & University	8,738,000	6,488,000
Private	29,162,975	23,070,807
Total Reserved for Endowments	$ 80,900,975	$64,558,807
Special Reserve		
State	$ 5,345,845	$ 3,722,563
College & University	1,156,028	710,156
Private	1,762,721	1,271,704
Total Special Reserve	$ 8,264,594	$ 5,704,423
Restricted Reserve		
State	$ 6,289,673	$ 5,254,946
College & University	52,175	45,434
Private	2,489,270	1,413,782
Total Restricted Reserve	$ 8,831,118	$ 6,714,162
Total Fund Balance	$ 97,996,687	$76,977,392
Total Liabilities & Fund Balance	$100,119,006	$79,666,826

See Accompanying Footnotes to the Financial Statements.

		For the Year Ended June 30, 1989		For the Year Ended June 30, 1988
Operating Revenues:				
Investment Income		$ 7,819,861		$ 5,832,937
Operating Expenses:				
Payments to the University of Tennesee	$1,984,707		$ 941,409	
Payments to the State Board of Regents	1,015,590		241,500	
Administrative Cost	142,438		110,992	
Total Operating Expenses		$ 3,142,735		$ 1,293,901
Net Income Before Operating Transfer		$ 4,677,126		$ 4,539,036
Operating Transfer:				
From State General Fund	$8,000,000		$ 0	
From College & University Funds	2,250,000	10,250,000	2,062,500	2,062,500
Net Income		$14,927,126		$ 6,601,536
Other Changes in Fund Equity:				
Contributions from Private Sources		$ 6,092,168		$ 4,560,444
Net Change in Fund Equity		$21,019,294		$11,161,981
Fund Balance, Beginning of Year		$76,977,393		$65,815,412
Fund Balance, End of Year		$97,996,687		$76,977,393

See Accompanying Footnotes to the Financial Statements.

Statement of Changes in Financial Position

	For the Year Ended June 30, 1989	For the Year Ended June 30, 1988
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	$14,927,126	$ 6,601,536
Contributions from Private Sources	6,092,168	4,560,444
Total Sources of Working Capital	$21,019,294	$11,161,980
Uses of Working Capital:		
Purchase of Long-Term Investments	$22,436,985	$16,459,509
Net Increase (Decrease) in Working Capital	$ (1,417,691)	$(5,297,529)
Elements of Net Increase in Working Capital:		
Cash and Cash Equivalents	$ (2,558,520)	$(4,397,046)
Receivables	573,715	309,494
Payables	568,433	(74,430)
Investment Purchases	1,135,547	(1,135,547)
Net Increase (Decrease) in Working Capital:	$ (1,417,691)	$(5,297,529)

See Accompanying Footnotes to the Financial Statements.

A. Significant Accounting Policies

1. **Reporting Entity**—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.
2. **Basis of Presentation**—The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.
3. **Basis of Accounting**—The Chairs of Excellence Trust is accounted for on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses when liabilities are incurred.
4. **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 investments 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 does 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.
5. **Reclassification**—Convertible Bonds in the amount of $1,338,087.73 (market value of $1,370,375) classified as Corporate Stocks on the June 30, 1988 Balance Sheet have been reclassified as Corporate Bonds for comparative purposes.

B. Cash and 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 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, medium-term corporate notes and commercial paper as well as cash.

The Chairs of Excellence Trust investments at June 30, 1989 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 counterparty'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 counterparty's trust department or agent but not in the name of the Chairs of Excellence Trust. The categorization for the investments held at June 30, 1988 was the same as that shown below for investments held at June 30, 1989.

	Category			Book Value	Market Value	Book Value	Market Value
	1	2	3	06/30/89	06/30/89	06/30/88	06/30/88
Cash and Cash Equivalents	$ 5,639,122	$0	$0	$ 5,639,122	$ 5,639,122	$ 8,197,642	$ 8,197,642
Long Term Investments							
Domestic Corporate Stock	$14,708,629			$14,708,629	$ 17,648,000	$11,011,991	$11,126,850
Domestic Government Bonds	49,115,809			49,115,809	48,844,084	42,713,584	41,037,098
Domestic Corporate Bonds	28,916,144			28,916,144	28,666,574	16,578,022	16,658,730
Total Long Term Investments	$92,740,582	$0	$0	$92,740,582	$ 95,158,658	$70,303,597	$68,822,678
Total Investments	$98,379,704	$0	$0	$98,379,704	$100,797,780	$78,501,239	$77,020,320

C. Other Accounting Disclosures

1. **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, 1989 74 Chairs have been established with matching contributions received totaling $37,900,974.72. This is an increase of 5 Chairs and $8,342,167.77 since 6/30/88.
2. Funds from the Tennessee Student Assistance Corporation (TSAC) are combined with the Chairs of Excellence Trust for investment purposes only. The TSAC general account receives only the income earned on its principal and does not receive any COE state contributions or appropriations. The TSAC funds are invested in fixed income securities.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37219-5047
PHONE (615) 741-3697

December 18, 1989

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Bond Refunding Trust as of June 30, 1989, and June 30, 1988, and the related statement of changes in assets and liabilities for the year ended June 30, 1989. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Refunding Trust as of June 30, 1989, and June 30, 1988, and the changes in assets and liabilities for the year ended June 30, 1989, in conformity with generally accepted accounting principles.

Sincerely,

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

AAH/db

	June 30, 1989	June 30, 1988
ASSETS		
Cash and Cash Equivalents	$ 48,034	$ 35,826
Investments (Amortized Cost)	42,696,769	43,419,926
Accrued Interest Receivable	1,382,685	1,389,480
Total Assets	$44,127,488	$44,845,232
LIABILITIES		
Amounts Held in Custody for Others	$44,127,488	$44,845,232
Total Liabilities	$44,127,488	$44,845,232

See Accompanying Notes to the Financial Statements.

Bond Refunding

Statement of Changes in Assets and Liabilities

	Balance June 30, 1988	Additions	Deductions	Balance June 30, 1989
ASSETS				
Cash and Cash Equivalents	$ 35,826	$11,030,202	$11,017,994	$ 48,034
Investments	43,419,926	31,786	754,943	42,696,769
Accrued Interest Receivable	1,389,480	1,382,685	1,389,480	1,382,685
Total Assets	$44,845,232	$12,444,673	$13,162,417	$44,127,488
LIABILITIES				
Amounts Held in Custody for Others	$44,845,232	$ 8,885,779	$ 9,603,523	$44,127,488
Total Liabilities	$44,845,232	$ 8,885,779	$ 9,603,523	$44,127,488

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 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, prime commercial paper, prime bankers' acceptances, 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 Treasurer is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian agent against simultaneous receipt of collateral securities.

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	Market Value
$42,696,769	$40,735,882

Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Bond Refunding Fund forms an integral part of state government and as such has been included as an agency fund in the Tennessee Comprehensive Annual Financial Report.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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PHONE (615) 741-3697

December 18, 1989

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheet of the Employee Flexible Benefit Plan as of June 30, 1989, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the Employee Flexible Benefit Plan as of June 30, 1989, and the changes in fund balance for the year then ended in conformity with generally accepted accounting principles.

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

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

AAH/db

Balance Sheet

	June 30, 1989
ASSETS	
Cash and Cash Equivalents	$780,279
Receivable from State Funds	89,902
Total Assets	$870,181
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts Payable	$ 32,075
Warrants Payable	45,064
Dependent Care Deposits	133,342
Medical Reimbursement Deposits	484,272
Total Liabilities	$694,753
Fund Balance	$175,428
Total Liabilities and Fund Balance	$870,181

See Accompanying Footnotes to the Financial Statements.

Flexible Benefits Plan

Statement of Revenues, Expenditures, and Changes in Fund Balance

	For the Year Ended June 30, 1989
Revenues:	
FICA Savings	$412,914
Total Revenue	$412,914
Expenditures:	
Administrative Fees	$190,865
Total Expenditures	$190,865
Excess of Revenues over Expenditures	$222,049
Other Financing Sources (Uses):	
Operating Transfer to General Fund	(46,621)
Excess of Revenues and Other Sources Over Expenditures and Other Uses	$175,428
Fund Balance, Beginning of Year	0
Fund Balance, End of Year	$175,428

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 Employee Flexible Benefit Plan is accounted for on the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available and expenditures are recognized at the time the fund liabilities are incurred.

3. **Cash and Cash Equivalents**—Cash deposited in the Employee Flexible Benefit Plan 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, prime commercial paper, prime bankers' acceptances, 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 Treasurer is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securiies are transferred to the borrower by the custodian against simultaneous receipt of collateral securities.

4. **Reporting Entity**—Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Employee Flexible Benefit Plan is an integral part of state government and as such has been included as an expendable trust fund in the Tennessee Comprehensive Annual Financial Report.

B. Other Accounting Disclosures

The state offers its employees a cafeteria plan created in accordance with Internal Revenue Code Section 125. The plan is available on an optional basis to all state employees. Through the plan, employees may elect to direct a portion of their salary to pay for certain benefits. Benefits which may be purchased through the plan include state group medical insurance, state group dental insurance, out-of-pocket medical expenses and/or dependent care expenses. Because elections must be filed before the salary or the benefits are received and because salary directed to the plan may not be withdrawn by participants for any other purpose, salary directed to the plan is exempt from federal income tax and social security tax. Elections made by employees may not be changed during the calendar plan year except in the event of a corresponding change in the participant's family status. The plan is administered by the VISTA Management Company.

Schedule of Cash Receipts and Disbursements

	July 1, 1988 through June 30, 1989
Cash Balance, Beginning of Year	$ 0
Add Cash Receipts:	
Plan Deposits	$1,181,885
FICA Savings	412,914
Total Cash Receipts	$1,594,799
Deduct Cash Disbursements:	
Plan Withdrawals	$ 609,110
Transfer to General Fund	46,621
Administrative Fees	158,789
Total Cash Disbursements	$ 814,520
Cash Balance, End of Year	$ 780,279

See Accompanying Footnotes to the Financial Statements.

Treasury Department, December 1989, Authorization Number 309070, 600 copies. This public document was promulgated at a cost of $3.12 per copy.