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T R E A S U R E R ' S
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S T E V E A D A M S , T R E A S U R E R
S T A T E O F T E N N E S S E E

1995 TREASURER'S REPORT



STEVE ADAMS, TREASURER

STATE OF TENNESSEE

**FISCAL YEAR ENDED
JUNE 30, 1995**



Steve Adams

"The mission of the Treasury Department is to provide superior service to constituents in a cost effective manner through qualified personnel while maintaining the highest ethical standards."

— Treasury Department Staff

1995 TREASURER'S REPORT

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State of Tennessee
Treasury Department
State Capitol
Nashville, Tennessee 37243

December 31, 1995

To the Governor, Members of the General Assembly,
and Citizens of the State of Tennessee:

I welcome the opportunity to present to you the annual financial report of the Treasurer's Office for the fiscal year ended June 30, 1995. During the nine years I have served as State Treasurer, assets under the management of the Treasurer have grown from \$7 billion to \$17 billion. Our goal is to manage these assets on behalf of the state in a highly professional manner designed to preserve principal and achieve a superior return while maintaining sufficient liquidity to react to the changing environment and to meet obligations in a timely manner.

Our investment performance has been exceptional, helping the Tennessee Consolidated Retirement System achieve its status as one of the most strongly funded public plans in the country. During the year, TCRS also received the Public Pension Principles Achievement Award from the Public Pension Coordinating Council in recognition of the professional standards it has instituted as well as the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its comprehensive annual financial report. Other successes and activities of the Treasury Department are detailed on the following pages.

I am fortunate to have an outstanding staff of committed public servants working in the Treasury Department. My thanks go to each of them for all they do to serve Tennesseans. I also wish to thank the members of the General Assembly for their support of this department's commitment to applying new methods and technologies to effectively serve the changing needs of the citizens of the state.

Most certainly, the days ahead will be filled with more challenges as we continue the task of providing professional financial management, providing benefit programs responsive to the needs of public employees as well as the taxpayers of the state, and improving services for the citizens of our state. We look forward to meeting those challenges.

Sincerely,

A handwritten signature in cursive script that reads "Steve Adams".
Steve Adams

Introduction

The 1995 Treasurer's Report contains reports on various programs administered by the Treasury Department, including Investments, the Tennessee Consolidated Retirement System, the Deferred Compensation Program, the Flexible Benefits Plan, Claims Administration, Risk Management, the Unclaimed Property 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 1994-95 fiscal year.

Investments

The Investment 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, the various dedicated reserves and trust funds of the state, and the Local Government Investment Pool. Investments during 1994-95 averaged \$2.14 billion, producing \$113.76 million in income for an average rate of return of 5.34%. Local governments participating in the Local Government Investment Pool received \$70.4 million in interest at a net rate averaging 5.41%. The State Trust of Tennessee allows the Treasury Department to use the Federal Reserve Wire Transfer System to transfer funds on a limited basis.

Pension Fund Investments - This section manages the investments of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 1995 totaled \$13 billion at book value (an increase of \$928 million for the year) and \$14.1 billion at market value. For the year, investments produced \$930 million in income for a realized rate of return of 7.60% on book value. This section also manages investments for the Chairs of Excellence Trust which at June 30, 1995 totaled \$140 million at book value.

Tennessee Consolidated Retirement System

The Tennessee Consolidated Retirement System provides retirement coverage to state employees, higher education employees, teachers, and employees of political subdivisions that have elected to participate in the plan. As of June 30, 1995, there were 173,778 active TCRS members: 43,010 state employees; 55,976 K-12 teachers; 54,712 political subdivision employees; and 20,080 higher education employees. As of June 30, 1995, there were 62,090 retirees. TCRS paid out \$443.4 million in benefits during fiscal year 1994-95. The state of Tennessee is responsible for the pension liability for state employees, teachers, and higher education employees while each political subdivision is responsible for the liability of its employees. Activities during 1994-95 included a record 4,560 retirements, 4,788 refunds, approximately 8,500 estimates provided to members, and approximately 5,200 requests to purchase prior service. TCRS received its sixth consecutive Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its June 30, 1994 Comprehensive Annual Financial Report.

**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 \$139 million in salary. As of June 30, 1995, 11,706 state and university employees had accounts in the program. The market value of accumulated account balances totaled \$198.7 million, an increase of \$37.2 million during the year.

**Flexible
Benefits
Plan**

The State of Tennessee Flexible Benefits Plan is an optional benefit plan which enables state employees to pay for certain expenses with before-tax dollars. Employees may use the plan to pay group medical and dental insurance premiums, out-of-pocket medical expenses, and dependent care expenses. The majority of state employees use the plan to pay medical premiums or dental premiums. In addition, 2,456 state employees used the medical expense reimbursement account and 368 used the dependent care reimbursement account at June 30, 1995. The plan generated over \$2.1 million in F.I.C.A. savings for the state during the 1994-95 fiscal year.

**Claims
Administra-
tion**

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, tort liability, and criminal injury compensation. Staff support from the Division of Claims Administration also assists the Defense Counsel Commission and the Board of Claims. The Division of Claims Administration received 6,836 claims for tort, employee property damage, and workers' compensation. The Board of Claims took action on 13 cases, and 1,702 victims of criminal injury and drunk driver claims were approved for payment. The Defense Counsel Commission heard 31 requests for representation. Payments made during the year for workers' compensation, tort, and employee property damage claims totaled \$15.7 million. Payments made to victims of criminal injuries and drunk drivers totaled \$6.2 million. Since the first payments were issued in 1982, over \$73 million has been paid to crime victims.

**Division of
Risk
Management**

The Division of Risk Management is responsible for administering the state's Property/Casualty Insurance Program, including the procurement of boiler insurance and employee fidelity bond coverage. All state-owned buildings and contents are provided all-risk, replacement cost coverage for the limits of liability listed in the state's Property Insurance Schedule. On July 1, 1994, the total scheduled values were \$7.2 billion. The State Reserve for Casualty Losses, in the amount of \$5 million, provides a self-insured

retention for the payment of property claims. Excess property coverage is procured from an independent insurance carrier to provide claim payments in excess of the retention, should losses exceed \$5 million in a given fiscal year. A \$5,000 per occurrence deductible is assumed by the department, agency, or institution experiencing a loss. In fiscal year 1994-95, the premium cost for total property coverage without the \$5 million retention was estimated to be \$7.6 million. The actual cost of the program for the same period was \$1.1 million, providing a savings to the state of approximately \$6.5 million.

Unclaimed Property Program

The Unclaimed Property Division is responsible for the administration of the state's Uniform Disposition of Unclaimed Property Act. 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. The types of property covered by this act are primarily cash property such as bank accounts, insurance policies, utility deposits, etc. During the fiscal year, \$12.1 million of unclaimed property was turned over to the Treasurer and \$4.7 million was returned to owners or their heirs. Since the program began in 1978, over \$98.1 million in unclaimed property has been reported to the Treasurer and over \$26 million of that property has been returned to the owners or their heirs.

Chairs of Excellence

The Chairs of Excellence Trust is a nonexpendable trust fund authorized in 1984 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 cost of retaining a nationally or regionally recognized scholar at a state college or university who teaches in a specified academic area. During the 1995 fiscal year, six chairs were created with matching contributions totaling \$2.6 million. Since 1984, a total of 92 chairs have been created. The Trust totaled \$140 million book value at June 30, 1995 and produced income of \$7.8 million during the year.

Bond Refunding Trust

The Treasurer has been appointed Refunding Trustee for the Tennessee Local Development Authority (TLDA) in connection with the sale of bonds issued to refund, in advance of maturity, bonds previously issued by the TLDA. The Treasurer has established a Refunding Trust Fund for the benefit of the holders of the refunded bonds. A portion of the proceeds of the refunding bonds were used to acquire direct general obligations of the United States of America or obligations the payment of the principal and interest of which are unconditionally guaranteed by the United States of America. The assets of the Refunding Trust Fund totaled \$217,550 at book value on June 30, 1995.

Treasury Numbers at a Glance
Fiscal Year 1994-95

Administrative	Number of Positions	174
	Payroll Expenditures	\$ 6,071,775
	Other Expenditures	\$ 3,489,884
	Total Administrative Expenditures	\$ 9,561,659
Cash Management Program	General Fund Earnings	\$ 29,111,131
	LGIP Earnings	\$ 71,191,471
	Restricted Fund Earnings	\$ 13,459,268
	Total Cash Management Earnings	\$ 113,761,870
Retirement Program	Retirement Benefits	\$ 443,406,956
	Number of Retirees	62,090
	Number of Active Members	173,778
	Retirement Contributions	\$ 458,809,661
	Retirement Investment Earnings	\$ 930,425,055
	Retirement Refunds	\$ 20,914,496
Claims Administration Program	Workers' Compensation Payments	\$ 11,786,925
	Workers' Compensation Claims Filed	4,541
	Employee Property Damage Payments	\$ 28,305
	Employee Property Damage Claims Filed	273
	Tort Claims Payments	\$ 3,856,410
	Tort Claims Filed	2,022
	Criminal Injury Payments	\$ 6,249,335
	Criminal Injury Claims Filed	2,053
	Defense Counsel Payments	\$ 392,985
	Claims Award Fund Revenue	\$ 14,595,339
Risk Management Program	Property Values Insured	\$ 7,244,879,500
	Total Cost of Program	\$ 1,147,455
	Savings to the State over Private Insurance Rates	\$ 6,459,668
Other Programs	Deferred Compensation Contributions	\$ 18,818,921
	Deferred Compensation Participants	11,706
	Flexible Benefits Plan Payments	\$ 3,031,347
	FICA Savings Generated from Flex Plan	\$ 2,141,935
	Unclaimed Property Revenues	\$ 12,143,929
	Unclaimed Property Payments	\$ 4,689,118
Chairs of Excellence Program	Chairs of Excellence Contributions	\$ 2,562,409
	Chairs Of Excellence Investment Earnings	\$ 7,794,730
	Total Number of Chairs of Excellence	92
	Chairs of Excellence Expenditures	\$ 5,630,874
Market Value of Assets Under Management at 6/30/95	Retirement Trust Fund	\$ 14,293,461,375
	Chairs of Excellence Trust Fund	\$ 149,156,438
	State Pooled Investment Fund	\$ 2,275,941,486
	Deferred Compensation (outside managers)	\$ 198,734,299
	Bond Refunding Trust	\$ 124,538
	Total Assets Under Management	\$ 16,917,418,136

◆ Tennessee Consolidated Retirement System

During the 1994-95 fiscal year, the division developed a new pre-retirement planning program designed to help members of the system prepare for the practical as well as the emotional changes that come with retirement. The program features presentations on Social Security benefits, TCRS benefits, financial planning, estate planning and wills, health and leisure activities.

Approximately 1,500 members participated in 46 seminars across the state. The department also distributed statements with benefit estimates and service histories to TCRS members.



Right: Pre-Retirement Planning Supervisor Sandra Sewell and Retirement Counselor Jim Cotey conduct a pre-retirement planning seminar for teachers.

◆ Deferred Compensation Program

To further help state employees improve their retirement income planning, the Deferred Compensation Program developed and distributed a personalized statement for participants which projects their account balance and their potential monthly income at retirement based on their current account balance, their current savings rate, and their date of birth.

The program also held a series of investment seminars around the state to explain investment concepts and the investment options available in the program. In addition to the nine funds already offered, the Treasury Department added three new funds to the Deferred Compensation Program effective January 1, 1995: Fidelity Investments' Contrafund, Asset Manager Fund, and International Growth and Income Fund. The program expects to see many more state employees begin saving for retirement during the next year as a result of the 401(k) match authorized by the General Assembly during the 1994-95 fiscal year. Initially, the match will be funded from savings generated by state employees' use of the Flexible Benefits Plan.

◆ Workers' Compensation Program



To ensure a high quality of care for injured workers and to enable the workers' compensation program to better manage medical costs, the department contracted with an organization to establish and implement a workers' compensation medical provider network for state employees injured on the job. The network is made up of physicians and facilities specializing in the treatment of occupational injuries and illnesses.

Left: Susan Clayton, Director of Claims Administration, and Anne Adams, Claims Supervisor, helped to create a network of medical providers specializing in treating occupational injuries.

◆ Risk Management Program

Effective July 1, 1994, the Division of Risk Management moved to the Treasury Department from the Department of Finance and Administration. The division plans to begin automating its recordkeeping and working on a building inspection process. The division will also work with the workers' compensation program to develop safety and loss control programs to prevent accidents and reduce workers' compensation costs.



◆ Unclaimed Property Program

The unclaimed property division has been working with other states' unclaimed property offices to exchange property held by another state for individuals with a last known address in Tennessee. This cooperative effort will increase the division's chances of returning property to the rightful owners or their heirs. Since this project started, the division has exchanged property with 35 states and is working on agreements with the other states.

Left: Unclaimed Property Manager Kim Morrow set up reciprocal agreements with 35 other states.

◆ Careers NOW Internship Program

Beginning in January 1996, Tennessee's three constitutional offices (Treasurer, Secretary of State, and Comptroller) will offer students from Tennessee's colleges and universities an opportunity to work in one of the three offices for a semester. Initially, twelve students per semester will be accepted into the program. In addition to their daily work responsibilities, the students will attend a series of seminars, visit other state agencies, and engage in other opportunities to increase their overall understanding and knowledge of Tennessee state government.

Right: Program Coordinator Diana Collins oversees the new Careers Now Internship Program designed to provide students the opportunity to develop career opportunities in state government.



◆ Investment Division

A new portfolio inventory and accounting system was installed in the Investment Division on November 1, 1994. The system is a real time, on line system which allows much more flexibility to the portfolio managers. Reports can be viewed on screen, and can be run at any time by the user. The system has also been utilized to transmit trade information to the custodian bank, thus increasing accuracy and improving efficiency. A more sophisticated pricing service was implemented at the same time, allowing the division to more accurately value assets and collateral.

The department implemented a batch wire system for the Local Government Investment Pool program which increases the accuracy and efficiency of processing withdrawal requests from the LGIP. The department also implemented a voice response system for use by pool participants.

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 175 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 1994-95 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was \$2,177,771,341 per month and interest income of \$113,761,870 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 foremost investment objective of the State Pooled Investment Fund is safety of principal, followed by liquidity and then yield.

Up to 20 percent 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 authorized 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 repurchase agreements must be book-entry and delivered to the State Trust of Tennessee. Funds may also be invested in prime commercial paper, and prime banker's acceptances.

Since 1991, the State Pooled Investment Fund has been used as a liquidity facility for the state's General Obligation Bond Anticipation Note Program (final maturity June 1, 1996). The State Pooled Investment Fund is committed to buy any state of Tennessee General Obligation Bond Anticipation Notes that fail to be remarketed by the remarketing agent as an investment until such time as the notes can be resold.

The policy allows for the yield on such obligations to be equal to or greater than the yield of other obligations in which the state could invest at the time of the purchase. Up to \$150,000,000 is covered by the State Pooled Investment Fund pursuant to the note resolution. By providing its own liquidity facility, the state is able to save up to \$300,000 a year on these outstanding notes.

At June 30, 1995, investments had an average maturity of 136 days, and an average weighted yield of 5.98%. The total balance in the State Pooled Investment Fund at June 30, 1995 (\$2,284,062,000 par value) was allocated as follows: U.S. Treasury government and agency securities, 31.76%; repurchase agreements, 8.82%; collateralized certificates of deposit, 36.36%; and commercial paper, 23.06%.

State Cash Management Comparative Returns

In order to ensure 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.

Fiscal Year	¹ Total Pool Funds	² Merrill Lynch Institutional Fund	³ New Pool Funds	⁴ 90 Day Treasury (CD Equivalent Yield)
1994-95	5.34%	5.33%	5.47%	5.45%
1993-94	4.04	3.30	3.41	3.42
1992-93	4.39	3.29	3.21	3.11
1991-92	6.15	4.66	4.76	4.53
1990-91	7.91	7.03	7.15	6.66

¹Investment return on total portfolio.

²This index most closely resembles the structures and objectives of the total cash portfolio.

³Investment return on funds invested during the year.

⁴This approximates the reinvestment period for new funds.

Administration of Authorized State Depository Accounts

The Cash Management Division is responsible for the administration of the state's bank accounts in Tennessee financial institutions designated as authorized state depositories. Taxpayers and state agencies can deposit certain tax funds due to the state directly to any Treasurer's account at any authorized state depository.

The four most significant functions of administering the accounts are: (1) authorizing the state depository to accept state funds; (2) cash concentration; (3) collateralizing deposits; and (4) monitoring collateral and deposits. Financial institutions' requests to become authorized state depositories are

received in Cash Management, reviewed, and forwarded to the appropriate state officials for consideration and approval.

The Cash Management Division is responsible for the cash concentration and management of all state depository accounts. Cash Management staff inquire on the balances of bank accounts and concentrate available funds into the State Trust to meet liquidity and investment needs. Account balances are drawn to the floor and concentrated by Fed wire or Automated Clearinghouse (ACH) transactions. The account floor is the minimum amount required by the financial institution for that particular account to earn interest. All of these state accounts are interest bearing.

Changes in branch banking laws and bank ownership due to mergers and acquisitions

have brought about a need to quickly identify the parent bank, holding company and affiliate trustee custodians for state depositories. The ability to access and update this information on a database enhances the ability to monitor deposits and collateral based on appropriate bank ownership.

This same database is accessed for current account information for balance inquiry and cash concentration. It automates the link from balance inquiry to cash concentration by generating an ACH transaction. This automation provides more time to inquire on more accounts. The account balance floors are automatically compared to the balances entered to calculate ACH transaction amounts.

State Collateral Program

Collateral is required to secure state deposits held in authorized state depository institutions. Statute sets the required collateral level at a market value of 105 percent of the value of the deposit secured, less the amount secured by the Federal Deposit Insurance Corporation. However, if the state depository is operating with a capital-to-asset ratio of less than five percent, additional collateral with a market value of \$100,000 is required. The types of investment instruments which are eligible to be pledged as collateral are listed in this report.

The state of the economy and the financial environment has increased the importance of monitoring collateral. Cash Management staff review collateral daily, weekly, and monthly. Any collateral deficiencies at authorized state depository institutions are reported to the

Funding Board monthly. Reasons for under-collateralization include market price volatility of the security pledged, unexpected high deposits to an account, interest accruals, capital-to-asset ratios falling below five percent, and principal paydowns on asset backed securities which have been pledged as collateral.

Legislation was passed in 1990 which permitted out-of-state banks to apply to become trustee custodians for securities pledged to the state of Tennessee. In addition to the normal considerations, two major agreements are required of such out-of-state institutions: (1) they must agree to be subject to the laws of the state of Tennessee and (2) they must be designated to hold collateral for the federal Treasury, Tax and Loan accounts.

8-5-110 Collateral

Tennessee Code Annotated, Section 8-5-110 designates the Treasurer as the custodian of all collateral, securities, bonds and other valuable papers deposited with the state or any department thereof, and requires the Treasurer to be exclusively responsible for the safekeeping thereof.

Cash Management personnel work directly with the personnel of the state agencies to accept and release collateral held in accordance with their specific instructions. Other state agencies cooperating with the Treasurer in this regard include the Department of Health, the Department of Environment and Conservation, the Department of Commerce and Insurance, the Department of Transportation, and the Department of Financial Institutions. Reports of collateral transactions, holdings, and maturities are regularly shared with these departments.

Collateral Pool

Legislation passed in March 1990 — “The Collateral Pool for Public Deposits Act” — authorized the formation of a collateral pool for banks.

To minimize the risk to participating banks, the pool system operates under the jurisdiction of a Bank Collateral Pool Board.

While bank participation in the pool is voluntary, participation is subject to application and approval by the Bank Collateral Pool Board, which has established minimum financial performance levels to ensure that only healthy banks are permitted to participate.

The board is comprised of seven members and is administered by the Treasurer's office. Four of the board members are bankers appointed by the Treasurer from nominations submitted by the Tennessee Bankers Association. The remaining three members represent state and local government divisions.

All funds are collateralized based on the total amount of public funds held. Individual public fund accounts are accumulated, and the cumulative total is collateralized and pledged.

Target collateral pledge levels are based on average balances in the public fund accounts.

All collateral transactions for the pool are centralized and processed through the Treasury Department once a month, using uniform state-wide procedures.

The Bank Collateral Pool staff will monitor the pool through monthly, quarterly and annual bank reports of deposits and financial performance of the pool members. In addition, the staff regularly reviews collateral pledge levels.

Specific rules have been promulgated by the Bank Collateral Pool Board to guide the administration of the Bank Collateral Pool. The rules are included in a Bank Collateral Pool operations manual available to banks upon request.

The staff of the Treasurer's office has worked with the Board to develop a program that is efficient, less costly, and provides a high level of risk reduction in the collateralization of public funds. In addition, the staff has created a system that both banks and local government officials will find is easy to understand and administer.

The Bank Collateral Pool was implemented on November 1, 1995 with 13 banks participating.

Securities Acceptable as Collateral for State Deposits

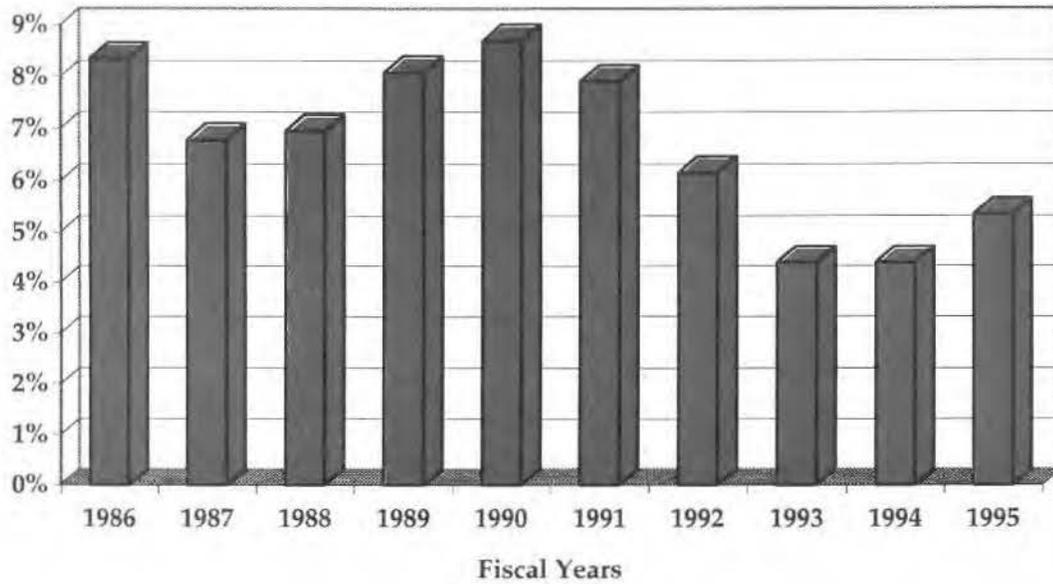
1. U.S. Treasury Bills
2. U.S. Treasury Notes & Bonds
3. Federal Housing Administration (FHA) debentures
4. Government National Mortgage Associations (GNMA)*
5. Farm Credit System (FCS)
 - a. Federal Land Bank Bond (FLBB)
 - b. Farm Credit Systemwide Bonds (FCSB)
 - c. Farm Credit Systemwide Discount Notes (FCDN)
 - d. Farm Credit Systemwide Floating Rate Notes (FCFR)
6. Federal Home Loan Banks
 - a. Bonds (FHLB)
 - b. Discount Notes (FHDN)
 - c. Floating Rate Notes (FHFR)
7. Federal Home Loan Mortgage Corporation (FHLMC)*
 - a. Mortgage-Backed Participation Certificates and Adjustable Rate Securities (FMPC, FMAR)
 - b. Discount Notes (FMDN)
8. Federal National Mortgage Association (FNMA)*
 - a. Bonds, Debentures, Secondary Market Debt Obligations (FNSM)
 - b. Discount Notes (FNDN)
 - c. Floating Rate Notes (FNFR)
 - d. Mortgage-Backed Pass-Through Certificates (FNRF)
 - e. Residential Financing Securities (FNRF)
 - f. Adjustable Rate Mortgage-Backed Bonds (FNAR)
9. Student Loan Marketing Association (SLMA)
 - a. Discount Notes (SLDN)
 - b. Fixed Rate Notes (SLMN)
 - c. Floating Rate Notes (SLFR)
 - d. Bonds (SLBD)
10. Tennessee Valley Authority Bonds and Notes (TVA)
11. Collateralized Mortgage Obligations (CMOs) and Real Estate Mortgage Investment Conduits (REMICs) that are direct obligations of a U.S. agency or FNMA/FHLMC, except that the "residual" class/tranche of such securities will not be acceptable. Sufficient excess securities should be pledged to allow for the periodic reduction of principal.
12. Certain Tennessee Municipal Bonds as specified in T.C.A. Section 9-4-103.
13. Surety Bonds issued by insurance companies meeting certain requirements, including licensure under the laws of Tennessee.

** Pass through securities must reflect current paid down values and be kept up to date.*

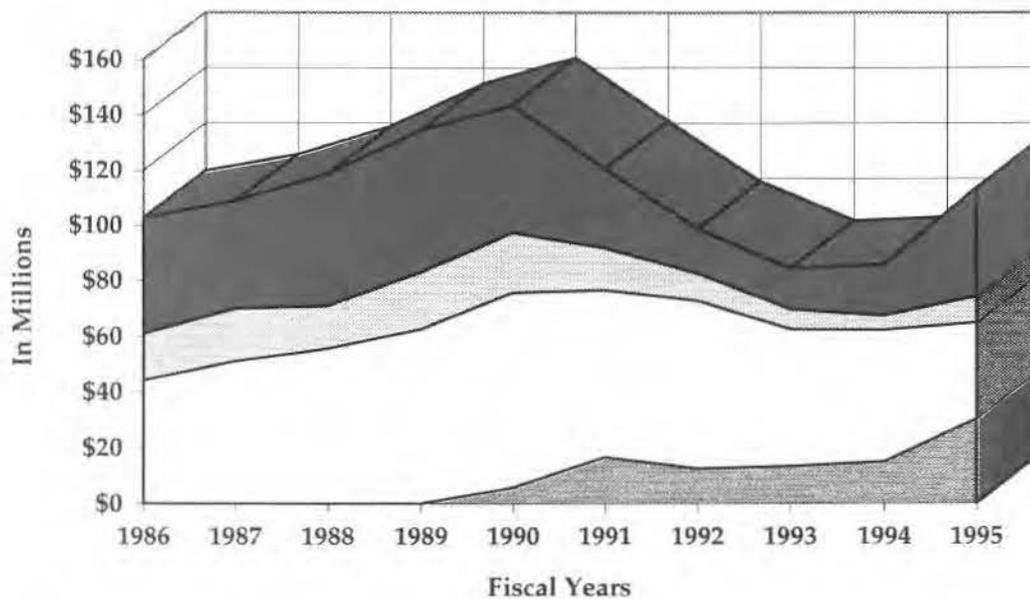
Historical Analysis of State Cash Investments

<i>Fiscal Year</i>	<i>Average Amount Invested</i>	<i>Amount Earned</i>	<i>Rate of Return</i>
Collateralized Time Deposits			
1994-95	\$ 743,203,083	\$ 39,498,384	5.34%
1993-94	524,944,000	18,544,812	3.54%
1992-93	367,934,460	14,855,742	4.03%
1991-92	287,099,579	16,274,530	5.60%
1990-91	374,849,439	28,926,573	7.75%
Repurchase Agreements			
1994-95	\$ 172,311,500	\$ 9,375,039	5.46%
1993-94	154,941,333	5,181,537	3.31%
1992-93	222,356,489	7,138,186	3.17%
1991-92	213,768,838	9,768,005	4.67%
1990-91	204,465,829	15,081,792	7.17%
Commercial Paper			
1994-95	\$ 533,771,250	\$ 29,866,669	5.60%
1993-94	371,247,833	13,478,983	3.64%
1992-93	351,223,148	11,857,182	3.38%
1991-92	218,552,117	11,206,751	5.07%
1990-91	204,276,091	15,752,444	7.65%
U.S. Government Securities			
1994-95	\$ 692,287,167	\$ 34,534,311	5.07%
1993-94	1,082,046,750	47,245,264	4.54%
1992-93	1,022,595,573	49,207,450	5.07%
1991-92	903,627,136	60,499,203	6.72%
1990-91	736,959,611	60,114,144	8.17%
Securities Lending Income			
1994-95	N/A	\$ 487,467	N/A
1993-94	N/A	1,525,111	N/A
1992-93	N/A	1,425,030	N/A
1991-92	N/A	1,070,580	N/A
1990-91	N/A	796,026	N/A
Total Funds			
<i>Fiscal Year</i>	<i>Average Total Funds Invested</i>	<i>Total Cash Management Earnings</i>	<i>Composite Weighted Average Rate of Return</i>
1994-95	\$2,141,573,000	\$113,761,870	5.34%
1993-94	2,133,179,916	85,975,707	4.04%
1992-93	1,964,109,670	84,483,590	4.39%
1991-92	1,623,047,670	98,819,069	6.15%
1990-91	1,520,550,970	120,670,979	7.91%

Cash Management Investments Composite Weighted Average Rate of Return 1986-1995



Analysis of State Cash Earnings 1986-1995



- Commercial Paper & Securities Lending
- U.S. Government Securities
- Repurchase Agreements
- Collateralized Time Deposits

Cash Management Portfolio Analysis
Fiscal Year Ended June 30, 1995

Date	Current Investment Yield	Total Portfolio Yield	Avg. Days to Maturity	Portfolio Composition				
				Time Deposits	Repurchase Agreements	U.S. Treasury Notes	U.S. Agencies	Commercial Paper
07/94	4.41%	4.47%	167	31.16%	6.02%	23.57%	16.28%	22.97%
08/94	4.62%	4.58%	163	32.96%	4.67%	26.34%	15.93%	20.10%
09/94	4.78%	4.68%	154	32.01%	3.95%	27.77%	9.59%	26.68%
10/94	4.85%	4.85%	158	31.60%	9.67%	27.24%	9.50%	21.99%
11/94	5.36%	5.04%	153	30.95%	9.93%	20.76%	5.66%	32.70%
12/94	5.64%	5.26%	145	28.20%	7.83%	21.68%	12.45%	29.84%
01/95	5.65%	5.54%	133	35.01%	8.34%	11.20%	14.62%	30.83%
02/95	6.02%	5.85%	133	33.47%	16.17%	11.64%	15.69%	23.03%
03/95	6.07%	5.92%	131	30.18%	9.61%	11.77%	22.05%	26.39%
04/95	6.06%	5.95%	128	32.09%	5.13%	10.73%	17.82%	34.23%
05/95	6.05%	5.99%	138	38.63%	12.61%	8.92%	17.00%	22.84%
06/95	6.07%	5.97%	144	36.36%	8.82%	9.39%	22.37%	23.06%
Dollar Weighted Avg.	5.47%	5.34%	146	32.73%	8.56%	17.58%	14.91%	26.22%

Date	General Fund		LGIP		Other Restricted		Total Invested
	Average	Percent	Average	Percent	Average	Percent	
07/94	\$ 658,833,454	27.95%	\$1,148,656,803	48.72%	\$ 550,006,615	23.33%	\$ 2,357,496,872
08/94	667,546,773	27.80%	1,194,763,593	49.76%	538,822,817	22.44%	2,401,133,183
09/94	554,144,223	24.16%	1,213,448,984	52.91%	525,799,777	22.93%	2,293,392,984
10/94	430,793,110	19.72%	1,216,704,462	55.70%	537,017,060	24.58%	2,184,514,632
11/94	312,301,874	15.11%	1,201,769,098	58.12%	553,552,568	26.77%	2,067,623,540
12/94	254,341,326	12.86%	1,167,323,292	59.03%	555,962,890	28.11%	1,977,627,508
01/95	189,775,263	9.11%	1,343,801,663	64.51%	549,409,541	26.38%	2,082,986,467
02/95	85,077,987	4.21%	1,363,652,896	67.54%	570,277,343	28.25%	2,019,008,226
03/95	(19,697,510)	(0.96%)	1,546,272,839	75.09%	532,561,777	25.87%	2,059,137,106
04/95	201,408,524	9.18%	1,462,153,625	66.62%	531,260,028	24.20%	2,194,822,177
05/95	403,353,334	17.75%	1,331,299,020	58.57%	538,227,845	23.68%	2,272,880,199
06/95	324,786,971	14.61%	1,349,116,164	60.70%	548,730,064	24.69%	2,222,633,199
Avg.	\$ 338,555,444	15.13%	\$ 1,294,913,537	59.77%	\$ 544,302,360	25.10%	\$ 2,177,771,341

Note: The average General Fund balance for the year would have been \$635,904,849 if General Fund Balances had not been required to cover an average annual deficit balance of \$297,349,405 in the Education Trust Fund.

Local Government Investment Pool

Tennessee municipalities, counties, school districts, utility districts, community health agencies, local government units, and political subdivisions can deposit monies with the 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. Participation in the LGIP program currently stands at 624 active accounts, representing 233 local government units. An additional 251 accounts are active in the Department of Transportation program as well.

Local governments which enter into agreements with the Department of Transportation (DOT) often establish an LGIP account to fund the local matching portion of a highway project grant. These DOT accounts are available to provide the local match to the specific highway project in a timely manner while earning interest for the local government. In a similar fashion, the Tennessee Board of Regents schools provide their matching portion of Capital Projects funds while earning interest for the benefit of the Board of Regents school.

The Treasurer's Office has installed a facsimile copy machine to assist participants of the LGIP in communicating their instructions regarding deposits, transfers or withdrawals of funds. Thus, participants have the choice of communicating these instructions by telephone or telecopier.

In addition, voice mail telephone service has been provided to permit LGIP participants to give telephone transaction instructions while staff is busy on other telephone lines. Voice mail permits an increase in productivity while holding costs constant. During the year, the department developed a voice response system for use by participants, giving them the ability to obtain account information and to initiate transactions.

LGIP reports mailed to participants include monthly statements and transaction confirmations. Monthly statements detail all debits and credits to the account during the month, the account's average daily balance, and interest credited. A transaction confirmation is mailed to the participant each time a deposit or withdrawal is made. Many participants rely on this documentation for daily and weekly reconciliations.

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 six one hundredths of one percent (.06%) as an administrative fee for participating in the LGIP program. During the 1994-95 fiscal year, the average rate participants earned on their deposits after the fee reduction was 5.41%.

Other activity is shown on the following schedule by participant group.

**Local Government Investment Pool
Schedule of Activity by Entity Type**

Fiscal Year Ended June 30, 1995

	Account Balance 7/1/94	Net Activity FY 1994-95	Net Interest Credited FY 1994-95	Account Balance 6/30/95
Cities	\$ 313,446,883	\$ (69,140,047)	\$ 17,837,576	\$ 262,144,412
Counties	403,237,132	111,371,141	23,641,060	538,249,333
Commitments to D.O.T.	23,876,764	(2,824,898)	1,305,251	22,357,117
Educational Institutions	278,207,711	7,791,188	20,096,637	306,095,536
Community Health Agencies	2,762,794	2,486,786	283,515	5,533,095
Restricted Accounts	963,440	(58,618)	51,634	956,456
Other	114,661,832	22,356,545	7,199,266	144,217,643
TOTAL	\$ 1,137,156,556	\$ 71,982,097	\$ 70,414,939	\$ 1,279,553,592

State Cash Management

State Trust of Tennessee

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, which is used to send, receive, transfer and control funds movement expediently under the Treasurer's management.

Due to restrictions imposed upon state-owned trust companies by the Federal Reserve Board, the State Trust of Tennessee is limited in

the number of daily outgoing wire transfers and can no longer settle ACH transactions through its account at the Federal Reserve.

The restrictions required the State Trust of Tennessee to contract with an agent bank to execute these transactions. SunTrust Bank in Nashville began serving as the Trust's agent on July 1, 1994.

The State Trust became an associate member of the Nashville Clearinghouse on April 1, 1994. Approximately 85% of all check items presented for redemption are processed through the clearinghouse.

State Trust Of Tennessee Federal Reserve Bank Transactions Fiscal Year 1994-95

Transaction Type	Number	Amount
(1) Wire Disbursements	832	\$ 1,572,217,539
(2) Wire Receipts	7,290	11,722,368,213
(3) Security Disbursements	2,887	41,683,022,240
(4) Security Receipts	4,060	41,768,478,397
(5) Check Redemptions	5,879,283	6,377,965,879
TOTAL	5,894,352	\$ 103,124,052,268

Explanation of Transaction Types:

- (1) Disbursements of cash for the purpose of non-Fed eligible securities, settlement wires to agent bank, and other non-recurring wires.
- (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) deposits.
- (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) Redemption of warrants, drafts, and checks issued by the state.

Investment objectives for the TCRS Investment Division are to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient liquidity to react to the changing environment and 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 a member's 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 current Advisory Council is comprised of five senior investment professionals from within the state of Tennessee. All five members hold the Chartered Financial Analyst designation. The Advisory Council's combined investment management experience totals over 160 years.

Initiatives

Effective July 1, 1994, Boston Safe Deposit and Trust Company began providing Master Trust Custodial services. The master custodian provides safekeeping, accounting and securities lending services. Previously, accounting services for investment activity were performed internally.

The investment portfolio accounting system was replaced effective July 1, 1994 in coordination with the change to the new custodian. The new internal investment portfolio system serves as a securities inventory control system and a control for the receipt of investment income. The securities recorded on the securities inventory control system are reconciled monthly to the securities held by the custodial bank.

The Board of Trustees gained authorization to designate the countries in which international equity investments may be made. The division also gained authorization to use external international equity managers. The number of countries in which TCRS may invest will be expanded with the designation of external international equity managers. Five styles of external international equity management will be employed November 1, 1995. The five styles include Europe-Value, Europe-Growth, Pacific Basin-Value, Pacific Basin-Growth, and Emerging Markets.

Summary of Retirement Fund Investments

	<i>June 30, 1995</i>		<i>June 30, 1994</i>	
	Book Value	Market Value	Book Value	Market Value
<i>Domestic Securities:</i>				
Government Bonds	\$ 3,668,148,128	\$ 3,930,205,081	\$ 3,147,297,369	\$ 3,188,693,196
Corporate Bonds	3,038,098,538	3,110,967,317	3,043,382,314	2,977,248,969
Corporate Stocks	3,508,605,826	4,165,908,786	2,801,050,246	3,106,385,423
<i>Total Domestic Securities</i>	<i>\$ 10,214,852,492</i>	<i>\$ 11,207,081,184</i>	<i>\$ 8,991,729,929</i>	<i>\$ 9,272,327,588</i>
<i>International Securities:</i>				
Government Bonds	\$ 634,253,596	\$ 683,428,051	\$ 615,971,021	\$ 621,233,866
Corporate Bonds	338,581,133	367,596,792	192,778,906	201,034,372
Corporate Stocks	804,317,178	841,171,442	655,057,348	733,538,681
American Depository Receipts	55,583,509	70,256,688	9,152,098	20,092,439
<i>Total International Securities</i>	<i>\$ 1,832,735,416</i>	<i>\$ 1,962,452,973</i>	<i>\$ 1,472,959,373</i>	<i>\$ 1,575,899,358</i>
<i>Short-Term Securities</i>	<i>\$ 968,231,409</i>	<i>\$ 968,197,966</i>	<i>\$ 1,622,722,260</i>	<i>\$ 1,619,110,937</i>
<i>Total Investments</i>	<i>\$ 13,015,819,317</i>	<i>\$ 14,137,732,123</i>	<i>\$ 12,087,411,562</i>	<i>\$ 12,467,337,883</i>

Distribution of International Investments June 30, 1995

Country	<i>Stocks</i>		<i>Fixed Income</i>		<i>Total</i>	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
Australia	\$ 24,568,767	\$ 31,272,297	\$ 36,119,759	\$ 35,806,618	\$ 60,688,525	\$ 67,078,915
Canada	71,458,773	68,392,875	262,516,220	261,585,891	333,974,993	329,978,766
France	64,300,805	69,495,631	60,842,520	63,258,167	125,143,325	132,753,798
Japan	340,175,610	324,544,627	139,591,383	175,284,482	479,766,993	499,829,109
Netherlands	114,024,047	130,025,073	223,920,129	251,327,131	337,944,176	381,352,204
Switzerland	27,054,389	31,671,975	4,334,647	4,770,000	31,389,036	36,441,975
United Kingdom	185,840,754	214,550,022	154,971,616	165,991,305	340,812,370	380,541,327
Germany	32,477,542	41,475,630	90,538,455	93,001,249	123,015,997	134,476,879
<i>Total</i>	<i>\$ 859,900,687</i>	<i>\$ 911,428,130</i>	<i>\$ 972,834,729</i>	<i>\$1,051,024,843</i>	<i>\$ 1,832,735,416</i>	<i>\$ 1,962,452,973</i>

**TCRS Performance Summary
Fiscal Years 1985-86 Through 1994-95**

Fiscal Year	Excluding Gains and Losses			Including Gains and Losses		
	Average Amount Invested	Amount Earned	Percentage Earned on Book Value	Average Amount Invested	Amount Earned	Percentage Earned on Book Value
1994-95	\$ 12,347,068,826	\$ 730,338,058	5.92%	\$ 12,247,025,328	\$ 930,425,055	7.60%
1993-94	11,307,342,174	639,183,089	5.65	11,012,091,947	1,229,683,543	11.17
1992-93	10,108,497,939	634,818,640	6.28	9,857,173,789	1,137,466,939	11.54
1991-92	9,026,797,509	627,814,872	6.96	8,847,594,762	986,220,366	11.15
1990-91	8,134,018,497	583,497,298	7.17	8,049,275,637	752,983,018	9.35
1989-90	7,285,571,828	527,470,999	7.24	7,154,949,468	788,715,719	11.02
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	7.46	4,802,008,843	726,663,408	15.13
1985-86	4,159,389,303	342,666,987	8.24	4,048,574,353	564,296,889	13.94

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:

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

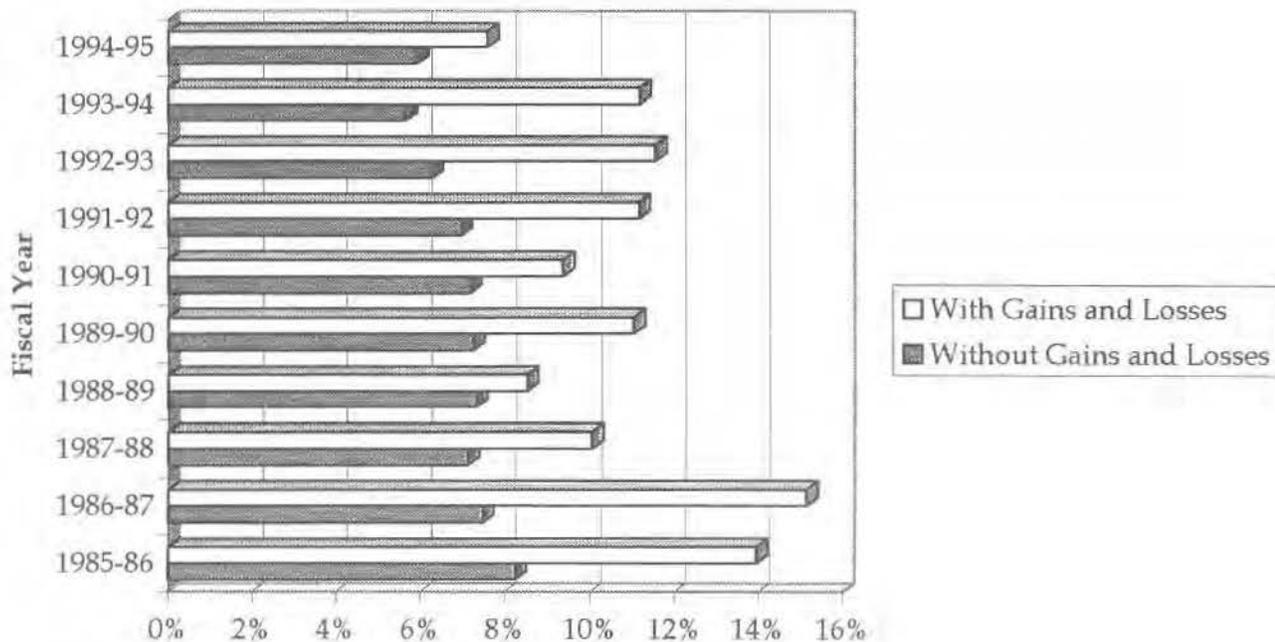
WHERE

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

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



TCRS Investments Benchmark 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
1994-95	15.4%	12.8%	4.76%	7.31%
1993-94	1.6	0.5	4.81	5.91
1992-93	13.2	15.1	5.16	6.48
1991-92	12.1	13.7	5.44	8.22
1990-91	7.9	7.8	5.97	8.65
1989-90	10.4	11.6	6.03	9.01
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	5.53	8.50
1985-86	25.2	27.7	5.21	9.67

¹This index most closely resembles the structure and objectives of TCRS.

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

³This 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.

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

Summary of Investment Program Earnings
Fiscal Years 1990-91 Through 1994-95

Fiscal Year	Cash Management Earnings	TCRS Portfolio Earnings	Total Earnings
1994-95	\$ 113,761,870	\$ 930,425,055	\$ 1,044,186,925
1993-94	85,975,707	1,229,683,543	1,315,659,250
1992-93	84,604,170	1,137,466,939	1,222,071,109
1991-92	99,055,579	986,220,366	1,085,275,945
1990-91	121,066,041	752,983,018	874,049,059

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

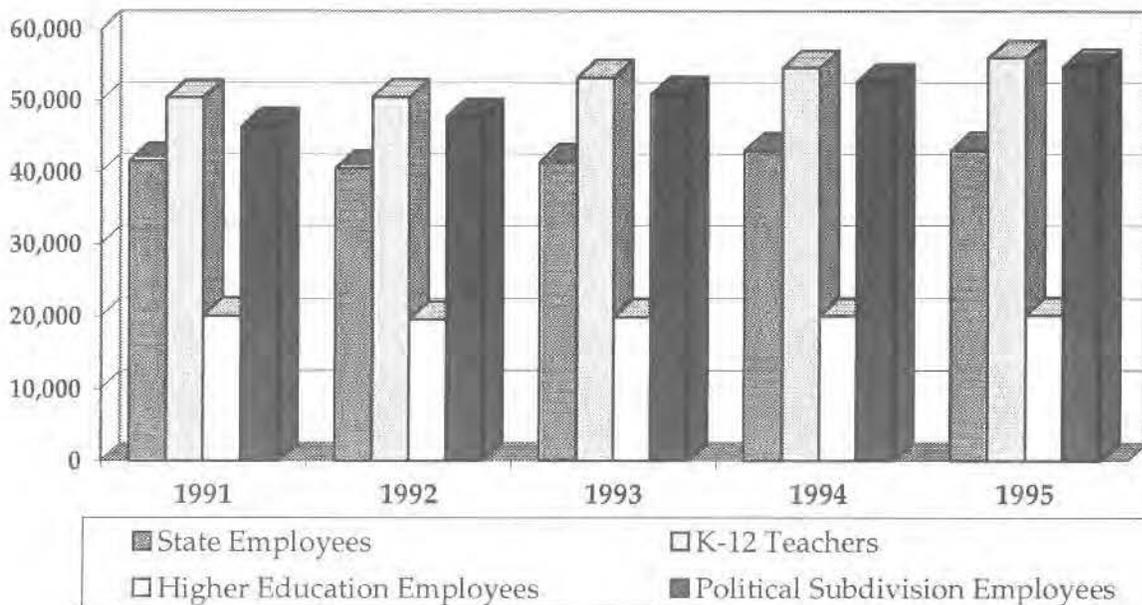
Membership in the retirement system is a condition of employment for full-time state employees, teachers, general employees in higher education, and the employees of local governments that participate in TCRS. Membership is optional for certain part-time employees. Faculty employees in higher education may participate in either TCRS or an Optional Retirement Program (ORP), which is a 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.

State employees and teachers become vested after five years of service. Political subdivision members attain vested status upon completion of 10 years unless five year vesting has been authorized. A vested member is guaranteed a retirement benefit once the age requirements are met.

As of June 30, 1995, there were 173,778 active members of TCRS and 10,128 higher education employees participating in the ORP.

Since July 1, 1976, all new members of the TCRS except state judges have been classified as Group I members. State judges have been permitted to enroll in Group IV since September 1, 1990. 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.

Active Members Fiscal Years 1991-1995



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 Section 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 Section 414(h) coverage for their employees.

Upon termination of employment, a member may elect to withdraw his contributions

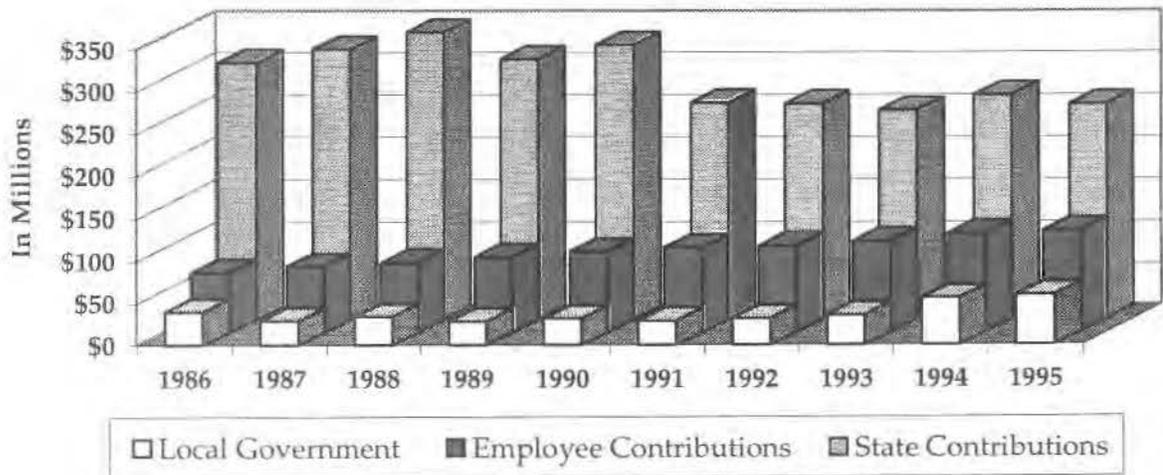
and accumulated interest from the retirement system in a lump sum. By obtaining a lump sum refund, a member waives all rights and benefits in the retirement system. A vested member may leave his account balance in TCRS and apply for benefits upon meeting the age requirements. A non-vested member who terminates employment may only leave his account balance in TCRS for up to seven years. During the 1994-95 fiscal year, 4,788 refunds totaling \$20.9 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, 1995 were as follows:

Noncontributory State and Higher Education Employees	6.33%
K-12 Teachers	8.51%
Political Subdivisions	Individually Determined
Faculty Members Electing to Participate in the ORP	10.00%*

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

Retirement Contributions Fiscal Years 1986-1995



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.

As of June 30, 1995, 62,090 retirees were receiving monthly benefit payments. This represents an increase of 2,376 retirees since June 30, 1994.

Group I state employees and teachers become eligible to retire from the TCRS at age 60 with five years of service or at any age with 30 years of service. State employees and teachers become vested after five years of service. Political subdivision members attain vested status upon completion of 10 years unless five year vesting has been authorized. 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.

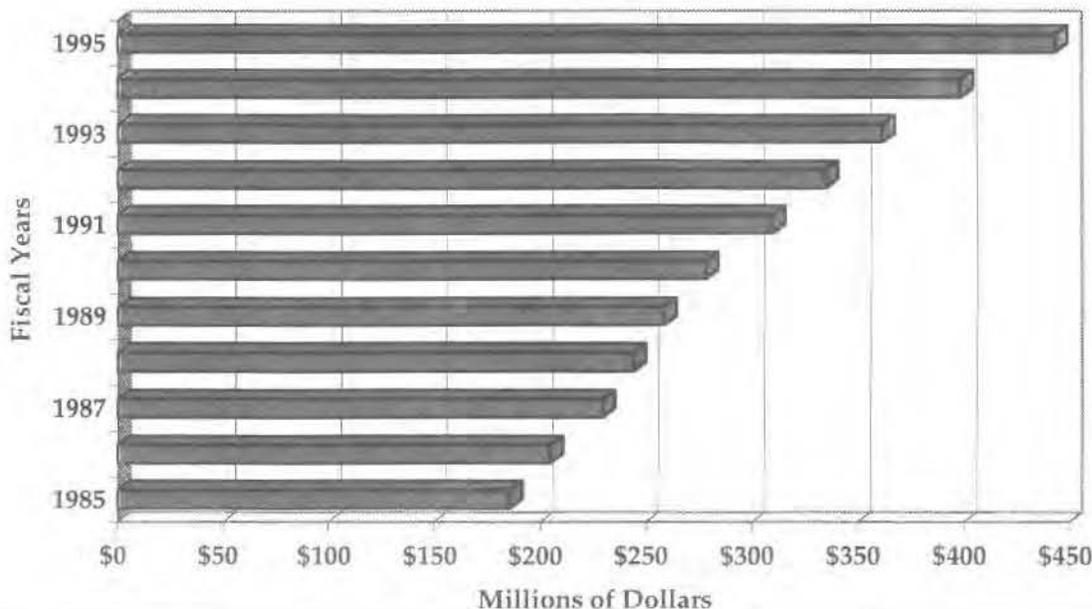
Disability benefits are available to active members with five years of service who become disabled and can not engage in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is a result of an accident or injury occurring while the member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

Benefits paid in fiscal year 1994-95 totaled \$443.4 million, an increase of \$45.2 million over 1993-94 benefit payments.

Annual Benefit Payments Fiscal Years 1986-1995



Tennessee Consolidated Retirement System

Tennessee's Retirement Program TCRS and Social Security Benefits

Sample Calculations for Calendar Year 1995

<u>Five Year AFC</u>		<u>20 Years</u>	<u>25 Years</u>	<u>30 Years</u>	
\$15,000	TCRS	\$ 4,725	\$ 5,906	\$ 7,088	
	Social Security	<u>7,836</u>	<u>7,836</u>	<u>7,836</u>	
	Total	\$ 12,561 (83.7%)	\$ 13,742 (91.6%)	\$ 14,924 (99.5%)	
\$20,000	TCRS	\$ 6,300	\$ 7,875	\$ 9,450	
	Social Security	<u>9,468</u>	<u>9,468</u>	<u>9,468</u>	
	Total	\$ 15,768 (78.8%)	\$ 17,343 (86.7%)	\$ 18,918 (94.6%)	
\$25,000	TCRS	\$ 7,896	\$ 9,870	\$ 11,844	
	Social Security	<u>11,112</u>	<u>11,112</u>	<u>11,112</u>	
	Total	\$ 19,008 (76.0%)	\$ 20,982 (83.9%)	\$ 22,956 (91.8%)	
\$30,000	TCRS	\$ 9,734	\$ 12,167	\$ 14,600	
	Social Security	<u>12,552</u>	<u>12,552</u>	<u>12,552</u>	
	Total	\$ 22,286 (74.3%)	\$ 24,719 (82.4%)	\$ 27,152 (90.5%)	
\$35,000	TCRS	\$ 11,571	\$ 14,464	\$ 17,357	
	Social Security	<u>13,092</u>	<u>13,092</u>	<u>13,092</u>	
	Total	\$ 24,663 (70.5%)	\$ 27,556 (78.7%)	\$ 30,449 (87.0%)	
\$40,000	TCRS	\$ 13,409	\$ 16,761	\$ 20,113	
	Social Security	<u>13,488</u>	<u>13,488</u>	<u>13,488</u>	
	Total	\$ 26,897 (67.2%)	\$ 30,249 (75.6%)	\$ 33,601 (84.0%)	
\$45,000	TCRS	\$ 15,246	\$ 19,058	\$ 22,869	
	Social Security	<u>13,848</u>	<u>13,848</u>	<u>13,848</u>	
	Total	\$ 29,094 (64.7%)	\$ 32,906 (73.1%)	\$ 36,717 (81.6%)	

This chart is based on a date of retirement in 1995. Social Security benefits have been calculated by Bryan, Pendleton, Swats & McAllister, actuarial consultants for the TCRS, utilizing the following assumptions: (1) retirement took place at age 65 in 1995; (2) the retiree worked a full career (TCRS plus other employers, if necessary) of 35 years or more, and; (3) salary increases throughout the retiree's career followed the same pattern as National Average Earnings.

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, 1995 to establish employer contribution rates for the two year period beginning July 1, 1996. The system's accrued liability is \$56.1 million. The accrued liability is being amortized over a 40 year period which began in 1975.

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. Following are the assumptions used in the June 30, 1995 actuarial valuation of the plan:

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

The pension benefit obligation (the present value of pension benefits, adjusted for projected salary increases, estimated to be payable in the future as a result of employee service to date) totaled \$12.1 billion at the June 30, 1995 actuarial valuation date. Net assets of \$13.2 billion, equaling 108.5% of the pension benefit obligation (PBO), were available for benefits. This overall ratio indicates that the TCRS is among the most strongly funded systems in the nation.

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
as of June 30, 1995

Cities	123
Counties	83
Utility Districts	29
Special School Districts	20
Joint Ventures	22
Miscellaneous Organizations	16
Regional Libraries	12
911 Emergency Communication Districts	19
Housing Authorities	10
Development Agencies	<u>12</u>
Total	346

Major Legislative Improvements

- 1972 The benefit formula was improved from 1.12% of salary up to the Social Security Integration Level (SSIL) to 1.5% of salary up to the SSIL.
- 1973 An annual cost-of-living increase, based on the Consumer Price Index (CPI) with a cap of 1.5% was adopted for retirees.
- 1974 Disability retirement eligibility requirement was reduced from 10 years to five years of service.
- The minimum benefit was increased from \$5.34 to \$7.00 per month per year of service.
- The maximum annual cost-of-living increase was raised from 1.5% to 3%.
- A provision was made to increase retirees' benefits whenever the benefit formula is improved.
- Service credit was authorized for unused accumulated sick leave.
- 1976 Service retirement eligibility requirements were reduced from age 65 or 35 years of service to age 60 or 30 years of service.
- Early retirement eligibility requirements were reduced from age 60 or 30 years of service to age 55.
- 1978 A bonus cost-of-living increase was granted to retirees at a lump-sum cost of \$15.3 million.
- An optional retirement plan was established for teachers in the Board of Regents system.
- 1980 Death benefits for members dying in-service with 10 years of service was improved by offering a 100% joint and survivor annuity of the member's accrued benefit for the spouse.
- 1981 Non-contributory retirement for state employees and higher education employees was adopted. The employees' contributions—up to 5%—were assumed by the state. Salaries of employees in active service on the date these provisions were adopted were indexed by 3.6%. Subsequent legislation has continued this indexing each year since.
- 1983 An actuarially reduced retirement benefit at any age with 25 years of service was authorized.
- 1984 Credit for out-of-state service for the purpose of determining retirement eligibility was authorized.
- Retirement credit for armed conflict military service was approved.
- The minimum benefit was increased from \$7 to \$8 per month per year of service.
- Part-time employees were permitted to participate in TCRS and members were allowed to establish credit for previous part-time employment.
- 1985 An ad hoc increase was granted to retirees at a lump-sum cost of \$22 million.
- Death benefits for spouse and children were provided when member's death is in the line of duty.
- 1987 Service credit for half of peacetime military service was made available.
- Another ad hoc increase to retirees was provided at a lump-sum cost of \$17 million.
- A retirement incentive program was offered for state employees retiring during a 90-day window.
- Section 414(h) of the IRC was adopted to provide that employee contributions are made on a tax-deferred basis.
- 1989 Retirement service credit for members receiving worker's compensation due to a temporary disability was made available.
- 1990 A retirement incentive program was offered for state employees retiring during a 120-day window.
- 1991 The Board of Trustees was authorized to designate additional vendors for the optional retirement plan for higher education employees.
- 1992 The minimum number of years required to qualify for retirement was reduced from 10 to five years.
- Disability and death benefits were made available to inactive, vested members.
- 1993 Salary portability for service in different classifications was authorized effective Jan. 1, 1994.
- A 5% benefit improvement was authorized effective January 1, 1994.
- 1995 3.6% indexing of salaries for noncontributory employees was extended for an additional year.

Social Security

The Old Age & Survivors Insurance Agency (OASI) administers Section 218 of the federal Social Security Act for Tennessee public employees. This section relates to coverage agreements and modifications as well as to coverage determinations.

Prior to 1951, social security coverage was not available to public employees. Amendments to the Social Security Act made in 1950 allowed certain groups of state and local government employees who were not covered by an employer-sponsored retirement plan to voluntarily participate in social security. Amendments made in 1954 allowed coverage for public employees who were covered by an employer-sponsored retirement plan if federal referendum requirements are met.

The Tennessee Master Agreement was executed on August 16, 1951. It provided full social security coverage (retirement, survivors, disability, and hospital insurance) to public employees who were not covered by an employer-sponsored retirement plan. A modifica-

tion to the agreement, effective January 1, 1956, provided social security coverage to employees serving in positions which were then covered by the Tennessee State Retirement System and the Tennessee Teachers' Retirement System. After the Tennessee Consolidated Retirement System was established July 1, 1972, a state-wide social security coverage referendum was held among eligible employees.

The 1985 Budget Reconciliation Act mandated Medicare hospital insurance coverage for public employees hired after March 31, 1986 who do not have full social security coverage. The Omnibus Budget Reconciliation Act of 1990 (OBRA) generally mandated full social security coverage for state and local government employees who are not covered by an employer-sponsored retirement plan.

Effective in 1991, separate wage bases were implemented for social security and Medicare and separate reporting of withholding was required. Since 1991, the social security tax rate has been 6.20% each for employers and employees and the Medicare (hospital insurance) rate has been 1.45% each.

Schedule of Historical Social Security Contribution Rates

<i>Calendar Year</i>	<i>Employee Rate</i>	<i>Employer Rate</i>	<i>Social Security Wage Base</i>	<i>Medicare Wage Base</i>
1996	7.65%	7.65%	\$ 62,700	No Limit
1995	7.65	7.65	61,200	No Limit
1994	7.65	7.65	60,600	No Limit
1993	7.65	7.65	57,600	\$ 135,000
1992	7.65	7.65	55,500	130,200
1991	7.65	7.65	53,400	125,000
1990	7.65	7.65	51,300	51,300
1989	7.51	7.51	48,000	48,000
1988	7.51	7.51	45,000	45,000
1987	7.15	7.15	43,800	43,800

Deferred Compensation

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. The 457 plan was implemented in the 1981-82 fiscal year and the 401(k) plan was implemented in the 1983-84 fiscal year.

As of June 30, 1995, 11,706 employees had accounts in the program: approximately 19% had accounts in the 457 plan only, 66% had accounts in the 401(k) plan only, and 15% had accounts in both plans. At June 30, 1,779 state employees and 102 University of Tennessee employees were actively contributing to the 457 plan and 5,716 state employees and 962 University of Tennessee employees were actively contributing to the 401(k) plan. The program is used by state employees of all ages and salary levels. The majority are under age 50 and earn below \$35,000 per year.

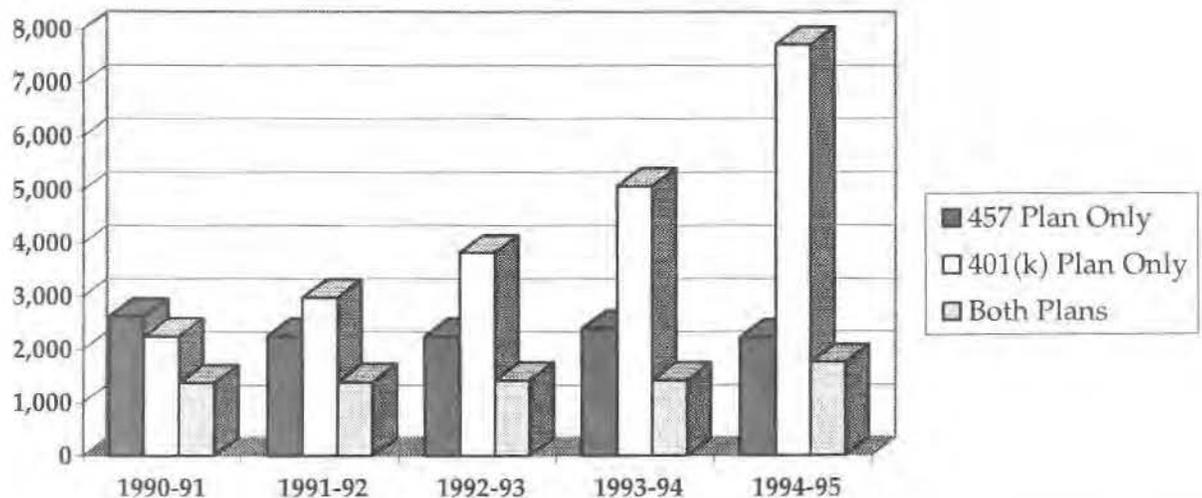
IRS regulations for 1995 allow a maximum deferral in the 457 plan of 25% of salary up to the maximum annual contribution of \$7,500. The maximum deferral in the 401(k) plan is 20% of salary for most members, up to the maximum annual contribution of \$9,240. Participants who use both plans are subject to a combined plan limit of 25% of salary up to \$7,500. The average annual deferral among state employee participants was \$2,160 at June 30, 1995.

During the 1994-95 fiscal year, the General Assembly passed legislation authorizing state matching contributions of \$20 per month to the 401(k) plan beginning in January 1996.

Enrollment and recordkeeping services for the program are provided by Security First Group, formerly known as 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.

Participants in the program receive a quarterly statement showing contributions and

Participants 1991 - 1995



earnings during the quarter. In addition, once a year, participants receive a special statement projecting their account balance to a variety of retirement ages and showing the monthly income those account balances might provide. The program provides a variety of communication materials, including a video, a voice response telephone system, a handbook for participants, and an introductory booklet for new employees.

Participants in the program may direct the investment of their deferred salary to Union Planters Time Deposit Account, Aetna's Fixed Account, Great-West Life's three year or five year Guaranteed Certificate Funds, Calvert's Income Fund, and Fidelity Investments' Magellan Fund, Puritan Fund, OTC Portfolio, Contrafund, International Growth and Income Fund, Asset Manager, and Retirement Government Money Market Portfolio. Contributions are wired through the State Trust of Tennessee for immediate crediting.

As illustrated below, at June 30, 1995, participants had invested 62% of accumulated assets and 73% of new deferrals in variable mutual funds.

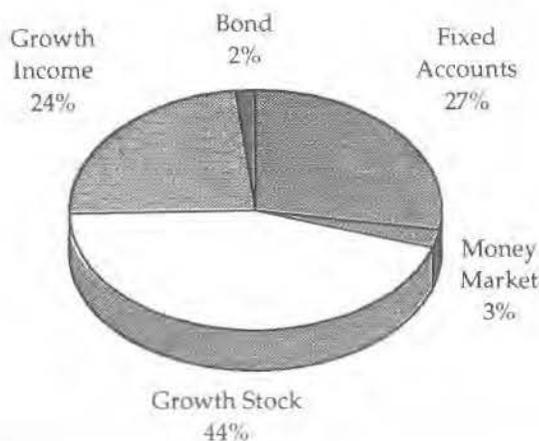
For the year ending June 30, 1995, participants deferred a total of \$18,818,921 through the program. At June 30, 1995, accumulated account balances totaled \$198,734,299. Distribution of these funds among the investment providers is shown on the following page.

Benefits from the program may be distributed in periodic payments, in an annuity, or in a lump sum. At June 30, 1995, there were 243 individuals receiving periodic payments and 184 individuals receiving annuity payments from the program. The majority of retiring participants and beneficiaries elect to withdraw funds from the program in a lump sum.

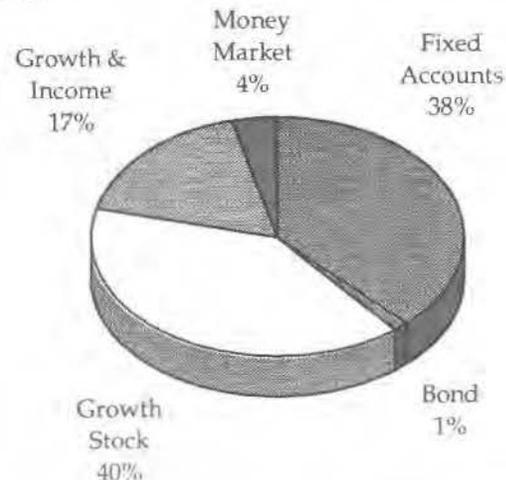
Under the loan program offered in the 401(k) plan, active employees who have accumulated \$4,000 or more in their 401(k) account may borrow up to half of their account value. Participants repay principal and interest to their 401(k) account through salary deduction. Taxes continue to be deferred while funds accumulated in the plan are in loan status. During the 1994-95 fiscal year, there were 140 loans issued, bringing the total number of outstanding loans to 319 as of June 30, 1995. Outstanding loan balances totaled \$1.4 million.

**Distribution of Deferred Compensation Funds
By Investment Category
June 30, 1995**

New Deferrals



Assets

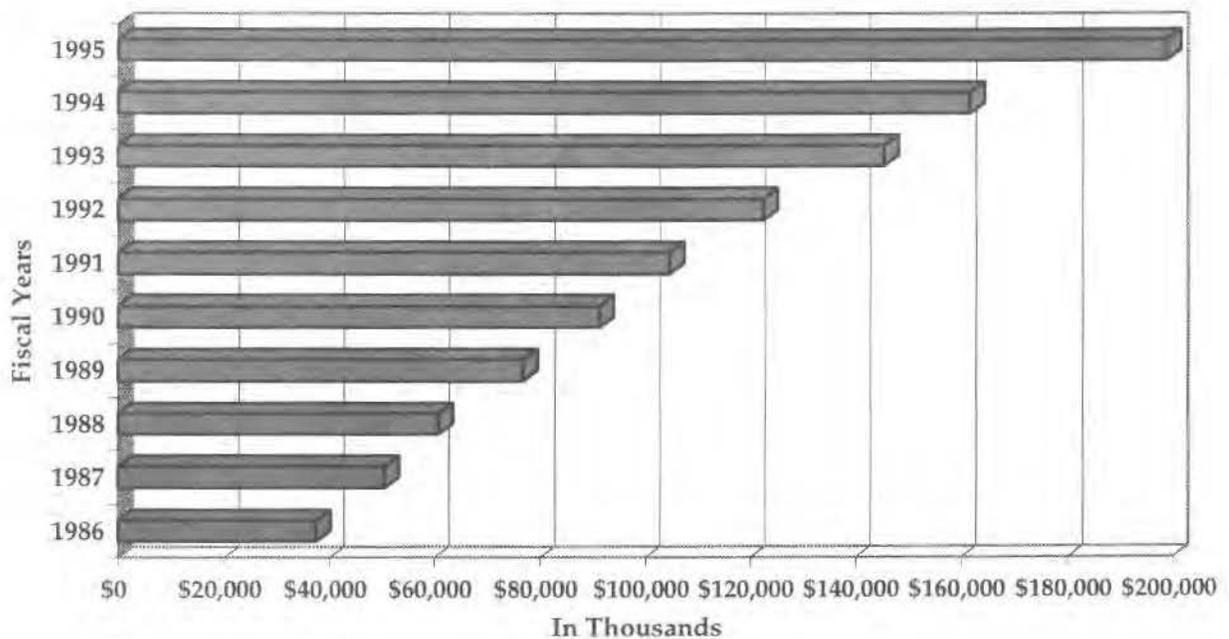


Deferred Compensation

Deferred Compensation Deferrals and Assets

	<i>Deferrals</i>		<i>Market Value of Account Balances</i>	
	FY 1994-95	FY 1993-94	June 30, 1995	June 30, 1994
Plan I: 457				
Aetna - Closed Contract	\$ 0	\$ 0	\$ 18,700,246	\$ 18,666,077
Aetna - New Contract	638,162	635,811	9,417,932	7,595,295
American General	125,085	78,036	998,466	993,998
Calvert Group	52,290	50,256	324,675	330,012
Fidelity Investments	2,635,058	2,501,336	40,132,431	30,673,490
Great West	221,639	277,361	5,641,763	5,882,390
Union Planters	707,619	717,485	14,806,977	13,833,317
TOTAL 457	\$ 4,379,853	\$ 4,260,285	\$ 90,022,490	\$ 77,974,579
Plan II: 401(k)				
Aetna - Closed Contract	\$ 0	\$ 0	\$ 10,465,622	\$ 10,741,604
Aetna - New Contract	2,045,632	1,600,497	12,143,606	8,811,081
Calvert Group	288,967	259,542	793,017	557,108
Fidelity Investments	10,493,181	8,866,677	69,784,538	49,145,551
Great West	309,725	358,115	5,197,465	5,498,060
Union Planters	1,301,563	1,135,210	10,327,561	8,808,481
TOTAL 401(k)	\$14,439,068	\$12,220,041	\$108,711,809	\$ 83,561,885
GRAND TOTAL	\$18,818,921	\$16,480,326	\$198,734,299	\$161,536,464

Program Assets 1986-1995



The Flexible Benefits Plan is an optional benefit plan which enables state employees to pay for certain expenses with tax-free salary. Authorized under Section 125 of the Internal Revenue Code, this plan allows employees to avoid income tax and social security tax on the portion of the upcoming year's salary they agree to set aside for that year's (1) group medical insurance premiums, (2) group dental insurance premiums, (3) out-of-pocket medical expenses, and (4) dependent care expenses.

In exchange for its favorable tax treatment, the plan must comply with specific rules set forth by the Internal Revenue Code and Regulations. Employees must decide what they will purchase through the plan and how much they will spend before the year begins. State employees enrolled in a group health or dental insurance program are automatically enrolled in the insurance premium portion of the plan unless they elect not to participate. Use of the other benefit options requires a new election each year.

Enrollment in the plan is for a full calendar year. Enrollments may not be changed after the year has begun unless the employee experiences a change in family status and reports that change promptly. Employees must use the amounts set aside in each category for corresponding expenses incurred

during the year and any amount not used by the employee must be subject to forfeiture.

Tennessee's Flexible Benefits Plan, or "cafeteria" plan was implemented January 1, 1989. The Treasury Department took over administration of the program effective January 1, 1992.

The majority of state employees use the plan to pay medical insurance premiums or dental insurance premiums. In addition, at June 30, 1995, 2,456 state employees used the medical expense reimbursement account and 368 used the dependent care reimbursement account.

Since contributions to the plan are exempt from both employee and employer F.I.C.A. (social security) tax, employees' use of the plan creates F.I.C.A. savings for the state. In fiscal year 1994-95, the state's F.I.C.A. savings totaled \$ 2,141,935. Since the program began operation in January 1989, the state's F.I.C.A. savings have totaled \$10,411,698. Savings exceeding the costs of administering the plan have been designated for offsetting costs of the state's wellness program, providing assistance for day care programs, and funding matching contributions to the 401(k) plan. As of June 30, 1995, \$1,794,618 had been transferred to offset costs of other benefit programs.

Claims Against the State

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 contracts with a third party administrator for the processing of workers' compensation claims. The division's staff monitors the work done by the third party administrator and acts as a liaison between state employees and the third party administrator. The division contracts with a medical case management firm whose responsibility is to ensure that injured state employees receive appropriate medical care. The Division of Claims Administration also handles all employee property damage claims and tort claims up to a certain monetary limit.

During fiscal year 1994-95, the Division of Claims Administration received 6,836 claims falling within these categories (including workers' compensation claims filed with the third party administrator).

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.

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. During the 1994-95 fiscal year, the Board took action on a total of 13 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 1994-95

	Claims Filed	Payments Made
Workers' Compensation Claims	4,541	
Death Payments		\$ 266,552
Medical Payments		6,428,780
Assault Injury Payments		0
Temporary Disability (Lost Time)		1,352,292
Permanent Disability		3,739,301
Subtotal		\$ 11,786,925
Employee Property Damage	273	28,305
Tort Claims	2,022	
Death Payments		\$ 1,310,615
Bodily Injury Payments		1,846,841
Property Damage Payments		698,954
Subtotal		3,856,410
TOTAL	6,836	\$ 15,671,640

Victims Compensation Program

Assisting persons who are innocent victims of crime is the purpose of the Criminal Injury Compensation Program. 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, the proceeds of bond forfeitures in felony cases, and a federal grant.

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 1994-95 fiscal year, the Division of Claims Administration made payments on 1,702 criminal injury claims for a total of \$6,249,335. Payments are issued promptly to the victim and, if appropriate, his or her attor-

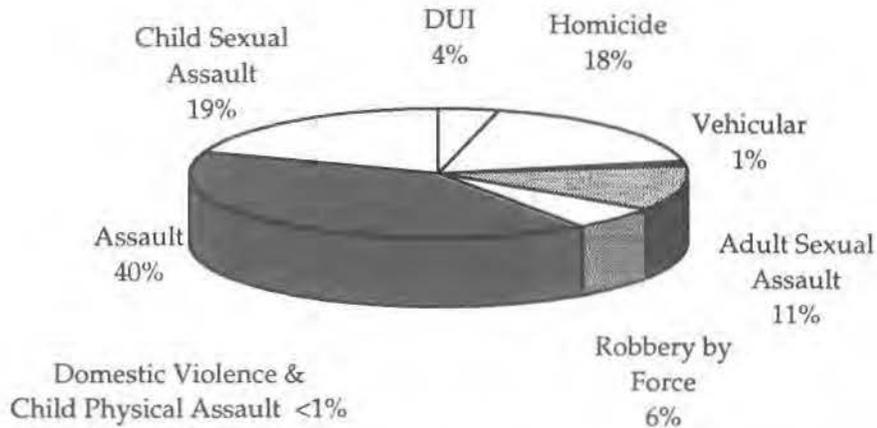
ney. Federal funding assistance for the program has aided in allowing prompt claim payment.

Victims of drunk drivers are also paid from the Criminal Injury Compensation Fund. Identical monetary benefits are available to both drunk driver and criminal injury victims. 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 \$7,000 per claim plus attorney fees for injuries occurring on or after July 1, 1992. A supplemental award of up to \$3,000 was available for crimes occurring during the 1994-95 fiscal year.

Since the first claims were paid in 1982, the program has awarded a total of over \$73 million to crime victims. 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 use of victim assistance coordinators in each judicial district have also aided in providing the public with information about the availability of criminal injury compensation.

**Victims Compensation Awards
Paid During Fiscal Year 1994-95**

Percentage of Awards Based on Crime Classification



During fiscal year 1994-95, there were 1,702 awards totaling \$6,239,335. Of that amount, \$313,691 can be attributed to claims involving DUI with the remaining \$5,935,644 related to all other crime types. The average award for all types was \$3,672.

Sources of Funds

Victims of Criminal Injury



Defense Counsel Commission

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 1994-95, the Defense Counsel Commission/Subcommittee authorized payments of attorney's fees and litigation expenses which totaled \$392,985. The Defense Counsel Commission/Subcommittee considered 31 requests for representation, of which 25 were approved and six were denied. At the end of the fiscal year, there were 59 active Defense Counsel Commission/Subcommittee files.

Effective July 1, 1995, the duties of the Defense Counsel were transferred to the Office of the Attorney General as a result of legislation passed in the 1995 session of the General Assembly.

The Division of Risk Management administers a variety of insurance programs for the state. The Property/Casualty Insurance Program provides all-risk, replacement cost coverage, including flood and earthquake, for all state-owned buildings and contents. This is accomplished through a \$5 million self-insured retention — a property/casualty reserve fund appropriated for the payment of property claims within a given fiscal year — and an excess property insurance policy purchased from a private carrier.

All property exposures are thoroughly inspected and evaluated to determine appropriate rates for premium development and allocation of premium costs to the various departments. As of July 1, 1994, the state's property values exceeded \$7.2 billion. The premium cost for excess property coverage and fidelity bond amounted to \$464,397. This translates to an annual rate of .0064 cents per \$100 of coverage.

The Builders' Risk Insurance Program provides property insurance coverage for building construction or renovation projects which have been approved by the State Building Commission. The Division of Risk Management reviews all construction contracts and insurance specifications and issues builders' risk policies providing all-risk coverage for the state agency, contractor and sub-contractors for the duration of the project.

Boiler insurance must be provided to ensure protection for all state-owned boiler objects. A boiler insurance policy is purchased from a private insurance carrier which is not only responsible for the insurance coverage, but must also provide a boiler inspection service. Certified inspectors evaluate all boiler objects on a regularly scheduled basis to ensure the safe operation of these systems. This loss prevention program has proven very effective

with results showing no incidents reported within the past five years.

In order to protect the state from financial loss due to employee dishonesty, the Division of Risk Management procures an Honesty Blanket Position and Faithful Performance Blanket Position Bond. This bond is provided by the excess property insurance carrier and is negotiated as part of the property insurance package. Fidelity coverage is provided in the amount of \$1 million per incident for 29 scheduled employees and \$100,000 per incident for all remaining state employees.

The Division of Risk Management also has the responsibility to investigate and process all property, boiler, and fidelity bond claims. A detailed property inventory schedule is maintained which provides the insurable values for both buildings and contents in the event a loss occurs. There is a \$5,000 deductible per occurrence which must be assumed by the individual departments. Documented losses above the deductible amount are indemnified by the property/casualty reserve fund, through an allotment revision process. Should this reserve fund become completely exhausted within a given fiscal year, the excess property policy would provide the primary fund resource for claim payments.

During fiscal year 1994-95, a total of 120 claims were reported. Of this number, 98 did not exceed the \$5,000 deductible and were closed with no action. The remaining 22 incurred losses amounting to \$746,459, with a net loss to the fund of \$636,459. With a manual premium for first dollar coverage of \$7.6 million, the state's pure property loss ratio would be 8.4%. Since the generally expected standard in the insurance industry for loss ratio break-even is approximately 48%, the state's property loss experience remains at an excellent level.

Division of Risk Management

The prevention and control of losses continues to be an item of growing importance in the area of state risk management. In the past, the Division of Risk Management concentrated its efforts on reducing the risk of loss to property and human life through a fire/life safety inspection program. Until recently, these inspections were conducted by external

sources. There is now an internal resource available to complement this process, allowing for an increase in the number of inspections conducted. Also, with the continuing rise in workers compensation and tort liability loss costs, the Division of Risk Management will expand its loss control program in an effort to mitigate the growth in these areas.

Cost of Property/Casualty Program versus Private Insurance

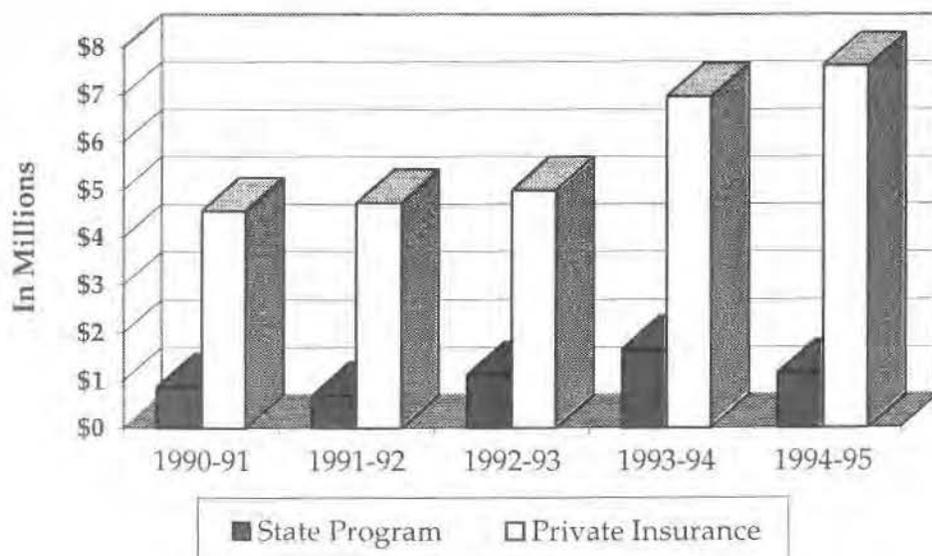
Fiscal Year 1994-95

¹ Premium - Excess Property & Bond Coverage	\$ 464,397
Premium - Boiler Insurance Coverage	<u>46,599</u>
Total Premium	510,996
Net Incurred Losses	<u>636,459</u>
Total Cost of State Program	1,147,455
² Private Insurance Premium Cost at Manual Rates with No State Retention	<u>7,607,123</u>
Net Savings to State	\$ 6,459,668

¹ Based on July 1, 1994 values totaling \$7,244,879,500

² Estimated based on July 1, 1994 values at .105 cents per \$100 of coverage.
Rates provided by Royal Insurance Company.

Fiscal Years 1990-91 through 1994-95



The Treasury Department has administered the Uniform Disposition of Unclaimed Property Act since it was enacted in 1978. 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 delivered to the Treasurer for custody if the holder of the property has had no contact with the owner for a period of five years and if the holder cannot locate the owner. Once property is delivered, the Treasurer advertises the owner's name and last known address in order to locate the owners. Since the program began operations in 1979, \$98.1 million in unclaimed property has been reported to the Treasurer and \$26 million (26%) has been returned to owners or heirs.

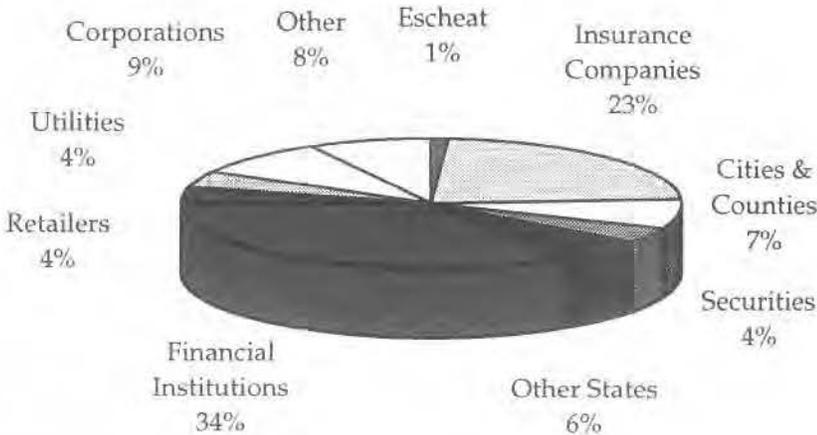
During the period July 1, 1994 through June 30, 1995, \$12,143,929 of cash property was turned over to the Treasurer. This includes \$1,504,425 in cash and stock remitted by third

party audit organizations from out-of-state non-reporting holders for Tennessee residents. The chart below illustrates the sources of cash collections for fiscal year 1994-95.

In addition to advertising the property, the Treasurer makes several other efforts to locate the rightful owner. Another 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, drivers' license records, and other sources. In addition, the records of unclaimed property owners are available for viewing by the public in the Unclaimed Property office. All property turned over to the Treasurer is held in trust for the rightful owner or his heirs in perpetuity, thereby allowing the owners or their heirs to make claims on it at anytime.

During the period July 1, 1994 through June 30, 1995, \$4,689,118 of cash property was returned by the Unclaimed Property Division to the owners or their heirs. An analysis of the methods used to return this property is shown on the next page.

Sources of Unclaimed Property



Unclaimed Property

Methods Used To Return Property July 1, 1994 - June 30, 1995

Location Method	Number of Accounts	Value of Claims	Percentage of Claim Value
Advertisement	4,685	\$ 1,305,011	41%
Postcards	1,913	571,549	18
Holder Referral	838	417,841	13
Independent Locator	176	251,376	8
Other	293	192,616	6
Dept. of Safety Match	92	170,778	5
Dept. of Emp. Security Match	737	106,044	3
Legislator Listings	216	91,659	3
Telephone Directory	93	65,040	2
Credit Bureau	18	34,704	1
Total Claim Payments	9,061	\$ 3,206,618	100%
Refunds to Local Governments	15	\$ 794,601	
Interstate Exchanges	35	687,874	
Total Payments	9,111	\$ 4,689,093	

Any local government in Tennessee which turns over unclaimed property to the state may request that the property be returned to the local government for safekeeping after it has been held by the state for 18 months. This fiscal year, \$794,601 was refunded to 15 local governments.

Tennessee has reciprocal agreements with other states' unclaimed property programs to

exchange property held by one state for owners with a last known address in the other state. During this fiscal year, Tennessee exchanged unclaimed property with 35 states. Tennessee received \$699,668 for residents or former residents and paid \$687,874 to other states' unclaimed property offices.

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 four-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 92 chairs created, with state appropriations totaling \$44,000,000 and matching contributions totaling \$49,666,878. For the year ending June 30, 1995, investment income totaled \$7,794,730 with expenditures of \$5,630,874.

The University of Tennessee

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

Knoxville

Racheff Chair of 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
 Blasingame COE in Agricultural Policy Studies
 Lincoln COE in Physics
 * Hunger COE in Environmental Studies

Martin

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

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)
 Soloway COE in Urology

Space Institute

Boling COE in Space Propulsion

* Chair established during fiscal year 1994-95.

Tennessee Board of Regents

Austin Peay State University

Acuff COE in Creative Arts
Harper/James and Bourne COE in Business
The Foundation Chair of Free Enterprise
Reuther COE in Nursing

East Tennessee State University

Quillen COE of Medicine in Geriatrics
& Gerontology
AFG Industries COE in Business
& Technology
Harris COE in Business
Long Chair of Surgical Research
Dishner COE in Medicine
* Quillen COE in Teaching and Learning
* Basler COE for Integration of Arts, Rhetoric,
and Sciences

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
* Miller COE in Equine Health
* Miller COE in Equine Reproductive
Physiology

Tennessee State University

Frist COE in Business Administration

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
Federal Express COE in Mgmt. Info. Systems
Moss COE in Psychology
Moss COE in Education
Hardin COE in Combinatorics
* Hardin COE in Economics/Managerial Journalism

Tennessee Technological University

Owen Chair of Business Administration
Mayberry Chair of Business Administration

* Chair established during fiscal year 1994-95.

Statutory Duties of the State Treasurer

Boards and Commissions

	<i>Tennessee Code Annotated Section</i>
Baccalaureate Education System Trust	49-7-801, et seq.
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
Funding Board	9-9-101
National Resources Trust Fund	11-14-304
Public Records Commission	10-7-302
Sick Leave Bank Board	8-50-903
State Building Commission	4-15-101
State Capitol Commission	4-8-301, et seq.
State Insurance Committee	8-27-101
State Library and Archives Management Board	10-1-101, et seq.
State School Bond Authority	49-3-1204
State Teacher Insurance Committee	8-27-301
State Trust of Tennessee	9-4-801, et seq.
Tennessee Bicentennial Commission	4-44-101 - 4-44-109
Tennessee Child Care Loan Guarantee Board	4-37-101, et seq.
Tennessee Competitive Export Corp.	13-27-104
Tennessee Higher Education Commission	49-7-201, et seq.
Tennessee Housing Development Agency	13-23-106
Tennessee Local Development Authority	4-31-103
Tennessee Sports Hall of Fame	4-3-5402
Tennessee Student Assistance Corp.	49-4-202
Tuition Guaranty Fund Board	49-7-2018
Volunteer Public Education Trust	49-3-401, et seq.
Workers Compensation Fund Board	50-6-604

Administration

	<i>Tennessee Code Annotated Section</i>
Board of Claims	9-8-101, et seq.
Chairs of Excellence Trust	49-7-501 - 49-7-502
Collateral Pool	9-4-501 - 9-4-523
Collateral Program	9-4-101 - 9-4-105
Council on Pensions and Insurance	3-9-101
Criminal Injury Compensation Fund	29-13-101, et seq.
Defense Counsel Commission	9-8-107
Deferred Compensation	8-25-101, et seq.
Escheat	31-6-101, et seq.
Flexible Benefits Plan	8-25-305
Investment Advisory Council	8-37-108
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Pooled Investment Fund	9-4-704
Receipt and Disbursement of Public Funds	8-5-106 - 8-5-111; 9-4-301, et seq.
State Cash Management	9-4-106 - 9-4-108; 9-4-401 - 9-4-409
State Treasurer's Office	8-5-101, 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

Executive Staff Directory

Treasurer's Office

Treasurer	Steve Adams, CPA	(615) 741-2956
Executive Assistant	Dale Sims	(615) 741-2956
Executive Assistant	Janice Cunningham	(615) 741-2956
Director of Personnel	Ann Taylor-Tharpe	(615) 741-2956
Staff Assistant to the Treasurer	Rhonda Hicks, CPA	(615) 532-8552
Staff Assistant to the Treasurer	Diana Collins	(615) 532-2992

Investments

Chief Investment Officer	Chuck Webb, CFA	(615) 532-1157
Senior Equity Portfolio Manager	Jeremy Conlin	(615) 532-1152
Senior Fixed Income Portfolio Manager	Frank Puryear, CFA	(615) 532-1153
Senior International Fixed Income Portfolio Manager	Roy Wellington, CFA	(615) 532-1151
Senior Short-Term Portfolio Manager	Randy Graves, CPA	(615) 532-1154
Senior Analyst	Michael Keeler, CFA	(615) 532-1165

Retirement Administration

Director of TCRS	Steve Curry, CPA, CEBS	(615) 741-7063
Assistant Director of TCRS	Ed Hennessee	(615) 741-7063
Director of Deferred Compensation, Research and Publications	Deana Reed	(615) 741-7063
Publications Officer	Janice Reilly	(615) 741-7063
General Counsel	Mary Roberts-Krause, JD	(615) 741-7063
Director of Old Age and Survivors Insurance	Mary E. Smith	(615) 741-7902
Chief of Counseling	Donna Finley	(615) 741-1971
Manager of Benefits and Retired Payroll	Velva Booker	(615) 741-1971
Manager of Membership, Field Services, Prior Service and Flexible Benefits	Jamie Fohl	(615) 741-4868

Other Divisions

Director of Accounting	Jill Bachus, CPA	(615) 532-8045
Director of Claims Administration and Unclaimed Property	Susan Clayton	(615) 741-2734
Director of Computer Operations	Sam Baker, CDP, CCP	(615) 532-8026
Director of Financial Control	Rick DuBray, CPA	(615) 741-5220
Director of Information Systems	Newton Molloy, III, CDP	(615) 532-8035
Director of Internal Audit	Beth Chapman, CPA	(615) 532-1164
Director of Management Services	Grady Martin	(615) 741-4985
Director of Risk Management	Steve Gregory	(615) 741-9076
Budget Officer	Wendy Padgett	(615) 741-4985

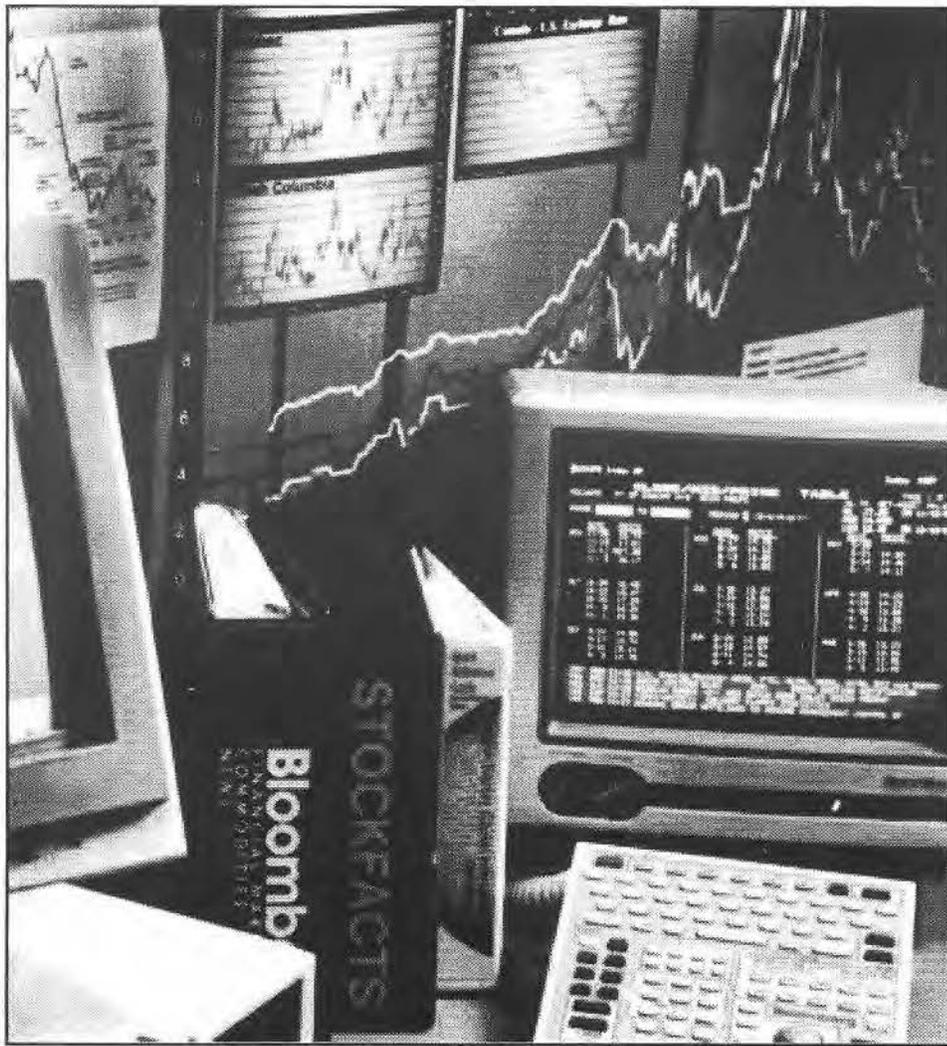
*The Treasurer is housed on the 1st floor of the State Capitol Building.
Divisions are housed on the 9th, 10th, and 11th floors of the Andrew Jackson Building.*

INVESTMENT PORTFOLIOS

STATE CASH PORTFOLIO

TENNESSEE CONSOLIDATED
RETIREMENT SYSTEM PORTFOLIO

CHAIRS OF EXCELLENCE PORTFOLIO



State Cash Portfolio

	Rating	Maturity	Yield to Maturity	Par Value	Market Value
U.S. TREASURY NOTES & BILLS:					
FEDERAL HOME LOAN BANK	AAA	9/18/95	6.29%	\$ 25,000,000	\$ 25,069,497
FEDERAL HOME LOAN BANK	AAA	7/7/95	5.94%	30,000,000	29,964,000
FEDERAL HOME LOAN BANK	AAA	7/3/95	5.92%	51,500,000	51,474,250
FEDERAL HOME LOAN MORT. ASSOC.	AAA	3/24/97	5.04%	10,800,000	10,777,647
FEDERAL HOME LOAN MORT. ASSOC.	AAA	8/8/95	5.93%	25,000,000	24,837,500
FEDERAL HOME LOAN MORT. ASSOC.	AAA	8/15/95	5.87%	20,000,000	19,848,000
FEDERAL HOME LOAN MORT. ASSOC.	AAA	7/12/95	5.97%	50,000,000	49,900,000
FEDERAL HOME LOAN MORT. ASSOC.	AAA	8/2/95	5.94%	50,000,000	49,725,000
FEDERAL HOME LOAN MORT. ASSOC.	AAA	8/4/95	5.95%	30,000,000	29,826,000
FEDERAL NATIONAL MORT. ASSOC.	AAA	1/10/97	5.17%	20,000,000	20,589,000
FEDERAL NATIONAL MORT. ASSOC.	AAA	9/30/98	4.99%	20,000,000	19,530,250
FEDERAL NATIONAL MORT. ASSOC.	AAA	9/21/95	5.98%	51,800,000	51,105,880
FEDERAL NATIONAL MORT. ASSOC.	AAA	9/5/95	5.88%	50,000,000	49,455,000
FEDERAL NATIONAL MORT. ASSOC.	AAA	9/1/95	5.88%	50,000,000	49,485,000
FEDERAL NATIONAL MORT. ASSOC.	AAA	7/13/95	5.99%	30,000,000	29,934,000
UNITED STATES TREASURY NOTES	AAA	2/28/98	5.19%	30,000,000	29,949,893
UNITED STATES TREASURY NOTES	AAA	3/31/98	5.29%	30,000,000	29,813,475
UNITED STATES TREASURY NOTES	AAA	4/30/98	5.29%	30,000,000	29,668,035
UNITED STATES TREASURY NOTES	AAA	7/31/95	4.07%	30,000,000	30,501,837
UNITED STATES TREASURY NOTES	AAA	8/31/95	5.62%	30,000,000	30,292,553
UNITED STATES TREASURY NOTES	AAA	1/15/96	4.20%	30,000,000	31,814,180
UNITED STATES TREASURY NOTES	AAA	8/15/95	4.03%	30,000,000	31,051,011
TOTAL NOTES & BILLS				\$ 724,100,000	\$ 724,612,008

CERTIFICATES OF DEPOSIT:					
BANK OF ALAMO		10/13/95	6.10%	\$ 2,000,000	\$ 2,000,000
BANK OF ALAMO		10/20/95	6.00%	1,000,000	1,000,000
BANK OF ALAMO		11/17/95	5.90%	2,000,000	2,000,000
BANK OF ALAMO		12/18/95	5.80%	1,000,000	1,000,000
BANK OF ALAMO		12/12/95	6.00%	1,000,000	1,000,000
BANK OF ALAMO		11/17/95	5.90%	1,000,000	1,000,000
BANK OF ALAMO		12/15/95	5.80%	1,000,000	1,000,000
CITIZENS NATIONAL BANK, ATHENS		10/27/95	6.00%	500,000	500,000
BANK OF CROCKETT, BELLS		10/12/95	6.15%	200,000	200,000
BENTON BANKING COMPANY		10/12/95	6.15%	500,000	500,000
PEOPLES BANK, BENTON		8/15/95	5.90%	100,000	100,000
PEOPLES BANK, BENTON		8/28/95	5.90%	200,000	200,000
PEOPLES BANK/POLK COUNTY, BENTON		10/27/95	6.00%	200,000	200,000
BANK OF BRADFORD		10/3/95	5.90%	100,000	100,000
TWIN CITIES FEDERAL, BRISTOL		7/5/95	5.90%	500,000	500,000
FIRST STATE BANK, BROWNSVILLE		7/7/95	5.95%	500,000	500,000
FIRST STATE BANK, BROWNSVILLE		10/17/95	6.00%	500,000	500,000
FIRST UNION BANK, BULLS GAP		9/5/95	6.20%	100,000	100,000
FIRST UNION, BULLS GAP		11/29/95	6.60%	400,000	400,000
FIRST UNION BANK, BULLS GAP		9/20/95	5.60%	100,000	100,000
FIRST UNION BANK, BULLS GAP		7/11/95	6.50%	100,000	100,000
PEOPLE'S BANK AND TRUST CO OF BYRDSTOWN		8/29/95	5.60%	100,000	100,000
PEOPLE'S BANK AND TRUST CO OF BYRDSTOWN		7/11/95	6.50%	100,000	100,000
PEOPLE'S BANK AND TRUST CO OF BYRDSTOWN		1/11/96	6.25%	100,000	100,000
PEOPLE'S BANK AND TRUST CO OF BYRDSTOWN		3/20/96	6.60%	100,000	100,000
PEOPLE'S BANK AND TRUST CO OF BYRDSTOWN		3/25/96	5.80%	200,000	200,000
PEOPLE'S BANK AND TRUST CO OF BYRDSTOWN		9/26/95	6.20%	200,000	200,000
PEOPLE'S BANK AND TRUST CO OF BYRDSTOWN		5/3/96	6.35%	100,000	100,000
PICKETT COUNTY BANK, BYRDSTOWN		8/2/95	5.80%	750,000	750,000
CUMBERLAND BANK, CARTHAGE		6/11/96	5.80%	90,000	90,000
CUMBERLAND BANK, CARTHAGE		6/18/96	5.80%	500,000	500,000
CUMBERLAND BANK, CARTHAGE		4/23/96	6.35%	1,000,000	1,000,000
FIRST STATE BANK, CHAPEL HILL		8/30/95	5.60%	200,000	200,000

Note: Please see explanation of ratings on page 53.

(Continued)

State Cash Portfolio

	Maturity	Coupon	Par Value	Market Value
AMERICAN NATIONAL BANK AND TRUST, CHATTANOOGA	12/28/95	5.80%	\$ 20,000,000	\$ 20,000,000
AMERICAN NATIONAL BANK AND TRUST, CHATTANOOGA	7/17/95	5.95%	20,000,000	20,000,000
AMERICAN NATIONAL BANK AND TRUST, CHATTANOOGA	10/27/95	6.00%	20,000,000	20,000,000
AMERICAN NATIONAL BANK AND TRUST, CHATTANOOGA	5/17/96	6.05%	20,000,000	20,000,000
AMSOUTH BANK, CHATTANOOGA	8/2/95	5.40%	25,000,000	25,000,000
VOLUNTEER BANK AND TRUST, CHATTANOOGA	1/8/96	6.25%	500,000	500,000
VOLUNTEER BANK AND TRUST, CHATTANOOGA	1/8/96	6.25%	80,000	80,000
AMERICAN NATIONAL BANK, CHATTANOOGA	9/5/95	6.20%	20,000,000	20,000,000
AMERICAN NATIONAL BANK, CHATTANOOGA	5/15/96	6.05%	20,000,000	20,000,000
AMSOUTH BANK, CHATTANOOGA	7/18/95	5.70%	25,000,000	25,000,000
FIRST UNION, CHURCH HILL	7/25/95	6.45%	300,000	300,000
FARMERS AND MERCHANTS, CLARKSVILLE	6/28/96	5.80%	100,000	100,000
FIRST FEDERAL, CLARKSVILLE	8/25/95	5.60%	100,000	100,000
FIRST FARMERS AND MERCHANTS, COLUMBIA	7/10/95	5.70%	5,000,000	5,000,000
FIRST BANK POLK COUNTY, COPPERHILL	1/12/96	7.30%	4,300,000	4,300,000
RHEA COUNTY NATIONAL BANK, DAYTON	12/19/95	5.80%	600,000	600,000
RHEA COUNTY NATIONAL BANK, DAYTON	6/21/96	5.80%	600,000	600,000
PEOPLES BANK, DICKSON	3/1/96	6.60%	500,000	500,000
PEOPLES BANK, DICKSON	3/1/96	6.60%	500,000	500,000
HOME BANK OF TENNESSEE, DUCKTOWN	9/12/95	5.60%	95,000	95,000
HOME BANK OF TENNESSEE, DUCKTOWN	3/8/96	6.60%	99,000	99,000
HOME BANK OF TENNESSEE, DUCKTOWN	9/14/95	5.60%	99,000	99,000
HOME BANK OF TENNESSEE, DUCKTOWN	5/24/96	6.00%	95,000	95,000
HOME BANK OF TENNESSEE, DUCKTOWN	7/28/95	6.45%	95,000	95,000
CITIZENS BANK, ELIZABETHTON	12/15/95	7.25%	1,000,000	1,000,000
CITIZENS BANK, ELIZABETHTON	9/15/95	6.90%	1,000,000	1,000,000
CITIZENS BANK, ELIZABETHTON	12/20/95	7.25%	1,000,000	1,000,000
GATES BANKING AND TRUST	10/27/95	6.00%	450,000	450,000
JACKSON COUNTY BANK, GAINESBORO	10/6/95	6.10%	250,000	250,000
JACKSON COUNTY BANK, GAINESBORO	8/25/95	5.90%	500,000	500,000
JACKSON COUNTY BANK, GAINESBORO	9/5/95	5.50%	1,000,000	1,000,000
JACKSON COUNTY BANK, GAINESBORO	10/20/95	6.80%	500,000	500,000
FIRST NATIONAL BANK, GATLINBURG	10/13/95	6.10%	4,000,000	4,000,000
FIRST NATIONAL BANK, GATLINBURG	1/26/96	6.15%	5,000,000	5,000,000
FIRST NATIONAL BANK, GATLINBURG	11/10/95	5.90%	4,000,000	4,000,000
BANK OF GLEASON	8/25/95	6.20%	350,000	350,000
BANK OF GLEASON	10/24/95	6.00%	300,000	300,000
BANK OF GLEASON	5/17/96	6.05%	200,000	200,000
BANK OF HALLS	2/16/96	6.00%	200,000	200,000
BANK OF HALLS	2/1/96	6.00%	200,000	200,000
BANK OF HALLS	8/17/95	5.90%	700,000	700,000
BANK OF HALLS	8/10/95	5.90%	400,000	400,000
BANK OF HALLS	8/18/95	6.25%	300,000	300,000
CITIZENS BANK, HARTSVILLE	8/28/95	5.90%	250,000	250,000
CITIZENS BANK, HARTSVILLE	7/17/95	5.80%	500,000	500,000
CITIZENS BANK, HARTSVILLE	12/4/95	5.80%	500,000	500,000
CHESTER COUNTY BANK, HENDERSON	10/31/95	6.00%	100,000	100,000
FIRST CITIZENS, HOHENWALD	2/16/96	6.75%	1,000,000	1,000,000
FIRST CITIZENS, HOHENWALD	1/24/96	7.20%	1,000,000	1,000,000
FENTRESS COUNTY BANK, JAMESTOWN	1/18/96	6.15%	500,000	500,000
FENTRESS COUNTY BANK, JAMESTOWN	7/14/95	5.90%	200,000	200,000
FENTRESS COUNTY BANK, JAMESTOWN	9/22/95	6.20%	500,000	500,000
FENTRESS COUNTY BANK, JAMESTOWN	7/24/95	6.10%	450,000	450,000
FENTRESS COUNTY BANK, JAMESTOWN	8/4/95	6.25%	300,000	300,000
FENTRESS COUNTY BANK, JAMESTOWN	6/6/96	5.60%	500,000	500,000
PROGRESSIVE SAVINGS, JAMESTOWN	9/15/95	5.60%	300,000	300,000
CITIZENS STATE BANK, JASPER	10/20/95	6.00%	100,000	100,000

(Continued)

State Cash Portfolio

	Maturity	Coupon	Par Value	Market Value
CITIZENS STATE BANK, JASPER	10/24/95	6.00%	\$ 200,000	\$ 200,000
CITIZENS STATE BANK, JASPER	5/9/96	6.20%	200,000	200,000
MARION BANK AND TRUST, JASPER	9/29/95	6.20%	1,400,000	1,400,000
MARION BANK AND TRUST, JASPER	12/29/95	6.50%	300,000	300,000
FIRST STATE BANK, KENTON	9/5/95	5.70%	5,000,000	5,000,000
FIRST UNION BANK, KINGSPORT	2/23/96	6.75%	1,050,000	1,050,000
CHARTER FEDERAL SAVINGS BANK, KNOXVILLE	9/8/95	6.90%	100,000	100,000
CHARTER FEDERAL SAVINGS BANK, KNOXVILLE	6/20/96	5.80%	5,000,000	5,000,000
CHARTER FEDERAL SAVINGS BANK, KNOXVILLE	1/11/96	6.25%	5,000,000	5,000,000
CHARTER FEDERAL SAVINGS BANK, KNOXVILLE	7/14/95	5.95%	5,000,000	5,000,000
CHARTER FEDERAL SAVINGS BANK, KNOXVILLE	10/31/95	6.00%	5,000,000	5,000,000
CHARTER FEDERAL SAVINGS BANK, KNOXVILLE	10/31/95	6.00%	100,000	100,000
NATIONAL BANK OF COMMERCE, KNOXVILLE	7/24/95	6.45%	2,000,000	2,000,000
NATIONAL BANK OF COMMERCE, KNOXVILLE	11/17/95	5.90%	10,000,000	10,000,000
CITIZENS BANK, LAFAYETTE	2/12/96	6.00%	500,000	500,000
CITIZENS BANK, LAFAYETTE	6/26/96	5.80%	100,000	100,000
CITIZENS BANK, LAFAYETTE	7/11/95	6.50%	250,000	250,000
CITIZENS BANK, LAFAYETTE	11/13/95	6.60%	100,000	100,000
FIRST FED SAVINGS BANK, LAFOLLE	7/26/95	5.40%	100,000	100,000
NATIONS BANK, LAWRENCEBURG	5/24/96	6.00%	200,000	200,000
FIRST CENTRAL BANK LENOIR CITY	8/18/95	5.70%	500,000	500,000
FIRST CENTRAL BANK, LENOIR CITY	11/7/95	5.90%	500,000	500,000
FIRST NATIONAL BANK, LENOIR CITY	7/14/95	5.95%	200,000	200,000
FIRST NATIONAL BANK, LENOIR CITY	8/22/95	5.70%	300,000	300,000
FIRST NATIONAL LOUDON COUNTY, LENOIR CTY	8/25/95	6.40%	100,000	100,000
CENTRAL STATE BANK, LEXINGTON	12/29/95	6.25%	500,000	500,000
CENTRAL STATE BANK, LEXINGTON	4/5/96	6.50%	500,000	500,000
THE FARMERS BANK, LYNCHBURG	12/4/95	5.50%	270,000	270,000
COFFEE COUNTY BANK, MANCHESTER	6/25/96	5.80%	280,000	280,000
COFFEE COUNTY BANK, MANCHESTER	8/11/95	5.70%	350,000	350,000
PLANTERS BANK, MAURY CITY	7/21/95	6.45%	200,000	200,000
BOATMEN'S BANK, MEMPHIS	10/20/95	6.00%	10,000,000	10,000,000
BOATMEN'S BANK, MEMPHIS	7/25/95	6.45%	10,000,000	10,000,000
BOATMEN'S BANK, MEMPHIS	8/1/95	6.50%	5,000,000	5,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	7/21/95	5.40%	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	1/25/96	7.20%	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	7/10/95	6.50%	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	8/18/95	5.70%	500,000	500,000
FIRST COMMERCIAL BANK, MEMPHIS	7/11/95	6.50%	500,000	500,000
FIRST COMMERCIAL BANK, MEMPHIS	7/11/95	6.50%	250,000	250,000
FIRST COMMERCIAL BANK, MEMPHIS	8/11/95	6.40%	1,000,000	1,000,000
FIRST COMMERCIAL BANK, MEMPHIS	11/7/95	5.90%	2,000,000	2,000,000
FIRST COMMERCIAL BANK, MEMPHIS	6/7/96	5.80%	1,000,000	1,000,000
FIRST COMMERCIAL BANK, MEMPHIS	10/31/95	6.00%	1,000,000	1,000,000
FIRST COMMERCIAL BANK, MEMPHIS	8/4/95	6.40%	1,000,000	1,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	9/29/95	6.15%	10,000,000	10,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	2/9/96	6.85%	20,000,000	20,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	10/20/95	6.00%	15,000,000	15,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	1/19/96	6.15%	25,000,000	25,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	10/27/95	6.00%	20,000,000	20,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	7/14/95	6.45%	25,000,000	25,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	7/24/95	6.45%	30,000,000	30,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	4/30/96	6.05%	25,000,000	25,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	5/21/96	6.05%	25,000,000	25,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	7/21/95	6.45%	20,000,000	20,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	6/28/96	5.80%	15,000,000	15,000,000
TENNESSEE BANK AND TRUST, MILLINGTON	8/23/95	5.90%	500,000	500,000
TENNESSEE BANK AND TRUST, MILLINGTON	8/15/95	6.25%	750,000	750,000
TENNESSEE BANK AND TRUST, MILLINGTON	11/17/95	5.90%	1,200,000	1,200,000
TENNESSEE BANK AND TRUST, MILLINGTON	8/8/95	6.00%	1,000,000	1,000,000
TENNESSEE BANK AND TRUST, MILLINGTON	7/14/95	5.95%	1,000,000	1,000,000

(Continued)

State Cash Portfolio

	Maturity	Coupon	Par Value	Market Value
TENNESSEE BANK AND TRUST, MILLINGTON	8/23/95	5.90%	\$ 500,000	\$ 500,000
FIRST CITY BANK, MURFREESBORO	7/31/95	6.00%	5,000,000	5,000,000
FIRST AMERICAN BANK, NASHVILLE	2/2/96	6.00%	25,000,000	25,000,000
FIRST AMERICAN BANK, NASHVILLE	7/21/95	5.40%	10,000,000	10,000,000
FIRST AMERICAN BANK, NASHVILLE	3/8/96	6.60%	50,000,000	50,000,000
FIRST AMERICAN BANK, NASHVILLE	10/20/95	6.00%	25,000,000	25,000,000
FIRST AMERICAN BANK, NASHVILLE	1/2/96	6.15%	25,000,000	25,000,000
FIRST AMERICAN BANK, NASHVILLE	1/22/96	6.15%	25,000,000	25,000,000
FIRST AMERICAN BANK, NASHVILLE	5/14/96	6.05%	25,000,000	25,000,000
FIRST AMERICAN BANK, NASHVILLE	5/31/96	6.00%	25,000,000	25,000,000
FIRST AMERICAN BANK, NASHVILLE	12/11/95	6.60%	20,000,000	20,000,000
FIRST FEDERAL BANK, NASHVILLE	4/19/96	6.35%	95,000	95,000
NATIONAL BANK OF COMMERCE, NASHVILLE	7/24/95	6.45%	5,000,000	5,000,000
NATIONAL BANK OF COMMERCE, NASHVILLE	11/17/95	5.90%	15,000,000	15,000,000
SOUTHTRUST BANK, NASHVILLE	6/6/96	5.80%	3,000,000	3,000,000
SOUTHTRUST BANK, NASHVILLE	6/6/96	5.60%	2,800,000	2,800,000
THE BANK OF NASHVILLE	7/3/95	5.95%	1,000,000	1,000,000
THE BANK OF NASHVILLE	7/3/95	6.50%	1,000,000	1,000,000
THE BANK OF NASHVILLE	8/25/95	6.20%	2,000,000	2,000,000
NEWPORT FEDERAL SAVINGS AND LOAN, NEWPORT	10/2/95	6.90%	500,000	500,000
NEWPORT FEDERAL SAVINGS AND LOAN, NEWPORT	6/25/96	5.80%	300,000	300,000
SECURITY BANK, NEWBERN	7/10/95	5.25%	350,000	350,000
SECURITY BANK, NEWBERN	7/14/95	5.75%	300,000	300,000
SECURITY BANK, NEWBERN	8/29/95	5.80%	500,000	500,000
OAKLAND DEPOSIT BANK, OAKLAND	4/12/96	6.50%	100,000	100,000
COMMERCIAL BANK, OBION	9/29/95	5.90%	200,000	200,000
FIRST NATIONAL BANK, ONEIDA	1/11/96	6.25%	500,000	500,000
FIRST NATIONAL BANK, ONEIDA	12/8/95	6.50%	500,000	500,000
FIRST NATIONAL BANK, PIKEVILLE	9/22/95	5.90%	300,000	300,000
COMMUNITY BANK, PULASKI	10/19/95	6.15%	750,000	750,000
FIRST NATIONAL BANK, PULASKI	8/11/95	6.40%	300,000	300,000
FIRST NATIONAL BANK, PULASKI	2/13/96	6.85%	300,000	300,000
FIRST NATIONAL BANK, PULASKI	2/13/96	6.85%	500,000	500,000
FIRST NATIONAL BANK, PULASKI	2/9/96	6.85%	700,000	700,000
FIRST NATIONAL BANK, PULASKI	8/15/95	6.25%	300,000	300,000
BANK OF RIPLEY	9/5/95	6.20%	100,000	100,000
BANK OF RIPLEY	1/19/96	6.15%	100,000	100,000
BANK OF RIPLEY	11/27/95	6.00%	150,000	150,000
BANK OF RIPLEY	7/11/95	6.50%	200,000	200,000
BANK OF RIPLEY	1/29/96	6.15%	100,000	100,000
FIRST UNION BANK, ROGERSVILLE	12/22/95	6.50%	550,000	550,000
FIRST UNION BANK, ROGERSVILLE	10/6/95	6.90%	1,600,000	1,600,000
FIRST UNION BANK, ROGERSVILLE	12/22/95	6.50%	1,100,000	1,100,000
CHARTER FEDERAL SAVINGS BANK, SEVIERVILLE	10/13/95	6.80%	85,000	85,000
SOMERVILLE BANK AND TRUST	8/25/95	6.20%	200,000	200,000
FIRST BANK RHEA COUNTY, SPRING CITY	10/2/95	6.10%	900,000	900,000
MERCHANTS AND PLANTERS, TOONE	2/16/96	6.75%	200,000	200,000
MERCHANTS AND PLANTERS, TOONE	11/17/95	6.60%	200,000	200,000
MERCHANTS AND PLANTERS, TOONE	8/29/95	5.80%	100,000	100,000
MERCHANTS AND PLANTERS, TOONE	9/28/95	5.80%	100,000	100,000
BANK OF COMMERCE, TRENTON	10/20/95	6.15%	1,000,000	1,000,000
BANK OF COMMERCE, TRENTON	7/14/95	5.75%	1,000,000	1,000,000
BANK OF COMMERCE, TRENTON	11/27/95	6.00%	2,500,000	2,500,000
BANK OF COMMERCE, TRENTON	12/18/95	5.80%	1,000,000	1,000,000
WAYNE COUNTY BANK, WAYNESBORO	9/15/95	6.20%	900,000	900,000
THE WHITEVILLE BANK	5/15/96	6.05%	350,000	350,000
THE WHITEVILLE BANK	5/17/96	6.05%	500,000	500,000
THE WHITEVILLE BANK	6/21/96	5.80%	600,000	600,000
THE WHITEVILLE BANK	9/29/95	5.90%	400,000	400,000

(Continued)

State Cash Portfolio

	Rating	Maturity	Coupon	Par Value	Market Value
THE WHITEVILLE BANK		8/25/95	5.70%	\$ 500,000	\$ 500,000
THE WHITEVILLE BANK		8/18/95	5.70%	300,000	300,000
BANK OF COMMERCE, WOODBURY		12/29/95	7.30%	2,000,000	2,000,000
TOTAL CERTIFICATES OF DEPOSIT				\$ 829,083,000	\$ 829,083,000
REPURCHASE AGREEMENTS:					
SWISS BANK CORP. GSI		7/5/95	5.90%	\$ 11,000,000	\$ 11,000,000
THIRD NATIONAL BANK, NASHVILLE		7/5/95	6.00%	15,000,000	15,000,000
SWISS BANK CORP. GSI		7/3/95	6.20%	52,757,000	52,757,000
SWISS BANK CORP. GSI		7/3/95	6.20%	27,243,000	27,243,000
HSBC SECURITIES		7/3/95	6.20%	48,895,000	48,895,000
HSBC SECURITIES		7/3/95	6.20%	26,105,000	26,105,000
HSBC SECURITIES		7/3/95	6.20%	20,200,000	20,200,000
TOTAL REPURCHASE AGREEMENTS				\$ 201,200,000	\$ 201,200,000
COMMERCIAL PAPER:					
BT SECURITIES CORP	A1	9/6/95	6.38%	\$ 30,000,000	\$ 29,137,167
B.I. FUNDING, INC.	A1	7/14/95	6.02%	14,250,000	14,099,013
FALCON ASSET SECURITIZATION CORP	A1	7/6/95	5.98%	30,000,000	29,826,458
MITSUBISHI INT'L CORP.	A1+	7/6/95	5.97%	24,336,000	24,227,401
ASSOCIATES CORP OF N. AMERICA	A1+	7/6/95	5.98%	50,000,000	49,801,333
SHEFFIELD RECEIVABLES CORP	A1+	7/7/95	6.00%	20,000,000	19,916,944
SUMITOMO CORP OF AMERICA	A1+	7/14/95	6.01%	16,000,000	15,917,609
BELL ATLANTIC NETWORK FUNDING CO	A1+	7/5/95	5.97%	15,000,000	14,945,458
MERRILL LYNCH & CO., INC.	A1+	7/5/95	5.99%	50,000,000	49,825,875
CORPORATE RECEIVABLES CORP	A1	8/2/95	5.99%	30,000,000	29,786,792
FALCON ASSET SECURITIZATION CORP	A1	8/10/95	5.98%	20,000,000	19,831,983
RECEIVABLES CAPITAL CORP	A1	9/14/95	5.93%	37,532,000	37,013,589
GENERAL ELECTRIC CAPITAL CORP	A1+	9/1/95	5.93%	50,000,000	49,421,153
METLIFE FUNDING CORP	A1+	8/7/95	5.96%	35,561,000	35,297,849
SHEFFIELD RECEIVABLES CORP.	A1+	7/28/95	6.01%	30,000,000	29,845,517
MITSUMI & CO (USA) INC	A1	7/12/95	6.09%	15,000,000	14,967,067
PACTEL CAPITAL RESOURCES	A1	7/11/95	6.09%	25,000,000	24,949,333
RECEIVABLES CAPITAL CORP.	A1	7/5/95	6.20%	12,000,000	11,989,667
KOCH INDUSTRIES	A1+	7/5/95	6.25%	25,000,000	24,978,299
TOTAL COMMERCIAL PAPER				\$ 529,679,000	\$ 525,778,507
TOTAL PORTFOLIO				\$ 2,284,062,000	\$ 2,280,673,515

Key to Ratings

All ratings presented are from Moody's Investors Service with the exception of 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 as large 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 as follows:

- 1 Higher End
- 2 Mid-range
- 3 Lower End

NR indicates the security is not rated by Moody's.

TCRSPortfolio

Domestic Fixed Income Portfolio

	Rating	Coupon	Maturity	Par Value	Market Value
GOVERNMENTS:					
BONDS AND NOTES:					
CERT. OF ACCRUAL TREASURY - SER M	AAA	0.000	5/15/96	\$ 2,000,000	\$ 1,904,400
CERT. OF ACCRUAL TREASURY - SER Q	AAA	0.000	5/15/96	3,000,000	2,856,600
CERT. OF ACCRUAL TREASURY - SER T	AAA	0.000	5/15/96	25,280,000	24,071,616
CERT. OF ACCRUAL TREASURY - SER T	AAA	0.000	11/15/96	9,404,000	8,706,223
CERT. OF ACCRUAL TREASURY - SER V	AAA	0.000	5/15/96	4,000,000	3,808,800
COUPON TREASURY RCPT	AAA	0.000	2/15/98	39,720,000	34,100,017
COUPON TREASURY RCPT	AAA	0.000	8/15/97	30,000,000	26,540,700
COUPON TREASURY RCPT	AAA	0.000	8/15/98	49,140,000	40,904,136
COUPON TREASURY RCPT	AAA	0.000	8/15/2004	23,075,400	12,946,915
COUPON TREASURY RCPT	AAA	0.000	11/15/2003	74,236,964	43,934,920
PRINCIPLE TREAS RCPT	AAA	0.000	8/15/2004	10,134,000	5,685,883
PRINCIPLE TREAS RCPT	AAA	0.000	8/15/2003	100,000,000	60,182,000
SBA GTD PARTN CTPS SBIC 90-10D	AAA	8.700	12/10/2000	11,000,000	11,922,900
TENNESSEE VALLEY AUTH 1992 S-A	AAA	6.000	1/15/97	40,336,000	40,235,160
TIGER SER 1	AAA	0.000	5/15/2000	13,678,000	10,250,977
TIGER SER 2	AAA	0.000	5/15/2000	4,723,875	3,540,308
TIGER SER 8	AAA	0.000	5/15/2000	15,513,500	11,626,593
U S TREAS BD CORPUS	AAA	0.000	11/15/2001	76,000,000	49,983,680
U S TREAS BD STRIPPED PRIN PMT	AAA	0.000	8/15/2005	43,000,000	22,631,330
U S TREAS BD STRIPPED PRIN PMT	AAA	0.000	5/15/2005	100,000,000	53,555,000
U S TREAS NT STRIPPED PRIN PMT	AAA	0.000	5/15/2001	21,000,000	14,794,710
U S TREAS NT STRIPPED PRIN PMT	AAA	0.000	11/15/97	35,000,000	30,510,550
U S TREAS NT STRIPPED PRIN PMT	AAA	0.000	2/15/98	33,500,000	28,768,125
U S TREAS NT STRIPPED PRIN PMT	AAA	0.000	2/15/99	93,100,000	75,301,142
U S TREAS STRIP GENERIC TINT	AAA	0.000	5/15/2003	39,900,000	24,577,602
U S TREAS STRIP GENERIC TINT	AAA	0.000	2/15/2005	38,000,000	20,721,400
U S TREAS STRIP GENERIC TINT	AAA	0.000	5/15/2006	28,100,000	14,022,462
U S TREASURY BILLS	AAA	0.000	9/28/95	100,000,000	98,268,611
U S TREASURY BONDS	AAA	12.000	8/15/2013	80,000,000	118,000,000
U S TREASURY BONDS	AAA	8.750	5/15/2017	60,000,000	73,781,400
U S TREASURY BONDS	AAA	10.750	8/15/2005	172,600,000	229,180,006
U S TREASURY BONDS	AAA	7.500	11/15/2024	324,735,000	359,290,051
U S TREASURY BONDS	AAA	8.875	8/15/2017	113,600,000	141,432,000
U S TREASURY BONDS	AAA	9.250	2/15/2016	239,100,000	306,571,629
U S TREASURY NOTES	AAA	6.375	8/15/2002	68,500,000	69,313,095
U S TREASURY NOTES	AAA	5.125	12/31/98	76,770,000	74,767,071
U S TREASURY NOTES	AAA	7.500	1/31/97	100,000,000	102,484,000
U S TREASURY NOTES	AAA	6.500	5/15/97	50,850,000	51,430,199
U S TREASURY NOTES	AAA	6.500	4/30/99	241,525,000	245,676,815
U S TREASURY NOTES	AAA	7.250	11/30/96	100,000,000	101,891,000
TOTAL BONDS AND NOTES					\$2,650,170,026
AGENCIES:					
FARM CR SYS FINL ASSIST CORP	AAA	8.800	6/10/2005	\$ 10,000,000	\$ 11,665,600
FARMERS HOME ADMIN CTF BEN INT	AAA	8.750	11/26/2000	43,213	43,213
FARMERS HOME ADMIN CTF BEN INT	AAA	8.500	8/28/2000	92,380	92,380
FARMERS HOME ADMIN CTF BEN INT	AAA	5.750	6/29/2001	112,377	105,991
FARMERS HOME ADMIN INSD NT	AAA	5.750	6/30/99	15,580	14,951
FED NATL MTG ASSN MTN 00582	AAA	5.190	7/20/98	20,000,000	19,444,000
FED NATL MTG ASSN MTN 00641	AAA	5.230	11/25/98	60,005,000	58,489,874
FEDERAL NATL MORTGAGE ASSN	AAA	0.000	7/5/2014	148,500,000	38,656,035
FEDERAL NATL MTG ASSN DEB	AAA	6.400	1/13/2004	15,000,000	14,630,250
FEDERAL NATL MTG ASSN MTN	AAA	6.270	4/1/99	10,000,000	9,937,000
FEDERAL NATL MTG ASSN MTN	AAA	5.200	7/10/98	30,000,000	29,214,000
FEDERAL NATL MTG ASSN MTN	AAA	6.270	4/3/96	22,700,000	22,786,714
FEDERAL NATL MTG ASSN MTN	AAA	6.840	10/3/97	20,000,000	20,340,000
FHA & VA MORTGAGE LNS	AAA	0.000	11/1/95	942	942
FHA & VA MORTGAGE LNS	AAA	0.000	10/1/97	18,432	18,355
FHLMC GROUP #22-0010	AAA	8.750	8/1/2001	4,260,934	4,363,452

(Continued)

Domestic Fixed Income Portfolio

	Rating	Coupon	Maturity	Par Value	Market Value
FHLMC MULTICLASS P/C SER 125 CL-A	AAA	8.750	3/15/2000	\$ 46,818,697	\$ 46,818,697
FHLMC MULTICLASS MTG P/C 1141F	AAA	8.500	10/15/2020	40,000,000	41,352,000
FHLMC MULTICLASS MTG P/C 1398F	AAA	6.000	12/15/2005	15,890,000	15,138,827
FHLMC MULTICLASS MTG P/C 1409G	AAA	6.750	2/15/2006	10,000,000	9,971,900
FHLMC MULTICLASS MTG P/C 1414G	AAA	6.250	7/15/2006	10,000,000	9,722,000
FHLMC MULTICLASS MTG P/C 1415M	AAA	6.750	2/15/2006	20,000,000	19,935,800
FHLMC MULTICLASS MTG P/C 1546H	AAA	7.000	12/15/2022	10,000,000	9,739,285
FHLMC MULTICLASS MTG P/C 1564E	AAA	6.000	4/15/2005	27,662,500	27,212,708
FHLMC MULTICLASS MTG PC 1166PG	AAA	8.000	2/15/2020	14,500,000	14,772,020
FHLMC MULTICLASS MTG PC 1560PE	AAA	6.000	11/15/2016	30,000,000	29,420,400
FHLMC MULTICLASS MTG PC G-13PH	AAA	6.000	3/25/2018	20,000,000	19,193,000
FNMA POOL #0109011	AAA	6.350	1/1/2004	17,753,077	19,448,140
FNMA POOL #0160159	AAA	7.516	7/1/99	10,000,000	10,059,600
FNMA POOL #0160160	AAA	7.778	7/1/2001	40,000,000	41,268,474
FNMA POOL #0268927	AAA	6.500	1/1/2024	1	1
FNMA GTD REMIC P/T CTF 89-81-E	AAA	9.000	3/25/2019	21,000,000	22,103,130
FNMA GTD REMIC P/T CTF 90-69-Z	AAA	9.500	6/25/2020	33,384,197	35,821,243
FNMA GTD REMIC P/T CTF 91-116Z	AAA	8.500	9/25/2021	8,385,171	8,338,550
FNMA GTD REMIC P/T CTF 92-186G	AAA	6.000	1/25/2006	8,605,000	8,264,414
FNMA GTD REMIC P/T CTF 93-17-Z	AAA	6.500	1/25/2016	16,563,009	16,038,624
FNMA GTD REMIC P/T CTF G-27H	AAA	8.500	9/25/2020	30,377,500	31,627,145
FNMA GTD REMIC P/T CTF RT94M1B	AAA	6.500	10/25/2003	47,477,000	46,664,194
FNMA GTD REMIC P/T CTF88-8 Z	AAA	9.500	4/25/2018	21,672,578	23,390,780
FNMA GTD REMIC P/T CTF91-141PX	AAA	8.000	7/25/2018	19,926,327	20,343,385
FNMA GTD REMIC PT CTF 91-113ZG	AAA	8.750	12/25/2004	7,754,486	8,205,254
FNMA GTD REMIC PT CTF 91-160ZB	AAA	8.000	11/25/2020	29,444,127	29,762,960
FNMA GTD REMIC PT CTF 91-81 PL	AAA	7.000	12/25/2020	30,000,000	30,095,100
FNMA GTD REMIC PT CTF 91-86 Z	AAA	6.500	7/25/2021	17,921,697	16,695,136
FNMA GTD REMIC PT CTF 92-10 ZA	AAA	8.000	9/25/2019	28,574,070	29,116,406
FNMA GTD REMIC PT CTF 92-171ZA	AAA	7.350	2/25/2019	19,234,330	18,816,782
FNMA GTD REMIC PT CTF 92-193GA	AAA	6.500	1/25/2006	10,000,000	9,816,500
GNMA POOL #0354677	AAA	7.500	10/15/2023	24,366	24,488
GOVERNMENT TR CTFS CURRENT 1-C	AAA	9.250	11/15/2001	50,000,000	55,076,000
GOVERNMENT TR CTFS CURRENT 2-E	AAA	9.400	5/15/2002	20,000,000	22,119,600
INDONESIA REP PROM NT	-	9.300	7/1/2020	25,000,000	25,000,000
NATIONAL ARCHIVES FAC TR CTF	AAA	8.500	9/1/2019	54,350,674	62,626,108
SMALL BUSINESS ADMIN GTD 86-A	AAA	8.750	9/1/96	6,405,715	6,541,068
SMALL BUSINESS ADMIN SER 87 A	AAA	7.950	2/1/97	2,480,195	2,527,170
STUDENT LN MARKETING ASSN MTN	AAA	8.520	12/13/99	25,000,000	25,297,500
TENNESSE VALLEY AUTH PWR BD C	AAA	8.250	9/15/2034	10,000,000	10,189,000
TENNESSEE VALLEY AUTH PWR 89-G	AAA	8.625	11/15/2029	86,600,000	92,692,310
TENNESSEE VALLEY AUTH PWR BD E	AAA	4.600	12/15/96	80,500,000	78,986,600
TOTAL AGENCIES					\$1,280,035,056
TOTAL GOVERNMENTS					\$3,930,205,082

CORPORATES:

ALLSTATE CORP NTS	A2	5.875	6/15/98	\$ 22,000,000	\$ 21,668,460
ALLTEL CORP DEB	A2	9.500	3/1/2021	7,000,000	7,568,750
AMERICA SOUTHWEST FINL 37-C	AAA	9.200	12/1/2006	3,119,296	3,162,841
AMERICAN GEN FIN CORP SR NT	A1	6.875	1/15/2000	25,000,000	25,313,750
AMERICAN HOME PRODS CORP NT	A2	6.500	10/15/2002	35,000,000	34,944,000
AMERICAN HOME PRODS CORP NT	A2	7.900	2/15/2005	25,000,000	26,868,000
AMERITECH CAP FDG CORP	AA2	5.000	5/12/98	61,250,000	60,959,062
ANHEUSER BUSCH COS INC NT	A1	6.900	10/1/2002	10,000,000	10,040,400
ARCHER DANIELS MIDLAND CO DEB	AA2	8.875	4/15/2011	20,000,000	23,336,000
ARKLA INC SUB DEB	BA2	8.900	12/15/2006	14,000,000	14,840,000
ASSOCIATES CORP NORTH AMER	AA3	7.750	11/1/97	25,000,000	25,718,000
ASSOCIATES CORP NORTH AMER NT	AA3	6.250	3/15/99	20,000,000	19,848,600
ASSOCIATES CORP NORTH AMERICA	AA3	6.625	11/15/97	16,755,000	16,835,089
AT & T CAP CORP MTN TR # 00341	AA3	7.030	8/12/2002	10,000,000	10,185,200

(Continued)

TCRSPortfolio

Domestic Fixed Income Portfolio

	Rating	Coupon	Maturity	Par Value	Market Value
AT&T CAP CORP MTN	AA3	7.240	7/29/2002	\$ 8,500,000	\$ 8,757,635
BANC ONE CR CARD MTR 94-C A	AAA	7.800	11/15/98	50,000,000	52,329,000
BEAR STEARNS MTN #TR 00314	A2	6.550	2/10/97	50,000,000	50,000,000
BELL TEL CO PA	AA1	7.700	1/15/2023	15,000,000	15,263,400
BELLSOUTH TELECOM INC	AAA	7.625	5/15/2035	15,000,000	15,070,500
BELLSOUTH TELECOMMUNICATIONS	AAA	6.750	10/15/2033	35,000,000	31,839,150
BENEFICIAL CORP MTN TR # 00010	-	6.800	6/29/2005	10,000,000	10,000,000
BP NORTH AMER INC GTD NT	A1	10.000	7/1/2018	13,000,000	14,677,260
BRANCH BKG & TR CO WILSON MTN	A2	4.840	8/23/96	20,000,000	19,757,600
BRANCH BKG&TRUST CO MTN	A1	4.750	5/15/96	17,575,000	17,361,288
BRITISH GAS FIN INC GTD NT	AA2	8.750	3/15/98	10,000,000	10,609,700
CASE EQUIP LN TR 94-A CL A-2	AAA	4.650	8/15/99	19,611,375	19,377,333
CENTRAL ILL LT CO 1ST MTG	AA2	8.200	1/15/2022	15,000,000	15,863,550
CENTRAL ILL LT CO 1ST MTG	AA2	7.500	1/15/2007	10,000,000	10,655,500
CO-OP UTIL TR CAJUN ELEC PWR	AAA	9.520	3/15/2019	43,000,000	50,786,440
COMMERCIAL CR GROUP INC NT	A1	6.875	5/1/2002	20,000,000	20,106,200
CONSOLIDATED EDISON CO N Y INC	A1	9.375	6/1/2026	5,000,000	5,438,900
CONSOLIDATED NAT GAS CO DEB	A1	8.625	12/1/2011	9,555,000	10,110,623
COOPERATIVE UTIL TR BIG ELEC	AAA	9.500	2/15/2017	42,600,000	46,806,750
COOPERATIVE UTIL TR CAJN88-A12	AAA	8.920	3/15/2019	7,500,000	8,715,375
CSX CORP NT	A3	8.400	8/1/96	11,000,000	11,238,150
DEAN WITTER DISCOVER & CO MTN	A2	5.700	10/6/97	30,000,000	24,096,600
DEAN WITTER DISCOVER MTN	A2	6.220	10/6/97	20,000,000	15,953,200
DEERE JOHN CAP MTN # TR 00128	A2	7.520	3/6/2000	15,000,000	15,534,450
DEERE JOHN CAP MTN TR # 00134	A2	6.250	6/12/2000	10,000,000	9,881,200
DELMARVA PWR & LT CO SHELF 6	A2	7.710	6/1/2025	20,000,000	20,221,800
DUKE PWR CO 1ST & REF	AA2	8.750	3/1/2021	28,000,000	29,177,400
FARMERS GROUP INC NT	A2	8.250	7/15/96	21,000,000	21,409,920
FORD CR 1993-A GRANTOR TR A/B	-	4.850	1/15/98	5,033,083	5,031,787
FORD HLDGS INC DEB	A1	9.250	3/1/2000	40,000,000	43,938,000
FORD MTR CO P/T CTF SER 93 A6	AAA	5.930	1/1/2000	30,016,000	29,345,743
FORD MTR CR CO NT	A1	8.000	6/15/2002	48,500,000	51,457,045
FORD MTR CR MTN #TR 00320	A1	6.430	10/21/97	25,000,000	24,912,500
FORD MTR CR MTN TR 00251	A2	7.400	7/7/99	12,000,000	12,359,160
GENERAL ELEC CAP CORP MTN	AAA	6.875	4/15/2000	30,000,000	30,002,700
GENERAL ELEC CAP CORP MTN	AAA	8.875	5/15/2009	21,500,000	25,351,080
GENERAL ELEC CAP MTN #TR000516	-	5.000	8/22/96	50,000,000	50,177,500
GENERAL ELEC CAP REMKTD	AAA	8.650	5/1/2018	10,000,000	10,190,800
GENERAL ELEC CO UNSECD NTS	AAA	7.875	9/15/98	65,000,000	67,711,150
GENERAL MRTS ACCEP CORP NT	A3	8.750	2/1/96	25,000,000	25,327,750
GENERAL MRTS ACCEP CORP MTN	A3	8.375	1/30/98	58,000,000	60,528,220
GENERAL MRTS ACCEP CORP MTN	BAA1	7.850	11/17/97	14,000,000	14,432,740
GENERAL MRTS ACCEP CORP NT	A3	7.500	10/15/95	15,525,000	15,573,593
GENERAL MRTS ACCEP CORP NT	A3	7.000	8/15/97	29,800,000	30,080,120
GENERAL MRTS ACCEP MTN # 00263	BAA1	8.250	1/20/98	24,000,000	24,996,720
GENERAL MRTS CORP NT	A3	7.625	2/15/97	15,162,000	15,441,890
GENERAL TEL CO N.WEST MTG-BB	A2	8.750	4/15/2016	2,957,000	3,078,503
GENERALS MLS INC MTN # TR00039	A1	9.050	12/15/2000	14,125,000	15,762,370
GEORGIA PWR CO 1ST MTG	A1	6.000	3/1/2000	19,000,000	18,673,010
GEORGIA PWR CO 1ST MTG	A1	7.700	5/1/2025	20,000,000	20,371,400
GMAC 92-F GRANTOR TR ABS CL A	AAA	4.500	9/15/97	13,413,344	13,291,283
GMAC 94-A GRANTOR TR CTF CL A	AAA	6.300	6/15/99	30,015,387	30,098,529
GTE CORP DEB	BAA1	10.250	11/1/2020	20,000,000	23,368,000
GTE FIN CORP MTN	-	9.680	2/18/99	10,000,000	10,961,600
GTE FLA INC DEB	A2	6.310	12/15/2002	15,000,000	14,680,050
GTE NORTH INC DEB	A1	9.190	1/1/2022	25,385,000	27,726,259
GTE NORTH INC DEB SER A	A1	6.000	1/15/2004	15,000,000	14,317,050
GULF PERU CO 1ST MTG	A1	5.550	4/1/98	11,400,000	11,164,818
HALLIBURTON CO DEB	A2	8.750	2/15/2021	8,000,000	9,217,040
IBM CR RECEIVABLES 93-1 CL A	AAA	4.550	11/15/2000	19,710,473	19,439,770

(Continued)

Domestic Fixed Income Portfolio

	Rating	Coupon	Maturity	Par Value	Market Value
ILLINOIS BELL TEL CO 1ST SER K	AAA	7.625	4/1/2006	\$ 17,500,000	\$ 17,786,825
ILLINOIS BELL TEL CO DEB	AA1	7.250	3/15/2024	37,500,000	36,562,500
INGERSOLL RAND CO BD	A2	6.480	6/1/2025	15,250,000	15,052,512
INGERSOLL RAND CO DEB	A2	7.200	6/1/2025	10,000,000	9,775,000
INTERNATIONAL LEASE FIN CORP	A2	5.625	3/1/98	25,000,000	24,506,000
KENTUCKY UTILS CO	-	7.550	6/1/2025	15,000,000	15,000,000
KENTUCKY UTILS CO 1ST MTG	AA2	5.950	6/15/2000	10,000,000	9,829,000
KFW INTL FIN INC	AAA	8.000	2/15/2010	30,000,000	33,017,400
MCA FDG CORP MTN	-	5.150	10/5/98	20,000,000	19,276,000
MCA FDG CORP MTN	-	4.480	8/13/96	28,000,000	27,534,640
MERCANTILE BK MTN	-	5.938	11/18/96	40,000,000	39,990,452
MERRILL LYNCH & CO INC NT	A1	6.375	9/8/2006	10,000,000	9,354,600
MERRILL LYNCH MTN #TR 00149	A1	6.500	4/15/98	25,000,000	24,957,500
MICHIGAN BELL TEL CO DEB	AA1	7.500	2/15/2023	15,200,000	15,302,600
NATIONSBANK CORP MTN #00025	A2	5.936	11/18/97	60,000,000	59,757,000
NATIONSBANK CORP SNR NT	A2	4.750	8/15/96	30,000,000	29,533,500
NORTHERN GAS CO 1ST MTG	AA1	9.000	7/1/2019	9,000,000	9,270,000
NORTHERN STS PWR CO MINN 1ST	A1	9.125	7/1/2019	9,800,000	10,435,628
NORWEST CORP MTN # TR 00187	AA3	6.390	1/26/98	25,000,000	24,893,000
NORWEST CORP MTN # TR 00190	AA3	7.750	3/1/2002	20,000,000	21,256,200
NORWEST FINL INC SHELFP 47	AA3	6.750	6/1/2005	20,000,000	20,088,600
OHIO BELL TELL CO SR UNSECD	AAA	7.850	12/15/2022	35,000,000	37,073,750
OLYMPIC AUTOMOBILE 95-C CL A-2	AAA	6.200	1/15/2002	20,000,000	19,983,400
PACIFIC BELL DEB	AA3	7.750	9/15/2032	15,000,000	15,087,600
PACIFIC BELL DEB	AA3	7.500	2/1/2033	16,000,000	15,503,200
PENNEY JC INC MTN #TR 00001	A1	7.050	5/23/2005	10,000,000	10,171,300
PENNSYLVANIA PWR & LT CO	A2	9.250	10/1/2019	21,800,000	23,494,078
POTOMAC CAP INV CO MED TERM NT	-	9.800	1/20/98	10,000,000	10,695,400
POTOMAC CAP INVT CORP MTN	-	9.870	7/30/98	10,000,000	10,826,100
POTOMAC CAP INVT CORP MTN	-	9.690	8/11/97	10,000,000	10,573,800
PREMIER AUTO TR 1993-3 CL A	AAA	4.900	12/15/98	27,684,272	27,346,801
PREMIER AUTO TR 1993-6 CL A-2	AAA	4.650	11/2/99	6,750,518	6,616,587
PREMIER AUTO TR 1995-3 CL A-3	AAA	5.930	12/6/98	20,000,000	19,906,200
PREMIER AUTO TR 93-5 CL A-2	AAA	4.220	3/2/99	11,769,379	11,504,568
PREMIER AUTO TR ABS 93-2 CL A3	AAA	4.900	10/15/98	7,602,868	7,503,042
PROCTER & GAMBLE ESOP DEB SR-A	AA2	9.360	1/1/2021	37,000,000	45,086,350
PSEG CAP CORP MTN	-	9.300	11/13/95	20,000,000	20,221,400
RURAL ELEC COOP GRANTOR 87 A3	AAA	9.200	9/30/2001	20,000,000	20,625,600
SEARS CR ACCT TR 91-B CL 1	AAA	8.600	5/15/98	20,000,000	20,400,000
SOUTH CENTRAL BELL TEL CO DEB	AAA	7.375	8/1/2012	25,500,000	25,173,345
SOUTHERN BELL TEL & TEL CO DEB	AAA	8.625	9/1/2026	14,000,000	14,578,620
SOUTHERN BELL TEL & TELEG CO	AAA	8.750	11/1/2024	10,000,000	10,405,200
SOUTHERN BELL TEL & TELEG CO	AAA	7.375	7/15/2010	27,500,000	27,666,925
SOUTHERN CALIF EDISON CO 1ST	A2	8.875	6/1/2024	10,000,000	10,439,900
SOUTHERN CALIF EDISON SER 86 K	A2	8.375	12/1/2017	10,000,000	10,158,900
SOUTHERN CALIF GAS CO 1ST MTG	A2	7.500	6/15/2023	10,000,000	10,044,500
SOUTHERN CALIF GAS CO 1ST MTG	A2	6.875	11/1/2025	10,000,000	9,241,500
SOUTHWESTERN BELL TEL CO	A1	8.250	4/1/2017	10,000,000	10,150,500
SOUTHWESTERN BELL TEL CO DEB	A1	7.625	3/1/2023	32,000,000	32,220,160
SOUTHWESTERN BELL TEL CO DEB	A1	7.000	7/1/2015	21,500,000	21,003,565
STANDARD CR CARD 94-2 CTF CL A	AAA	7.250	4/7/2008	20,000,000	20,537,400
STANDARD CR CARD MST TR 91-4 A	AAA	8.000	8/7/96	10,000,000	10,189,921
STANDARD CR CARD MT 1994-1 CLA	AAA	4.650	3/7/99	20,000,000	19,555,842
STANDARD CR CARD SER 95-2 CL A	AAA	8.625	1/7/2002	25,000,000	26,081,393
STANDARD OIL CO DEB	A1	6.300	7/1/2001	10,000,000	9,902,700
STANDARD OIL CO GTD DEB	A1	9.000	6/1/2019	15,000,000	16,303,350
TECO FIN INC MTN	-	6.450	11/5/97	20,000,000	20,157,800
THE TRAVELERS GROUP INC	A2	7.625	1/15/97	18,270,000	18,532,723
U S WEST COMMUNICATIONS DEB	AA3	8.875	6/1/2031	55,720,000	61,255,225
USAA CAP CORP MTN # TR 00014	-	6.300	2/13/98	25,000,000	25,000,000

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TCRS Portfolio

Domestic Fixed Income Portfolio

	Rating	Coupon	Maturity	Par Value	Market Value
USAA CAP CORP MTN 144A	AAA	6.090	9/29/97	\$ 25,000,000	\$ 20,168,500
WASHINGTON GAS LT CO 1ST MTG	AA2	8.750	7/1/2019	15,000,000	16,080,750
WEYERHAUSER CO DEB	A2	7.500	3/1/2013	30,000,000	30,454,500
WISCONSIN ELEC PWR 1ST MTG	AA2	7.700	12/15/2027	15,000,000	15,574,950
WISCONSIN ELEC PWR CO 1ST MTG	AA2	8.375	12/1/2026	27,500,000	29,452,225
ZIONS AUTO TR AB NT SER93-1A2	AAA	4.650	6/15/99	3,365,312	3,331,659
SUBTOTAL CORPORATES					\$ 2,980,795,442
CONVERTIBLE CORPORATES:					
3COM CORP SR NT CONV 144A	B1	10.250	11/1/2001	\$ 3,000,000	\$ 3,847,500
AIRBORNE FGHT CORP SUB CONV	BA1	6.750	8/15/2001	3,000,000	2,917,500
ALTERA CORP SUB NT 144A	B2	5.750	6/15/2002	3,500,000	3,710,000
AMR CORP DEL SUB CONV	BA2	6.125	11/1/2024	7,500,000	7,800,000
BANK NEW YORK INC SUB DEB CONV	A3	7.500	8/15/2001	2,000,000	4,145,000
BOSTON CHICKEN CONV BD	B2	0.000	6/1/2015	15,000,000	3,356,250
COMCAST CORP SUB NT CONV STEP	B1	3.375	9/9/2005	5,000,000	4,725,000
COOPER INDS INC SUB DEB CONV	A3	7.050	1/1/2015	4,500,000	4,635,000
CYPRESS SEMICONDUCTOR CORP SUB	B2	3.150	3/15/2001	2,500,000	3,725,000
EQUITABLE COS INC SUB DEB CONV	BAA1	6.125	12/15/2024	5,000,000	5,275,000
FEDERATED DEPT STORES INC DEL	BA1	5.000	2/15/2004	8,000,000	8,100,000
FIRST FINL MGMT CORP SR DEB	BAA2	5.000	12/15/99	4,500,000	5,940,000
FISHER SCIENTIFIC INTL INC SUB	BA2	4.750	3/1/2003	2,500,000	2,665,625
GENCORP INC SUB DEB CNV	BA3	8.000	8/1/2002	3,000,000	2,910,000
GENERAL INSTR CORP NEW JR CNV	B1	5.000	6/15/2000	2,500,000	4,134,375
INTEGRATED HEALTH SVCS INC SR	NR	5.750	1/1/2001	1,500,000	1,710,000
LDDS COMMUNICATIONS INC CONV B	BA2	5.000	8/15/2003	4,000,000	3,800,000
MAGNETEK INC SUB NT CONV	B2	8.000	9/15/2001	5,000,000	4,925,000
MOTOROLA INC SUB LIQUID YIELD	A1	0.000	9/27/2013	6,000,000	4,830,000
PEP BOYS MANNY MOE + JACK	BAA3	4.000	9/1/99	2,500,000	2,340,625
PROFFITS INC SUB DER CONV	B2	4.750	11/1/2003	3,500,000	3,071,250
SEAGATE TECHNOLOGY CNV DEB	B1	6.750	5/1/2012	1,500,000	1,552,500
SPORTS & REC INC SUB NT CONV	B2	4.250	11/1/2000	3,500,000	2,616,250
TIME WARNER INC SUB DEB CONV	BA3	8.750	1/10/2015	18,000,000	18,742,500
TRINOVA CORP CNV SUB DEB	BAA3	6.000	10/15/2002	3,500,000	3,281,250
UNIFI INC CONV	BAA1	6.000	3/15/2002	2,500,000	2,462,500
UNITED STATES CELLULAR CORP	BA3	0.000	6/15/2015	7,500,000	2,325,000
USX-MARATHON GROUP SUB DEB CNV	NR	7.000	6/15/2017	3,500,000	3,220,000
WABAN INC SUB DEB CONV	BA3	6.500	7/1/2002	4,000,000	3,640,000
WMX TECHNOLOGIES SUB NT CONV	A2	2.000	1/24/2005	4,500,000	3,768,750
SUBTOTAL CONVERTIBLE CORPORATES					\$ 130,171,875
TOTAL CORPORATES					\$ 3,110,967,317
TOTAL DOMESTIC FIXED INCOME PORTFOLIO					\$ 7,041,172,399

International Fixed Income Portfolio

	Rating	Coupon	Maturity	Par Value	Market Value
GOVERNMENTS:					
DUTCH (GOVT OF) BDS NTFL 1000	AAA	8.250	9/15/2007	\$ 20,000,000	\$ 13,939,981
DUTCH GOVT BDS NTFL1000	AAA	8.250	6/15/2002	24,000,000	16,782,188
EUROPEAN INVESTMENT BANK	AAA	6.250	7/28/99	50,000,000	10,003,813
EUROPEAN INVESTMENT BANK	AAA	9.875	2/9/2000	100,000,000	22,635,815
EUROPEAN INVESTMENT BANK	AAA	8.800	4/13/2000	50,000,000	10,940,479
EUROPEAN INVESTMENT BANK	AAA	8.750	8/25/2017	10,000,000	15,597,251
EUROPEAN INVESTMENT BANK BDS	NR	6.750	5/10/2001	1,800,000,000	26,201,994
EUROPEAN INVESTMENT BK BDS	NR	4.250	7/16/98	800,000,000	10,212,967
FRANCE(GOVT OF)	AAA	6.000	10/25/2025	100,000,000	15,633,084
FRANCE(GOVT OF) OAT BDS	AAA	0.000	4/25/2011	100,000,000	5,862,407
FRANCE(GOVT OF) OAT BDS	AAA	0.000	4/25/2010	100,000,000	6,433,393
FRANCE(GOVT OF)BDS SER 3	AAA	8.500	11/25/2002	100,000,000	21,839,732
GERMANY(FEDERAL REPUBLIC)	AAA	7.750	10/1/2004	25,000,000	18,675,200
HYDRO QUEBEC DEB SER IF	A2	8.000	2/1/2013	22,650,000	23,594,278
INTER-AMERICAN DEV BANK NTS	NR	6.750	2/20/2001	1,550,000,000	22,425,668
INTER-AMERICAN DEV BK BD Y-VAR	AAA	6.000	10/30/2001	2,000,000,000	28,287,417
INTERNATIONAL BANK FOR REC&DEV	AAA	11.500	11/9/2003	15,000,000	27,794,861
INTERNATIONAL BANK OF REC&DEV	NR	4.500	6/20/2000	5,000,000,000	65,814,407
INTERNATIONAL BK FOR REC & DEV	AAA	9.320	10/29/2003	10,000,000	11,609,000
INTL BK FOR RECON & DEV COLTS	AAA	9.570	11/1/2018	10,000,000	12,471,000
INTL BK RECON & DEV WASH D C	AAA	8.875	3/1/2026	12,000,000	14,575,080
INTL BK RECON & DEV WASH DC	AAA	8.625	10/15/2016	58,000,000	67,484,160
MANITOBA PROV CDA DEB	A1	7.750	2/1/2002	30,000,000	31,908,600
ONTARIO HYDRO	AA2	8.625	2/6/2002	25,000,000	18,686,615
ONTARIO PROV CDA BD	AA3	7.375	1/27/2003	30,000,000	31,101,300
QUEBEC PROV CDA BD	A2	9.375	1/16/2023	45,000,000	33,634,269
QUEBEC PROV CDA DEB	A1	8.625	12/1/2026	20,000,000	21,985,800
QUEBEC PROV CDA MTN	A1	8.400	3/29/96	26,400,000	26,823,984
QUEENSLAND TREAS CORP NTS-LON	AA2	8.000	5/14/2003	12,000,000	7,953,293
SNCF BDS	AAA	6.750	9/16/2013	50,000,000	8,879,155
TRUEHANDANSTALT BDS	AAA	6.875	6/11/2003	30,000,000	21,501,247
VICTORIAN FINANCE AUTHORITY	AA2	12.500	7/15/2000	7,000,000	5,711,488
WESTERN AUSTRALIA TREAS CORP	AA2	8.000	7/15/2003	10,000,000	6,588,013
NON-BASE CURRENCY	-	-	-	(13,275,000)	(159,888)
TOTAL GOVERNMENTS					\$ 683,428,051
CORPORATES:					
AMCOR LIMITED UNDATED SUB NTS	-	6.500	OPEN	\$ 650,000	\$ 4,619,875
AMOCO CDA PETE CO GTD DEB	AA1	6.750	9/1/2023	25,000,000	23,257,000
AMOCO CDA PETE CO NT	AA1	6.750	2/15/2005	12,000,000	12,011,160
BAYERISCHE LADES BK GIROZENTRAL	AAA	8.500	2/26/2003	5,000,000	7,743,991
BRITISH TELECOM FIN INC GTD NT	AAA	9.375	2/15/99	15,000,000	16,459,950
CS HLDG FIN BV CONV BDS	NR	4.875	11/19/2002	5,000,000	7,171,850
FORD CAP B V GTD NT	A1	9.875	5/15/2002	30,000,000	34,877,100
GRAND MET PUB LTD NT CONV 144A	A2	6.500	1/31/2000	4,000,000	4,260,000
HYDRO QUEBEC MTN	-	9.640	12/29/97	12,000,000	12,853,440
IMPERIAL OIL LTD DEB	AA2	8.750	10/15/2019	23,500,000	25,729,445
JAPAN DEVELOPMENT BANK BDS	AAA	5.000	10/1/99	1,600,000,000	21,261,283
JAPAN DEVELOPMENT BK BD	AAA	6.500	9/20/2001	2,600,000,000	37,655,596
KFW INTERNATIONAL FINANCE INC	-	7.750	10/6/2004	30,000,000	22,431,934
KFW INTL FINANCE INC	AAA	7.500	1/24/2000	30,000,000	22,648,877
LKB BADEN WURTTEMBERG FINANCE	NR	6.500	9/15/2008	95,000,000	63,546,299
LKB BADEN-WURTTEMBERG FIN NV	-	6.750	6/22/2005	50,000,000	35,014,644
MICHELIN (CIE GLE DES ESTABL.)	-	2.500	1/1/2001	1,699,830	350,390
NEW SOUTH WALES TREAS CORP BDS	NR	6.500	5/1/2006	14,000,000	7,966,569
PIONEER CONCRETE GTD CONV BD	-	9.500	6/21/98	4,000,000	2,967,381
ROCHE HLDGS INC LIQ YD 144A	NR	0.000	4/20/2010	12,000,000	4,770,000
NON-BASE CURRENCY	-	-	-	29	8
TOTAL CORPORATES					\$ 367,596,792
TOTAL INTERNATIONAL FIXED INCOME PORTFOLIO					\$ 1,051,024,843
GRAND TOTAL FIXED INCOME PORTFOLIO					\$ 8,092,197,242

TCRSPortfolio

Domestic Stock Portfolio

	Shares	Book Value	Market Value
ABBOTTLABS	495,000	\$ 16,615,759	\$ 20,047,500
ADAPTEC INC	42,000	953,309	1,554,000
ADOBE SYS INC	75,000	4,075,189	4,350,000
ADVANCED MICRO DEVICES INC	125,000	4,295,905	4,562,500
AFLAC INC COM	65,000	2,247,609	2,843,750
AHMANSON HF & CO CNV PFD	50,000	2,571,150	2,556,250
AIR PRODS & CHEMS INC	65,000	3,431,540	3,623,750
AIRTOUCH COMMUNICATIONS INC	452,000	8,984,341	12,882,000
AK STL HLDG CORP PFD CONV STK	50,000	1,537,500	1,437,500
ALBERTSONS INC	240,000	7,094,663	7,110,000
ALCO STD CORP	158,200	7,356,109	12,636,225
ALLEGHENY LUDLUM CORP	100,000	2,074,958	1,975,000
ALLEGHENY PWR SYS INC	150,000	3,227,137	3,525,000
ALLIED SIGNAL INC	611,000	20,843,638	27,189,500
ALLSTATE CORP	100,000	2,895,600	2,962,500
ALLTEL CORP	150,000	4,279,204	3,806,250
ALUMINUM CO AMER	450,000	16,193,954	22,556,250
AMERADA HESS CORP	425,000	21,033,063	20,771,875
AMERICAN BRANDS INC	125,000	4,345,414	4,968,750
AMERICAN ELEC PWR INC	275,000	9,818,823	9,659,375
AMERICAN EXPRESS CO	443,000	14,718,636	15,615,750
AMERICAN EXPRESS CO	150,000	5,512,500	7,275,000
AMERICAN FED BK FSB GREENVILLE	50,000	437,500	687,500
AMERICAN GEN CORP	414,000	12,458,892	13,972,500
AMERICAN HOME PRODS CORP	100,000	7,501,278	7,737,500
AMERICAN INTL GROUP INC	225,000	22,128,779	25,650,000
AMERICAN MGMT SYS INC	150,000	2,725,404	3,768,750
AMERICAN ONCOLOGY RESOURCES	15,000	315,000	416,250
AMERICAN STORES CO NEW	59,000	1,591,569	1,659,375
AMERITECH CORP NEW	1,080,000	38,316,726	47,520,000
AMGEN INC	522,000	25,944,635	41,988,636
AMOCO CORP	650,000	33,751,496	43,306,250
AMPHENOL CORP CL A	116,000	2,427,421	3,378,500
AMR CORP DEL	65,000	3,889,675	4,850,625
ANDREW CORP	50,000	1,457,730	2,893,750
ANHEUSER BUSCH COS INC	150,000	7,453,140	8,531,250
APACHE CORP	100,000	2,882,951	2,737,500
APPLE COMPUTER INC	100,000	3,302,891	4,643,800
APPLIED MATLS INC	96,000	4,919,063	8,316,000
ARCHER DANIELS MIDLAND CO	1,123,750	19,410,102	20,929,844
ARMSTRONG WORLD INDS INC	60,000	2,770,289	3,007,500
ASHLAND INC	306,000	10,370,110	10,748,250
ASHLAND INC PFD CONV	65,000	3,959,306	3,745,625
AT & T CORP	715,000	33,960,719	37,895,000
ATLANTIC RICHFIELD CO	440,000	43,136,238	48,290,000
ATLANTIC RICHFIELD CO NTS	175,000	4,345,250	4,550,000
ATLANTIC SOUTHEAST AIRLS INC	130,000	2,819,085	3,916,250
ATMEL CORP	178,000	5,793,870	9,856,750
AUTOMATIC DATA PROCESSING INC	211,000	5,770,851	13,266,625
AVERY DENNISON CORP	125,000	4,646,415	5,000,000
BALL CORP	85,500	2,663,042	2,981,813
BANK NEW YORK INC	235,000	7,811,780	9,488,125
BANK OF BOSTON CORP	252,000	6,815,755	9,450,000
BANKAMERICA CORP	535,000	25,849,574	28,154,375
BARNES & NOBLE INC	125,000	3,644,662	4,250,000
BAXTER INTL INC	195,000	6,603,873	7,093,125
BAY NETWORKS INC	250,000	5,713,791	10,343,750
BAYBANKS INC	60,000	3,431,762	4,755,000
BECTON DICKINSON & CO	85,000	4,362,166	4,951,250
BELL & HOWELL HLDGS CO	100,000	1,550,000	2,025,000
BELL ATLANTIC CORP	557,000	29,550,280	31,192,000

(Continued)

TCRS Portfolio
Domestic Stock Portfolio

	Shares	Book Value	Market Value
BELLSOUTH CORP	470,000	\$ 26,934,828	\$ 29,845,000
BELO A H CORP SER A	164,000	4,852,499	5,022,500
BERKSHIRE HATHAWAY INC	180	2,477,300	4,221,000
BIG B INC	75,000	1,050,000	1,059,375
BIOGEN INC	50,000	2,322,500	2,225,000
BIOMET INC	275,000	3,002,950	4,262,500
BLACK & DECKER CORP	280,000	7,290,951	8,645,000
BMC SOFTWARE INC	100,000	6,110,000	7,725,000
BOEING CO	440,000	18,558,637	27,555,000
BOISE CASCADE CORP	100,000	2,992,586	4,050,000
BOSTON SCIENTIFIC CORP	50,000	1,623,925	1,593,750
BOWATER INC	50,000	1,990,285	2,243,750
BRIGGS & STRATTON CORP	58,600	2,015,726	2,021,700
BRISTOL MYERS SQUIBB	595,000	35,022,585	40,534,375
BROOKLYN UN GAS CO	50,000	1,292,029	1,312,500
BROWNING FERRIS INDS INC	655,000	19,500,370	23,580,000
BRUNSWICK CORP	65,000	1,272,245	1,105,000
BURLINGTON NORTHN INC	100,000	5,984,995	6,337,500
CABOT CORP	90,000	2,764,302	4,747,500
CADENCE DESIGN SYS INC	63,000	2,064,459	2,039,625
CAIRN ENERGY USA INC	100,000	1,013,750	1,100,000
CAMPBELL SOUP CO	298,000	13,395,632	14,602,000
CAPITAL CITIES ABC INC	419,000	25,857,143	45,252,000
CAROLINA PWR & LT CO	100,000	2,904,979	3,025,000
CASE CORP	125,000	3,225,432	3,718,750
CASE CORP PFD CONV	35,000	2,148,854	2,148,854
CATERPILLAR INC	352,000	13,616,355	22,616,000
CBS INC	50,000	3,123,305	3,350,000
CENTRAL & SOUTH WEST CORP	300,000	7,552,540	7,875,000
CENTURY TEL ENTERPRISES INC	300,000	9,410,790	8,512,500
CERIDIAN CORP	35,000	1,750,000	2,922,500
CHAMPION INTL CORP	185,000	6,789,442	9,643,125
CHASE MANHATTAN CORP	100,000	4,175,439	4,700,000
CHEMICAL BKG CORP	478,000	18,026,738	22,585,500
CERRY CORP	110,000	1,420,897	1,457,500
CHESAPEAKE CORP	100,000	3,336,023	3,112,500
CHEVRON CORP	425,000	17,029,382	19,709,375
CHIQUITA BRANDS INTL INC	200,000	2,989,524	2,800,000
CHRYSLER CORP	35,000	2,485,483	4,655,000
CHUBB CORP	55,000	4,522,446	4,406,875
CIDCO INC	110,000	2,255,816	3,451,250
CIGNA CORP	40,000	3,002,240	3,105,000
CIPSCO INC	60,000	1,664,799	1,792,500
CIRCLE K CORP	100,000	1,586,625	1,687,500
CIRCUIT CITY STORES INC	83,000	2,148,972	2,624,875
CISCO SYS INC	280,000	10,971,961	14,157,640
CITICORP	645,000	26,558,204	37,329,375
CLEVELAND CLIFFS INC	100,000	3,989,794	3,850,000
CMS ENERGY CORP	191,500	4,298,362	4,691,750
COCA COLA CO	1,085,000	50,937,594	69,168,750
COLGATE PALMOLIVE CO	195,000	13,178,409	14,259,375
COLUMBIA/HCA HEALTHCARE CORP	295,000	10,126,288	12,758,750
COMCAST CORP	25,000	425,875	454,700
COMCAST CORP	100,000	1,545,630	1,856,300
COMPAQ COMPUTER CORP	135,000	4,331,410	6,108,750
COMPUTER SCIENCES CORP	217,000	7,133,260	12,341,875
CONAGRA INC	335,000	10,241,558	11,683,125
CONCENTRA CORP	120,000	1,401,609	1,170,000
CONRAIL INC	70,000	3,830,010	3,893,750
CONSOLIDATED FREIGHTWAYS INC	150,000	3,857,344	3,300,000

(Continued)

TCRS Portfolio

Domestic Stock Portfolio

	Shares	Book Value	Market Value
COOPER TIRE & RUBR CO	250,000	\$ 6,741,400	\$ 6,093,750
CORDIS CORP	75,000	4,442,470	5,006,250
CORE STATES FINL CORP	75,000	2,349,655	2,596,875
CORNING INC	270,000	8,358,113	8,842,500
CPC INTL INC	175,000	9,066,553	10,806,250
CRACKER BARREL OLD CTRY STORE	150,000	3,567,815	3,093,750
CROMPTON & KNOWLES CORP	220,000	3,555,849	3,107,500
CROWN CORK & SEAL INC	65,000	2,368,800	3,258,125
CSX CORP	110,000	8,317,417	8,263,750
CYPRESS SEMICONDUCTOR CORP	75,000	2,256,751	3,037,500
CYPRUS AMAX MINERALS CO	145,000	4,039,014	4,132,500
CYPRUS AMAX MINERALS CO PFD	100,000	6,010,624	6,075,000
DANA CORP	60,000	1,321,152	1,717,500
DEAN WITTER DISCOVER & CO	106,000	4,271,221	4,982,000
DEERE & CO	131,000	10,432,753	11,216,875
DELL COMPUTER CORP	75,000	3,997,499	4,509,375
DELTA AIR LINES INC	75,000	3,838,804	5,531,250
DIAMOND SHAMROCK INC	310,500	8,303,515	7,995,375
DIGITAL EQUIP CORP	100,000	4,678,200	4,075,000
DISNEY WALT CO	405,000	21,367,024	22,477,500
DOMINION RES INC VA	125,000	5,512,293	4,562,500
DONNELLEY R R & SONS CO	225,000	7,047,772	8,100,000
DOVER CORP	30,000	1,992,002	2,182,500
DOW CHEM CO	300,000	19,836,433	21,562,500
DQE INC	60,000	1,194,120	1,410,000
DRESSER INDS INC	200,000	4,425,218	4,450,000
DSC COMMUNICATIONS CORP	115,000	3,836,801	5,347,500
DU PONT E I DE NEMOURS & CO	460,000	25,991,821	31,625,000
DUKE PWR CO	180,000	7,344,196	7,470,000
EASTMAN CHEM CO	140,000	7,856,536	8,330,000
EASTMAN KODAK CO	200,000	12,027,092	12,125,000
EATON CORP	175,000	8,672,325	10,171,875
ECHLIN INC	39,000	1,195,385	1,355,250
ECKERD CORP DEL	230,000	6,317,013	7,360,000
EDWARDS A G INC	325,000	6,736,405	7,312,500
ELECTRO SCIENTIFIC INDS INC	160,000	3,020,582	5,320,000
EMC CORP MASS	75,000	1,650,292	1,818,750
EMERSON ELEC CO	388,000	16,033,557	27,742,000
ENRON CORP	130,000	4,603,535	4,566,250
ENRON OIL & GAS CO	175,000	3,686,540	3,806,250
EQK REALTY	1,250,000	5,781,250	2,031,250
EQUIFAX INC	226,000	6,098,219	7,514,500
EXXON CORP	840,000	54,426,268	59,325,000
FEDERAL EXPRESS CORP	50,000	3,528,150	3,037,500
FEDERAL HOME LN MTG CORP	100,000	4,119,862	6,875,000
FEDERAL NATL MTG ASSN	95,000	8,734,095	8,977,500
FEDERATED DEPT STORES INC	250,000	5,334,912	6,437,500
FHP INTL CORP PFD CONV	140,000	3,299,326	3,325,000
FIRST BK SYS INC	60,000	2,028,210	2,460,000
FIRST CHICAGO CORP	70,000	3,596,950	4,060,000
FIRST DATA CORP	61,300	3,058,580	3,486,438
FIRST INTST BANCORP	142,000	11,039,424	11,395,500
FIRST PALM BEACH BANCORP INC	100,000	1,541,135	2,237,500
FLEETWOOD ENTERPRISES INC	55,000	1,259,045	1,086,250
FLUOR CORP	140,000	7,234,653	7,280,000
FMC CORP	75,000	4,495,725	5,043,750
FORD MTR CO DEL	579,000	14,274,542	17,225,250
FORD MTR CO	50,000	3,828,688	4,856,250
FOSTER WHEELER CORP	50,000	1,319,802	1,762,500
FPL GROUP INC	635,000	22,485,777	24,526,875
FREEMPORT MCMORAN INC	202,000	3,619,463	3,560,250

(Continued)

TCRS Portfolio
Domestic Stock Portfolio

	Shares	Book Value	Market Value
FREEPOR-T-MCMORAN COPPER & GOLD	412	\$ 8,626	\$ 8,498
FREEPOR-T-MCMORAN COPPER & GOLD	110,000	2,716,814	2,378,750
FRIEDMANS INC	100,000	1,900,000	1,900,000
FRUIT OF THE LOOM INC	113,000	2,962,312	2,387,125
GANNETT INC	170,000	8,848,722	9,222,500
GENERAL ELEC CO	755,000	30,512,091	42,563,125
GENERAL MLS INC	260,000	12,736,239	13,357,500
GENERAL MTRS CORP	600,000	26,842,648	28,125,000
GENERAL MTRS CORP	384,000	15,039,702	16,704,000
GENERAL MTRS CORP	110,000	4,199,402	4,345,000
GENERAL MTRS CORP	90,000	5,165,894	5,670,000
GENERAL PUB UTILS CORP	275,000	7,457,082	8,181,250
GENERAL SIGNAL CORP	75,000	2,733,981	2,981,250
GENESCO INC	350,000	1,793,159	1,093,750
GENUINE PARTS CO	175,000	6,471,015	6,628,125
GENZYME CORP	200,000	7,077,829	8,000,000
GEORGIA PAC CORP	140,000	10,439,794	12,110,000
GIANT FOOD INC	100,000	2,664,745	2,837,500
GILLETTE CO	752,000	20,249,457	33,464,000
GOLDEN WEST FINL CORP	125,000	5,453,271	5,890,625
GOODRICH B F CO	50,000	2,230,075	2,681,250
GOODYEAR TIRE & RUBR CO	301,000	11,439,441	12,378,625
GRACE W R & CO	100,000	5,420,871	6,137,500
GREAT FINL CORP	330,000	4,796,220	6,270,000
GREAT WESTN FINL CORP	100,000	2,038,800	2,062,500
GREEN TREE FINANCIAL CORP	44,200	1,332,335	1,961,375
GREENBRIER COS INC	30,000	421,312	393,750
GTE CORP	890,000	28,778,434	30,371,250
HALLIBURTON CO	550,000	18,336,181	19,662,500
HARLEY DAVIDSON INC	40,000	1,053,465	970,000
HARMONIC LIGHTWAVES INC	50,000	675,000	837,500
HARNISCHFEGER INDS INC	175,000	4,976,360	6,059,375
HEALTH MGMT ASSOC INC	180,000	3,037,353	5,265,000
HEINZ H J CO	250,000	9,410,195	11,093,750
HERCULES INC	66,000	2,321,377	3,217,500
HERITAGE MEDIA CORP	150,000	3,819,663	4,331,250
HEWLETT PACKARD CO	360,000	18,707,038	26,820,000
HIBERNIA CORP	100,000	823,250	887,500
HILTON HOTELS CORP	100,000	7,144,665	7,025,000
HOME DEPOT INC	360,000	15,581,745	14,670,000
HOMESTAKE MNG CO	100,000	1,713,292	1,637,500
HORACE MANN EDUCATORS CORP	70,000	1,587,407	1,610,000
HOUSEHOLD INTL INC	93,000	3,989,019	4,603,500
HUMANA INC	500,000	8,731,940	8,875,000
I B P INC	325,000	7,975,974	14,137,500
ILLINOIS CENT CORP	50,000	1,669,451	1,725,000
ILLINOIS TOOL WKS INC	68,000	3,263,509	3,740,000
ILLINOVA CORP	200,000	4,091,029	5,075,000
IMC GLOBAL INC	113,000	5,527,869	6,116,125
INFINITY BROADCASTING CORP	382,500	7,732,596	12,765,938
INFORMIX CORP	200,000	2,592,914	5,075,000
INLAND STL INDS INC	150,000	5,574,222	4,575,000
INTEL CORP	260,000	11,954,491	16,461,380
INTERNATIONAL PAPER CO	151,000	11,012,356	12,948,250
INTERNATIONAL RECTIFIER CORP	140,000	3,245,956	4,550,000
INTERSTATE BAKERIES CORP	120,000	1,754,225	1,980,000
INTL BUSINESS MACHS CORP	685,000	40,568,486	65,760,000
INTL FLAVORS & FRAGRANCES INC	247,000	10,662,509	12,288,250
ITT CORP	100,000	8,362,042	11,750,000
JOHNSON & JOHNSON	530,000	27,923,300	35,775,000
JOHNSON CTLS INC	46,000	2,356,616	2,599,000

(Continued)

TCRSPortfolio

Domestic Stock Portfolio

	Shares	Book Value	Market Value
JP FOODSERVICE INC	160,000	\$ 1,781,250	\$ 2,240,000
KANSAS CITY PWR & LT CO	225,000	5,443,443	5,146,875
KATZ MEDIA GROUP INC	120,000	1,921,526	1,905,000
KENNAMETAL INC	150,000	4,072,706	5,175,000
KIMBERLY CLARK CORP	50,000	2,591,125	2,993,750
KLA INSTRS CORP	50,000	3,851,999	3,862,500
KROGER CO	335,000	8,249,051	9,003,125
KU ENERGY CORP	150,000	4,007,935	4,181,250
LAM RESH CORP	20,000	769,563	1,280,000
LCI INTERNATIONAL INC	225,000	6,352,153	6,890,625
LCI INTL INC PFD	100,000	2,530,000	4,143,750
LEHMAN BROTHERS HLDGS INC	100,000	1,904,103	2,187,500
LIFE BANCORP INC	200,000	2,666,280	2,800,000
LILLY ELI & CO	130,000	9,111,816	10,205,000
LIMITED INC	200,000	4,061,060	4,400,000
LIN BROADCASTING CORP	35,000	4,257,309	4,427,500
LINCOLN NATL CORP IND	147,000	6,193,669	6,431,250
LINEAR TECHNOLOGY CORP	25,000	1,209,059	1,650,000
LITTON INDS INC	169,000	6,097,000	6,231,875
LOCKHEED MARTIN CORP	332,000	16,025,503	20,957,500
LOCTITE CORP	100,000	4,534,003	4,550,000
LORAL CORP	168,000	7,524,717	8,694,000
LOWES COS INC	159,000	3,017,898	4,750,125
LYONDELL PETROCHEMICAL CO	35,000	1,014,850	896,875
MALLINCKRODT GROUP INC	100,000	3,592,387	3,550,000
MANOR CARE INC	125,000	3,593,566	3,640,625
MARION MERRELL DOW INC	300,000	7,262,050	7,650,000
MARK IV INDS INC	88,200	1,682,711	1,907,325
MASCO CORP	240,000	6,346,788	6,480,000
MATTEL INC	120,000	2,638,496	3,150,000
MAY DEPT STORES CO	145,000	5,641,566	6,035,625
MBNA CORP	41,000	1,095,540	1,383,750
MCDERMOTT INTL INC	200,000	4,736,530	4,825,000
MCDONALDS CORP	680,000	17,108,225	26,605,000
MCI COMMUNICATIONS CORP	550,000	10,869,385	12,100,000
MCN CORP	126,400	2,379,429	2,496,400
MEAD CORP	50,000	2,296,648	2,968,750
MEDIA GEN INC	150,000	4,451,151	4,687,500
MEDTRONIC INC	128,000	6,954,403	9,872,000
MELVILLE CORP	125,000	4,632,667	4,281,250
MERCANTILE BANCORPORATION INC	59,000	1,836,547	2,647,625
MERCANTILE STORES INC	113,000	4,996,465	5,254,500
MERCK & CO INC	605,000	22,809,846	29,720,625
MERIDIAN SPORTS INC	280,000	3,080,000	2,765,000
MERRILL LYNCH & CO INC	150,000	6,900,226	7,875,000
MFS COMMUNICATIONS INC PFD	125,000	4,187,500	4,312,500
MICRON TECHNOLOGY INC	330,000	3,681,120	18,150,000
MICROSOFT CORP	222,000	14,616,615	20,063,250
MIDLANTIC CORP	74,000	2,021,015	2,960,000
MILLER INDS INC TENN	110,000	1,229,385	1,883,750
MINNESOTA MNG & MFG CO	175,000	9,864,627	10,040,625
MIRAGE RESORTS INC	170,000	4,495,187	5,206,250
MISSISSIPPI CHEM CORP	140,000	2,259,250	2,791,320
MOBIL CORP	600,000	37,109,263	57,600,000
MOBILE TELECOMMUNICATION TELG	200,000	10,000,000	7,450,000
MOLTEN METAL TECHNOLOGY INC	110,000	2,044,193	2,557,500
MONSANTO CO	136,000	9,952,303	12,257,000
MORGAN J P & CO INC	48,000	3,203,268	3,366,000
MORGAN STANLEY GROUP INC	88,000	5,928,219	7,216,000
MORTON INTL INC IND	250,000	6,981,370	7,312,500
MOTOROLA INC	350,000	19,428,410	23,493,750

(Continued)

TCRS Portfolio
Domestic Stock Portfolio

	Shares	Book Value	Market Value
MYLAN LABS INC	200,000	\$ 5,634,639	\$ 6,150,000
NALCO CHEM CO	150,000	5,158,100	5,456,250
NATIONSBANK CORP	300,000	15,473,589	16,087,500
NBD BANCORP INC	90,000	2,609,999	2,880,000
NEW YORK ST ELEC & GAS CORP	400,000	8,322,210	9,350,000
NEWELL CO	85,000	2,024,120	2,071,875
NEWMONT MNG	100,000	5,434,904	5,837,500
NEXGEN INC	10,000	150,000	236,250
NIKE INC	300,000	18,722,379	25,200,000
NIPSCO INDS INC	325,000	10,586,315	11,050,000
NORFOLK SOUTHN CORP	201,000	13,156,138	13,542,375
NORTHERN STS PWR CO MINN	117,000	5,353,060	5,396,625
NORWEST CORP	175,000	4,538,280	5,031,250
NUCOR CORP	77,000	4,184,349	4,119,500
NYNEX CORP	475,000	19,031,940	19,118,750
OCCIDENTAL PETE CORP	945,000	20,804,585	21,616,875
OCCIDENTAL PETE CORP PFD	100,000	5,064,712	5,787,500
OKLAHOMA GAS & ELEC CO	80,000	2,700,135	2,810,000
OMNICOM GROUP	125,000	6,343,217	7,578,125
ORACLE CORP	310,000	8,571,766	11,973,750
ORTHODONTIC CTRS AMER INC	50,000	557,500	1,212,500
OWENS CORNING FIBERGLAS CORP	140,000	5,018,799	5,162,500
OWENS ILL INC	80,000	929,953	1,040,000
OXFORD HEALTH PLANS INC	100,000	4,420,995	4,725,000
PACIFIC ENTERPRISES	270,000	6,595,778	6,615,000
PACIFIC GAS & ELEC CO	650,000	17,102,819	18,850,000
PACIFIC TELESIS GROUP	390,000	10,964,650	10,432,500
PACIFICARE HEALTH SYS INC	125,000	7,155,918	6,343,750
PACIFICORP	500,000	8,687,496	9,375,000
PAGING NETWORK INC	175,000	5,326,690	5,993,750
PANHANDLE EASTN CORP	255,000	5,690,952	6,215,625
PARKER & PARSLEY PETE CO	225,000	4,378,128	4,415,625
PARKER HANNIFIN CORP	93,000	2,796,525	3,371,250
PENNEY J C INC	110,000	3,729,018	5,280,000
PENNZOIL CO	75,000	3,623,170	3,534,375
PEPSICO INC	710,000	29,781,795	32,305,000
PETCO ANIMAL SUPPLIES INC	100,000	2,074,276	2,325,000
PFIZER INC	386,000	26,798,238	35,560,250
PHELPS DODGE CORP	49,000	2,704,993	2,891,000
PHILIP MORRIS COS INC	736,000	44,854,988	54,740,000
PHILLIPS PETE CO	420,000	11,945,353	14,017,500
PINNACLE WEST CAP CORP	220,000	4,546,374	5,390,000
PITTSTON SERVICES GROUP	33,000	795,013	792,000
POLAROID CORP	175,000	5,918,675	7,131,250
PORTLAND GEN CORP	200,000	3,822,583	4,475,000
POST PPTYS INC	130,000	3,699,096	3,932,500
PPG INDS INC	167,000	6,479,215	7,160,125
PRAXAIR INC	100,000	2,239,336	2,487,500
PREMARK INTL INC	65,000	2,946,508	3,371,875
PRICECELLULAR CORP	115,000	1,092,500	1,063,750
PROCTER & GAMBLE CO	521,000	30,193,359	37,446,875
PROGRESS SOFTWARE CORP	90,000	4,834,552	4,680,000
PROMUS COS INC	145,000	5,976,928	5,655,000
PROTECTIVE LIFE CORP	40,000	865,540	1,090,000
PROVIDIAN CORP	100,000	3,383,790	3,625,000
PST VANS INC IPO	100,000	1,546,675	631,300
PUBLIC SVC CO COLO	275,000	7,774,838	8,937,500
PUBLIC SVC CO N MEX	325,000	4,069,130	4,631,250
PUBLIC SVC ENTERPRISE GROUP	76,000	2,088,695	2,109,000
PUGET SOUND PWR & LT CO	250,000	5,053,647	5,718,750
PXRECORP	160,000	4,174,509	3,760,000

(Continued)

TCRS Portfolio

Domestic Stock Portfolio

	Shares	Book Value	Market Value
QUAKER OATS CO	125,000	\$ 4,306,245	\$ 4,078,125
QUAKER ST CORP	300,000	4,407,845	4,500,000
RALCORP HLDGS INC	100,000	2,164,563	2,287,500
RALSTON PURINA CO-RALSTON	100,000	3,694,633	5,100,000
RAYTHEON CO	100,000	6,563,586	7,762,500
READERS DIGEST ASSN INC	215,000	9,938,760	9,486,875
REEBOK INTL LTD	57,000	2,120,797	1,938,000
REGIONS FINL CORP	125,000	4,584,340	4,640,625
REYNOLDS METALS CO PFD	75,000	3,543,750	3,618,750
RHONE POULENC RORER	110,000	4,559,470	4,496,250
RITE AID CORP	80,000	1,991,311	2,050,000
RJR NABISCO HLDGS CORP	60,000	1,722,500	1,665,000
RJR NABISCO HLDGS CORP	700,000	4,542,690	4,200,000
ROCKWELL INTL CORP	250,000	10,182,640	11,437,500
RUBBERMAID INC	150,000	4,542,303	4,162,500
SAFEWAY INC	90,000	2,718,552	3,363,750
SARA LEE CORP	440,000	11,670,676	12,540,000
SBC COMMUNICATIONS INC	935,000	33,173,240	44,529,375
SCECORP	435,000	6,811,013	7,449,375
SCHERING PLOUGH CORP	420,000	14,358,563	18,532,500
SCIENTIFIC ATLANTA INC	250,000	5,433,132	5,500,000
SCIENTIFIC GAMES HLDGS CORP	140,000	1,838,750	3,885,000
SCOTT PAPER CO	100,000	2,593,483	4,950,000
SCRIPPS E W CO	42,000	1,275,131	1,354,500
SEAGATE TECHNOLOGY	125,000	3,627,186	4,937,500
SEALED AIR CORP	114,000	3,937,430	5,016,000
SEARS ROEBUCK & CO	350,000	18,558,092	20,825,000
SERVICE CORP INTL	125,000	3,538,801	3,953,125
SHERWIN WILLIAMS CO	210,000	6,625,054	7,481,250
SILICON GRAPHICS INC	121,000	3,836,516	4,824,875
SMITH INTL INC	265,000	4,118,320	4,438,750
SONIC CORP	150,000	3,147,135	4,125,000
SOUTHERN CO	740,000	15,280,394	16,557,500
SOUTHERN NATL CORP NC	142,500	2,880,509	3,420,000
SOVEREIGN BANCORP INC PFD CONV	50,000	2,507,438	2,693,750
SOVRAN SELF STORAGE INC	40,000	920,000	920,000
SPRINT CORP	420,000	13,903,185	14,122,500
SPRINT CORP DECS	70,000	2,238,905	2,432,500
ST JUDE MED INC	350,000	11,952,520	17,543,750
ST PAUL COS INC	46,000	1,948,473	2,265,500
STORAGE USA INC	100,000	2,175,000	2,837,500
STRYKER CORP	225,000	8,587,994	8,634,375
SUN INC	175,000	5,169,817	4,790,625
SUN MICROSYSTEMS INC	222,000	6,562,489	10,767,000
SUNBEAM CORP	180,000	4,356,930	2,542,500
SUNGARD DATA SYS INC	50,000	2,540,706	2,612,500
SUNGLASS HUT INTL INC	120,000	2,397,674	4,200,000
SUNTRUST BKS INC	186,000	9,074,743	10,834,500
SUPERIOR INDS INTL INC	100,000	3,067,784	3,125,000
SURGICAL CARE AFFILLATES INC	460,000	8,900,310	8,797,500
SYNOPSIS INC	150,000	7,227,800	9,393,750
SYSCO CORP	280,000	6,927,890	8,260,000
TAMBRANDS INC	125,000	5,021,156	5,343,750
TANDY CORP	175,000	8,055,444	9,078,125
TECO ENERGY INC	100,000	2,136,375	2,200,000
TELE COMMUNICATIONS INC	350,000	8,187,396	8,203,300
TELLABS INC	70,000	1,561,014	3,368,750
TENET HEALTHCARE CORP	304,500	4,757,813	4,377,188
TENNECO INC	70,000	3,071,563	3,220,000
TEXACO INC	248,000	16,200,742	16,275,000
TEXAS INSTRS INC	53,000	3,958,486	7,095,375

(Continued)

TCRS Portfolio
Domestic Stock Portfolio

	Shares	Book Value	Market Value
THE TRAVELERS GROUP INC	370,000	\$ 15,063,261	\$ 16,187,500
THE TRAVELERS GROUP INC	75,000	4,070,745	4,715,625
THERMO ELECTRON CORP	237,500	8,067,929	9,559,375
TIME WARNER INC	200,000	6,599,362	8,250,000
TIMES MIRROR CO PFD	50,000	995,781	1,193,750
TORCHMARK CORP	100,000	4,014,190	3,775,000
TOSCO CORP	360,000	10,806,452	11,475,000
TOYS R US INC	210,000	6,148,382	6,142,500
TRIBUNE CO	80,000	4,707,966	4,910,000
TRINITY INDS INC	100,000	3,923,983	3,325,000
TRW INC	68,000	4,495,554	5,431,500
TYCO INTL LTD	150,000	8,039,595	8,100,000
U S HEALTHCARE INC	95,000	3,858,882	2,909,375
U S WEST COMMUNICATIONS GROUP	175,000	6,916,940	7,284,375
UAL CORP	25,000	2,962,838	3,509,375
UNICOM CORP	190,000	4,899,485	5,058,750
UNION PLANTER CORP PFD	100,000	2,581,250	3,487,500
UNION TEX PETE HLDGS INC	90,000	1,801,702	1,901,250
UNITED HEALTHCARE CORP	75,000	3,788,305	3,103,125
UNITED STATES SURGICAL CORP	250,000	5,733,621	5,187,500
UNITED TECHNOLOGIES CORP	155,000	11,578,650	12,109,375
UNOCAL CORP	250,000	4,492,881	6,906,250
UNOCAL CORP PFD CONV	50,000	2,536,875	2,675,000
USG CORP COM	100,000	2,303,710	2,375,000
USX-MARATHON GROUP	550,000	9,516,998	10,862,500
V F CORP	45,000	2,319,450	2,418,750
VANGUARD CELLULAR SYS INC	75,000	1,943,595	1,800,000
VARIAN ASSOC INC	80,000	2,232,051	4,480,000
VARITY CORP NEW	50,000	2,089,250	2,200,000
VIACOM INC	350,000	14,262,225	16,275,000
VIACOM INC	168,065	6,510,475	7,794,014
VIVRA INC	140,000	3,786,828	3,797,500
WABAN INC	90,000	1,659,563	1,338,750
WAL MART STORES INC	1,550,000	37,946,152	41,462,500
WALGREEN CO	579,000	15,536,146	29,022,375
WARNER LAMBERT CO	250,000	18,204,686	21,593,750
WELLS FARGO & CO	46,000	6,316,657	8,291,500
WENDYS INTL INC	150,000	2,424,180	2,681,250
WESTINGHOUSE ELEC CORP	575,000	8,182,590	8,409,375
WESTINGHOUSE ELEC CORP PFD	300,000	4,330,250	4,462,500
WESTVACO CORP	102,000	3,973,754	4,513,500
WEYERHAEUSER CO	335,000	15,169,645	15,786,875
WHIRLPOOL CORP	195,000	10,752,135	10,725,000
WHITMAN CORP	250,000	4,133,850	4,843,750
WILLAMETTE INDS INC	25,000	1,284,375	1,387,500
WILLIAMS COS INC	100,000	3,214,871	3,487,500
WINN DIXIE STORES INC	85,000	4,172,326	4,876,875
WISCONSIN ENERGY CORP	100,000	2,829,400	2,800,000
WMX TECHNOLOGIES INC	360,000	9,893,860	10,215,000
WOOLWORTH CORP	150,000	2,493,177	2,268,750
WORLDCOM INC	201,000	4,855,342	5,427,000
WORTHINGTON INDS INC	100,000	2,243,800	2,043,800
WPL HLDGS INC	120,000	3,564,234	3,435,000
XEROX CORP	35,000	3,771,564	4,103,750
XILINX INC	25,000	2,062,652	2,350,000
TOTAL DOMESTIC STOCK PORTFOLIO		\$ 3,508,605,826	\$ 4,165,908,786

TCRS Portfolio

International Stock Portfolio

	Shares	Book Value	Market Value
ABBEY NATIONAL	303,000	\$ 2,051,943	\$ 2,255,464
ABN AMRO HOLDINGS	48,000	1,700,348	1,852,469
AHOLD (KON)	112,000	3,550,146	4,011,617
AIR LIQUIDE (L')	38,000	4,904,514	6,070,600
AKITA BANK	546,000	4,099,979	4,670,521
ALCAN ALUM LTD	175,000	4,667,875	5,315,625
ALLIED COLLOIDS	1,070,000	2,539,198	2,127,361
AMCOR LIMITED	853,900	3,065,225	6,299,720
ANGLIAN WATER	445,000	3,716,322	3,546,052
ARGYLL GROUP	640,000	3,015,586	3,420,319
ASAHI BANK	410,000	4,893,866	4,377,913
ASDA GROUP PLC	2,885,000	2,977,680	4,359,300
ASSOCIATED BRITISH FOODS	320,000	3,057,951	3,379,601
B. A. T. INDUSTRIES	790,000	5,545,066	6,043,931
BALOISE-HLDGS WTS	1,500	0	14,329
BANDAI CO	63,000	2,467,962	1,888,030
BANK OF TOKYO	341,000	5,853,872	5,471,772
BANQUE NATIONALE DE PARIS	78,250	3,829,146	3,774,388
BARCLAYS	605,000	5,079,186	6,500,220
BARRICK GOLD CORP	95,000	2,332,665	2,398,750
BAYER AG	13,000	3,034,557	3,233,901
BAYER VEREINSBANK	344,000	219,388	286,325
BBC AG BROWN BOVERI & CIE	3,300	1,986,208	3,416,066
BCE INC	157,000	5,635,964	5,043,625
BRIDGESTONE CO	309,000	3,810,545	4,557,253
BRITISH GAS	1,020,000	5,472,489	4,696,735
BRITISH PETE PLC ADR	90,000	7,051,755	7,706,250
BRITISH PETROLEUM CO	840,000	5,052,113	6,018,959
BRITISH STEEL	2,660,000	6,141,610	7,264,392
BRITISH TELECOMMUNICATIONS	800,000	4,938,822	4,987,965
BROKEN HILL PROP	332,200	3,818,154	4,089,445
BTR	580,000	3,073,300	2,947,448
CANADIAN OCCIDENTAL PETE LTD	43,000	1,014,235	1,338,375
CANON INC	290,000	5,073,279	4,721,845
CARLTON COMMUNICATIONS	230,000	3,040,921	3,486,327
CARREFOUR	12,500	5,110,907	6,402,989
CHRISTIAN DIOR	48,000	4,073,169	4,226,869
CIBA-GEIGY AG	5,700	3,510,839	4,177,855
COCA COLA AMATIL	1,012,500	3,452,497	6,260,819
COCA-COLA AMATIL LIMITED	253,125	0	273,461
COLES MYER LTD	445,000	1,476,125	1,394,811
COMMERZBANK AG	20,500	4,923,595	4,903,930
COMPAGNIE DEST-GOBAIN	15,000	2,021,050	1,811,904
COMPAGNIE UAP-UAP	110,000	4,070,692	2,884,205
COMPASS GROUP	490,000	2,610,679	2,891,461
CREDIT LOCAL DE FRANCE	32,000	2,468,464	2,968,307
CSK	127,000	4,605,080	2,936,936
DAI ICHI KANGYO BANK	405,000	7,997,363	7,311,073
DAI NIPPON PRINTING CO	238,000	4,105,657	3,790,927
DAIMARU INC	650,000	5,133,646	3,297,741
DAIMLER BENZ AG	7,700	4,054,178	3,535,814
DAIWA SECURITIES CO	235,000	3,006,474	2,478,792
DANONE (EX BSN)	18,000	3,015,220	3,027,673
DDI CORP	552	4,527,626	4,428,765
DE LA RUE PLC	400,000	6,074,241	5,955,019
ECCO STE	41,225	3,075,425	6,466,833
ECHO BAY MINES LTD	200,000	2,119,850	1,800,000
EVC INTERNATIONAL	82,800	3,658,041	3,858,122
FUJI BANK	353,000	7,982,344	7,122,058
FUTABA CORP	63,000	2,569,717	2,854,345

(Continued)

International Stock Portfolio

	Shares	Book Value	Market Value
GENERAL ELECTRIC CO	415,000	\$ 2,040,006	\$ 2,026,440
GKN	400,000	4,087,159	4,078,170
GLAXO WELCOME PLC SPONSORED	150,000	3,517,248	3,656,250
GLAXO WELLCOME	163,560	1,806,602	2,007,060
HEINEKEN NV	38,750	4,508,339	5,864,392
HEMLO GOLD MINES INC	130,000	1,231,335	1,381,250
HIGO BANK	356,000	3,103,253	3,486,284
HITACHI LTD	559,000	3,816,774	5,573,182
HOKKAIDO ELE POWER CO INC	90,000	2,122,588	2,421,096
HONDA MOTOR CO	348,000	4,874,211	5,337,738
HOYA CORP	250,000	5,451,344	7,374,196
IMPERIAL CHEM INDS PLC ADR	70,000	3,435,975	3,412,500
IMPERIAL OIL LTD	200,000	6,707,536	7,425,000
INDUSTRIAL BK JAPAN	152,000	4,944,757	3,963,424
ISETAN CO	140,000	3,034,561	1,899,593
ITO-YOKADO CO	44,000	2,414,449	2,320,571
ITOCHU CORP	965,000	6,016,164	5,635,951
JAPAN ASSOCIATED FINANCE CO	50,000	6,197,774	4,566,102
JOHNSON MATTHEY	670,000	6,264,155	6,116,937
KAWASAKI STEEL CORP	650,000	2,559,446	2,132,028
KAYABA INDUSTRY CO	660,000	4,323,953	3,239,455
KIRIN BEVERAGE CORP	385,000	4,953,272	6,404,932
KOBE STEEL	1,565,000	5,155,776	3,729,927
KONINKLIJKE PTT NEDERLAND	100,000	2,707,336	3,594,708
KYOCERA CORP	70,000	4,232,312	5,764,852
KYUSHU ELECTRIC POWER CO INC	85,000	2,166,514	2,296,620
L'OREAL	15,000	3,955,969	3,762,948
LAIDLAW INC	180,000	1,441,000	1,710,000
LEGRAND	17,250	1,256,721	2,737,954
LLOYDS BANK	253,000	2,560,887	2,511,033
LUFTHANSA	50,000	3,441,087	7,231,442
MACMILLAN BLOEDEL LTD	70,000	1,057,500	988,750
MAGNA INTL	30,000	980,139	1,323,750
MANNESMANN AG	22,000	3,945,641	6,721,626
METHANEX CORP	1,200,000	18,386,739	10,050,000
mitsubishi bank	100,000	2,451,672	2,159,165
MITSUBISHI ELECTRIC CORP	1,277,000	6,725,656	8,979,907
MITSUBISHI ESTATE CO	418,000	5,066,799	4,709,929
MITSUBISHI MOTOR CORP	880,000	5,206,246	7,257,625
MITSUBISHI OIL CO	287,000	3,043,416	2,756,392
MITSUBISHI TRUST & BANKING	435,000	6,976,039	6,158,929
MITSUI & CO	408,000	3,507,343	3,186,785
MITSUI FUDOSAN CO	545,000	5,867,595	6,243,820
MITSUI TRUST & BANKING	264,000	3,048,858	2,429,591
N.G.K. SPARK PLUG CO	390,000	4,987,446	4,325,409
NATIONAL POWER	835,500	2,921,825	5,920,270
NATIONAL WESTMINSTER BANK	465,000	4,067,320	4,038,247
NEC CORP	230,000	2,408,306	2,521,031
NESTLE SA	5,400	4,202,558	5,622,753
NEWBRIDGENETWORKSCORP	125,000	4,644,386	4,406,250
NEWS CORP LTD ADR	125,000	2,749,880	2,828,125
NEXT	1,585,000	5,928,679	8,609,289
NIPPON COMSYS CORP	31,200	454,549	379,163
NIPPON DENSO	225,000	4,560,076	4,088,254
NIPPON ELECTRIC GLASS	165,000	2,376,043	2,647,631
NIPPON PAPER INDS	450,000	3,038,654	2,920,182
NIPPON SHEET GLASS CO	873,000	5,150,073	3,903,805
NIPPON TEL & TEL CORP	785	6,249,859	6,576,013
NIPPON TELEVISION NETWORK CORP	16,000	4,243,404	3,605,687
NISSAN MOTOR CO	655,000	5,251,724	4,188,661

(Continued)

TCRS Portfolio

International Stock Portfolio

	Shares	Book Value	Market Value
NISSHIN STEEL CO	840,000	\$ 4,210,910	\$ 3,082,296
NOMURA SECURITIES CO	274,000	5,902,146	4,784,614
NORTHERN TELECOM LTD	450,000	13,964,372	16,425,000
OMRON CORP	204,000	4,014,034	3,899,239
PHILIPS ELECTRONICS	159,000	2,873,581	6,731,462
PINAULT-PRINTEMPS REDOUTE	18,800	4,076,069	4,030,301
PLACER DOME INC	50,000	1,282,075	1,306,250
POLYGRAM N V	152,000	2,492,420	8,987,000
POTASH CORP SASK INC	86,000	3,396,554	4,805,250
POWERGEN PLC SPONSORED ADR	187,500	2,622,823	5,882,812
PREUSSAG AG	21,000	4,763,850	6,271,830
RANK ORGANISATION	706,000	4,573,450	4,458,025
RECKITT & COLMAN	210,000	2,039,009	2,214,523
RENAULT (REGIE NATIONALE DES)	15,000	495,775	469,982
RENGO CO	405,000	3,149,673	2,781,075
REUTERS HLDGS	360,000	2,504,210	3,000,414
RHONE-POULENC RORER NPV CERTS	125,500	7,342,339	5,117,011
RICOH	575,000	5,059,189	4,938,942
RMC GROUP	140,000	2,484,389	2,351,469
ROCHE HLDG AG	1,035	6,027,307	6,669,301
ROTHMANSUT	730,000	1,967,318	7,187,218
ROYAL DUTCH PETE CO N Y	350,000	41,581,824	42,656,250
ROYAL DUTCH PETROLEUM CO	64,000	7,415,778	7,814,650
SAINSBURY (J)	600,000	4,625,805	4,218,139
SAKURA BANK	293,000	3,996,320	3,059,466
SANDOZ AG	6,200	3,996,678	4,275,119
SANKYO CO	275,000	5,559,323	6,391,953
SANYO ELECTRIC CO	530,000	2,994,117	2,607,634
SCHLUMBERGER LTD	290,000	18,125,953	18,016,250
SCHNEIDER SA (EX SPEP)	82,000	5,451,739	6,485,627
SCHNEIDER SA (EX SPEP)	8,000	76,065	43,947
SCHWEIZ-RÜCKVERSICHERUNGS-G	4,180	3,072,641	3,219,852
SCHWEIZERISCHER BANKSVEREIN	12,000	4,233,306	4,251,845
SHELL TRANS & TRDG	455,000	5,133,800	5,434,989
SIEBE	278,987	2,606,342	2,777,830
SMITHKLINE BEECHAM P L C ADR	165,000	5,176,463	7,466,250
SMITHKLINE BEECHAM P L C ADR	100,000	3,951,150	4,525,000
SOCIETE NATIONALE ELF	50,000	3,667,896	3,694,924
SONY CORP	140,000	5,392,146	6,722,907
SONY MUSIC ENT (JAP)	50,200	2,120,461	2,126,341
ST LOUIS	6,600	2,029,339	2,040,711
STANDARD CHARTERED	1,080,000	5,093,715	5,788,966
SUMITOMO BANK	376,000	7,079,223	6,521,385
SUMITOMO CHEMICAL	1,000,000	4,518,131	3,917,173
SUMITOMO CORP	500,000	4,109,238	4,554,304
SUMITOMO METAL INDUSTRIES	1,650,000	5,014,775	4,302,401
SUMITOMO RUBBER INDUSTRIES	514,540	5,006,965	3,824,673
SUMITOMO TRUST & BANK	410,000	6,093,948	4,982,596
SUN ALLIANCE GROUP	1,000,000	5,130,079	5,328,342
SUZUKI MOTOR CO	400,000	3,988,236	4,459,914
TAB CORP HLDGS LIMITED	600,000	1,218,127	1,240,970
TDK CORP	110,000	5,154,985	5,009,734
TESCO	1,300,000	5,032,075	5,996,374
THE NEWS CORP	430,000	1,985,829	2,402,193
THORN-EMI	360,000	6,160,460	7,472,404
TOKAI BANK	358,000	4,965,031	3,970,503
TOKIO MARINE & FIRE INS CO	415,000	5,009,920	4,759,365
TOKUYAMA CORP	695,000	4,304,668	3,403,044
TOKYO ELECTRIC PWR CO	148,000	4,111,227	4,540,145
TOKYO ELECTRON	140,000	3,947,422	4,790,278
TOKYO GAS	652,000	3,013,739	2,569,382

(Continued)

TCRS Portfolio
International Stock Portfolio

	Shares	Book Value	Market Value
OMKINS	1,090,000	\$ 4,075,078	\$ 3,900,824
TOSOH CORP	734,000	3,200,820	2,762,622
TOTAL 'B' SHS	62,000	3,631,078	3,731,822
TRANSCANADA PIPELINE LTD	200,000	2,596,548	2,675,000
UBE INDUSTRIES	915,000	3,966,502	3,195,564
UNILEVER N V ADR	140,000	18,005,132	18,217,500
UNILEVER NV	18,000	2,432,820	2,341,917
UNY CO	250,000	4,345,185	4,011,563
VEBA AG	11,500	4,047,936	4,519,832
VODAFONE GROUP PLC SPONSORED	200,000	6,580,663	7,575,000
WACOAL CORP	443,000	5,598,243	5,488,172
WELLA AG NON VTG PRF	6,000	4,049,111	4,772,752
WESTERN MINING CORP HLDGS LTD	635,625	3,833,268	3,492,186
WESTPAC BANKING CORP	413,000	1,474,560	1,494,117
WOLTERS KLUWER	70,000	5,068,294	6,175,541
WOODSIDE PETEROLEUM	380,000	1,489,456	1,490,869
YAMAHA MOTOR CO	275,000	2,243,978	1,998,702
YORKSHIRE WATER	435,000	3,682,159	3,985,282
ZENECA GROUP	285,000	4,123,135	4,814,118
NON-BASE CURRENCY	(1,490,097)	(111,388)	(115,773)
TOTAL INTERNATIONAL STOCK PORTFOLIO		\$ 859,900,687	\$ 911,428,130
GRAND TOTAL STOCK PORTFOLIO		\$ 4,368,506,513	\$ 5,077,336,916

Chairs of Excellence Portfolio

Domestic and International Stock Portfolio

	Shares	Book Value	Market Value
AMERICAN EXPRESS CO	21,500	\$ 682,753	\$ 757,875
AMERICAN GEN CORP	24,000	769,790	810,000
AMERICAN HOME PRODS CORP	12,000	759,270	928,500
AMOCO CORP	12,000	713,465	799,500
AT & T CORP	19,500	990,670	1,033,500
BANK OF BOSTON CORP COM	20,000	533,438	750,000
BEVERLY ENTERPRISES INC	23,000	354,055	284,625
BRISTOL MYERS SQUIBB	11,000	643,393	749,375
BROWNING FERRIS INDS INC	17,000	525,219	612,000
CAPITAL CITIES ABC INC	10,000	746,836	1,080,000
CATERPILLAR INC	4,400	243,378	282,700
COCA COLA CO	15,000	801,025	956,250
COLGATE PALMOLIVE CO	14,000	835,540	1,023,750
DEAN WITTER DISCOVER & CO	19,000	714,477	893,000
DRESSER INDS INC	40,000	818,149	890,000
DSC COMMUNICATIONS CORP	24,000	755,643	1,116,000
EXXON CORP	16,000	964,342	1,130,000
FEDERAL EXPRESS CORP	8,400	504,219	510,300
FLUOR CORP	16,000	776,204	832,000
GENERAL ELEC CO	15,300	756,948	862,538
GOODYEAR TIRE & RUBR CO	20,000	711,574	822,500
HERCULES INC	13,800	500,224	672,750
HUMANA INC	23,000	427,710	408,250
I B P INC	22,000	737,534	957,000
KU ENERGY CORP	22,000	599,833	613,250
MORRISON RESTAURANTS INC	34,500	912,157	828,000
MORTON INTL INC IND	20,000	573,074	585,000
ORACLE CORP	30,500	917,493	1,178,063
PACIFICORP	42,000	723,722	787,500
PENNEY J C INC	16,500	805,922	792,000
PHILLIPS PETE CO	13,000	408,593	433,875
PRAXAIR INC	28,000	632,980	696,500
SAFEWAY INC NEW	20,000	648,663	747,500
SBC COMMUNICATIONS INC	25,000	998,924	1,190,625
SONOCO PRODS CO	18,900	413,004	467,775
SURGICAL CARE AFFILIATES INC	20,000	395,950	382,500
TEKTRONIX INC	11,000	420,760	541,750
TOTAL DOMESTIC STOCK PORTFOLIO		\$ 24,716,931	\$ 28,406,751
INTERNATIONAL STOCK PORTFOLIO			
WESTCOAST ENERGY INC	26,500	\$ 410,659	\$ 390,875
GRAND TOTAL STOCK PORTFOLIO		\$ 25,127,590	\$ 28,797,626

Chairs of Excellence Portfolio

Domestic and International Fixed Income Portfolio

	Rating	Coupon	Maturity	Par Value	Market Value
GOVERNMENTS:					
BONDS AND NOTES:					
UNITED STATES TREASURY BONDS	AAA	10.750	5/15/2003	8,000,000	\$10,226,240
UNITED STATES TREASURY BONDS	AAA	10.750	8/15/2005	3,200,000	4,248,992
UNITED STATES TREASURY NOTES	AAA	8.875	11/15/98	5,000,000	5,435,950
TOTAL BONDS AND NOTES					\$19,911,182
AGENCIES:					
FHLMC GROUP #C8-0226	AAA	8.500	9/1/2024	1,960,000	\$2,021,858
FNMA POOL #0002494	AAA	8.000	4/1/2008	4,597,115	4,728,639
FNMA POOL #0250128	AAA	7.500	9/1/2009	1,893,637	1,924,995
FNMA POOL #0250129	AAA	7.500	9/1/2001	4,977,591	5,056,884
FNMA POOL #0250188	AAA	8.000	1/1/2025	4,864,809	4,954,468
GNMA POOL #0196110	AAA	9.000	12/15/2016	1,513,801	1,604,008
GNMA GTD REMIC 1994-3 CL PH	AAA	7.500	10/16/2022	5,000,000	5,168,172
GNMA II POOL #0008399	AAA	5.000	4/20/2024	1,966,059	1,959,296
GOVERNMENT TRUST CERTIFICATES	AAA	9.400	11/15/96	636,709	651,048
GOVERNMENT TRUST CERTIFICATES	AAA	9.250	11/15/96	392,513	397,769
SMALL BUSINESS ADMINISTRATION 1991-10 C	AAA	8.330	9/10/2001	5,254,829	5,616,572
TOTAL AGENCIES					\$34,083,709
TOTAL GOVERNMENTS AND AGENCIES					\$53,994,891
CORPORATES:					
ASSOCIATES CORP NORTH AMER NT	AA3	8.375	1/15/98	5,000,000	\$5,225,850
ATLANTIC RICHFIELD CO	A2	8.200	9/15/98	3,000,000	3,157,860
CHRYSLER FINL CORP SHELF 50	A3	8.125	12/15/96	3,500,000	3,575,495
COOPERATIVE UTIL TR BIG ELEC	AAA	9.500	2/15/2017	5,000,000	5,493,750
DEAN WITTER DISCOVER & CO	A2	6.250	3/15/2000	2,000,000	1,967,360
FORD MTR CR CO	A1	7.250	5/15/99	2,000,000	2,049,860
GENERAL MTRS ACCEP CORP	BAA1	7.350	5/27/97	800,000	814,280
GULF POWER CO	A1	8.750	12/1/2021	1,000,000	1,066,760
INTL LEASE FIN CORP	A2	7.900	10/1/96	5,000,000	5,095,100
INTL LEASE FIN CORP MTN #00067	A2	5.710	7/15/97	2,000,000	1,978,420
MCA FDG CORP	Aa2	7.550	3/28/97	500,000	511,160
MCA FUNDING CORP	Aa2	4.480	8/13/96	1,500,000	1,461,027
RURAL ELEC COOP GRANTOR CERTIFICATES	AAA	9.630	9/30/2011	1,000,000	1,079,430
SOUTHWESTERN BELL TEL CO	A1	7.625	10/1/2013	3,319,000	3,336,790
WISCONSIN GAS CO	AA3	7.500	11/15/98	2,000,000	2,067,760
TOTAL CORPORATES					\$38,880,902
TOTAL DOMESTIC FIXED INCOME PORTFOLIO					\$92,875,793
INTERNATIONAL FIXED INCOME PORTFOLIO					
GOVERNMENTS:					
TOKYO METROPOLIS JAPAN	AAA	8.700	10/5/99	3,000,000	\$3,262,110
CORPORATES:					
FORD CAP B V NT	A1	10.125	11/15/2000	5,000,000	\$5,731,350
NIPPON TELEG & TEL CORP NT	AAA	9.500	7/27/98	2,000,000	2,185,540
IMPERIAL OIL LTD DEB	AA2	8.750	10/15/2019	150,000	164,230
TOTAL CORPORATES					\$8,081,120
TOTAL INTERNATIONAL FIXED INCOME PORTFOLIO					\$11,343,230
GRAND TOTAL FIXED INCOME PORTFOLIO					\$104,219,023

FINANCIAL STATEMENTS

LOCAL GOVERNMENT INVESTMENT POOL
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
DEFERRED COMPENSATION
FLEXIBLE BENEFITS PLAN
CLAIMS AWARD FUND
CRIMINAL INJURIES FUND
CHAIRS OF EXCELLENCE
BOND REFUNDING



Local Government Investment Pool
Independent Auditor's Report

STATE OF TENNESSEE



COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Local Government Investment Pool, as of June 30, 1995, and June 30, 1994, 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 Local Government Investment Pool as of June 30, 1995, and June 30, 1994, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements, taken as a whole. The accompanying supplementary schedule of cash receipts and disbursements following the notes to the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued reports dated December 21, 1995, on our consideration of the internal control structure and on compliance with laws and regulations.

Sincerely,

A handwritten signature in cursive script that reads "Arthur A. Hayes, Jr.".

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

Local Government Investment Pool**Comparative Balance Sheets**

	June 30, 1995	June 30, 1994
<i>Assets</i>		
Cash	\$1,281,063,828	\$1,139,765,831
Due from State General Fund	407,685	147,533
Due from State Special Revenue Fund	23,209	60,082
Due from State Education Trust Fund	161,475	0
Due from State Loan Program Fund	446,689	0
Total Assets	\$1,282,102,886	\$1,139,973,446
<i>Liabilities and Fund Balance</i>		
<i>Liabilities:</i>		
Member Deposits	\$1,079,137,944	\$ 936,313,686
Due to State Capital Projects Fund	777,735	924,379
Due to State College and University Funds	193,980,605	196,863,985
Due to Community Health Agencies	5,177,193	2,615,284
Due to State Veterans' Homes Board	480,115	439,222
Total Liabilities	\$1,279,553,592	\$1,137,156,556
Fund Balance	\$ 2,549,294	\$ 2,816,890
Total Liabilities and Fund Balance	\$1,282,102,886	\$1,139,973,446

See accompanying Notes to the Financial Statements.

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

	For the Year Ended June 30, 1995	For the Year Ended June 30, 1994
<i>Revenues:</i>		
Investment Income	\$ 71,191,471	\$ 38,310,928
<i>Expenditures:</i>		
Interest on Deposits	70,414,939	37,642,737
Administrative Cost	1,044,128	685,137
Total Expenditures	\$ 71,459,067	\$ 38,327,874
Excess of Expenditures Over Revenues	\$ (267,596)	\$ (16,946)
Fund Balance, July 1	\$ 2,816,890	\$ 2,833,836
Fund Balance, June 30	\$ 2,549,294	\$ 2,816,890

See accompanying Notes to the Financial Statements.

A. *Description of the Local Government Investment Pool*

The Local Government Investment Pool (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 .06 percent was 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 committed to Community Health Agencies, the State Veterans' Homes Board, the State College and University Funds and to the State Capital Projects Fund. Withdrawals from these accounts require authorization by the administering agencies.

B. *Significant Accounting Policies*

The Local Government Investment Pool forms an integral part of the primary government and has been included as an expendable trust fund in the *Tennessee Comprehensive Annual Financial Report*.

The LGIP 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 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 authority to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, limited money market mutual funds, and in obligations of the state of Tennessee pursuant to Tennessee Code Annotated, Section 9-4-602(b). The Pooled Investment Fund 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 pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 1995.

Local Government Investment Pool**Comparative Schedules of Cash Receipts and Disbursements**

	July 1, 1994 through June 30, 1995	July 1, 1993 through June 30, 1994
<i>Cash Balance, July 1</i>	\$1,139,765,831	\$ 930,347,419
<i>Add Cash Receipts:</i>		
Member Deposits	\$3,612,822,317	\$3,332,918,654
Investment Income	71,191,471	38,310,928
<i>Total Cash Receipts</i>	\$3,684,013,788	\$3,371,229,582
<i>Deduct Cash Disbursements:</i>		
Member Withdrawals	\$3,541,671,663	\$3,161,126,033
Administrative Cost Paid	1,044,128	685,137
<i>Total Cash Disbursements</i>	\$3,542,715,791	\$3,161,811,170
<i>Cash Balance, June 30</i>	\$1,281,063,828	\$1,139,765,831

See accompanying Notes to the Financial Statements.

**Tennessee Consolidated Retirement System
Independent Auditor's Report**

STATE OF TENNESSEE



**COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697**

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Consolidated Retirement System, as of June 30, 1995, and June 30, 1994, and the related statements of revenues, expenses, and changes in fund balances and cash flows 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 Tennessee Consolidated Retirement System as of June 30, 1995, and June 30, 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The supplementary schedule of actuarial balances on page 96 is not a required part of the basic financial statements and was not audited by us, and, accordingly, we do not express an opinion thereon.

In accordance with generally accepted government auditing standards, we have also issued reports dated December 21, 1995, on our consideration of the internal control structure and on compliance with laws and regulations.

Sincerely,

A handwritten signature in cursive script that reads "Arthur A. Hayes, Jr.".

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

Tennessee Consolidated Retirement System

Comparative Balance Sheets

(Expressed in Thousands)

	June 30, 1995	June 30, 1994
<i>Assets</i>		
Cash	\$ 6,110	\$ 683
Investments:		
Short-term Securities (Amortized Cost)	\$ 968,231	\$ 1,622,722
Domestic Securities:		
Government Bonds (Amortized Cost)	2,706,712	2,805,816
Corporate Bonds (Amortized Cost)	3,001,823	3,043,296
Corporate Stocks (Cost)	3,416,917	2,796,283
Securities on Loan		
Government Bonds (Amortized Cost)	961,436	341,481
Corporate Bonds (Amortized Cost)	36,275	86
Corporate Stocks (Cost)	91,689	4,768
International Securities:		
Government Bonds (Amortized Cost)	604,256	615,971
Corporate Bonds (Amortized Cost)	319,880	192,779
Corporate Stocks (Cost)	688,125	627,891
American Depository Receipts (Cost)	55,584	9,152
Securities on Loan		
Government Bonds (Amortized Cost)	29,998	0
Corporate Bonds (Amortized Cost)	18,701	0
Corporate Stocks (Cost)	116,192	27,166
<i>Total Investments</i>	<i>\$ 13,015,819</i>	<i>\$ 12,087,411</i>
Receivables:		
Member Contributions Receivable	\$ 13,107	\$ 12,719
Employer Contributions Receivable	24,204	24,221
Political Subdivisions Receivable	4,466	3,283
Accrued Interest Receivable	134,622	131,283
Accrued Dividends Receivable	10,145	9,046
Accrued Loan Income Receivable	396	21
Investments Sold	109	0
<i>Total Receivables</i>	<i>\$ 187,049</i>	<i>\$ 180,573</i>
<i>Total Assets</i>	<i>\$ 13,208,978</i>	<i>\$ 12,268,667</i>
<i>Liabilities and Fund Balance</i>		
Liabilities:		
Retired Payroll Payable	\$ 13,279	\$ 13,399
Warrants Payable	573	618
Accounts Payable:		
Death Benefits and Refunds Payable	1,776	1,013
Other	40	710
Investments Purchased	20,203	0
Other Investment Payables	1,558	0
<i>Total Liabilities</i>	<i>\$ 37,429</i>	<i>\$ 15,740</i>
Fund Balance:		
Member Reserve	\$ 2,235,349	\$ 2,075,679
Employer Reserve (Unfunded Actuarial Accrued Liability Totaled \$407.8 Million as of June 30, 1995 and \$471.8 Million as of June 30, 1994)	10,936,200	10,177,248
<i>Total Fund Balance</i>	<i>\$ 13,171,549</i>	<i>\$ 12,252,927</i>
<i>Total Liabilities and Fund Balance</i>	<i>\$ 13,208,978</i>	<i>\$ 12,268,667</i>

See accompanying Notes to the Financial Statements.

Tennessee Consolidated Retirement System
Comparative Statements of Revenues, Expenses and Changes in Fund Balance

(Expressed in Thousands)

	For the Year Ended June 30, 1995	For the Year Ended June 30, 1994
<i>Operating Revenues</i>		
Contributions:		
Member Contributions	\$ 126,232	\$ 117,173
Employer Contributions	282,626	264,670
Political Subdivisions Contributions	49,952	56,310
<i>Total Contributions</i>	<u>\$ 458,810</u>	<u>\$ 438,153</u>
Investment Income:		
Loan Revenue	\$ 5,344	\$ 2,008
Interest	536,795	438,518
Dividends	87,962	91,460
Income from Foreign Investments	55,080	38,089
Net Discount (Premium) Amortization	45,157	69,108
Currency Gain (Loss) on Sale of Foreign Investments	(22,303)	618
Net Gain on Sale of Investments	222,390	589,883
<i>Total Investment Income</i>	<u>\$ 930,425</u>	<u>\$ 1,229,684</u>
<i>Total Operating Revenues</i>	<u>\$ 1,389,235</u>	<u>\$ 1,667,837</u>
<i>Operating Expenses</i>		
Annuity Benefits:		
Retirement Benefits	\$ 336,907	\$ 301,058
Survivor Benefits	20,688	18,131
Disability Benefits	10,422	9,065
Cost of Living	72,371	66,910
Death Benefits	3,019	3,049
Refunds	20,914	17,637
Administrative Expenses	6,292	0
<i>Total Operating Expenses</i>	<u>\$ 470,613</u>	<u>\$ 415,850</u>
<i>Net Income</i>	<u>\$ 918,622</u>	<u>\$ 1,251,987</u>
<i>Fund Balance, July 1</i>	<u>\$ 12,252,927</u>	<u>\$ 11,000,940</u>
<i>Fund Balance, June 30</i>	<u>\$ 13,171,549</u>	<u>\$ 12,252,927</u>

See accompanying Notes to the Financial Statements.

Tennessee Consolidated Retirement System

Comparative Statements of Cash Flows

(Expressed in Thousands)

	For the Year Ended June 30, 1995	For the Year Ended June 30, 1994
<i>Cash Flows from Operating Activities:</i>		
Cash Received from Member Contributions	\$ 125,844	\$ 116,671
Cash Received from Employer Contributions	282,643	263,683
Cash Received from Political Subdivision Contributions	48,769	56,072
Cash Payments for Annuity Benefits	(440,508)	(393,553)
Cash Payments for Death Benefits	(3,838)	(2,221)
Cash Payments for Refunds to Members	(19,361)	(18,725)
Cash Payments for Administrative Expenses	(6,267)	0
Other Operating Activities	(320)	323
<i>Net Cash Flows Provided by (Used for) Operating Activities</i>	<i>\$ (13,038)</i>	<i>\$ 22,250</i>
<i>Cash Flows from Investing Activities:</i>		
Interest on Investments	\$ 534,937	\$ 427,372
Dividends on Investments	86,649	93,963
Loan Revenue	4,970	2,099
Income from Foreign Investments	53,742	41,587
Proceeds from Sales and Maturities of Investments	24,281,626	18,165,517
Purchase of Investments	(24,943,459)	(18,753,166)
<i>Net Cash Flows Provided by (Used for) Investing Activities</i>	<i>\$ 18,465</i>	<i>(22,628)</i>
<i>Net Increase (Decrease) in Cash</i>	<i>\$ 5,427</i>	<i>\$ (378)</i>
<i>Cash at July 1</i>	<i>\$ 683</i>	<i>\$ 1,061</i>
<i>Cash at June 30</i>	<i>\$ 6,110</i>	<i>\$ 683</i>
<i>Reconciliation of Net Income to Net Cash Flows from Operating Activities:</i>		
<i>Net Income</i>	<i>\$ 918,622</i>	<i>\$ 1,251,987</i>
<i>Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:</i>		
Interest Income	\$ (536,795)	\$ (438,518)
Dividend Income	(87,962)	(91,460)
Income from Foreign Investments	(55,080)	(38,089)
Net Profit on Sale of Investments	(222,390)	(589,883)
Currency (Gain) Loss on Sale of Foreign Investments	22,303	(618)
Net (Discount) Premium Amortization	(45,157)	(69,108)
Loan Revenue	(5,344)	(2,008)
Changes in Receivables:		
Member Contributions	(388)	(502)
Employer Contributions	17	(987)
Political Subdivision Contributions	(1,183)	(238)
Changes in Payables:		
Retired Payroll Payable	(120)	1,611
Warrants Payable	(45)	216
Accounts Payable	484	(153)
<i>Total Adjustments</i>	<i>\$ (931,660)</i>	<i>\$ (1,229,737)</i>
<i>Net Cash Flows Provided by (Used in) Operating Activities</i>	<i>\$ (13,038)</i>	<i>\$ 22,250</i>

At June 30, 1995, the TCRS had unsettled investment purchases of \$20,203,550 and unsettled investment sales of \$108,609.

At June 30, 1994, the TCRS had no unsettled investment purchases or unsettled investment sales.

See accompanying Notes to the Financial Statements.

Tennessee Consolidated Retirement System

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

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, 1995, the number of participating local government employers and the TCRS membership was:

Cities	123	Retirees and beneficiaries	
Counties	83	currently receiving benefits	62,090
Utility Districts	29	Terminated members entitled to	
Special School Districts	20	benefits but not yet receiving them ..	10,475
Joint Ventures	22	Current members:	
Regional Libraries	12	Vested	111,616
Development Agencies	12	Nonvested	62,162
Housing Authorities	10	<i>Total</i>	<u>246,343</u>
911 Emergency Communication Districts ...	19		
Other	16		
<i>Total</i>	<u>346</u>		

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 five 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 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Political subdivision members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. 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 five 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 employee exempt from the Fair Labor Standards Act and 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 (ORP).

(Continued)

Tennessee Consolidated Retirement System

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

The ORP has been established as a defined contribution plan. In a defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. Both the Tennessee Board of Regents institutions' and the University of Tennessee System's faculty are eligible to become members of the Optional Retirement Program in lieu of membership in TCRS.

State statute requires the state-supported institutions to make contributions to the Optional Retirement Program at the rate of 10 percent of gross salary below the social security wage base and 11 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 and immediately vested. During the year ended June 30, 1995, the state of Tennessee contributed \$47.4 million (10.1 percent of current covered payroll) to the ORP. The total current covered payroll was \$471.0 million.

A second, now closed, group of University of Tennessee faculty also participates in the Optional Retirement Program 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 hypothetical fixed income annuity and the basic benefit under TCRS.

B. Summary of Significant Accounting Policies and Plan Asset Matters

1. *Reporting Entity.*

The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS forms an integral part of the Tennessee primary government and as such has been included as a pension trust fund in the *Tennessee Comprehensive Annual Financial Report*.

2. *Basis of Accounting and Presentation.*

The accompanying financial statements have been prepared in conformity with all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as applicable private sector pronouncements issued on or before November 30, 1989. The TCRS uses the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

3. *Cash and Cash Equivalents.*

Cash and Cash Equivalents, by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's policy regarding the definition of Cash and Cash Equivalents includes cash management pools as cash. In addition, securities in portfolios where the primary purpose is to facilitate the placement of funds in long-term investments are classified as investments. Cash received by the TCRS that cannot be invested immediately 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 authority to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, limited money market mutual funds, and in obligations of the state of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). 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 loaned securities are transferred to the borrower by the custodial agent against simultaneous receipt of collateral securities. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 1995.

(Continued)

4. *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.

5. *Receivables.*

Receivables primarily consist of interest which is recorded when earned. The receivables for contributions as of June 30, 1995 consist of \$36.1 million due from other funds within the state and \$5.7 million due from other governments.

6. *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 members' accounts are reductions to the Employer Reserve.

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 fifteen percent (15%) 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, Germany, Switzerland, France, the Netherlands and Australia. Investments are valued at their book value in determining the compliance with these restrictions.
- d. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30%) of total assets.

TCRS maintains a portfolio of short-term investments in order to actively manage all funds waiting to be placed in a more permanent investment. These short-term investments may include U.S. Treasuries, commercial paper, medium-term corporate notes, promissory notes and repurchase agreements.

The TCRS investment securities are categorized on the following page according to the level of credit risk associated with the custodial arrangements at that time. 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 broker or dealer, or by the counterparty's trust department or agent, but not in the name of the TCRS.

(Continued)

Tennessee Consolidated Retirement System

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

<i>(Expressed in Thousands)</i>	June 30, 1995		June 30, 1994	
	Book Value	Market Value	Book Value	Market Value
Investments - Category 1:				
Short-term Securities:				
Commercial Paper	\$ 740,404	\$ 740,404	\$ 1,303,526	\$ 1,300,645
Medium-term Corporate Notes	45,001	44,969	50,000	50,000
U. S. Government Securities	156,626	156,625	191,146	190,416
Repurchase Agreements	26,200	26,200	78,050	78,050
Long-term Investments:				
Domestic Securities				
Government Bonds	2,673,226	2,886,749	2,803,228	2,854,508
Corporate Bonds	2,981,834	3,049,591	3,043,296	2,977,163
Corporate Stocks	3,416,703	4,061,080	2,796,283	3,103,566
International Securities:				
Government Bonds	604,256	643,972	615,971	621,234
Corporate Bonds	319,880	349,482	192,779	201,034
Corporate Stocks	688,125	723,903	627,891	702,046
American Depository Receipts	55,584	70,257	9,152	20,093
	<u>\$ 11,707,839</u>	<u>\$ 12,753,232</u>	<u>\$ 11,711,322</u>	<u>\$ 12,098,755</u>
Investments - Categories 2 & 3:	\$ 0	\$ 0	\$ 0	\$ 0
Investments - Not Categorized:				
Investments held by broker-dealers under securities on loan contracts:				
Domestic Securities				
Government Bonds	\$ 961,436	\$ 1,009,421	\$ 341,481	\$ 331,681
Corporate Bonds	36,275	41,470	86	86
Corporate Stocks	91,689	104,597	4,768	2,819
International Securities				
Government Bonds	29,998	39,456	0	0
Corporate Bonds	18,701	18,115	0	0
Corporate Stocks	116,192	117,268	27,166	31,493
Margin Deposit on Futures Contracts:				
Domestic Government Bonds	33,486	34,035	2,588	2,504
Unsettled Investment Acquisitions:				
Domestic Securities				
Corporate Bonds	19,989	19,906	0	0
Corporate Stocks	214	232	0	0
Total Investments	<u>\$ 13,015,819</u>	<u>\$ 14,137,732</u>	<u>\$ 12,087,411</u>	<u>\$ 12,467,338</u>

The TCRS is authorized to enter into collateralized securities lending agreements whereby TCRS loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the book value of

(Continued)

Tennessee Consolidated Retirement System

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

TCRS' assets. The loaned securities are initially collateralized at 102 percent of their market value for domestic securities and 105 percent for international. Additional collateral is pledged if the aggregate market value subsequently falls below 100 percent for domestic securities and 105 percent for international. TCRS' custodian bank manages the lending program and maintains the collateral on behalf of TCRS. At June 30, 1995, the market value of TCRS securities on loan to brokers was \$1,324,990,875, and the market value of collateral pledged for the securities on loan was \$1,363,498,001. It is standard practice to value the securities and collateral on June 30 (using June 29 closing market prices) and therefore the market value of securities on loan differs from that presented in the above chart which uses June 30 closing market prices.

The TCRS is a party to financial instruments with off-balance sheet risk used in the normal course of business to generate earnings and reduce its own exposure to fluctuations in market conditions. The TCRS is authorized by statute to engage in forward contracts to exchange different currencies at a specified future date and rate and in domestic stock index futures contracts. These contracts involve elements of custodial credit and market risk in excess of amounts recognized in the Balance Sheet as of June 30, 1995. The contractual or notional amounts express the extent of the TCRS' involvement in these instruments and do not represent exposure to custodial credit loss. The custodial credit risk on forward and futures contracts is controlled through limits and monitoring procedures.

The allowable currencies for hedging purposes are limited by policy of the Board of Trustees to the Pound Sterling, Deutschemarks and Japanese Yen. Forward exchange contracts in effect at June 30, 1995 are summarized as follows:

Commitments to Deliver Foreign Currency		U.S. Currency to be Received Upon Delivery of Foreign Currency	Market Value at 6/30/95 to Purchase Foreign Currency for Delivery
80,000,000	Pound Sterling	\$ 126,125,500	\$ 127,080,859
350,000,000	Deutschemarks	250,461,332	253,478,182
20,000,000,000	Japanese Yen	<u>236,455,103</u>	<u>236,959,100</u>
	<i>Total</i>	\$ 613,041,935	\$ 617,518,141

The Currency Gain (Loss) on Sale of Foreign Investments line item on the Statements of Revenues, Expenses and Changes in Fund Balance includes a net loss on forward contracts in the amount of \$79,531,705.

At June 30, 1995, the notional amount of futures contracts was \$410,841,325 at a market value of \$422,946,950. The changes in market value of the outstanding futures contracts are settled daily. The Net Gain on Sale of Investments line item on the Statements of Revenues, Expenses and Changes in Fund Balance includes a net gain on futures contracts in the amount of \$91,939,897.

The TCRS is also authorized by investment 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, 1995.

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.

(Continued)

Tennessee Consolidated Retirement System

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1995. Significant actuarial assumptions used include: (a) a rate of return on investment of present and future assets of eight percent per year compounded annually, (b) projected salary increases of seven percent (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) per year compounded annually, (c) a projected six percent annual increase in the social security wage base, and (d) projected post-retirement benefit increases of three percent of the retiree's initial benefit. No actuarial assumptions were changed during the year.

At June 30, 1995, the net assets exceeded the pension benefit obligation by \$1.03 billion as follows (in millions):

	State	Political Subdivisions	Total
Pension benefit obligation			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 4,111.0	\$ 560.5	\$ 4,671.5
Current employees:			
Accumulated employee contributions including allocated investment earnings	1,875.4	361.7	2,237.1
Employer-financed vested	4,636.6	494.5	5,131.1
Employer-financed nonvested	74.4	27.5	101.9
<i>Total pension benefit obligation</i>	\$ 10,697.4	\$ 1,444.2	\$ 12,141.6
Net assets available for benefits at cost or amortized cost (market value is \$14,293.5)	\$ 11,566.8	\$ 1,604.7	\$ 13,171.5
<i>Assets in excess of pension benefit obligation</i>	\$ (869.4)	\$ (160.5)	\$ (1,029.9)

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. Effective June 30, 1995, the unfunded accrued liability was reestablished. The effect of the reestablishment was to reduce the unfunded accrued liability from \$481.7 million to \$407.8 million. Effective July 1, 1995, the Board increased the amortization period for \$265.0 million of the unfunded accrued liability associated with the contributory teachers group from 8 to 20 years. The unfunded accrued liability relating to a closed group of state judges, attorneys general and county officials is amortized over a 20-year period. The unfunded liability totaling \$41.3 million for political subdivisions is being amortized over various periods depending upon the political subdivision's participation in TCRS. The unfunded accrued liability is amortized using the level-dollar basis. The employer contributions include funding for the cost-of-living provision and amortization of the accrued liability. 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 on the last two biennial actuarial valuations is as follows:

	June 30, 1995	June 30, 1993
Present Value of Actuarial Liability for Active and Retired Accounts	\$ 14,434,823,163	\$ 12,002,984,552
Less Actuarial Valued Assets:		
Employer Reserve	11,646,471,385	9,763,269,376
Member Reserve	2,380,534,702	2,041,954,328
Unfunded Liability	\$ 407,817,076	\$ 197,760,848

(Continued)

A five percent benefit improvement was effective January 1, 1994. The June 30, 1994 actuarial update calculated the unfunded actuarial accrued liability at \$471.8 million. A restated June 30, 1993 actuarial valuation assuming the five percent benefit improvement resulted in an increase in the unfunded liability for state employees and teachers of \$303.1 million. The June 30, 1993 unfunded actuarial accrued liability restated for the five percent benefit improvement totaled \$500.9 million.

For the year ended June 30, 1995, contributions totaling \$458.8 million were made in accordance with contribution requirements determined through an actuarial valuation performed at June 30, 1993. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation discussed in Note D. The state contributed \$282.7 million (6.2 percent of current covered payroll) to the plan, and state employees and teachers contributed \$98.4 million (2.2 percent of current covered payroll). Political subdivisions contributed \$49.9 million (1.1 percent of current covered payroll) to the plan, and employees of political subdivisions contributed \$27.8 million (.6 percent of current covered payroll). These contributions consisted of (a) \$394.8 million normal cost (8.6 percent of current covered payroll) and (b) \$64.0 million amortization of the unfunded accrued liability (1.4 percent of current covered payroll). The total current year covered payroll was \$4.58 billion.

F. *Historical Trend Information*

Required 10-year historical trend information designed to provide information about the TCRS' progress made in accumulating sufficient assets to pay benefits when due is presented as required supplementary information immediately following the Notes to the Financial Statements. Information regarding the pension benefit obligation is available for nine years.

Tennessee Consolidated Retirement System
Required Supplementary Information

Revenues by Source

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Contributions For ORP	Total
1986	\$ 71,692,211	\$ 342,879,458	\$ 564,296,889	\$ 20,117,735	\$ 998,986,293
1987	78,729,737	348,514,509	726,663,408	22,994,584	1,176,902,238
1988	83,021,879	373,778,518	573,406,134	19,323,704 [1]	1,049,530,235
1989	89,906,776	336,292,918	549,550,134	0	975,749,828
1990	95,957,377	356,747,403	788,715,719	0	1,241,420,499
1991	100,587,021	285,361,612	752,983,019	0	1,138,931,652
1992	102,603,249	286,988,169	986,220,366	0	1,375,811,784
1993	108,059,208	282,906,665	1,137,466,939	0	1,528,432,812
1994	117,173,260	320,979,877	1,229,683,544	0	1,667,836,681
1995	126,231,517	332,578,144	930,425,055	0	1,389,234,716

Expenses by Type

Fiscal Year	Benefits	Refunds	Administrative Expenses	Contributions to ORP	Total
1986	\$ 204,645,238	\$ 21,301,916	\$ 0	\$ 20,117,736	\$ 246,064,890
1987	229,300,596	21,750,626	0	22,994,583	274,045,805
1988	243,993,945	17,801,882	0	19,323,704 [1]	281,119,531
1989	258,320,437	20,664,894	0	0	278,985,331
1990	278,174,928	20,561,180	0	0	298,736,108
1991	309,660,795	19,384,713	0	0	329,045,508
1992	334,611,059	20,862,169	0	0	355,473,228
1993	361,225,244	17,141,499	0	0	378,366,743
1994	398,213,491	17,636,340	0	0	415,849,831
1995	443,406,956	20,914,496	6,291,841 [2]	0	470,613,293

Contributions were made in accordance with actuarially determined contribution requirements.

- [1] The state's contributions to the Optional Retirement Plan (ORP) flowed through the TCRS until April 1988. Subsequently, these contributions are remitted directly to the ORP by the higher education institutions.
- [2] Effective July 1994, the administrative expenses for TCRS began being paid from the pension trust fund. Previously, TCRS administrative expenses were paid from the state's operating budget.

Tennessee Consolidated Retirement System
Required Supplementary Information

Analysis of Funding Progress
(In Millions of Dollars)

	(1)	(2)	(3)	(4)	(5)	(6)
Fiscal Year	Net Assets Available for Benefits	Pension Benefit Obligation	Percentage Funded (1) / (2)	Unfunded (Assets in Excess of) P.B.O. (2) - (1)	Annual Covered Payroll	Unfunded (Assets in Excess of) P.B.O. as percentage of Covered Payroll (4) / (5)
1987	\$ 5,612.8	\$ 5,820.1	96.4%	\$ 207.3	\$ 2,826.9	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
1990	8,020.6	7,801.3	102.8	(219.3)	3,468.8	(6.3)
1991	8,830.5	8,453.7	104.5	(376.8)	3,648.6	(10.3)
1992 [1]	9,850.9	9,331.7	105.6	(519.2)	3,706.0	(14.0)
1993 [2]	11,000.9	9,763.1	112.7	(1,237.8)	3,923.1	(31.6)
1994 [3]	12,252.9	10,608.1	115.5	(1,644.8)	4,264.7	(38.6)
1995 [4]	13,171.5	12,141.6	108.5	(1,029.9)	4,582.6	(22.5)

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.

- [1] In fiscal year 1992, changes in the benefit provisions resulted in an increase of \$66.7 million in the pension benefit obligation when compared to the pension benefit obligation before the provision changes.
- [2] The 1993 funding percentage of 112.7 percent would have been 107.7 percent had the benefit provisions adopted during fiscal year 1994 been in effect as of the 1993 valuation date.
- [3] Benefit improvement provisions adopted during fiscal year 1994 caused an increase of \$450.6 million in the pension benefit obligation. The pension benefit obligation, percentage funded, unfunded PBO, and unfunded PBO as a percentage of covered payroll reflect liabilities before the five percent benefit improvement.
- [4] The 1995 PBO includes the five percent benefit improvement effective January 1, 1994.

Tennessee Consolidated Retirement System
Actuarial Balance Sheet as of June 30, 1995

	<u>Political Subdivisions</u>	<u>State</u>	<u>Total</u>
Assets			
Present assets creditable to:			
Employer Accumulation Fund	\$ 1,323,015,055	\$ 10,323,456,330	\$ 11,646,471,385
Members' Fund	384,817,464	1,995,717,238	2,380,534,702
<i>Total Present Assets</i>	<i>\$ 1,707,832,519</i>	<i>\$ 12,319,173,568</i>	<i>\$ 14,027,006,087</i>
Present value of prospective contributions payable to:			
Employer Accumulation Fund:			
Normal	\$ 331,367,220	\$ 2,157,178,470	\$ 2,488,545,690
Accrued Liability	41,288,942	366,528,134	407,817,076
<i>Employer Accumulation Fund Total</i>	<i>\$ 372,656,162</i>	<i>\$ 2,523,706,604</i>	<i>\$ 2,896,362,766</i>
Members' Fund:	216,614,295	1,050,733,090	1,267,347,385
<i>Total Prospective Contributions</i>	<i>\$ 589,270,457</i>	<i>\$ 3,574,439,694</i>	<i>\$ 4,163,710,151</i>
Total Assets	\$ 2,297,102,976	\$ 15,893,613,262	\$ 18,190,716,238
Liabilities			
Present value of prospective benefits payable on account of:			
Present retired members and contingent annuitants	\$ 534,226,106	\$ 3,958,421,592	\$ 4,492,647,698
Present active members	1,736,596,055	11,782,598,930	13,519,194,985
Former members	26,280,815	152,592,740	178,873,555
Total Liabilities	\$ 2,297,102,976	\$ 15,893,613,262	\$ 18,190,716,238

**Deferred Compensation
Independent Auditor's Report**

STATE OF TENNESSEE



**COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697**

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the IRC Section 457 Deferred Compensation Plan as of June 30, 1995, and June 30, 1994, and the related statement of changes in assets and liabilities for the year ended June 30, 1995. 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 IRC Section 457 Deferred Compensation Plan as of June 30, 1995, and June 30, 1994, and the changes in assets and liabilities for the year ended June 30, 1995, in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated December 21, 1995, on our consideration of the internal control structure and on compliance with laws and regulations.

Sincerely,

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

IRC Section 457 Deferred Compensation
Comparative Balance Sheets

<i>Assets</i>	June 30, 1995	June 30, 1994
<i>Investments Held by Vendors:</i>		
AEtna	\$ 28,118,178	\$ 26,261,372
American General	998,466	993,998
Calvert Group	324,675	330,012
Fidelity Investments	40,132,431	30,673,490
Great West	5,641,763	5,882,390
Union Planters	14,806,977	13,833,317
<i>Total</i>	<u>\$ 90,022,490</u>	<u>\$ 77,974,579</u>
 <i>Receivables from State Funds for:</i>		
AEtna	\$ 25,667	\$ 37,714
American General	5,256	6,067
Calvert Group	1,553	2,026
Fidelity Investments	111,771	107,544
Great West	6,936	9,877
Union Planters	26,624	27,622
<i>Total</i>	<u>\$ 177,807</u>	<u>\$ 190,850</u>
<i>Total Assets</i>	<u>\$ 90,200,297</u>	<u>\$ 78,165,429</u>
 <i>Liabilities</i>		
Amounts Held in Custody for Others	\$ 90,200,297	\$ 78,165,429

See accompanying Notes to the Financial Statements.

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

	Balance July 1, 1994	Additions	Deductions	Balance June 30, 1995
<i>Assets</i>				
Investments, at Market	\$ 77,974,579	\$ 24,267,609	\$ 12,219,698	\$ 90,022,490
Receivables from State Funds	190,850	177,807	190,850	177,807
Total Assets	\$ 78,165,429	\$ 24,445,416	\$ 12,410,548	\$ 90,200,297
<i>Liabilities</i>				
Amounts Held in Custody for Others	\$ 78,165,429	\$ 24,445,416	\$ 12,410,548	\$ 90,200,297

See accompanying Notes to the Financial Statements.

IRC Section 457 Deferred Compensation
Notes to the Financial Statements, June 30, 1995 and June 30, 1994

The Deferred Compensation Plan is an integral part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an agency fund.

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 legal 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.

Flexible Benefits Plan
Independent Auditor's Report

STATE OF TENNESSEE



COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Flexible Benefits Plan as of June 30, 1995, and June 30, 1994, 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 Flexible Benefits Plan as of June 30, 1995, and June 30, 1994, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements, taken as a whole. The accompanying supplementary schedule of cash receipts and disbursements following the notes to the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued reports dated December 21, 1995, on our consideration of the internal control structure and on compliance with laws and regulations.

Sincerely,

A handwritten signature in cursive script that reads "Arthur A. Hayes, Jr.".

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

**Flexible Benefits Plan
Comparative Balance Sheets**

	June 30, 1995	June 30, 1994
<i>Assets</i>		
Cash	\$ 6,407,499	\$ 5,101,250
Receivable from State Funds	103,234	102,631
Total Assets	\$ 6,510,733	\$ 5,203,881
<i>Liabilities and Fund Balance</i>		
Liabilities:		
Warrants Payable	\$ 6,256	\$ 2,560
Accounts Payable	88,217	59,350
Dependent Care Deposits	129,923	131,298
Medical Reimbursement Deposits	39,638	101,720
Total Liabilities	\$ 264,034	\$ 294,928
Fund Balance	\$ 6,246,699	\$ 4,908,953
Total Liabilities and Fund Balance	\$ 6,510,733	\$ 5,203,881

See accompanying Notes to the Financial Statements.

**Flexible Benefits Plan
Comparative Statements of Revenues, Expenditures and Changes in Fund Balance**

	For the Year Ended June 30, 1995	For the Year Ended June 30, 1994
<i>Revenues:</i>		
FICA Savings	\$ 2,141,935	\$ 2,063,220
Flexible Benefit Forfeiture	21,406	26,899
Total Revenue	\$ 2,163,341	\$ 2,090,119
<i>Expenditures:</i>		
Administrative Fees	\$ 233,904	\$ 233,807
Employee Benefit Program	74,610	0
Total Expenditure	\$ 308,514	\$ 233,807
Excess of Revenues over Expenditures	\$ 1,854,827	\$ 1,856,312
<i>Other Financing Uses:</i>		
Operating Transfer to State General Fund	(517,081)	(462,217)
Excess of Revenues Over Expenditures and Other Uses	\$ 1,337,746	\$ 1,394,095
Fund Balance, July 1	\$ 4,908,953	\$ 3,514,858
Fund Balance, June 30	\$ 6,246,699	\$ 4,908,953

See accompanying Notes to the Financial Statements.

Flexible Benefits Plan

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

A. Significant Accounting Policies

1. *Reporting Entity*

The Employee Flexible Benefit Plan is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an expendable trust fund.

2. *Basis of Accounting and Presentation*

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles using the modified accrual basis of accounting. Under this method, revenues are recorded when they become both measurable and available and expenditures are recognized at the time the fund liabilities are incurred.

3. *Cash*

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 authority to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, limited money market mutual funds, and in obligations of the state of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The Pooled Investment Fund 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. The Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 1995.

B. Other Accounting Disclosures

1. 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. Contributions to the plan not withdrawn by the end of the plan year are forfeited to the state and are used for funding other employee benefit programs as specified in the state appropriations' bill.

Flexible Benefits Plan

Comparative Schedules of Cash Receipts and Disbursements

	July 1, 1994 through June 30, 1995	July 1, 1993 through June 30, 1994
<i>Cash Balance, July 1</i>	\$5,101,250	\$3,750,317
Add Cash Receipts:		
Plan Deposits	\$3,000,437	\$2,804,938
FICA Savings	2,141,877	2,062,435
<i>Total Cash Receipts</i>	\$5,142,314	\$4,867,373
Deduct Cash Disbursements:		
Plan Withdrawals	\$3,031,347	\$2,820,416
Transfer to General Fund	517,081	462,217
Administrative Fees	233,904	233,807
Employee Benefit Program	53,733	0
<i>Total Cash Disbursements</i>	\$3,836,065	\$3,516,440
<i>Cash Balance, June 30</i>	\$6,407,499	\$5,101,250

Claims Award Fund
Independent Auditor's Report

STATE OF TENNESSEE



COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Claims Award Fund as of June 30, 1995, and June 30, 1994, and the related statements of revenues, expenses, and changes in fund equity and cash flows 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, 1995, and June 30, 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note B.4 to the financial statements, the Claims Award Fund changed its method of valuing the actuarially determined claims liability.

In accordance with generally accepted government auditing standards, we have also issued reports dated December 21, 1995, on our consideration of the internal control structure and on compliance with laws and regulations.

Sincerely,

A handwritten signature in cursive script that reads "Arthur A. Hayes, Jr.".

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

Claims Award Fund
Comparative Balance Sheets

	June 30, 1995	June 30, 1994
<i>Assets</i>		
Cash	\$62,371,028	\$69,314,868
Accounts Receivable	55,800	33,397
<i>Total Assets</i>	\$62,426,828	\$69,348,265
 <i>Liabilities and Fund Equity</i>		
<i>Liabilities:</i>		
Warrants Payable	\$ 146,243	\$ 389,622
Checks Payable	336,031	293,210
Accounts Payable	154,038	101,446
Deferred Revenue	0	152,803
Claims Liability (Notes B.1. and B.4.)	55,013,735	59,768,197
<i>Total Liabilities</i>	\$55,650,047	\$60,705,278
 <i>Fund Equity</i>		
Retained Earnings	\$ 6,776,781	\$ 8,642,987
<i>Total Liabilities and Fund Equity</i>	\$62,426,828	\$69,348,265

See accompanying Notes to the Financial Statements.

Claims Award Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Equity

	For the Year Ended June 30, 1995	For the Year Ended June 30, 1994
<i>Operating Revenues:</i>		
Insurance Premiums	\$ 10,374,803	\$ 1,349,995
Interest Income	4,215,936	2,204,101
Taxes	4,600	5,400
<i>Total Operating Revenues</i>	<i>\$ 14,595,339</i>	<i>\$ 3,559,496</i>
<i>Operating Expenses:</i>		
Torts		
Death	\$ 1,310,615	\$ 157,500
Bodily Injury	1,846,841	2,907,924
Property Damage	698,954	865,090
<i>Total Torts</i>	<i>\$ 3,856,410</i>	<i>\$ 3,930,514</i>
Workers' Compensation		
Death	\$ 266,552	\$ 290,470
Medical	6,428,780	6,622,766
Assault Injury	0	2,829
Temporary Disability	1,352,292	1,151,561
Permanent Disability	3,739,301	3,378,642
<i>Total Workers' Compensation</i>	<i>\$ 11,786,925</i>	<i>\$ 11,446,268</i>
Employee Property Damage	\$ 28,305	\$ 40,572
Professional/Administrative	5,915,964	5,576,065
Additional Actuarial Liability	4,022,165	9,096,221
<i>Total Operating Expenses</i>	<i>\$ 25,609,769</i>	<i>\$ 30,089,640</i>
<i>Operating Loss</i>	<i>\$(11,014,430)</i>	<i>\$(26,530,144)</i>
Operating Transfers from:		
General Fund	\$ 371,597	\$ 7,800,000
Highway Fund	0	4,572,700
Special Revenue Fund	0	545,500
<i>Net Loss Before Change in Accounting Principle</i>	<i>\$(10,642,833)</i>	<i>\$(13,611,944)</i>
Cumulative Effect of Change in Accounting Principle (Note B.4.)	\$ 8,776,627	\$ 0
<i>Net Loss</i>	<i>\$ (1,866,206)</i>	<i>\$(13,611,944)</i>
<i>Fund Equity, July 1</i>	<i>\$ 8,642,987</i>	<i>\$ 22,254,931</i>
<i>Fund Equity, June 30</i>	<i>\$ 6,776,781</i>	<i>\$ 8,642,987</i>

See accompanying Notes to the Financial Statements.

Claims Award Fund

Comparative Statements of Cash Flows

	For the Year Ended June 30, 1995	For the Year Ended June 30, 1994
<i>Cash Flows from Operating Activities:</i>		
Operating Loss	\$(11,014,430)	\$(26,530,144)
Adjustments to Reconcile Net Loss to Net		
<i>Cash Flows Provided in (Used for) Operating Activities:</i>		
Interest Income	(4,215,936)	(2,204,101)
<i>Change in Assets and Liabilities:</i>		
Increase in Accounts Receivable	(22,403)	(33,397)
Decrease in Warrants Payable	(243,379)	(260,781)
Increase in Checks Payable	42,821	97,449
Increase (Decrease) in Accounts Payable	52,592	(24,097)
Decrease in Deferred Revenue	(152,803)	(1,144,952)
Increase in Claims Liability (Note B.4.)	4,022,165	9,096,221
<i>Total Adjustments</i>	<u>\$ (516,943)</u>	<u>\$ 5,526,342</u>
<i>Net Cash Flows Used for Operating Activities</i>	<u>\$(11,531,373)</u>	<u>\$(21,003,802)</u>
<i>Cash Flows from Noncapital Financing Activities:</i>		
<i>Transfers from:</i>		
General Fund	\$ 371,597	\$ 7,800,000
Highway Fund	0	4,572,700
Special Revenue Fund	0	545,500
<i>Net Cash Flows Provided by Noncapital Financing Activities</i>	<u>\$ 371,597</u>	<u>\$ 12,918,200</u>
<i>Cash Flows from Investing Activities:</i>		
Interest on Pooled Investment Fund	\$ 4,215,936	\$ 2,204,101
<i>Net Cash Flows Provided by Investing Activities</i>	<u>\$ 4,215,936</u>	<u>\$ 2,204,101</u>
<i>Net Decrease in Cash</i>	<u>\$ (6,943,840)</u>	<u>\$ (5,881,501)</u>
<i>Cash at July 1</i>	<u>\$ 69,314,868</u>	<u>\$ 75,196,369</u>
<i>Cash at June 30</i>	<u>\$ 62,371,028</u>	<u>\$ 69,314,868</u>

See accompanying Notes to the Financial Statements.

Claims Award Fund

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

A. Significant Accounting Policies

1. *Reporting Entity*

The Claims Award Fund is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an internal service fund.

2. *Basis of Accounting and Presentation*

The accompanying financial statements have been prepared in conformity with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989. The Claims Award Fund uses the accrual basis of accounting whereby revenues are recorded when earned and expenses at the time liabilities are incurred.

3. *Cash*

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 authority to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, limited money market mutual funds, and in obligations of the state of Tennessee pursuant to Tennessee Code Annotated, Section 9-4-602(b). The Pooled Investment Fund 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. The Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 1995.

B. Other Accounting Disclosures

1. *Risk Management*

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Claims Award Fund (CAF).

CAF services claims for risk of loss to which the state is exposed including general liability, automobile liability, professional malpractice, and workers' compensation. All agencies and authorities of the state participate in CAF, except for the Board of Professional Responsibility, The Dairy Promotion Board, and TN 200. CAF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year end to determine the fund liability and premium allocation.

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

CAF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 1995 the amount of these liabilities was \$55,013,735. Changes in the balances of claims liabilities during fiscal years 1994 and 1995 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Change in Accounting Principle	Balance at Fiscal Year End
1993-1994	\$ 50,671,976	\$ 24,513,575	\$ (15,417,354)	\$ 0	\$ 59,768,197
1994-1995	\$ 59,768,197	\$ 19,693,805	\$ (15,671,640)	\$ (8,776,627)	\$ 55,013,735

At June 30, 1995, CAF held \$62.3 million in cash designated for payment of these claims.

2. The total premium recommended by the actuary for fiscal year 1995 totaled \$28,163,600. Of this amount, \$10,222,000 was from agency premiums, \$371,597 from state appropriation, \$152,803 from deferred revenue, and fund equity, along with a change in accounting principle, contributed the remaining requirement.
3. During fiscal years 1990 and 1991 a total of \$23.6 million was transferred from the Claims Award Fund. In an effort to return the funds to the Claims Award Fund, the state appropriated \$18,919,600 in fiscal year 1993, \$12,918,200 in fiscal year 1994, and \$371,597 in fiscal year 1995. The funds were originally recognized as revenue at the time the premiums were collected. The transfers during fiscal years 1990 and 1991 were recorded as Operating Transfers to the State's General Fund. The return transfers in fiscal years 1993, 1994, and 1995 were recorded as Operating Transfers from the State's General Fund, Highway Fund, and Special Revenue Fund.

In addition to the state payback of transferred funds, a reserve was established in 1992 to offset the liability of the fund to non-appropriation funding sources, which includes the federal government. Of the \$5,497,455 established as deferred revenue in fiscal year 1992, \$4,199,700 was recognized as revenue in fiscal year 1993 and \$1,144,952 was recognized in fiscal year 1994. The remaining \$152,803 was recognized in fiscal year 1995.

4. *Change in Accounting Principle*
Beginning July 1, 1994, the state began discounting the required reserves (claims liability) to take into consideration the time value of money. A discount factor of 6% was utilized. The cumulative effect of the change was determined by comparing the undiscounted value of the liability to the discounted value at June 30, 1994, \$59,768,197 and \$50,991,570, respectively.

Criminal Injuries Compensation Fund
Independent Auditor's Report

STATE OF TENNESSEE



COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Criminal Injuries Compensation Fund as of June 30, 1995, and June 30, 1994, 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, 1995, and June 30, 1994, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated December 21, 1995, on our consideration of the internal control structure and on compliance with laws and regulations.

Sincerely,

A handwritten signature in cursive script that reads "Arthur A. Hayes, Jr.".

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

Criminal Injuries Compensation Fund
Comparative Balance Sheets

	June 30, 1995	June 30, 1994
<i>Assets</i>		
Cash	\$36,035,884	\$29,939,151
Accounts Receivable	578,330	582,581
Total Assets	\$36,614,214	\$30,521,732
 <i>Liabilities and Fund Balance</i>		
Liabilities:		
Warrants Payable	\$ 586,102	\$ 593,895
Accounts Payable	0	103,674
Claims Liability	9,245,753	6,522,589
Total Liabilities	\$ 9,831,855	\$ 7,220,158
 Fund Balance		
Reserved for Future Benefits	\$25,536,315	\$22,133,057
Reserved for Victims of Drunk Drivers	1,246,044	1,168,517
Total Fund Balance	\$26,782,359	\$23,301,574
 Total Liabilities and Fund Balance	\$36,614,214	\$30,521,732

See accompanying Notes to the Financial Statements.

Criminal Injuries Compensation Fund

Comparative Statements of Revenues, Expenditures and Changes in Fund Balance

	For the Year Ended June 30, 1995	For the Year Ended June 30, 1994
<i>Revenues:</i>		
State		
Taxes	\$ 7,129,014	\$ 6,460,789
Fines	1,686,340	1,494,699
Federal	1,987,000	6,374,000
Interest Income	1,650,931	863,907
<i>Total Revenues</i>	<u>\$12,453,285</u>	<u>\$15,193,395</u>
<i>Expenditures:</i>		
Claim Payments	\$ 8,972,500	\$ 8,971,772
<i>Excess of Revenues Over Expenditures</i>	<u>\$ 3,480,785</u>	<u>\$ 6,221,623</u>
<i>Fund Balance, July 1</i>	<u>\$23,301,574</u>	<u>\$17,079,951</u>
<i>Fund Balance, June 30</i>	<u>\$26,782,359</u>	<u>\$23,301,574</u>

See accompanying Notes to the Financial Statements.

A. *Significant Accounting Policies*

1. *Reporting Entity*

The Criminal Injuries Compensation Fund is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as a special revenue fund.

2. *Basis of Accounting and Presentation*

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles using the modified accrual basis of accounting. Under this method, revenues are recorded when they become both measurable and available and expenditures are recognized at the time the fund liabilities are incurred.

3. *Cash*

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 authority to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, limited money market mutual funds, and in obligations of the state of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The Pooled Investment Fund 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. The Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 1995.

B. *Other Accounting Disclosures*

1. *Criminal Injuries Compensation Program*

The Criminal Injuries Compensation Program (CIC) is funded through privilege taxes assessed in courts against certain criminal defendants upon conviction, fees levied against parolees, probationers and employed releases, the proceeds from sales of illegal contraband and bond forfeitures in felony cases, and a federal grant. Payments made under the CIC 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.

2. According to state statute, the CIC program can only compensate victims to the extent funds are available within the program. State funds cannot be utilized for claim payments.

3. Beginning July 1, 1992, the Victims of Drunk Drivers Compensation Fund (VDDC) became a part of the Criminal Injuries Compensation Fund. As a requirement of the CIC and VDDC combination, a reserve is established annually for an amount equal to three times the awards paid for VDDC during the fiscal year. Chapter 761 of the Public Acts of 1992 discusses the fund combination as well as the VDDC reserve requirement.

STATE OF TENNESSEE



**COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697**

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Chairs of Excellence as of June 30, 1995, and June 30, 1994, and the related statements of revenues, expenses, and changes in fund balances and cash flows 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, 1995, and June 30, 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated December 21, 1995, on our consideration of the internal control structure and on compliance with laws and regulations.

Sincerely,

A handwritten signature in cursive script that reads "Arthur A. Hayes, Jr.".

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

Chairs of Excellence
Comparative Balance Sheets

	June 30, 1995	June 30, 1994
<i>Assets</i>		
<i>Investments:</i>		
Short-term Securities (Amortized Cost)	\$ 14,306,847	\$ 20,159,608
Domestic Securities		
Government Bonds (Amortized Cost)	51,169,373	34,448,042
Corporate Bonds (Amortized Cost)	38,176,206	57,297,216
Corporate Stocks (Cost)	22,887,492	16,493,571
Securities on Loan		
Government Bonds (Amortized Cost)	0	516,799
Corporate Stocks (Cost)	1,829,439	0
International Securities		
Government Bonds (Amortized Cost)	3,121,786	3,477,166
Corporate Bonds (Amortized Cost)	8,044,881	2,279,499
Corporate Stocks (Cost)	410,659	287,161
Securities on Loan		
Government Bonds (Amortized Cost)	0	414,203
Total Investments	\$ 139,946,683	\$ 135,373,265
<i>Receivables:</i>		
Due From Colleges and Universities	\$ 200,000	\$ 263,000
Investment Income Receivable	1,632,942	1,898,239
Total Receivables	\$ 1,832,942	\$ 2,161,239
Total Assets	\$ 141,779,625	\$ 137,534,504
<i>Liabilities and Fund Balance</i>		
<i>Liabilities:</i>		
Due to Colleges and Universities	\$ 1,409,461	\$ 1,639,660
Due to the Academic Scholars Fund	3,646,986	3,783,237
Due to State General Fund	23,358	27,325
Total Liabilities	\$ 5,079,805	\$ 5,450,222
<i>Fund Balance:</i>		
Endowment Reserve	\$ 93,666,878	\$ 91,104,469
Special Reserve	4,078,532	2,900,118
Restricted Reserve	38,954,410	38,079,695
Total Fund Balance	\$ 136,699,820	\$ 132,084,282
Total Liabilities and Fund Balance	\$ 141,779,625	\$ 137,534,504

See accompanying Notes to the Financial Statements.

Chairs of Excellence

Comparative Statements of Revenues, Expenses and Changes in Fund Balance

	For the Year Ended June 30, 1995	For the Year Ended June 30, 1994
<i>Operating Revenues:</i>		
Investment Income	\$ 7,794,730	\$ 11,484,501
Contributions from Private Sources	2,562,409	1,649,467
<i>Total Operating Revenues</i>	<i>\$ 10,357,139</i>	<i>\$ 13,133,968</i>
<i>Operating Expenses:</i>		
Payments to the University of Tennessee	\$ 2,897,401	\$ 3,302,881
Payments to the Tennessee Board of Regents	2,733,473	2,791,415
Administrative Cost	110,727	106,740
<i>Total Operating Expenses</i>	<i>\$ 5,741,601</i>	<i>\$ 6,201,036</i>
<i>Net Income</i>	<i>\$ 4,615,538</i>	<i>\$ 6,932,932</i>
<i>Fund Balance, July 1</i>	<i>\$ 132,084,282</i>	<i>\$ 125,151,350</i>
<i>Fund Balance, June 30</i>	<i>\$ 136,699,820</i>	<i>\$ 132,084,282</i>

See accompanying Notes to the Financial Statements.

Chairs of Excellence

Comparative Statements of Cash Flows

	For the Year Ended June 30, 1995	For the Year Ended June 30, 1994
<i>Cash Flows from Operating Activities:</i>		
Operating Income	\$ 4,615,538	\$ 6,932,932
Adjustments to Reconcile Operating Income to Net Cash Flows Used for Operating Activities:		
Investment Income	(8,488,656)	(12,150,667)
Net (Discount) Premium Amortization	456,987	405,605
Interest Paid to the Academic Scholars Fund	236,939	260,561
Change in Assets and Liabilities:		
Decrease in Interfund Receivables	63,000	83,000
Decrease in Interfund Payables	(370,417)	(75,882)
<u>Net Cash Flows Used for Operating Activities</u>	<u>\$ (3,486,609)</u>	<u>\$ (4,544,451)</u>
<i>Cash Flows from Investing Activities:</i>		
Investment Income Received	\$ 9,283,385	\$ 8,360,237
Proceeds from Sales and Maturities of Investments	177,638,511	157,128,895
Purchase of Investments	(183,198,348)	(160,684,120)
Interest Paid to the Academic Scholars Fund	(236,939)	(260,561)
<u>Net Cash Flows Provided by Investing Activities</u>	<u>\$ 3,486,609</u>	<u>\$ 4,544,451</u>
<u>Net Increase/Decrease in Cash</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Cash at July 1</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Cash at June 30</u>	<u>\$ 0</u>	<u>\$ 0</u>

Noncash Investing, Capital and Financing Activities:

At June 30, 1994 and at June 30, 1995, the Chairs of Excellence Trust had no unsettled investment purchases or unsettled investment sales.

See accompanying Notes to the Financial Statements.

A. Significant Accounting Policies

1. *Reporting Entity.*
The Chairs of Excellence (COE) Trust forms an integral part of the primary government and has been included as a non-expendable trust fund in the *Tennessee Comprehensive Annual Financial Report*.
2. *Basis of Accounting and Presentation.*
The accompanying financial statements have been prepared in conformity with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989. The COE Trust uses the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
3. *Cash and Cash Equivalents.*
Cash and Cash Equivalents, by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's policy regarding the definition of Cash and Cash Equivalents includes cash management pools as cash. In addition, securities in portfolios where the primary purpose is to facilitate the placement of funds in long-term investments are classified as investments.

Cash received by the Chairs of Excellence Trust that cannot be 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 authority to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, limited money market mutual funds, and in obligations of the state of Tennessee pursuant to Tennessee Code Annotated, Section 9-4-602(b). 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 loaned securities are transferred to the borrower by the custodian agent against simultaneous receipt of collateral securities. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 1995.

4. *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.
5. *Fund Balance.*
The Endowment Reserve consists of funds provided by contributions from the state, colleges and universities and private sources. Income earned on the COE Trust 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 do not meet current needs. The Restricted Reserve is nonexpendable 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.

(Continued)

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

B. Investments

The investment policy of the Chairs of Excellence Trust requires that not less than 80 percent of the total trust corpus (based on book value) be invested in debt securities. The remaining funds may be invested in equity securities including domestic and foreign common stocks, preferred stocks and convertible bonds. Income from equity investments, including realized capital gains, may be reinvested in additional equity investments, however, the total equity investments may not exceed 25 percent of the total trust's book value.

The classification of Short-term Securities includes funds invested in a portfolio of short-term investments maintained by the Tennessee Consolidated Retirement System. These short-term investments may include U.S. Treasuries, commercial paper, medium-term corporate notes, promissory notes and repurchase agreements.

The Chairs of Excellence Trust investment securities in the following chart are categorized according to the level of custodial credit risk associated with the custodial arrangements at that time. 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.

	June 30, 1995		June 30, 1994	
	Book Value	Market Value	Book Value	Market Value
<i>Investments - Category 1:</i>				
Short-term Securities:				
Commercial Paper	\$ 14,306,847	\$ 14,306,847	\$ 20,159,608	\$ 20,159,608
Long-term Investments:				
Domestic Securities				
Government Bonds	51,169,373	53,994,891	34,448,042	34,313,232
Corporate Bonds	38,176,206	38,880,902	57,297,216	56,593,986
Corporate Stock	22,887,492	26,348,913	16,493,571	16,655,821
International Securities:				
Government Bonds	3,121,786	3,262,110	3,477,166	3,498,251
Corporate Bonds	8,044,881	8,081,120	2,279,499	2,310,341
Corporate Stock	410,659	390,875	287,161	296,500
	\$ 138,117,244	\$ 145,265,658	\$ 134,442,263	\$ 133,827,739
<i>Investments - Categories 2 & 3:</i>	\$ 0	\$ 0	\$ 0	\$ 0
<i>Investments - Not Categorized:</i>				
Investments held by broker-dealers under securities on loan contracts:				
Domestic Securities				
Government Bonds	\$ 0	\$ 0	\$ 516,799	\$ 544,375
Corporate Stock	1,829,439	2,057,838	0	0
International Securities				
Government Bonds	0	0	414,203	418,333
<i>Total Investments</i>	\$ 139,946,683	\$ 147,323,496	\$ 135,373,265	\$ 134,790,447

(Continued)

The COE Trust is authorized to enter into collateralized securities lending agreements whereby the Trust loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the book value of the Trust assets. The loaned securities are collateralized at 102 percent of their market value for domestic securities and 105 percent for international. Additional collateral is pledged if the aggregate market value subsequently falls below 100 percent for domestic securities and 105 percent for international. The Trust's custodian bank manages the lending program and maintains the collateral on behalf of the COE Trust. At June 30, 1995, the market value of COE securities on loan to brokers was \$2,066,822, and the market value of collateral pledged for the securities on loan was \$2,108,156. It is standard practice to value the securities and collateral on June 30 (using June 29 closing market prices) and therefore, the market value of securities on loan differs from that presented in the above chart which uses June 30 closing market prices.

C. Other Accounting Disclosures

1. *Chairs of Excellence Endowment Trust.*

The Chairs of Excellence Trust is a nonexpendable 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 Tennessee 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 percent of the funds are from private contributions.

As of June 30, 1995, 92 Chairs have been established with matching contributions received totaling \$49,666,878. This is an increase of 6 Chairs and \$2,562,409 since June 30, 1994. Total contributions to the COE Trust totaled \$93,666,878 as of June 30, 1995. This includes \$44,000,000 from the State, \$10,321,300 from Colleges and Universities, and \$39,345,578 from private contributions.

2. Funds from the Academic Scholars Fund are combined with the Chairs of Excellence Trust for investment purposes only. The Academic Scholars Fund general account receives only the income earned on its principal and does not receive any COE state contributions or appropriations. These funds are invested in fixed income securities.

STATE OF TENNESSEE



**COMPTROLLER OF THE TREASURY
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DIVISION OF STATE AUDIT
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JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697**

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Bond Refunding Trust as of June 30, 1995, and June 30, 1994, and the related statement of changes in assets and liabilities for the year ended June 30, 1995. 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, 1995, and June 30, 1994, and the changes in assets and liabilities for the year ended June 30, 1995, in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated December 21, 1995, on our consideration of the internal control structure and on compliance with laws and regulations.

Sincerely,

A handwritten signature in cursive script that reads "Arthur A. Hayes, Jr.".

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

Bond Refunding
Comparative Balance Sheets

	June 30, 1995	June 30, 1994
<i>Assets</i>		
Cash	\$ 93,012	\$ 86,905
Investments (amortized cost)	124,538	38,234,256
Accrued Interest Receivable	0	1,378,056
Total Assets	\$ 217,550	\$ 39,699,217
<i>Liabilities</i>		
Amounts Held in Custody for Others	\$ 217,550	\$ 39,699,217

See accompanying Notes to the Financial Statements.

Bond Refunding
Statement of Changes in Assets and Liabilities

	Balance June 30, 1994	Additions	Deductions	Balance June 30, 1995
<i>Assets</i>				
Cash	\$ 86,905	\$41,185,062	\$41,178,955	\$ 93,012
Investments	38,234,256	8,777	38,118,495	124,538
Accrued Interest Receivable	1,378,056	0	1,378,056	0
Total Assets	\$ 39,699,217	\$41,193,839	\$80,675,506	\$ 217,550
<i>Liabilities</i>				
Amounts Held in Custody for Others	\$ 39,699,217	\$ 0	\$39,481,667	\$ 217,550

See accompanying Notes to the Financial Statements.

Notes to the Financial Statements, June 30, 1995 and June 30, 1994

The Bond Refunding Fund forms an integral part of the primary government and has been included as an agency fund in the *Tennessee Comprehensive Annual Financial Report*.

The State Treasurer is a trustee for the Tennessee Local Development Authority (the 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 on and after March 1, 1995. In July 1993, the Authority issued refunding bonds of \$34,250,000 to refund \$32,471,000 of the 1987 Series A refunding bonds. The refunding bonds were issued to take advantage of lower interest rates. The proceeds resulting from the advance refundings were held by the trustee in an irrevocable trust to provide for the debt service payments and call premiums at the redemption dates. In March 1995, the 1985 Series A bonds were redeemed. In 1987, an irrevocable trust fund was established to provide for the payment of the remaining outstanding State Loan Program revenue bonds issued in 1985 to refinance loans to Johnson City, Tennessee.

Cash held by the trustee is pooled with the Pooled Investment Fund administered by the State Treasurer. The Pooled Investment Fund is authorized by state statute to invest in accordance with policy guidelines approved by the State Funding Board. The current resolution of the Funding Board gives the Treasurer authority to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, limited money market mutual funds, and in obligations of the state of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The Pooled Investment Fund 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 pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 1995.

The investments held by the trustee at year-end are shown below. The trust is restricted by the Authority's 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

<u>Carrying Amount</u>	<u>Market Value</u>
\$124,538	\$124,538



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