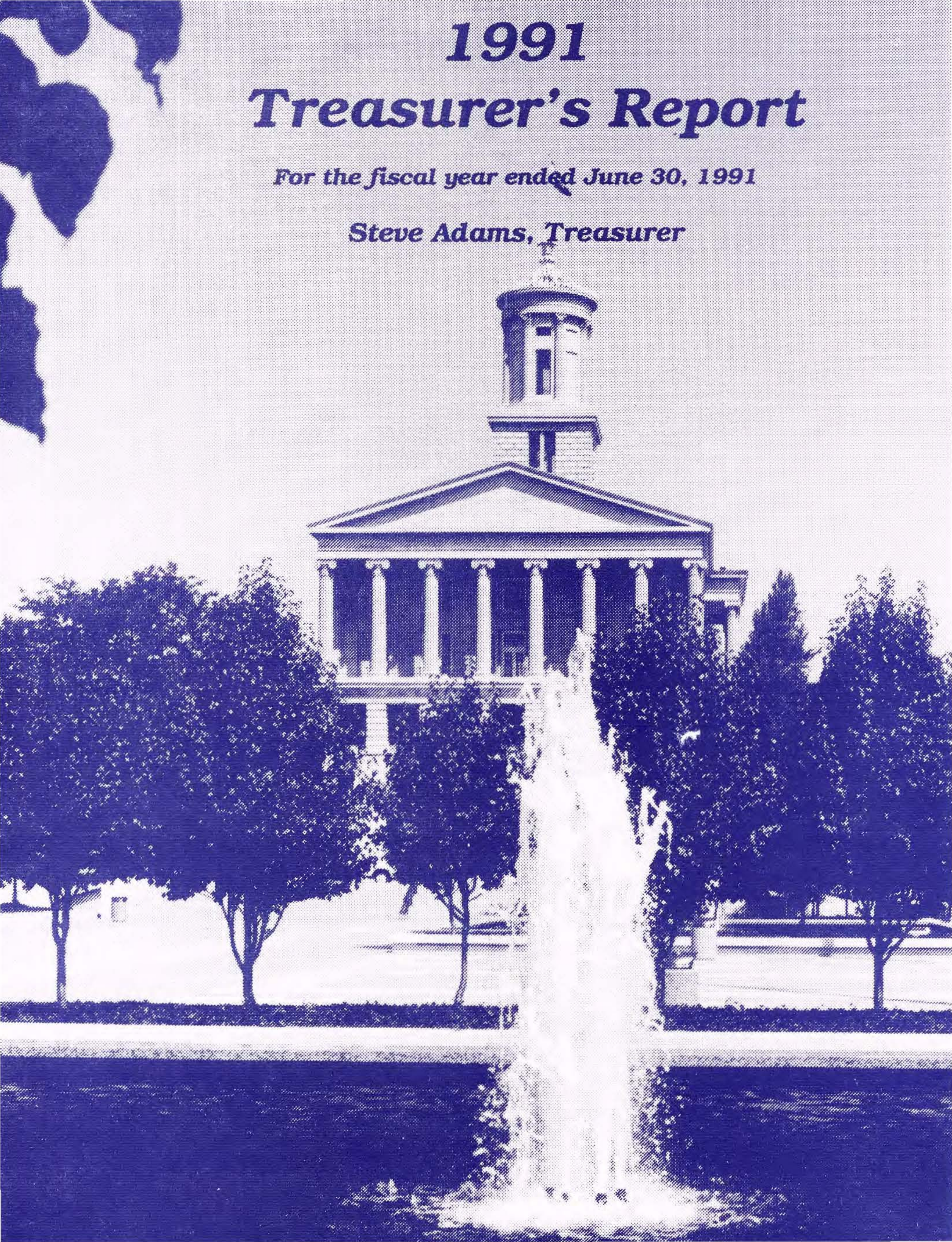
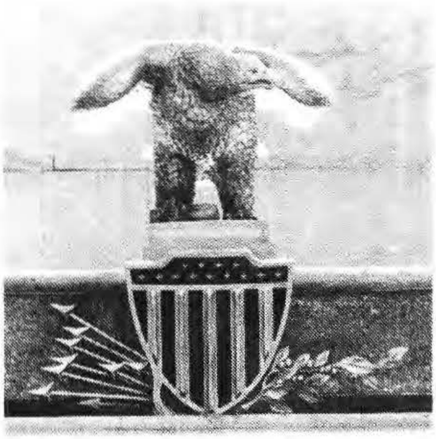
1991 Treasurer's Report

For the fiscal year ended June 30, 1991

Steve Adams, Treasurer





1991 Report of the Treasurer

Steve Adams, Treasurer
State of Tennessee

Year Ended June 30, 1991

THE GREAT SEAL OF THE STATE OF TENNESSEE
XVI
AGRICULTURE
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Contents

"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

Photos by Tennessee Photographic Services

STATE OF TENNESSEE

Steve Adams
Treasurer

Dale Sims
Executive Assistant

Janice Cunningham
Executive Assistant

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

December 31, 1991

The Honorable Ned McWherter, Governor

The Honorable John S. Wilder, Lieutenant Governor and Speaker of the Senate

The Honorable Jimmy Naifeh, Speaker of the House of Representatives

Members of the General Assembly

State of Tennessee
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

This report provides information on the activity and status of programs administered by the Treasurer's office for the fiscal year ended June 30, 1991. I hope this report reveals the Treasury Department continues to adhere to its mission of being committed to providing superior service to our constituents in a cost effective manner through qualified personnel while maintaining the highest ethical standards.

This past year has truly been a challenging time for all of state government. The economy continued to experience a downturn with decreasing interest rates making investment decisions more difficult. Despite adverse markets, we were able to earn superior rates on our investments. Overall, work load in the department increased, especially in the areas of retirement applications and processing of claims. In spite of constraints, we were able to timely respond to various requests of our members, retirees, and citizens of this state.

One initiative of note this fiscal year was in the area of Cash Management. Working with the Funding Board, we successfully structured a short-term financing program providing our own liquidity facility through the State Pooled Investment Fund. It is estimated that this financing arrangement will provide savings of $300,000 annually.

The staff of the Treasury Department continues to be committed to the state and exploring new ways which will improve services to all Tennesseans. I continue to appreciate their support during these challenging times. In addition, my thanks and appreciation are extended to the members of the General Assembly. Your support of this department and the programs we administer help make our endeavors successful.

Sincerely,

Steve Adams

Steve Adams

- **TCRS** investments at June 30, 1991 totaled $8.0 billion at book value, an increase of $408.1 million for the year.
- **TCRS** investments produced $753.0 million in income for a realized rate of return of 9.35%.
- **Investments** of the state's cash produced $121.1 million of income with an average rate of return of 7.91%. Cash investments averaged $1.5 billion.
- **Local** governments participating in the Local Government Investment Pool received $49.5 million interest at a net rate averaging 7.0%.
- **As** of June 30, 1991, there were 158,381 active TCRS members: 41,545 state employees; 50,392 K-12 Teachers; 46,396 political subdivision employees; and 20,048 higher education employees.
- **As** of June 30, 1991, there were 54,789 TCRS retirees. TCRS paid out $307 million in benefits during fiscal year 1990-91.
- **The** TCRS received its third consecutive Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its June 30, 1990 Component Unit Financial Report.
- **Retirement** activities included 3,376 retirements, 5,289 refunds, approximately 10,000 estimates provided to members, and approximately 5,100 requests to purchase prior service.
- **The** state's support of the Medicare supplement insurance plan was $3 million in 1990-91. There are over 12,500 retirees and dependents covered under this plan and 2,300 retired teachers covered under equal or superior local plans who receive the benefit of the state's support.
- **The** State of Tennessee Deferred Compensation Program had 4,596 employees actively contributing at June 30, 1991. Accumulated account balances in the two plans totaled $104.5 million, an increase of $13.2 million during the year.
- **At** June 30, 1991, 30,845 state employees were using the State of Tennessee Flexible Benefits Plan. This "cafeteria" plan offers state employees the opportunity to pay for medical/dental insurance premiums and out-of-pocket medical and dependent care expenses with tax-free salary.
- **The** Division of Claims Administration received 8,451 claims for workers' compensation, tort, employee property damage, criminal injuries, and victims of drunk drivers during fiscal year 1990-91. Payments made during the year for workers' compensation, tort, and employee property damage claims totaled $10.3 million.
- **Payments** made to victims of criminal injuries and drunk drivers totaled $11.3 million during the year. Since the first payments were issued in 1982, a total of $39.7 million has been paid to crime victims.
- **During** the fiscal year, $4.9 million of unclaimed property was turned over to the Treasurer and $1.7 million was returned to owners or their heirs. At June 30, 1991, $3.2 million from unclaimed property revenue was deposited in the Health Access Incentive fund.
- **An** auction of abandoned safe deposit box contents was held this fiscal year which realized proceeds of $76,798.
- **The** Chairs of Excellence Trust created one chair during fiscal year 1990-91 for a total of 80 chairs. The Trust totaled $113.7 million at June 30, 1991.
- **Assets** in the state's Refunding Trust Fund increased to $94.9 million during the year.

Introduction

The 1991 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, 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 1990-91 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 1990-91 averaged $1.5 billion, producing $121.1 million in income for an average rate of return of 7.91 percent.

Pension Fund Investments - This section manages the investments of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 1991 totaled $8.0 billion at book value and $8.7 billion at market value. For the year, investments produced $753 million in income for a realized rate of return of 9.35 percent on book value. This section also manages investments for the Chairs of Excellence Trust which at June 30, 1991 totaled $113.7 million at book value.

State Trust of Tennessee - The State Trust allows the Treasury Department to use the Federal Reserve Wire Transfer System to transfer funds on a limited basis.

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, 1991, there were 158,381 active members and 54,789 retirees. Three types of benefits are provided by TCRS: disability, death, and retirement benefits. Members become eligible for full service retirement upon the attainment of age 60 and 10 years of service or after 30 years of service regardless of age. 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 their employees. Teachers contribute 5 percent to TCRS while state employees and higher education employees do not contribute. Political subdivisions can establish a contributory or non-contributory program for their employees.

Deferred Compensation Program

The State of Tennessee Deferred Compensation Program offers state employees the opportunity to accumulate supplemental retirement income on a tax deferred basis. By making salary reduction contributions to the 457 plan and/or the 401(k) plan offered under the program, employees are able to postpone income taxes on contributions and earnings until the funds are withdrawn. Participants may direct the investment of their deferred salary into a variety of investment products contracted for the program. Since the first of the program's two plans was implemented in 1981, state employees have deferred over $82 million in salary. As of June 30, 1991, 4,596 state and university employees were actively contributing to the program and the market value of accumulated account balances totaled $104.5 million.

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 tax-free salary. Employees may use the plan to pay group medical insurance premiums, group dental insurance premiums, out-of-pocket medical expenses, and dependent care expenses. At June 30, 1991, 30,845 state employees were using the plan: 30,704 paid medical premiums, 2,250 paid dental premiums, 2,163 used the medical expense reimbursement account, and 335 used the dependent care reimbursement account. The plan generated over $1.3 million in F.I.C.A. savings for the state during fiscal year 1990-91.

Claims Administration

The Division of Claims Administration is responsible for investigating and making determinations on claims made against the state for workers' compensation by state employees, employee property damage, and tort liability. Effective January 1, 1990, applications for victims of criminal injury and drunk drivers compensation claims are filed with the Division of Claims Administration. The division investigates the claim and determines the eligibility and amount of compensation due to a crime victim. Staff support from the Division of Claims Administration assists the Defense Counsel Commission and the Board of Claims. The Defense Counsel Commission/Subcommittee hears and determines requests by state employees for approval of private counsel when an employee has been sued in civil litigation. The Board of Claims has the authority to hear and determine certain claims which do not fall within the jurisdiction of the Tennessee Claims Commission. During fiscal year 1990-91, the Division of Claims Administration received 5,951 claims for tort, employee property damage, and workers' compensation. The Defense Counsel Commission heard 276 requests for representation, the Board of Claims took action on six cases, and 2,500 victims of criminal injury and drunk driver claims were approved for payment.

Unclaimed Property and Escheat Program

The Unclaimed Property Division is responsible for the administration of the state's Uniform Disposition of Unclaimed Property Act which has been in effect since 1978. Under this act the state provides one centralized location for the owners of abandoned property, or their heirs, to turn to when searching for forgotten assets. As part of this service, owner location attempts are made for all accounts turned over to the Treasurer. If the owner can not be located, his property will be held in trust in perpetuity. The types of property covered by this act are primarily cash property such as bank accounts, insurance policies, utility deposits, etc. Since the program began, over $48.4 million in unclaimed property has been reported to the Treasurer and over $13.6 million of that property has been returned to 49,335 owners or their heirs. Over $3.2 million was deposited to the Health Access Incentive Fund in fiscal year 1990-91. This fund is used to offer financial assistance to doctors who agree to set up practice in a rural area of the state where medical care is not currently available. At June 30, 1991, 56 practitioners had been placed in health resource shortage areas of the state. Administration of the state's escheat law is handled in conjunction with unclaimed property. Escheat of property occurs when an individual in Tennessee dies without any known heirs.

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 expenditures of nationally or regionally recognized persons at state colleges and universities teaching in specified academic areas. During the 1991 fiscal year, one chair was created with matching contributions totaling over $2.2 million. Since 1984, a total of 80 chairs have been created. The Trust totaled $113.7 million book value at June 30, 1991 and produced income of $10.0 million during the year.

Bond Refunding Trust

The Treasurer has been appointed Refunding Trustee by the Tennessee Local Development Authority (TLDA) and the Funding Board of the state of Tennessee (State Funding Board) in connection with the sale of bonds issued to refund, in advance of maturity, bonds previously issued by the TLDA and the State Funding Board. 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 total assets of the Refunding Trust Fund increased from $43.4 million on June 30, 1990 to $94.9 million on June 30, 1991. This increase was due to the State Funding Board's refunding of $50 million of the state's general purpose bonds in June 1991.

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 226 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 1990-91 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was $1,530,142,560 per month and interest income of $121,066,041 was earned. This includes deposits in the Local Government Investment Pool administered by the Treasury Department.

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

Up to 20 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 repurchases must be book-entry and delivered to the State Trust of Tennessee.

In March 1988, the General Assembly approved investment in prime commercial paper, prime banker's acceptances, and money market mutual funds subject to passage of a resolution by the State Funding Board approving policy guidelines applicable to these investment instruments. The State Funding Board passed a resolution approving such policy guidelines in June 1989. Constant change in financial markets makes diversification an important tool for enhancing return.

In May 1991, the State Funding Board amended the investment policy to allow the State Pooled Investment Fund to be used as a liquidity facility for the state's General Obligation Bond Anticipation Note Program (final maturity June 1, 1996). Pursuant to this modification, 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 our own liquidity facility, the state could save $300,000 a year on these outstanding notes.

At June 30, 1991, investments had an average maturity of 208 days, and an average weighted yield of 7.04%. The total balance in the State Pooled Investment Fund at June 30, 1991 ($1,516,242,000 par value) was allocated as follows: U.S. Treasury government and agency securities, 51.4%; repurchase agreements, 20.8%; collateralized certificates of deposit, 18.0%; and commercial paper, 9.8%.

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

State Cash Management Comparative Returns

Fiscal Year	[1]Total State Funds	[2]Merrill Lynch Institutional Fund	[3]New State Funds	[4]90 Day Treasury (CD Equivalent Yield)
1990-91	7.91%	7.03%	7.15%	6.66%
1989-90	8.69	8.25	8.51	8.01
1988-89	8.08	8.34	8.79	8.24
1987-88	6.95	6.61	6.91	6.11
1986-87	6.78	6.38	6.23	5.67

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

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 the funds into the State Trust to meet liquidity and investment needs. Statute requires that state deposits be secured through the pledging of investment securities to the state against those deposits. Time and/or demand deposits are maintained at almost 226 financial institutions. Taxpayers frequently make deposits directly to the various Treasurer's accounts without informing the Cash Management staff. 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. The majority 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. Efforts to consolidate the state's business into no more than one account per bank are underway. The mergers and acquisitions of branches have resulted in multiple accounts at individual financial institutions. The cooperation of the banking industry has assisted these efforts.

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 on page 11.

The current 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, and capital-to-asset ratios falling below five percent.

Legislation was passed in 1990 which permitted out-of-state financial institutions 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 as federal Treasury, Tax and Loan institutions.

8-5-110 Collateral

Tennessee Code Annotated, Section 8-5-110 designates the State Treasurer as the custodian of all collateral, securities, bonds and other valuable papers deposited with the state or any department thereof, and requires the State 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, and the Department of Financial Institutions.

Collateral Pool

Legislation passed in March 1990 authorized the formation of two collateral pools. Banks and savings and loan institutions are each authorized to form a pool to jointly collateralize all public deposits at their respective institutions. Interest has been expressed in forming a collateral pool for banks.

Board members have been appointed and board meetings have been held to discuss the criteria and requirements of forming, operating, and administering such a collateral pool. Board members include the State Treasurer and the Commissioner of Financial Institutions as ex officio members. Four board members have been appointed by the Tennessee Banker's Association and one collateral pool board member representing local governments has been appointed by the Security for Public Deposits Task Force.

Securities Acceptable as Collateral by the State of Tennessee

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.

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

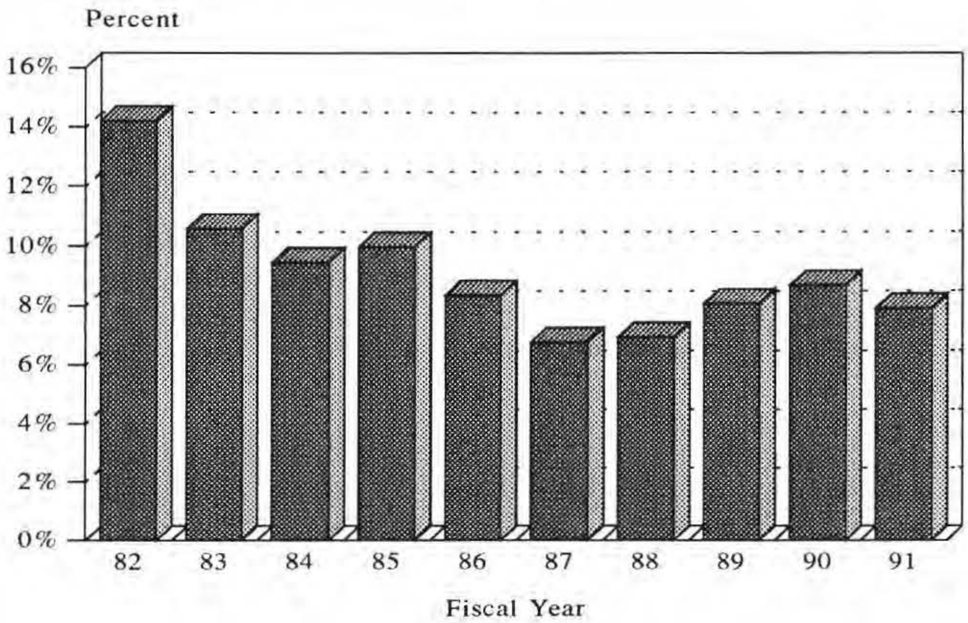
HISTORICAL ANALYSIS OF STATE CASH INVESTMENTS

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
COLLATERALIZED TIME DEPOSITS			
1990-91	$ 374,849,439	$ 28,926,573	7.75%
1989-90	534,537,343	46,386,265	8.64%
1988-89	627,977,376	51,357,880	8.18%
1987-88	679,024,771	48,090,904	7.07%
1986-87	594,006,672	38,871,102	6.52%
REPURCHASE AGREEMENTS			
1990-91	$ 204,465,829	$ 15,081,792	7.17%
1989-90	255,968,844	21,592,013	8.60%
1988-89	226,195,963	20,365,993	8.90%
1987-88	225,662,529	15,078,114	6.70%
1986-87	306,224,111	18,804,873	6.15%
COMMERCIAL PAPER			
1990-91	$ 204,276,091	$ 15,752,444	7.65%
1989-90	61,703,591	5,166,619	8.37%
U.S. GOVERNMENT SECURITIES			
1990-91	$ 736,959,611	$ 60,114,144	8.17%
1989-90	797,028,872	70,186,714	8.74%
1988-89	801,265,661	62,644,827	7.77%
1987-88	810,127,768	55,735,584	6.91%
1986-87	719,499,940	50,525,274	7.25%
MONEY MARKET DEPOSIT ACCOUNTS AND OTHER			
1990-91	$ 9,591,590	$ 395,062	3.97%
1989-90	10,548,553	478,192	4.42%
1988-89	11,111,732	506,154	4.57%
1987-88	11,890,553	539,365	4.54%
1986-87	12,890,402	598,037	4.68%
SECURITIES LENDING INCOME			
1990-91	N/A	$ 796,026	N/A
1989-90	N/A	427,177	N/A

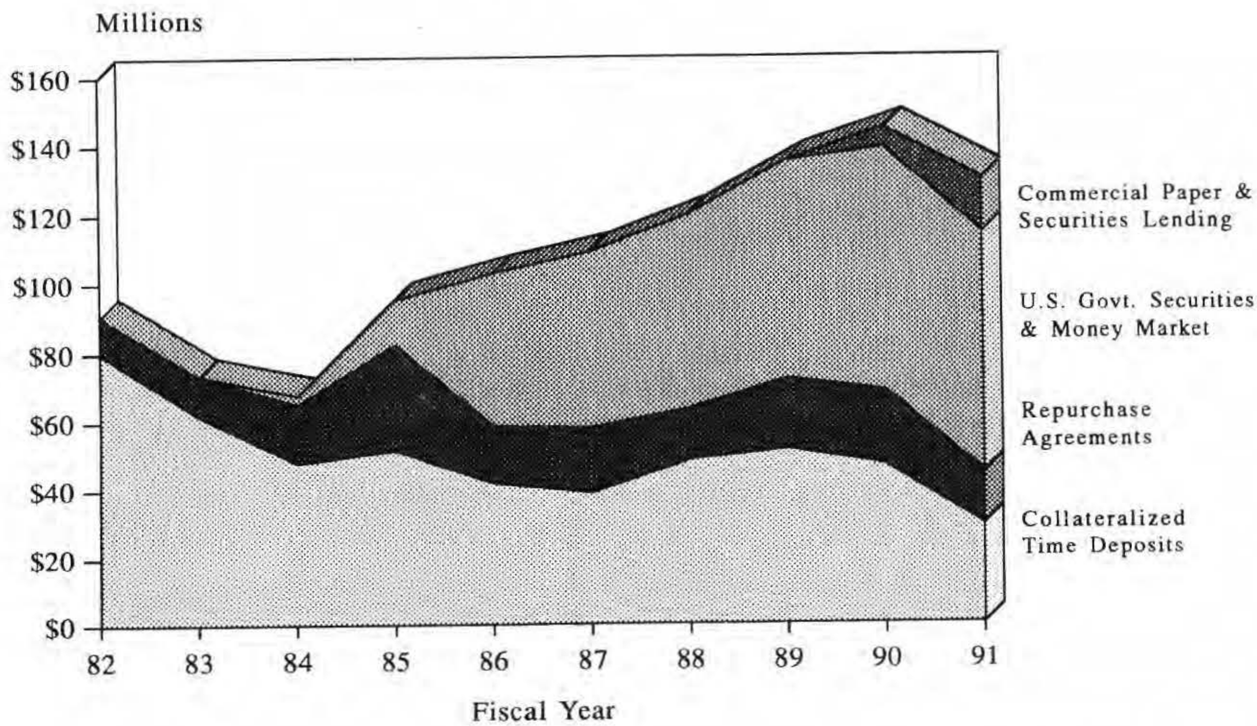
TOTAL FUNDS

Fiscal Year	Average Total Funds Invested	Total Cash Management Earnings	Percent Of Total Available Cash Invested	Composite Weighted Average Rate of Return
1990-91	$ 1,530,142,560	$121,066,041	100.0%	7.91%
1989-90	1,659,787,203	144,236,980	100.0%	8.69%
1988-89	1,666,550,732	134,874,854	100.0%	8.08%
1987-88	1,726,705,621	119,443,968	100.0%	6.95%
1986-87	1,632,621,125	108,799,286	100.0%	6.78%

Cash Management Investments
Composite Weighted Average Rate of Return
1982-1991



Analysis of State Cash Earnings
1982-1991



Cash Management Portfolio Analysis
Fiscal Year Ended June 30, 1991

Date	Current Investment Yield	Total Portfolio Yield	Avg. Days to Maturity	Portfolio Composition: Certificates of Deposit	Repurchase Agreements	U.S. Treasury Notes	U.S. Agency	Commercial Paper
07/90	8.16%	8.40%	233	27.76%	13.78%	36.30%	8.27%	13.89%
08/90	8.10%	8.36%	220	25.72%	21.20%	32.73%	7.65%	12.70%
09/90	8.09%	8.33%	244	26.18%	10.70%	35.43%	7.45%	20.24%
10/90	8.01%	8.33%	236	23.60%	12.77%	36.09%	7.37%	20.17%
11/90	7.83%	8.26%	240	24.72%	12.78%	37.56%	8.19%	16.75%
12/90	7.73%	8.22%	230	27.09%	20.79%	39.85%	7.92%	4.35%
01/91	7.12%	7.91%	253	24.62%	10.41%	41.54%	6.87%	16.56%
02/91	6.55%	7.79%	246	21.94%	11.60%	40.04%	6.39%	20.03%
03/91	6.40%	7.57%	252	20.53%	8.11%	50.08%	5.95%	15.33%
04/91	6.10%	7.39%	216	18.10%	19.08%	44.43%	4.78%	13.61%
05/91	5.86%	7.23%	215	19.58%	16.96%	45.85%	5.13%	12.48%
06/91	5.89%	7.16%	208	18.04%	20.80%	46.02%	5.37%	9.77%
Dollar Weighted Avg.	7.15%	7.91%	233	23.16%	14.91%	40.49%	6.78%	14.66%

Date	General Fund Average	General Fund Percent	LGIP Average	LGIP Percent	Other Restricted Average	Other Restricted Percent	Total Invested
07/90	$780,357,197	46.65%	$571,175,519	34.15%	$321,137,083	19.20%	$1,672,669,800
08/90	740,428,145	45.31%	575,435,301	35.21%	318,272,448	19.48%	1,634,135,894
09/90	749,276,663	44.54%	613,460,350	36.47%	319,504,189	18.99%	1,682,241,202
10/90	618,607,886	39.49%	607,469,268	38.78%	340,532,280	21.74%	1,566,609,434
11/90	510,004,025	36.10%	566,796,802	40.12%	336,056,101	23.79%	1,412,856,928
12/90	387,321,347	29.45%	584,102,684	44.42%	343,564,122	26.13%	1,314,988,153
01/91	344,192,315	23.87%	749,918,137	52.01%	347,733,035	24.12%	1,441,843,487
02/91	286,386,350	20.06%	803,144,995	56.26%	337,994,033	23.67%	1,427,525,378
03/91	221,555,004	14.58%	959,664,371	63.17%	337,906,617	22.24%	1,519,125,992
04/91	302,737,893	18.84%	968,847,046	60.30%	335,103,783	20.86%	1,606,688,722
05/91	374,567,850	23.51%	879,824,591	55.23%	338,545,734	21.26%	1,592,938,175
06/91	341,733,372	22.93%	809,972,956	54.36%	338,381,222	22.71%	1,490,087,550
Avg.	$471,430,671	30.45%	$724,151,002	47.54%	$334,560,887	22.01%	$1,530,142,560

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

The Local Government Investment Pool began operations in November of 1980. Since that time, over 190 local government units have taken the opportunity to participate in the LGIP program. The Treasurer's Office has provided 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. Participants have been delighted with the efficiency of the facsimile telecopier method. It frees staff time to actually execute the instructions and provides documentation of those instructions. Recently, LGIP reporting has been enhanced to provide written transaction confirmation to participants prior to statement date. This enhancement documents the date, the participant entity account name and number, the transaction amount, and the transaction type.

Participants earn interest on LGIP deposits based on the average rate of interest earned on the investments acquired for the entire cash management pool each month. This average earnings rate is reduced each month by fifteen one hundredths of one percent (.15%) as an administrative fee for participating in the LGIP program. During the 1990-91 fiscal year, the average rate participants earned on their deposits after the fee reduction was 7.00%. Other activity by participant groups is scheduled below.

Schedule of Activity by Entity Type
Fiscal Year Ended June 30, 1991

	Account Balance 7/1/90	Amount Deposited FY 1990-91	Amount Withdrawn FY 1990-91	Net Interest Credited FY 1990-91	Account Balance 6/30/91
Cities	$206,505,001	$ 766,573,268	$ 757,222,523	$16,206,528	$232,062,274
Counties	59,940,934	478,982,901	356,754,598	8,297,805	190,467,042
Commitments to D.O.T.	27,969,482	11,115,167	8,430,087	2,253,674	32,908,236
Educational Institutions	218,140,645	1,238,884,226	1,248,666,186	19,939,006	228,297,691
Commitments to OASI	59,893	0	0	4,336	64,229
Restricted Accounts	5,423,091	150,000	4,953,921	388,209	1,007,379
Community Health Access	165,043	5,469,381	4,786,690	39,395	887,129
Other	24,834,563	41,783,068	30,029,153	2,425,961	39,014,439
TOTAL	$543,038,652	$2,542,958,011	$2,410,843,158	$49,554,914	$724,708,419

Reconciliation of Cash and Cash Equivalents

June 30, 1991

(Expressed in Thousands)

Cash and cash equivalents per Department of Finance and Administration		$2,323,997
Deduct: Net reconciling items to bank statements		(385)
Deduct: Petty cash and other departmental cash in accounts not in possession of the Treasurer		(99,759)
Deduct: Investments classified as cash equivalents, not in possession of the Treasurer		(69,527)
Cash and cash equivalents per Treasury		$2,154,326
Represented by:		
Cash in banks	$ 21,923	
TCRS cash equivalents	564,030	
COE cash equivalents	6,070	
Time deposits	274,541	
Repurchase agreements	316,465	
Treasury bills	811,967	
Commercial paper	148,614	
Repurchase agreements held in trust	10,716	
Total		$2,154,326

The cash and cash equivalents per Finance and Administration as reported in the Tennessee Comprehensive Annual Financial Report for June 30, 1991 is $2.32 billion as shown. The cash equivalents shown for TCRS and COE consist of commercial paper with three months or less to maturity when purchased. The repurchase agreements in the amount of $10.7 million are held by the Treasurer as a trustee for the issuance of bonds relating to a contract between the state and the Metropolitan Government of Nashville and Davidson County.

Investment Objective

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

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.

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.

The war in the Persian Gulf played havoc with the financial markets around the world during the fiscal year as stocks and bonds experienced roller-coaster type movements commencing with the invasion of Kuwait. Combined with last summer's tax increases, the Gulf war pushed the U.S. economy into its longest recession since World War II.

As the recession bottomed, equity prices began a strong recovery in response to anticipation of a better economy and the Federal Reserve's lowering of interest rates. During this period, TCRS, having a widely diversified asset structure, performed in line with similar public pension plans, while over the longer term, three and five year periods, TCRS investment performance remains in the upper quartile of the public fund universe.

During the fiscal year, formal authorization was received for the investment staff to engage in currency hedging. This authorization had been sought to protect the plan's international equity and fixed income portfolios from adverse moves in foreign currency against the dollar. The approved strategy is a defensive one and will be used only against the three highest exposure currencies.

Quotation Services

Quotation services have been acquired for fixed income and equity securities. The equity quotation service provides detailed quote information, trading history, market making information, and graphics. Additional watch monitors can be set for portfolio pricing. Analysts utilize historical data such as equity pricing, market index prices, and indicators. Domestic and international equity quotes are also available. The quotation service for fixed income securities in domestic and foreign markets provide analysts with security descriptions, price quotes, spread history, swap analysis, bond calculations, watch monitors, and graphics capabilities.

Securities Custodian

United States Government Securities are in book entry form and are held in a restricted account at the Federal Reserve Bank. Chase Manhattan Bank, N.A. serves as the custodian bank for all other domestic and international securities.

Statutory Guidelines

The investment authority of TCRS is prescribed in the *Tennessee Code Annotated*, Title 8, Chapter 37. *T.C.A.*, Section 8-37-104(a) provides that, with certain enumerated exceptions, investments of TCRS assets are subject to the same terms, conditions, and limitations imposed on domestic life insurance companies as set forth in *T.C.A.*, Sections 56-3-303, *et seq*. It further provides that if the particular investment is authorized by state statute, it must then be approved by the Board of Trustees. The Board of Trustees, through its investment policy, may further restrict such investments.

❑ ***Statutory Authority***

The investment authority relating to TCRS assets is provided under *T.C.A.*, Section 8-37-104 and *T.C.A.*, Sections 56-3-303, *et seq.*

❑ ***Summary of Statutory Authorizations and Restrictions Pursuant to T.C.A., Section 8-37-104.***

• An amount not to exceed 75% of TCRS' total assets may be invested in common and preferred stocks and convertible bonds.

• An amount not to exceed 75% of TCRS' total assets may be invested in notes and bonds or other fixed income securities exceeding one year in maturity.

• An amount not to exceed 11% of TCRS' total assets may be invested in the international markets of Japan, the United Kingdom, Germany, Switzerland, France, the Netherlands, and Australia. Such investments must be of the same kinds, classes, and investment grades otherwise eligible for investment. Canadian securities shall be treated like domestic securities.

• TCRS may engage in forward contracts through its custodial bank and a few of the highest quality money center banks and brokerage firms to hedge the foreign currency exposure of the fund.

• TCRS shall not invest in any bank or financial institution which has originated loans to the Republic of South Africa.

• TCRS shall not invest in stocks, securities, or other obligations of any U.S. firm or company which has a direct investment in the Republic of South Africa if more than 1% of the assets of the company are maintained in the Republic of South Africa.

❑ ***Summary of Additional Authorizations and Restrictions Pursuant to T.C.A., Sections 56-3-303, et seq.***

• May invest in debt instruments issued, assumed, or guaranteed by a public entity if such obligations are payable from taxes levied on property or income within the jurisdiction of the public entity or from special revenues.

• May invest in interest-bearing bonds, debentures, notes, commercial paper, bankers' acceptances, and other debt instruments issued, assumed, or guaranteed by a domestic institution, provided the institution's long-term obligations are included in the four highest grades by a recognized rating service.

• May invest in promissory notes secured by instruments which TCRS is permitted to hold.

• May invest in obligations of an agency of the U.S. government and obligations of a U.S. government sponsored corporation.

• May write call options on stock positions owned by TCRS, provided such options are not written on more than 10% of TCRS' total stock portfolio.

• May write call options on U.S. Treasury bond futures, provided such options are not written on more than 10% of the amortized book value of TCRS' total assets.

• May 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 that the total amount of the securities lent does not exceed 10% of the amortized book value of TCRS' total assets.

• May invest in improved and income producing real property, provided TCRS does not hold more than 10% of its assets in real property.

Retirement Fund Investments

	June 30, 1991		June 30, 1990	
	Book Value	**Market Value**	**Book Value**	**Market Value**
Domestic Securities:				
Government Bonds	$ 2,541,352,606	$ 2,642,591,974	$ 2,376,680,549	$ 2,442,876,094
Corporate Bonds	2,533,592,384	2,539,912,212	2,094,986,133	2,086,356,785
Corporate Stocks	2,257,831,910	2,835,639,324	2,221,880,123	2,842,894,087
Mortgages	1,394,132	1,326,961	1,657,804	1,541,380
International Securities:				
Government Bonds	222,767,415	202,862,204	202,475,696	189,240,931
Corporate Bonds	67,862,958	66,978,081	112,635,123	108,679,152
Corporate Stocks	272,207,952	275,432,479	394,986,579	416,715,131
American Depository Receipts	30,592,088	30,232,829	34,477,324	41,300,075
Currency Gain (Loss)		6,242,594		46,693,064
Short-Term Securities	108,843,261	104,037,189	188,556,852	165,822,178
Total Investments	$ 8,036,444,706	$ 8,705,255,847	$ 7,628,336,183	$ 8,342,118,877

Distribution of International Investments
June 30, 1991

	Stocks		Fixed Income		Total	
Country	**Book Value**	**Market Value**	**Book Value**	**Market Value**	**Book Value**	**Market Value**
Australia	$ 25,409,147	$ 27,998,560	$ 25,595,538	$ 27,493,152	$ 51,004,685	$ 55,491,712
France	23,099,886	23,156,584	62,936,508	57,108,920	86,036,394	80,265,504
Japan	91,642,800	102,305,103	89,436,921	87,516,230	181,079,721	189,821,333
Netherlands	37,473,010	33,808,151			37,473,010	33,808,151
Switzerland	19,681,538	16,177,920			19,681,538	16,177,920
United Kingdom	73,732,156	81,532,929	41,214,945	35,772,693	114,947,101	117,305,622
Germany	31,761,503	29,375,599	71,446,461	59,502,346	103,207,964	88,877,945
Total	$302,800,040	$314,354,846	$290,630,373	$267,393,341	$593,430,413	$581,748,187

Domestic Fixed Income Portfolio

Description	Rating	Coupon	Maturity			Par Value	Market Value
GOVERNMENTS:							
Bonds and Notes							
Cert. of Accrual Treasury-Ser. G	AAA	0.000	5	15	1992	$ 17,850,000	$ 16,920,015.00
Cert. of Accrual Treasury-Ser. T	AAA	0.000	5	15	1996	34,280,000	23,241,154.40
Cert. of Accrual Treasury-Ser.T	AAA	0.000	11	15	1996	9,404,000	6,109,778.80
Coupon Treasury Receipts	AAA	0.000	8	15	1992	17,280,000	16,057,785.60
Coupon Treasury Receipts	AAA	0.000	2	15	1993	15,000,000	13,440,000.00
Coupon Treasury Receipts	AAA	0.000	8	15	1997	30,000,000	18,142,500.00
Coupon Treasury Receipts	AAA	0.000	2	15	1998	39,720,000	22,949,421.60
Coupon Treasury Receipts	AAA	0.000	8	15	1998	49,140,000	27,181,791.00
Coupon Treasury Receipts	AAA	0.000	8	15	2004	23,075,400	7,389,896.85
Coupon Treasury Receipts	AAA	0.000	11	15	2003	74,236,964	25,379,390.80
Coupon Treasury Receipts	AAA	0.000	8	15	2003	100,000,000	34,932,000.00
Coupon Treasury Receipts	AAA	0.000	5	15	1992	6,625,000	6,279,837.50
Coupon Treasury Receipts	Aaa	0.000	8	15	2004	10,134,000	3,245,413.50
Nova Scotia (Province)	A3	8.875	3	15	2016	20,000,000	18,936,800.00
Quebec (Province)	AA3	8.625	12	1	2026	10,000,000	9,310,100.00
Treasury Invest. Growth Receipts	AAA	0.000	5	15	2005	100,000,000	29,930,000.00
Treasury Invest. Growth Receipts	AAA	0.000	5	15	2000	13,678,000	6,440,970.20
Treasury Invest. Growth Receipts	AAA	0.000	5	15	2000	4,723,875	2,224,472.74
Treasury Invest. Growth Receipts	AAA	0.000	5	15	1994	17,803,000	14,425,592.87
Treasury Invest. Growth Receipts	AAA	0.000	11	15	1994	17,812,500	13,834,790.63
Treasury Invest. Growth Receipts	AAA	0.000	5	15	1995	8,208,000	6,078,188.16
Treasury Invest. Growth Receipts	AAA	0.000	11	15	1995	17,803,000	12,631,762.59
Treasury Invest. Growth Receipts	AAA	0.000	5	15	1996	8,312,500	5,635,708.75
Treasury Invest. Growth Receipts	AAA	0.000	5	15	2000	15,513,500	7,305,307.15
United States Treasury Bonds	AAA	9.125	5	15	2009	25,000,000	26,218,750.00
United States Treasury Bonds	AAA	10.375	11	15	2012	159,000,000	183,446,250.00
United States Treasury Bonds	AAA	12.000	8	15	2013	80,000,000	104,100,000.00
United States Treasury Bonds	AAA	11.875	11	15	2003	10,000,000	12,631,200.00
United States Treasury Bonds	AAA	10.750	8	15	2005	197,000,000	233,198,750.00
United States Treasury Bonds	AAA	9.250	2	15	2016	70,000,000	74,965,800.00
United States Treasury Bonds	AAA	8.750	5	15	2017	60,000,000	61,350,000.00
United States Treasury Corpus	AAA	0.000	11	15	2001	76,000,000	29,189,320.00
United States Treasury Notes	AAA	7.375	5	15	1996	50,000,000	48,937,500.00
United States Treasury Notes	AAA	7.125	10	15	1993	50,000,000	50,140,500.00
United States Treasury Notes	AAA	7.250	11	15	1996	56,850,000	55,002,375.00
United States Treasury Notes	AAA	8.250	8	15	1992	60,000,000	61,012,200.00
United States Treasury Notes	AAA	8.000	8	15	1999	85,000,000	83,857,600.00
United States Treasury Notes	AAA	8.875	5	15	2000	60,000,000	62,137,200.00
United States Treasury Strip	AAA	0.000	5	15	2002	25,000,000	9,987,250.00
United States Treasury Strip	AAA	0.000	5	15	2003	39,460,000	14,389,483.60
Total Bonds and Notes							$ 1,458,586,856.74

Description	Rating	Coupon	Maturity			Par Value	Market Value
Agencies							
Agency Int'l Development	Aaa	9.300	7	1	2020	$ 25,000,000	$ 25,750,000.00
Amer. SW Financial CMO 37-C	AAA	9.200	12	1	2006	11,500,000	11,632,940.00
CMO Trust One 1-D	Aaa	10.150	5	1	2007	5,328,944	5,423,852.26
CMO Trust 15-D	AAA	5.000	12	20	2016	29,550,000	23,575,285.50
Federal Farm Credit MT Notes	Aaa	8.875	10	1	1999	10,000,000	10,040,000.00
FHLMC B PC #220007	Aaa	8.750	8	1	2001	8,442,283	8,330,000.62
FHLMC B PC #286896	Aaa	7.500	2	1	2017	13,582,913	12,600,189.52
FHLMC CAP DEB	Aaa	7.950	4	3	1995	20,000,000	20,030,600.00

(See explanation of ratings at the end of the International Bond Portfolio.)

Description	Rating	Coupon	Maturity			Par Value	Market Value
FHLMC CAP DEB	Aaa	11.400	5	1	1995	35,000,000	38,981,250.00
FHLMC DEB	Aaa	8.125	9	30	1996	5,000,000	4,993,750.00
FHLMC MF	Aaa	8.750	2	15	2000	76,976,578	75,148,383.88
FHLMC PC #170220	Aaa	8.000	4	1	2017	19,140,119	18,183,113.00
FHLMC PC #189272	Aaa	8.500	12	1	2007	11,456,211	11,303,957.69
FHLMC PC #256498	Aaa	8.000	4	1	2009	6,707,047	6,467,002.14
FHLMC PC #220010	Aaa	8.750	8	1	2001	9,795,295	9,877,869.37
FHLMC Series 20-J Class Z	Aaa	9.500	3	15	2018	29,180,000	35,489,007.80
FNMA DEB	Aaa	8.700	6	10	1999	10,000,000	10,159,400.00
FNMA DEB	Aaa	8.450	7	15	1996	5,000,000	5,051,550.00
FNMA DEB	Aaa	0.000	7	5	2014	150,000,000	18,937,500.00
FNMA DEB	Aaa	9.650	8	10	2020	33,000,000	33,639,210.00
FNMA DEB	Aaa	9.150	9	10	1997	20,000,000	20,681,200.00
FNMA DEB	Aaa	8.375	4	24	1998	21,000,000	20,849,010.00
FNMA GVT	Aaa	8.875	1	10	2001	5,000,000	5,039,050.00
FNMA MBS #7238	Aaa	8.000	6	1	2008	22,794,622	22,121,497.01
FNMA MBS #18742	Aaa	8.500	11	1	2008	20,208,859	19,937,049.82
FNMA MBS #89930	Aaa	8.000	7	1	2009	13,719,942	13,404,795.32
FNMA MT Notes	Aaa	10.350	4	1	2019	25,000,000	26,397,500.00
FNMA SUB DEB	Aaa	0.000	10	9	2019	100,000,000	8,187,000.00
FNMA 1989-31Z	Aaa	10.000	6	25	2019	5,000,000	5,745,200.00
GMAC MTG SECS CMO SER B-2	Aaa	7.800	5	20	2011	12,166,926	11,786,709.84
GNMA MBS #193196	Aaa	9.000	8	15	2016	22,479,966	22,353,404.01
GNMA #174621	Aaa	9.500	8	15	2016	14,015,940	14,296,258.76
GNMA #175468	Aaa	9.000	9	15	2016	8,059,702	8,014,325.80
GNMA #198306	Aaa	9.000	1	15	2017	15,615,092	15,527,179.18
GNMA #218124	Aaa	9.000	6	15	2017	6,825,166	6,786,740.72
GNMA #235870	Aaa	9.500	10	15	2017	4,257,778	4,342,933.61
GNMA #266932	Aaa	9.500	1	15	2019	4,900,663	4,998,675.91
GNMA #270479	Aaa	10.000	7	15	2019	10,635,229	11,103,817.48
GNMA #270849	Aaa	9.500	2	15	2019	4,750,564	4,845,575.01
GNMA #271685	Aaa	9.500	4	15	2019	9,004,678	9,184,771.95
GNMA #250734	Aaa	9.500	6	15	2018	4,483,765	4,573,440.33
GNMA #259880	Aaa	10.000	8	15	2018	37,195,556	38,834,391.75
GNMA #279522	Aaa	9.000	11	15	2019	21,248,733	21,129,102.61
Government Trust Certificates	Aaa	9.250	11	15	2001	50,000,000	52,220,000.00
Government Trust Certificates	Aaa	9.400	5	15	2002	20,000,000	21,124,000.00
International Bk. for Rec. & Dev	Aaa	8.250	9	1	2016	17,000,000	15,796,400.00
International Bk. for Rec. & Dev.	Aaa	8.625	10	15	2016	68,000,000	65,790,000.00
International Bk. for Rec. & Dev	Aaa	9.250	7	15	2017	5,000,000	5,139,350.00
International Bk. for Rec. & Dev. MT Notes	Aaa	10.030	9	15	1997	5,000,000	5,339,100.00
International Bk. for Rec. & Dev. MT Notes	Aaa	9.320	10	29	2003	10,000,000	10,302,400.00
International Bk. for Rec. & Dev. MT Notes	Aaa	9.570	11	1	2018	10,000,000	10,449,000.00
Investors CMO Ser. C3	Aaa	7.875	6	25	2001	10,712,342	10,695,630.98
Investors CMO Ser. C4	Aaa	8.875	2	25	2004	19,671,156	19,898,554.56
Investors CMO Ser. J	Aaa	11.375	8	25	2013	10,700,000	11,596,125.00
Mtg. Bnks. Fin. Corp. 1 87-A-2	AAA	7.200	7	25	2000	21,397,489	21,277,235.33
REFCORP Strips	Aaa	0.000	10	15	1997	35,000,000	20,796,650.00
REFCORP Strips	Aaa	0.000	4	15	1998	27,000,000	15,302,790.00
REFCORP Strips	Aaa	0.000	7	15	1996	100,000,000	66,638,000.00
REFCORP Strips	Aaa	0.000	7	15	1998	16,033,000	8,893,825.76
Rural Electric Co-Op Trust Cert.	Aaa	9.200	9	30	2001	20,000,000	19,618,400.00
Ryan Mtg. CMO IV 4-2	AAA	9.400	1	1	2010	18,449,207	18,737,567.82
Ryan Mtg. CMO IV 8-C	AAA	9.000	9	1	2007	16,000,000	16,260,000.00
Salomon Capital CMO Ser. 1985-32	Aaa	8.625	10	1	2004	39,500,000	39,944,375.00
Small Bus. Admin. PC 1986-A	AAA	8.750	9	1	1996	15,817,830	15,675,627.99
Small Bus. Admin. PC 1987-A	AAA	7.950	2	1	1997	7,030,266	6,755,593.80
Total Agencies							$ 1,184,005,117.13
TOTAL GOVERNMENTS							$ 2,642,591,973.87

(See explanation of ratings at the end of the International Bond Portfolio.)

Description	Rating	Coupon	Maturity			Par Value	Market Value
CORPORATES:							
AT & T Capital MT Notes	Aa3	8.875	7	12	1995	$ 8,500,000	$ 8,681,730.00
AT & T Capital MT Notes	Aa3	8.800	7	15	1994	6,000,000	6,146,520.00
AT & T MT Notes	Aa3	8.700	12	30	1999	10,000,000	9,730,400.00
AT & T	Aa3	7.000	2	15	2001	15,000,000	13,194,000.00
AT & T	Aa3	8.625	4	1	2026	3,000,000	2,755,980.00
Alltel	A2	9.500	3	1	2021	7,000,000	6,934,690.00
American Express Credit	Aa2	10.875	5	15	2013	6,000,000	6,460,980.00
Ameritech Credit Corp. MT Notes	Aa2	8.740	5	15	1992	10,000,000	10,150,100.00
Anheuser Busch	A1	8.750	12	1	1999	10,000,000	9,916,000.00
Anheuser Busch	A1	7.950	2	1	1999	16,500,000	16,285,500.00
Arco	A2	9.875	3	1	2016	10,000,000	10,580,600.00
Arco	A2	9.125	3	1	2011	10,000,000	9,912,600.00
Arkla Inc.	A3	8.900	12	15	2006	14,000,000	13,280,540.00
Associated Dry Goods	A3	8.850	3	1	2006	7,000,000	6,726,930.00
BP America	Aa3	10.000	7	1	2018	13,000,000	13,421,330.00
BP America	Aa3	9.875	3	15	2004	10,000,000	10,675,700.00
Bell Atlantic MT Notes	Aa3	9.000	11	4	1991	50,000	50,379.50
Bell Atlantic MT Notes	Aa3	9.530	5	17	1995	10,000,000	10,376,400.00
Bell Tel Pennsylvania	Aa1	8.000	8	1	2009	4,000,000	3,639,000.00
British Gas Finance	Aaa	8.750	3	15	1998	10,000,000	10,017,900.00
British Gas Finance	Aaa	9.500	3	15	2018	15,000,000	14,753,850.00
British Tel Finance	Aaa	9.375	2	15	1999	15,000,000	15,561,450.00
CSX Corp.	A3	8.400	8	1	1996	11,000,000	10,739,190.00
Cajun Electric Co-Op	Aaa	9.520	3	15	2019	3,000,000	3,088,890.00
Ches & Potomac Tel (Virg.)	Aaa	8.500	9	1	2026	5,000,000	4,586,500.00
Coca-Cola Enterprises MT Notes	A2	9.500	12	5	1994	10,000,000	10,398,400.00
Coca-Cola Enterprises MT Notes	A2	9.660	1	29	2018	25,000,000	25,652,500.00
Coca-Cola Enterprises	A2	8.200	11	29	1993	5,000,000	5,068,550.00
Consolidated Edison	Aa1	6.850	10	1	1998	5,000,000	4,502,900.00
Consolidated Edison	Aa1	7.900	4	15	2002	10,000,000	9,319,700.00
Consolidated Edison	Aa1	7.750	2	15	2003	14,500,000	13,266,050.00
Consolidated Natural Gas	AA2	8.625	12	1	2011	5,000,000	4,727,950.00
Coop Utility Trust	AAA	8.780	3	15	1993	2,759,077	2,813,982.78
Duke Power	Aa2	7.750	6	1	2003	9,750,000	8,908,380.00
Duke Power	Aa2	8.500	5	1	2017	32,200,000	29,777,594.00
Duke Power	AA2	8.750	3	1	2021	28,000,000	26,389,440.00
Farmers Insurance Group	A1	8.250	7	15	1996	21,000,000	20,259,750.00
Financial Assistance Credit	AAA	8.800	6	10	2005	10,000,000	10,200,000.00
Ford Capital	A2	9.875	5	15	2002	30,000,000	30,645,000.00
Ford Motor Credit	A2	8.875	3	1	1996	10,000,000	9,899,200.00
Ford Motor Credit MT Notes	A2	9.450	5	20	1994	15,000,000	15,435,750.00
Ford Motor Credit MT Notes	A2	10.050	4	21	1994	15,000,000	15,630,300.00
Ford Motor Credit MT Notes	A2	9.000	3	25	1998	30,000,000	29,501,100.00
Ford Motor Credit Notes	A2	9.250	3	1	2000	40,000,000	39,333,600.00
Ford Motor Credit Notes	A2	8.000	8	15	1993	10,000,000	9,999,100.00
Ford Motor Credit Notes	A2	9.750	7	1	1998	15,000,000	15,084,300.00
GTE	A3	10.250	11	1	2020	20,000,000	20,988,800.00
GTE DEB	A3	8.850	3	1	1998	12,000,000	11,938,800.00
GTE MT Notes	A3	9.680	2	18	1999	10,000,000	10,013,900.00
General Electric Capital	Aaa	8.650	5	1	2018	10,000,000	10,000,100.00
General Electric Capital	Aaa	9.000	6	1	1993	5,000,000	5,006,550.00
General Electric Capital	Aaa	9.500	2	1	1999	25,000,000	25,369,000.00
General Electric Capital	Aaa	7.875	11	22	2004	5,000,000	5,087,500.00
General Electric Capital	Aaa	8.500	7	24	2008	13,000,000	13,635,700.00
General Electric Capital (Mont. Ward)	Aaa	8.250	6	30	2002	25,262,000	24,466,247.00
General Electric Credit	Aaa	5.500	11	1	2001	20,000,000	15,526,800.00
General Electric Credit	Aaa	6.750	11	1	1991	7,000,000	6,984,670.00
General Electric DEB Notes	Aaa	7.875	5	1	1996	50,000,000	49,175,500.00
General Motors	A1	7.500	8	15	1993	5,000,000	4,971,000.00
General Tel (California)	Aa3	8.625	12	1	2016	18,000,000	16,059,240.00
General Tel (Florida)	A1	8.750	4	15	2026	14,750,000	13,697,735.00

(See explanation of ratings at the end of the International Bond Portfolio.)

Description	Rating	Coupon	Maturity			Par Value	Market Value
General Tel Northwest	Aa3	8.750	4	15	2016	5,000,000	4,670,450.00
GMAC DEB	A1	8.750	8	1	1995	25,000,000	25,320,000.00
GMAC DEB	A1	8.750	9	15	1993	28,000,000	28,579,600.00
GMAC DEB	A1	8.000	4	1	1994	40,000,000	39,932,000.00
GMAC MT Notes	A1	8.650	12	7	1994	20,000,000	20,071,400.00
GMAC MT Notes	A1	8.600	12	21	1993	7,000,000	7,078,540.00
GMAC MT Notes	A1	9.250	6	8	1995	6,000,000	6,136,860.00
GMAC MT Notes	A1	9.000	4	20	1992	5,000,000	5,076,800.00
GMAC MT Notes	A1	8.700	1	28	1994	12,000,000	12,156,240.00
GMAC MT Notes	A1	8.550	3	15	1994	25,000,000	25,208,000.00
GMAC Notes	A1	8.500	2	1	1993	5,000,000	5,046,650.00
Gulf Power	A2	10.125	2	1	2016	15,000,000	15,490,950.00
Hershey Foods	Aa2	9.500	3	15	2008	41,715,000	43,696,462.50
Hershey Foods	Aa2	8.800	2	15	2021	5,000,000	4,841,000.00
Honeywell	Baa1	9.875	6	1	2017	5,000,000	5,001,450.00
Hydro-Quebec	Aa3	8.250	1	15	2027	18,000,000	16,062,300.00
Hydro-Quebec	Aa3	10.700	10	15	2007	10,000,000	10,709,700.00
Hydro-Quebec	Aa3	9.400	2	1	2021	19,000,000	19,150,480.00
Illinois Bell Tel	Aa1	8.250	8	18	2016	7,000,000	6,326,460.00
Illinois Bell Tel	Aa1	8.500	4	22	2026	5,000,000	4,582,150.00
Imperial Oil	Aa1	8.750	10	15	2019	23,500,000	22,390,800.00
Int'l Bus. Machines	Aaa	8.375	11	1	2019	40,000,000	37,432,800.00
Int'l Bus. Machines Credit MT Notes	Aaa	7.750	8	14	1992	20,000,000	20,052,600.00
Kansas Power & Light	Aa3	8.250	7	1	1996	10,000,000	9,824,600.00
Kennecott (BP)	Aa3	7.875	5	1	2001	86,577,000	84,520,796.25
Knight Ridder	A1	9.875	4	15	2009	6,000,000	6,258,300.00
MCA Funding MT Notes	A2	7.800	3	30	1993	5,000,000	5,027,500.00
MCA Funding MT Notes	A2	7.800	3	26	1993	18,200,000	18,382,000.00
McDonalds Corp.	Aa2	9.750	11	1	2017	5,000,000	5,084,100.00
McDonalds Corp	Aa2	8.875	8	1	2019	20,000,000	19,114,600.00
McDonalds Corp. MT Notes	Aa2	8.750	11	15	2000	12,000,000	11,862,600.00
Michigan Bell Tel	Aa1	8.625	2	1	2010	11,500,000	10,886,130.00
Michigan Bell Tel	Aa1	8.125	6	1	2015	5,000,000	4,474,300.00
Mobil Oil	Aa2	8.375	2	15	1993	25,000,000	25,416,250.00
Morgan (JP) & Co.	Aa1	8.000	3	15	1996	15,000,000	14,836,500.00
Morgan (JP) GTY	Aaa	7.875	8	9	1991	15,000,000	15,008,400.00
National Fuel Gas	A3	9.875	9	1	2006	8,000,000	8,113,440.00
New England Tel & Tel	Aa2	9.000	3	1	2026	45,000,000	43,254,000.00
New Jersey Bell Tel	Aaa	7.750	9	1	2013	11,000,000	9,556,250.00
New Jersey Bell Tel	Aaa	8.750	6	1	2018	10,000,000	9,237,700.00
New Jersey Bell Tel	Aaa	7.850	11	15	2029	20,000,000	18,980,000.00
Northern Illinois Gas	Aa1	8.250	3	15	1993	10,000,000	10,021,200.00
Northern Illinois Gas	Aa1	9.250	7	1	1996	5,000,000	5,014,600.00
Northern Illinois Gas	Aa1	9.000	7	1	2019	9,000,000	8,670,600.00
Northern States Power	Aa1	9.125	7	1	2019	10,000,000	9,642,500.00
Northern States Power (Wisc.)	Aa1	9.750	3	1	2018	15,000,000	15,184,950.00
Northern Telecom	Aa3	8.250	6	13	1996	10,000,000	9,950,000.00
Ohio Bell Tel	Aaa	8.750	4	15	2026	10,000,000	9,315,200.00
Pacific Bell	Aa3	8.625	4	15	2023	25,000,000	23,005,750.00
Pacific Bell	Aa3	9.125	12	15	2030	16,000,000	15,592,000.00
Pacific Gas & Electric	A2	9.000	8	1	2019	7,000,000	6,589,450.00
Pacific Gas & Electric	A2	8.500	2	1	2020	20,000,000	18,052,000.00
Pacific Tel & Tel	Aa3	8.750	8	15	2025	15,000,000	14,047,500.00
Pacific Tel & Tel	Aa3	7.800	3	1	2007	20,000,000	17,897,800.00
Pacific Tel & Tel	Aa3	9.000	1	15	2018	10,000,000	9,640,000.00
Pacific Tel Capital	Aa3	8.950	6	20	1995	15,000,000	15,367,800.00
Pacific Tel Capital MT Notes	Aa3	9.320	5	22	1995	10,000,000	10,367,800.00
Pepsico	A1	7.375	2	1	1993	12,000,000	11,986,320.00
Petro Canada	Aaa	8.800	6	1	2019	5,000,000	5,107,000.00
Phillip Morris Company	A2	8.750	11	15	1994	13,000,000	13,260,000.00
Phillip Morris Company	A2	7.625	2	15	1994	10,000,000	9,925,000.00
Phillip Morris Company MT Notes	A2	8.700	2	10	1998	12,000,000	11,835,000.00
Phillip Morris Company MT Notes	A2	7.800	3	26	1993	15,000,000	15,060,000.00

(See explanation of ratings at the end of the International Bond Portfolio.)

Description	Rating	Coupon	Maturity			Par Value	Market Value
Potomac Electric Capital MT Notes	A1	9.870	7	30	1998	10,000,000	10,093,100.00
Potomac Electric Capital MT Notes	A1	9.500	1	10	1995	10,000,000	10,448,300.00
Potomac Electric Capital MT Notes	A1	9.800	1	20	1998	10,000,000	10,499,000.00
Potomac Electric Capital MT Notes	A1	9.690	8	11	1997	10,000,000	10,074,200.00
Potomac Electric Power	A1	8.750	11	15	2016	10,000,000	9,355,800.00
Private Export Funding	Aaa	8.600	6	30	1994	10,000,000	10,254,500.00
Proctor & Gamble	Aa1	9.360	1	1	2021	12,000,000	12,200,640.00
Provident Life Cap. Corp.	Aa3	10.000	11	1	1997	25,000,000	25,391,250.00
Public Serv. Elec. & Gas	A3	9.125	7	1	2005	15,000,000	15,008,400.00
Public Serv. Elec. & Gas MT Notes	A3	9.720	8	25	1993	10,000,000	10,291,700.00
Public Serv. Elec. & Gas MT Notes	A3	9.300	11	13	1995	20,000,000	20,222,800.00
Public Serv. Elec. & Gas MT Notes	A3	9.690	8	24	1993	10,000,000	10,285,800.00
Savannah Electric & Power	A1	9.250	10	1	2019	5,000,000	4,865,850.00
Sears Credit	Aaa	8.600	5	15	1996	20,000,000	19,850,000.00
Shell Canada	Aa3	8.875	1	14	2001	10,000,000	9,979,600.00
Shell Oil	Aaa	7.700	2	1	1996	15,000,000	14,693,400.00
Southern Bell	Aaa	8.250	4	15	2016	10,000,000	9,040,600.00
Southern Bell	Aaa	8.625	9	1	2018	14,000,000	13,145,440.00
South Central Bell	Aaa	8.250	3	1	2017	8,000,000	7,225,760.00
South Central Bell	Aaa	8.500	8	1	2029	15,000,000	13,734,150.00
Southern Bell Tel	Aaa	7.375	7	15	2010	5,000,000	4,210,700.00
Southern Bell Tel	Aaa	8.000	2	15	2014	14,500,000	12,864,690.00
Southern Bell Tel	Aaa	8.625	9	1	2026	46,500,000	42,985,530.00
Southern Bell Tel	Aaa	8.750	11	1	2024	8,000,000	7,563,440.00
Southern Bell Tel	Aaa	8.500	8	1	2029	20,000,000	18,312,200.00
Southern California Edison	Aa2	8.375	12	1	2017	10,000,000	9,076,300.00
Southern California Edison	Aa2	8.875	6	1	2024	10,000,000	9,506,000.00
Southern New England Tel	Aa2	9.625	2	15	2030	15,000,000	14,795,250.00
Southwestern Bell Tel	Aa3	7.700	6	1	1994	5,000,000	4,992,500.00
Standard Credit Corporation	Aaa	7.875	9	7	1995	20,000,000	19,922,400.00
Standard Oil Ohio (BP)	Aa3	6.300	7	1	2001	10,000,000	8,280,900.00
Standard Oil Ohio (BP)	Aa3	9.000	6	1	2019	15,000,000	14,449,500.00
TVA	Aaa	8.625	11	15	2029	100,000,000	93,530,000.00
Travelers Corp.	A2	7.625	1	15	1997	25,000,000	23,091,750.00
United Parcel Services Inc.	Aaa	8.375	4	1	2020	37,000,000	34,474,750.00
U. S. West Capital MT Notes	A2	9.050	12	20	1999	9,000,000	8,983,800.00
Walmart Stores Inc.	Aa3	8.625	4	1	2001	20,000,000	19,716,800.00
Washington Gas Light	Aa3	8.750	7	1	2019	15,000,000	14,606,250.00
Weyerhaeuser	A1	8.375	2	15	2007	15,000,000	13,819,200.00
Wisconsin Bell	Aaa	8.750	11	1	2026	5,000,000	4,705,300.00
Wisconsin Electric Power	Aa3	8.500	12	15	2016	5,000,000	4,588,150.00
Wisconsin Electric Power	Aa3	9.125	9	1	2024	3,000,000	2,865,780.00
Subtotal Corporates							$ 2,401,787,357.03
Convertible Corporates							
Alaska Air Group Inc. Conv.	Ba3	0.000	4	18	2006	$ 9,000,000	$ 2,947,500.00
Alza Corp. Lyons	Ba1	0.000	12	21	2010	15,000,000	4,237,500.00
Amoco Canada Conv.	Baa3	7.375	9	2	2013	5,000,000	5,450,000.00
Apache Corp. Conv.	Ba2	7.500	10	1	2000	3,500,000	3,482,500.00
Avnet Inc. Conv.	A2	6.000	4	15	2012	1,500,000	1,293,750.00
Browning Ferris Industries Conv.	A3	6.750	7	18	2005	3,000,000	2,490,000.00
Brunos Inc. Conv.	Baa1	6.500	9	1	2009	1,500,000	1,980,000.00
Carnival Cruise Lines Conv.	Baa2	0.000	6	15	2005	15,000,000	4,950,000.00
Centocor Inc. Conv.	B2	7.250	2	1	2001	4,000,000	5,140,000.00
Chemical Waste Management Lyon	A2	0.000	8	16	2010	12,000,000	3,810,000.00
Chiquita Brands Int'l Conv.	Ba3	7.000	3	28	2001	4,000,000	4,050,000.00
Chiron Corp. Conv.	B1	7.250	7	1	2015	3,000,000	3,585,000.00
Clayton Homes Inc. Conv.	B2	7.750	3	1	2003	2,200,000	2,563,000.00
Comcast Corp. Conv.	B1	7.000	2	27	2001	3,500,000	3,080,000.00
Dupont Corp. Conv.	Aa3	0.000	6	14	2010	12,000,000	3,000,000.00
Federal Realty Inv. Conv.	Baa3	8.250	4	30	2002	2,200,000	2,156,000.00

(See explanation of ratings at the end of the International Bond Portfolio.)

Description	Rating	Coupon	Maturity			Par Value	Market Value
First Financial Mgmt. Corp. Conv.	Ba3	7.000	7	15	2013	1,725,000	1,880,250.00
Freeport McMoran Cop & Gold Conv.	B1	0.000	7	2	2011	5,000,000	1,118,750.00
Illinois Tool Works Conv.	A3	0.000	6	22	2005	10,000,000	4,550,000.00
Int'l Mineral & Chemical Conv.	Ba1	0.000	11	14	2005	40,008,000	12,402,480.00
Int'l Game Technology	B1	5.500	6	1	2001	3,000,000	2,700,000.00
Kroger Co. Conv.	B3	8.250	4	15	2011	3,000,000	3,015,000.00
Litton Industries Inc. Lyon	Baa3	0.000	9	26	2010	12,000,000	3,240,000.00
Loews Corp. Lyons	A2	0.000	10	17	2004	10,000,000	4,150,000.00
MCI Communications Lyons Conv.	Baa2	0.000	12	11	2004	10,000,000	3,850,000.00
Manor Care Inc. Conv.	Ba3	6.375	6	1	2011	3,000,000	2,400,000.00
Marriott Corp. Lyon	Baa3	0.000	6	12	2006	14,000,000	4,007,500.00
Medical Care Int'l Conv.	Ba3	7.000	8	1	2015	2,000,000	2,570,000.00
Motorola Inc. Lyon	A1	0.000	9	7	2009	5,500,000	1,897,500.00
NBD Bancorp Inc. Conv.	A1	7.250	3	15	2006	2,750,000	2,722,500.00
Nat'l Medical Enterprises Conv.	Baa2	0.000	12	4	2004	10,000,000	5,100,000.00
Oryx Energy Co. Conv.	B1	7.500	5	15	2014	2,250,000	2,199,375.00
SCI Systems Conv.	B1	9.000	4	1	2015	2,000,000	1,740,000.00
Sanifill Inc. Conv.	B2	7.500	6	1	2006	2,500,000	2,450,000.00
Seagate Technology Conv.	B2	6.750	5	1	2012	3,000,000	1,560,000.00
Staples Inc.	B3	7.000	6	1	2015	2,500,000	2,675,000.00
Storage Tech Corp. Conv.	Ba3	8.000	5	31	2015	3,000,000	3,720,000.00
Sun Microsystems Conv.	Ba3	6.375	10	15	1999	3,000,000	3,660,000.00
Tele Communications Inc. Lyon	Ba2	0.000	4	25	2008	10,000,000	2,825,000.00
Union Carbide Corp. Conv.	Ba1	7.500	4	15	2012	2,500,000	2,056,250.00
Walt Disney Co. Lyon Conv.	A1	0.000	6	27	2005	10,000,000	4,250,000.00
Western Co. North America Conv.	B3	7.250	1	15	2015	1,500,000	1,170,000.00
Subtotal Convertible Corporates							$ 138,124,855.00
TOTAL CORPORATES							$ 2,539,912,212.03
MORTGAGES:							
Farmers Home Administration	AAA	6.000	2	10	1992	$ 159,369	$ 154,913.35
Farmers Home Administration	AAA	6.000	12	9	1991	76,689	75,867.88
Farmers Home Administration	AAA	6.000	10	27	1991	57,941	57,433.99
Farmers Home Administration	AAA	6.000	11	14	1991	140,844	139,637.44
Farmers Home Administration	AAA	8.750	11	26	1994	93,645	91,513.78
Farmers Home Administration	AAA	5.750	6	30	1999	34,351	27,665.17
Farmers Home Administration	AAA	6.250	10	10	1992	75,896	74,194.69
Farmers Home Administration	AAA	5.750	6	29	2001	252,221	250,263.71
Farmers Home Administration	AAA	6.500	3	26	1993	220,476	198,097.82
Farmers Home Administration	AAA	8.500	8	28	1994	150,188	149,929.22
F H A and V A Mortgages	AAA	5.250	11	1	1995	49,603	39,865.13
F H A and V A Mortgages	AAA	6.000	10	1	1997	84,016	67,578.95
TOTAL MORTGAGES							$ 1,326,961.13
TOTAL DOMESTIC FIXED INCOME PORTFOLIO							$ 5,183,831,147.03

(See explanation of ratings at the end of the International Bond Portfolio.)

International Fixed Income Portfolio

Description	Rating	Coupon	Maturity			Par Value	Market Value
GOVERNMENTS:							
Bear Stearns Mtg. #1	Aaa	11.750	4	30	2017	$ 9,316,611	$ 14,779,447.91
BTAN (Bons Du Tresor)	Aaa	9.000	2	12	1995	160,000,000	25,856,782.07
BTAN (Bons Du Tresor)	Aaa	9.000	11	12	1995	100,000,000	16,140,122.19
Bundesrepublik	Aaa	6.000	3	20	1997	70,000,000	34,070,659.67
Bundesrepublik	Aaa	8.875	12	20	2000	15,000,000	8,435,274.63
Bundesrepublik	Aaa	9.000	10	20	2000	30,000,000	16,996,411.81
France (Government of)	Aaa	8.500	10	25	2019	100,000,000	15,112,016.29
Japan L.T. Govt. Bonds #100	Aaa	4.000	6	20	1997	800,000,000	4,982,491.82
Japan L.T. Govt. Bonds #99	Aaa	4.700	6	20	1997	800,000,000	5,168,470.75
Japan L.T. Govt. Bonds #104	Aaa	4.900	9	22	1997	750,000,000	4,879,767.52
Japan L.T. Govt. Bonds #106	Aaa	4.900	3	20	1998	750,000,000	4,849,800.21
Metropolis of Tokyo	Aaa	7.500	3	18	1997	11,000,000	10,528,650.00
New South Wales Treasury Corp.	Aaa	11.500	7	1	1999	7,000,000	5,283,407.85
South Australia Govt. Finance	Aa2	12.500	3	15	1998	7,000,000	5,459,396.25
UK Treasury Gilt Stock	Aaa	10.000	4	15	1993	13,000,000	20,993,245.00
Victorian Finance Authority	Aa2	12.500	7	15	2000	7,000,000	5,436,807.49
TOTAL GOVERNMENTS							$ 198,972,751.46
CORPORATES:							
Amcor Limited Conv.	NR	9.000	—	—	—	$ 10,000,000	$ 8,661,450.00
Nippon Tel & Tel	Aaa	9.500	7	27	1998	55,000,000	57,107,050.00
Pioneer Concrete Conv.	NR	9.500	6	21	1998	4,000,000	2,652,090.00
TOTAL CORPORATES							$ 68,420,590.00
TOTAL INTERNATIONAL FIXED INCOME PORTFOLIO							$ 267,393,341.46
GRAND TOTAL FIXED INCOME PORTFOLIO							$5,451,224,488.49

KEY TO RATINGS: All ratings presented are from Moody's Investors Service with the exception of the FHA and VA mortgages and some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating). Government Securities are not rated per se' but are considered the best quality securities. By policy, TCRS considers convertible bonds as an equity investment, thus the ratings of the convertible bonds are not 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 (1 indicates higher end, 2 midrange, and 3 lower end). NR indicates the security is not rated by Moody's.

Domestic Stock Portfolio

Description	Shares	Book Value	Market Value
Abbott Laboratories	650,000	$12,857,587.50	$33,637,500.00
Advanced Telecommunications	50,000	1,177,000.00	1,100,000.00
Albertsons Inc.	450,000	10,321,070.30	18,450,000.00
Alltel Corp.	175,000	6,643,005.45	6,606,250.00
Aluminum Company of America	200,000	8,867,898.19	13,500,000.00
Alza Corp. Class A	160,000	7,365,730.00	9,060,000.00
Amerada Hess Corp.	400,000	19,447,039.70	20,550,000.00
American Barrick Resources	305,000	6,862,870.00	6,824,375.00
American Cyanamid Co.	60,000	3,421,475.00	3,877,500.00
American General Corp.	400,000	14,349,255.00	15,150,000.00
American Management Systems	25,000	576,875.00	462,500.00
American Telephone & Telegraph	450,000	12,967,945.00	17,212,500.00
Amgen Inc.	140,000	4,237,645.00	16,502,500.00
Amoco Corp.	674,000	24,666,255.50	34,121,250.00
Anheuser Busch	300,000	15,127,850.00	14,475,000.00
Apple Computer Inc.	375,000	22,854,833.00	15,562,500.00
Atlantic Richfield	150,000	9,676,250.80	17,212,500.00
Automatic Data Processing	900,000	21,521,368.34	29,250,000.00
Avon Products	254,756	10,797,240.00	10,827,130.00
BCE Inc.	175,000	6,029,770.00	6,409,375.00
Bancorp Hawaii Inc.	75,000	4,624,938.50	4,490,625.00
Bankamerica Corp.	400,000	11,899,462.50	14,500,000.00
Bankers Trust New York Corp.	300,000	14,070,512.50	14,512,500.00
Bard C.R. Inc.	150,000	3,365,235.00	4,218,750.00
Baxter Int'l Inc.	1,000,000	25,164,205.86	32,250,000.00
Bell Atlantic Corp.	200,000	10,696,807.80	9,450,000.00
Betz Laboratories Inc.	190,000	5,757,187.50	10,307,500.00
Block (H & R)	175,000	7,252,286.60	9,625,000.00
Bob Evans Farms Inc.	90,000	1,632,076.00	1,642,500.00
Boston Edison Co.	900,000	18,439,396.20	17,662,500.00
Bristol Myers Squibb Co.	445,000	18,887,558.75	34,598,750.00
Brunos Inc.	355,000	5,191,585.00	6,833,750.00
CSX Corporation	300,000	12,728,965.00	13,612,500.00
Campbell Soup Co.	75,000	5,388,950.00	5,540,625.00
Capitol Holding Corp.	425,000	19,864,971.56	20,825,000.00
Carolina Power & Light	300,000	12,606,146.70	13,687,500.00
Caterpillar Tractor	294,000	14,612,365.00	14,516,250.00
Centerior Energy Corp.	600,000	12,231,602.92	9,825,000.00
Centex Telemanagement Inc.	150,000	2,176,219.24	2,250,000.00
Central & South West Corp.	500,000	19,389,721.89	22,500,000.00
Charming Shoppes Inc.	100,000	2,017,502.00	2,075,000.00
Chevron Corp.	300,000	18,203,225.00	21,112,500.00
Chiron Corp.	100,000	6,026,310.00	5,175,000.00
Cincinnati Financial Corp.	30,000	2,585,625.00	3,405,000.00
Coastal Corp.	750,000	18,031,053.32	21,750,000.00
Coca-Cola Co.	370,000	3,906,324.51	20,165,000.00
Coca-Cola Enterprises	195,000	3,728,581.00	3,436,875.00
Colgate Palmolive Co.	536,000	17,088,937.00	19,698,000.00
Collagen Corp.	50,000	1,598,247.85	1,250,000.00
Commodore International	100,000	2,014,710.00	1,162,500.00
Computer Sciences Corp.	50,000	3,370,400.40	3,456,250.00
Conagra Inc.	500,000	14,130,275.74	20,875,000.00
Convex Computer Corp.	100,000	1,514,658.33	1,537,500.00
Cooper Industries Inc.	500,000	18,264,014.60	26,812,500.00
Cooper Industries Conv.	175,000	4,437,100.00	5,709,375.00
Cooper Tire & Rubber Co.	57,700	1,682,714.00	1,687,725.00
Cordis Corp.	50,000	1,429,125.00	1,400,000.00
Corning Inc.	550,000	20,108,621.00	34,168,750.00
Costco Wholesale Corp.	280,000	5,287,805.00	11,480,000.00

Description	Shares	Book Value	Market Value
Cypress Semiconductor Corp.	250,000	5,483,551.60	4,250,000.00
Dayton Hudson Corp.	150,000	11,307,064.40	10,725,000.00
Delta Air Lines Inc.	300,000	19,995,225.00	20,587,500.00
Deluxe Corp.	400,000	13,562,312.50	17,700,000.00
Detroit Edison Co.	525,000	14,762,476.60	14,962,500.00
Dillard Dept. Stores	213,000	14,666,182.45	25,852,875.00
Dollar General Corp.	110,000	1,655,005.00	1,732,500.00
Dominion Resources Inc.	150,000	7,181,525.00	7,106,250.00
Dupont (E I) De Nemours	300,000	14,156,147.50	13,762,500.00
Eaton Corp.	100,000	6,253,063.68	6,062,500.00
Emerson Electric Co.	625,000	24,862,242.77	29,140,625.00
Enron Corp.	300,000	17,709,840.60	17,287,500.00
Entergy Corp.	200,000	4,984,410.00	4,650,000.00
EQK Realty Investors	1,250,000	5,781,250.01	4,687,500.00
Ethyl Corp.	225,000	6,195,422.00	6,075,000.00
Exxon Corp.	675,000	33,618,863.70	39,234,375.00
FMC Corp.	138,800	5,797,299.60	6,107,200.00
Federal National Mtg. Assn.	325,000	13,001,880.40	16,087,500.00
Fluor Corp.	300,000	11,489,619.00	14,100,000.00
Ford Motor Co.	400,000	14,692,448.72	14,400,000.00
Forest Labs Inc.	300,000	7,378,665.50	10,800,000.00
Foster Wheeler Corp.	425,000	10,221,476.32	11,528,125.00
Fuller (H B) Co.	45,000	1,444,375.00	1,923,750.00
GTE Corp.	650,000	16,641,420.00	19,256,250.00
Gannett Co.	425,000	17,421,649.15	17,796,875.00
Gap Inc.	150,000	9,594,510.00	8,981,250.00
General Electric Co.	400,000	12,405,768.75	29,600,000.00
General Mills Inc.	500,000	13,362,656.00	28,250,000.00
General Motors Corp.	600,000	24,516,603.52	24,450,000.00
General Motors Corp. Class E	225,000	8,702,924.30	10,518,750.00
General RE Corp.	275,000	18,990,044.20	26,159,375.00
Georgia Pacific Corp.	147,700	7,733,550.54	7,717,325.00
Gillette Co.	445,000	13,983,958.67	15,241,250.00
Grace (W R) & Co.	300,000	9,399,175.00	10,087,500.00
Halliburton Co.	550,000	18,936,909.36	20,075,000.00
Hasbro Inc.	125,000	3,041,554.60	3,468,750.00
Healthsouth Rehab. Corp.	100,000	2,366,435.80	2,750,000.00
Home Depot Inc.	787,500	20,246,372.80	35,535,937.50
Honeywell Inc.	490,000	23,636,744.73	29,706,250.00
Hormel (Geo. A) & Co.	50,000	1,102,387.50	968,750.00
Houston Industries Inc.	400,000	14,639,814.96	14,300,000.00
Humana Inc.	100,000	3,257,462.50	4,787,500.00
Illinois Central corp.	100,000	2,257,962.10	2,137,500.00
Illinois Tool Works Inc.	140,000	2,391,519.80	8,802,500.00
Imcera Group Inc.	75,000	4,348,741.00	7,031,250.00
Imperial Oil A	80,000	4,275,402.89	3,740,000.00
Inco Limited	200,000	6,557,800.00	7,175,000.00
Ingersoll Rand Co.	366,100	17,060,649.44	18,488,050.00
Inland Steel Industries Conv. Pfd.	60,000	2,993,725.00	3,120,000.00
Intel Corp.	500,000	17,853,105.00	23,250,000.00
Int'l Business Machines	270,000	29,968,030.00	26,223,750.00
James River Corp.	386,000	10,242,631.40	9,698,250.00
Johnson & Johnson	290,000	9,098,115.00	24,215,000.00
K Mart Corp.	200,000	9,252,800.00	9,050,000.00
Knowledgeware Inc. Class A	50,000	1,853,760.00	1,087,500.00
Kroger Co.	300,000	7,173,839.18	6,412,500.00
LSI Logic Corp.	600,000	6,980,475.00	4,800,000.00
LIN Broadcasting Corp.	125,000	9,050,125.00	7,312,500.00
Liz Claiborne	475,000	12,073,187.50	22,265,625.00
Loews Corp.	125,000	12,889,098.50	12,515,625.00
Long Island Lighting Co.	475,000	9,537,525.00	10,628,125.00
Loral Corp.	200,000	6,899,597.28	8,125,000.00

Description	Shares	Book Value	Market Value
Louisiana Land & Exploration	205,000	10,006,826.00	7,303,125.00
Louisiana Pacific Corp.	425,000	17,427,086.75	17,371,875.00
Lukens Inc.	104,300	3,858,114.08	4,589,200.00
Lyondell Petrochemical Co.	150,000	3,545,125.00	3,600,000.00
Manor Care	205,000	4,295,259.00	3,920,625.00
Manufacturers Hanover Conv. Pfd.	60,000	3,000,000.00	2,850,000.00
Mapco Inc.	125,000	4,159,106.18	6,234,375.00
Martin Marietta Corp.	325,000	16,539,125.00	18,159,375.00
McCormick & Co. Inc.	150,000	4,565,474.00	6,000,000.00
McDonalds Corp.	575,000	15,780,919.74	18,903,125.00
Medco Containment Ser. Inc.	325,000	6,837,208.64	15,600,000.00
Mellon Bank Corp.	120,000	3,600,465.60	3,585,000.00
Mercantile Bancorporation Inc.	50,000	1,524,997.00	1,500,000.00
Merck and Co.	450,000	35,978,477.50	52,256,250.00
Meredith Corp.	50,000	1,471,500.00	1,375,000.00
Michael Foods Inc.	112,500	1,657,500.00	2,095,312.50
Microsoft Corp.	150,000	6,853,191.67	10,218,750.00
Mobil Corp.	600,000	21,210,150.00	38,550,000.00
Monsanto Co.	200,000	12,277,925.00	13,200,000.00
Montana Power Co.	500,000	9,693,574.00	11,187,500.00
Morgan (J P) Co.	200,000	9,514,415.00	10,425,000.00
Morgan Stanley Group Inc.	150,000	12,923,816.28	11,906,250.00
Murphy Oil Corp.	300,000	12,897,030.00	10,462,500.00
NBD Bancorp Inc.	100,000	3,532,130.00	3,462,500.00
National Medical Enterprises	550,000	18,896,852.99	23,993,750.00
Nordstrom	139,000	6,083,878.80	5,490,500.00
Norfolk Southern Corp.	450,000	9,385,641.85	20,531,250.00
Northern Telecom Limited	157,000	4,531,586.40	5,730,500.00
Northrop Corp.	206,000	5,279,952.65	5,227,250.00
Norwest Corp.	350,000	6,050,725.00	9,625,000.00
Novell Inc.	825,000	16,726,670.00	40,425,000.00
Nucor Corp.	15,000	904,675.00	1,136,250.00
Nynex Corp.	275,000	20,352,875.00	19,628,125.00
Omnicom Group Inc.	100,000	3,003,454.00	2,837,500.00
Oregon Steel Mills Inc.	100,000	2,012,662.23	3,175,000.00
Oryx Energy Co.	375,000	16,425,089.20	11,671,875.00
PPG Industries Inc.	175,000	8,342,337.50	9,690,625.00
Pacific Gas & Electric Co.	1,150,000	22,484,180.70	29,037,500.00
Pacific Telesis Group	250,000	8,227,937.50	10,562,500.00
Pall Corp.	272,500	7,887,474.17	9,775,937.50
Pepsico Inc.	600,000	6,201,080.00	17,400,000.00
Pfizer Inc.	500,000	21,037,026.30	27,750,000.00
Philip Morris Cos.	575,000	16,891,067.50	36,512,500.00
Piedmont Natural Gas Co. Inc.	45,000	1,187,075.00	1,254,375.00
Policy Management Systems Inc.	30,000	1,370,460.42	1,432,500.00
Price Co.	130,000	7,102,510.00	7,020,000.00
Primerica Corp.	475,000	14,645,425.00	13,181,250.00
Procter & Gamble	125,000	9,180,769.40	9,671,875.00
Quaker Oats Inc.	150,000	9,277,045.72	9,300,000.00
RJR Nabisco Conv. Pfd.	280,000	5,768,625.00	9,800,000.00
Ralston Purina	250,000	10,756,135.00	12,250,000.00
Ranger Oil Limited	100,000	763,530.00	700,000.00
Reebok Int'l	200,000	4,946,487.50	4,875,000.00
Reynolds Metals Co.	200,000	12,953,925.00	11,800,000.00
Roadway Services Inc.	100,000	4,037,470.00	5,150,000.00
Rohm & Haas Co.	100,000	4,572,472.96	4,300,000.00
Rowan Companies Inc.	600,000	4,738,883.50	5,025,000.00
Rubbermaid Inc.	200,000	7,617,037.50	10,100,000.00
SCI Systems	412,500	4,682,820.00	3,093,750.00
Safeco Corp.	340,000	12,269,114.00	13,260,000.00
Safety-Kleen Corp.	100,000	3,067,587.50	3,062,500.00
Salomon Inc.	200,000	7,113,235.36	6,500,000.00
Sanifill Inc.	75,000	2,241,588.45	1,743,750.00

Description	Shares	Book Value	Market Value
Sara Lee Corp.	550,000	17,436,742.00	22,206,250.00
Scott Paper Co.	300,000	12,225,432.70	12,525,000.00
Seagram Co.	145,000	12,546,802.50	15,170,625.00
Sealed Air Corp.	50,000	1,659,861.30	1,612,500.00
Sensormatic Electronic Corp.	100,000	1,753,750.00	2,350,000.00
Service Corp. International	225,000	4,545,162.49	4,893,750.00
Shared Medical Systems Inc.	190,000	3,116,314.00	3,728,750.00
Smith International Inc.	250,000	4,178,172.05	3,250,000.00
Smith International Inc. Conv.	35,000	1,645,000.00	1,505,000.00
Society Corp.	50,000	2,105,625.00	2,087,500.00
Sonat Inc.	200,000	9,699,250.00	7,925,000.00
Southwest Airlines Co.	305,600	6,886,667.44	7,945,600.00
Southwestern Bell Corp.	325,000	16,662,829.40	17,428,125.00
State Street Boston Corp.	68,000	3,262,595.00	3,043,000.00
Stride Rite Corp.	75,000	2,637,647.00	3,375,000.00
Stryker Corp.	300,000	6,436,219.20	7,500,000.00
Symantec Corp.	50,000	1,100,000.00	2,137,500.00
Syntex Corp.	262,200	9,613,407.60	10,029,150.00
Teco Energy Inc.	400,000	9,778,030.76	13,600,000.00
Tambrands Inc.	210,000	8,949,635.85	10,762,500.00
Tele Communications	405,000	6,390,070.00	5,568,750.00
Temple Inland Inc.	466,800	13,944,731.14	21,181,050.00
Teradata Corp.	180,000	3,887,667.00	2,565,000.00
Tesoro Petroleum Corp.	50,000	462,375.00	393,750.00
Texaco Inc.	425,000	22,144,429.82	25,553,125.00
Textron Inc.	382,200	10,818,302.68	12,278,175.00
Tidewater Inc.	100,000	1,805,347.70	1,375,000.00
Time Warner Inc. Pfd. Series D	102,750	4,548,875.00	4,713,656.25
Tosco Corp.	200,000	4,986,398.08	3,700,000.00
Toys 'R' Us Inc.	300,000	5,836,390.43	8,437,500.00
Tyco Laboratories Inc.	150,000	7,056,025.00	7,200,000.00
Tyson Foods Inc.	525,000	6,932,968.75	10,828,125.00
Ual Corporation	150,000	22,545,480.00	20,812,500.00
UST Inc.	875,000	16,075,699.00	38,281,250.00
Unum Corp.	75,000	3,303,694.75	4,790,625.00
Unifi Inc.	125,000	1,516,151.57	4,156,250.00
Union Electric Co.	525,000	15,696,900.89	15,618,750.00
United Healthcare Corp.	125,000	3,728,869.50	5,609,375.00
U S West Inc.	500,000	15,049,514.18	17,687,500.00
Unocal Corp.	1,125,000	15,617,780.50	26,437,500.00
Valero Energy Corp.	150,000	3,301,287.50	3,393,750.00
Wachovia Corp.	400,000	11,031,789.00	19,950,000.00
Wal Mart Stores Inc.	1,200,000	20,232,923.75	51,300,000.00
Walgreen's Inc.	950,000	22,328,972.54	31,587,500.00
Warner Lambert Co.	200,000	13,501,920.00	14,500,000.00
Waste Management Inc.	649,000	18,444,868.25	23,688,500.00
Wendy's International Inc.	175,000	1,430,300.00	1,706,250.00
Wheelabtator Technologies	150,000	4,409,749.70	3,787,500.00
Whirlpool Corp.	200,000	6,352,093.30	6,425,000.00
Worthington Industries Inc.	150,000	3,579,312.00	3,862,500.00
Wyle Laboratories	71,000	1,106,706.00	949,625.00
Xilinx Inc.	60,000	1,245,625.00	1,260,000.00
TOTAL DOMESTIC STOCK PORTFOLIO		$2,257,831,909.73	$2,835,639,323.75

International Stock Portfolio

Description	Shares	Book Value	Market Value
Abbey National PLC	1,000,000	$3,270,056.59	$4,206,160.00
Albert Fisher Group	3,000,000	5,214,336.00	5,748,960.00
Albert Fisher Group PLC WTS	400,000	68,115.08	17,864.00
Alcatel Alsthom	67,525	5,435,885.20	6,205,056.78
Allianz AG Holding	2,736	1,729,661.69	3,398,288.71
ANZ Group Holdings	550,000	1,716,839.35	1,530,317.25
Asahi Breweries #2502	400,000	3,962,088.18	3,719,578.64
Asahi Glass #5201	125,000	1,222,742.24	1,071,558.30
Asahi Organic Chemical	735,000	6,220,758.45	5,302,252.08
Baloise Holdings PC	3,000	4,982,963.01	3,804,312.84
Bayerische Motoren Werke AG	40,500	13,043,721.38	10,619,652.22
Bayerische Vereinsbank	11,000	2,576,575.75	2,325,696.93
Bayerische Vereinsbank Warrants	2,064	54,846.94	50,588.64
Bayerische Vereinsbank Conv. Pfd.	344	219,387.76	249,146.01
BBC Brown Boveri AG Bearer	133	275,973.17	381,834.56
BBC Brown Boveri AG PC	16,000	10,280,911.99	8,610,234.95
BBC Brown Warrants	16,665	106,826.92	93,864.66
Brambles Industries	681,483	5,463,237.88	8,880,064.23
British Gas PLC ADR	125,000	2,809,587.50	4,875,000.00
British Telecommunications PLC	2,100,000	9,431,810.06	11,868,192.00
BTR Nylex	1,000,000	2,103,150.87	2,276,505.00
Burns Philp & Co.	300,000	716,838.38	708,246.00
Cityvision PLC	4,600,000	8,320,243.22	2,241,120.00
CKD Corp.	645,000	2,694,905.00	5,154,377.04
Coca Cola Amatil	900,000	3,912,662.16	5,905,116.00
Collins & Leahy Holdings Ltd.	1,009,250	2,694,888.98	773,590.12
CS Holdings Warrants	2,700	76,281.46	54,747.34
CS Holdings Bearer	2,700	3,914,831.05	3,232,700.35
Dai-Tokyo Fire & Marine	260,000	1,512,371.67	1,660,297.85
Deutsche Bank AG	7,396	2,722,448.86	2,574,208.11
Electricity Discos Pkg. ADR	145,000	2,865,490.00	4,370,300.00
Euro Disney	500,000	10,009,972.67	9,531,568.22
Exicom Ltd.	597,100	1,096,573.33	183,070.86
Felten & Guilleaume Energie	10,000	2,283,480.15	2,119,790.22
Fisons PLC	1,406,250	5,785,128.93	10,916,325.00
Getronics NV	92,000	1,011,365.61	1,307,202.35
Hokkaido Takushoku Bank	925,000	6,738,422.49	6,316,745.36
Japan Airlines	500,000	4,398,024.53	4,031,965.12
Karstadt	7,000	3,035,210.43	2,440,242.89
Kawada Industries	500,000	4,286,965.78	5,085,361.42
KLM Royal Dutch Airlines	200,000	3,137,913.67	2,920,137.18
Kyocera	59,000	2,567,134.09	2,717,471.84
Lend Lease Corp.	200,000	2,619,894.55	2,560,110.00
Mannesmann AG	15,000	2,855,998.46	2,326,800.99
Mannesmann AG New	4,000	630,715.86	635,937.06
Mikuni Coca Cola Bottling	270,000	1,238,569.40	5,590,265.16
Mim Holdings Ltd.	2,500,000	3,580,362.38	3,640,875.00
Mitsubishi Motors	280,000	1,624,049.55	1,550,018.16
Mitsubishi Petrochemical Co.	450,000	3,768,548.82	2,795,132.58
Mitsui Taiyo Kobe Bank Ltd.	700,000	10,107,037.25	9,916,454.77
National Power PP ADR	373,550	7,953,242.20	8,124,712.50
National Australia Bank	300,000	1,504,699.06	1,540,665.00
Nippon Electric Glass Co.	350,000	4,406,178.52	4,907,373.77
Nippon Oil Co. Ltd.	360,000	5,098,332.89	2,529,022.88
Nissin Electric Co.	800,000	7,398,001.02	8,892,117.68
Philips Electronics	432,640	10,641,701.76	6,465,222.92
Polly Peck Int'l PLC	2,589,285	647,321.25	0.00
Polygram NV	745,000	12,089,200.00	12,851,250.00

Description	Shares	Book Value	Market Value
Powergen PLC PP ADR	228,950	4,874,567.80	5,151,375.00
Reuters Holdings PLC	300,000	4,020,941.50	3,727,080.00
Rothmans International	365,000	4,457,639.81	5,826,830.80
Royal Dutch Petroleum	215,403	17,426,749.71	16,738,322.29
S X L Corp.	80,000	1,137,248.37	796,222.30
Sankyo Co.	198,000	3,242,895.64	3,466,618.23
Shimachu Co.	354,000	4,643,017.42	13,810,243.37
Siemens AG	7,500	2,609,456.04	2,635,247.03
Simon Engineering PLC	300,000	1,924,475.76	1,607,760.00
Sumitomo Marine & Fire Inc.	262,500	2,026,243.42	1,619,051.94
Sunwave Industrial Co.	92,000	1,299,907.92	1,316,672.72
Swiss RE Warrants B	3,500	43,750.00	225.29
Takasago Thermal Engineering	67,000	474,602.82	1,450,490.37
Tayca Corp.	205,000	1,703,191.75	878,677.80
Toppan Printing Co.	475,000	6,897,619.25	4,831,093.35
Total Cie Francaise Petroles	60,000	7,654,027.75	7,419,959.26
Toyo Engineering Corp.	302,000	2,973,943.80	2,896,040.68
Unilever NV	80,000	5,255,279.66	6,377,266.04
TOTAL INTERNATIONAL STOCK PORTFOLIO		$ 302,800,039.86	$ 314,354,846.01
GRAND TOTAL STOCK PORTFOLIO		$ 2,560,631,949.59	$3,149,994,169.76

TCRS Performance Summary
Fiscal Years 1981-82 Through 1990-91

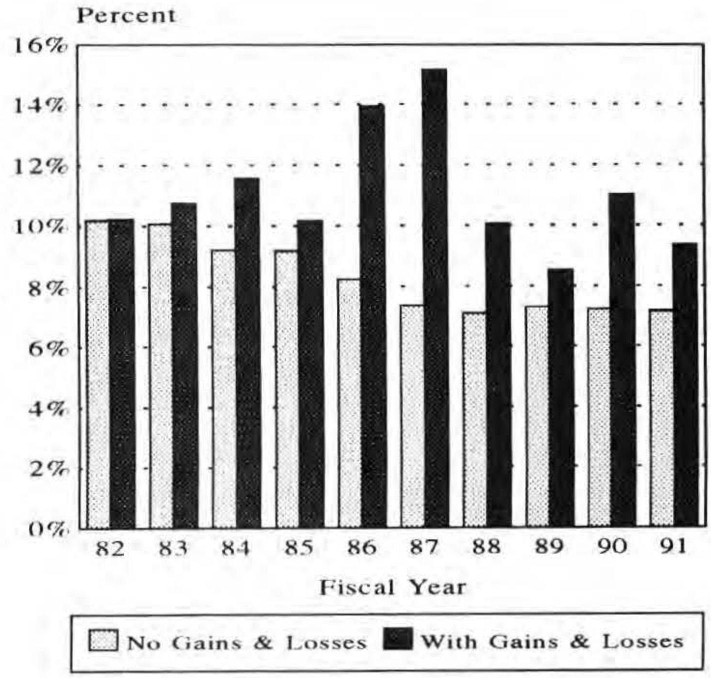
	EXCLUDING GAINS AND LOSSES			INCLUDING GAINS AND LOSSES		
Fiscal Year	**Average Amount Invested**	**Amount Earned**	**Percentage Earned on Book Value**	**Average Amount Invested**	**Amount Earned**	**Percentage Earned on Book Value**
1990-91	$8,134,018,497	$583,497,298	7.17%	$ 8,049,275,637	$ 752,983,018	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	7.37	4,802,008,843	726,663,408	15.15
1985-86	4,159,389,303	342,666,987	8.24	4,048,574,353	564,296,889	13.94
1984-85	3,502,888,237	321,331,692	9.17	3,486,456,087	354,195,992	10.16
1983-84	3,010,007,123	276,903,188	9.20	2,959,626,328	342,868,167	11.58
1982-83	2,545,242,008	256,280,401	10.07	2,537,065,851	272,632,717	10.75
1981-82	2,156,483,125	219,758,181	10.19	2,156,322,701	220,079,030	10.21

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

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

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

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



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
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	4.92	8.50
1985-86	25.2	27.7	5.21	9.67
1984-85	26.8	28.6	7.26	11.76
1983-84	(2.1)	(3.3)	8.02	12.21
1982-83	37.6	35.4	8.64	11.80
1981-82	4.1	5.6	8.08	14.50

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

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

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

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

Summary of Investment Program Earnings
Fiscal Years 1986-87 through 1990-91

Fiscal Year	Cash Management Earnings	TCRS Portfolio Earnings	Total Treasury Earnings
1990-91	$ 121,066,041	$ 752,983,018	$ 874,049,059
1989-90	144,236,980	788,715,719	932,952,699
1988-89	134,874,854	549,550,134	684,424,988
1987-88	119,443,968	573,406,134	692,850,102
1986-87	108,799,286	726,663,408	835,462,694
TOTAL	$ 628,421,129	$3,391,318,413	$4,019,739,542

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 to 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.

State Trust Of Tennessee
Federal Reserve Bank Transactions
Fiscal Year 1990-91

Transaction Type	**Number**	**Amount**
(1) Wire Disbursements	5,100	$ 3,354,838,668
(2) Wire Receipts	8,101	9,296,569,756
(3) Security Disbursements	2,733	25,676,323,375
(4) Security Receipts	2,726	25,356,465,670
(5) Check Redemptions	6,355,320	6,609,238,910
TOTAL	6,373,980	$70,293,436,379

Explanation of Transaction Types:

(1) Disbursements of cash for the purpose of non-Fed eligible securities, payment of Deferred Compensation, and payment of Local Government Investment Pool (LGIP).
(2) Receipt of cash for payment of interest and principal for non-Fed eligible securities, concentration of cash deposited in local banks, drawdown of Federal funds, and Local Government Investment Pool (LGIP) 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.

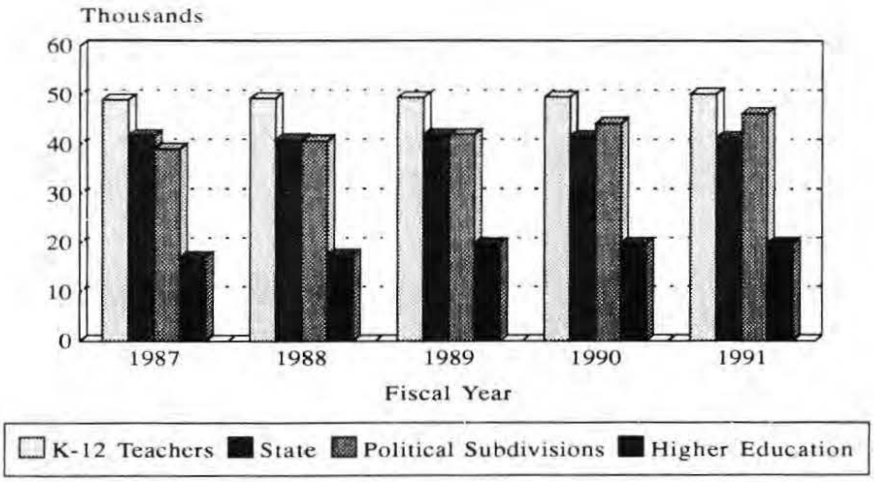
The Tennessee Consolidated Retirement System (TCRS) was established July 1, 1972. Prior to this date, there were seven different public employee retirement systems. The TCRS, a defined benefit plan which is qualified under 401(a) of the Internal Revenue Code (IRC), is a retirement system for state employees,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

Membership

Membership in the retirement system is a condition of employment for full-time state employees, teachers, general employees in higher education, and the employees of local governments that participate in TCRS. Membership is optional for certain part-time employees. Faculty employees in higher education may participate in either TCRS or TIAA/CREF, which is a nationwide defined contribution plan designed for faculty employees in institutions of higher education. When an employee joins TCRS, he receives an introductory letter and membership pamphlet outlining various aspects of retirement membership. Members currently become vested with 10 years of creditable service. A vested member is guaranteed a retirement benefit once the age requirements are met. As of June 30, 1991, there were 158,381 active members of TCRS and 8,278 higher education employees participating in TIAA/CREF.

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

Active Members
Fiscal Years 1987-1991



Contributions

The funding of retirement benefits is financed by member contributions, employer contributions, and the earnings of the invested assets. Effective July 1, 1981, the employee contributions of certain state employees and higher education employees were assumed by the state. Local governments can also adopt these noncontributory provisions for their employees. Group I K-12 teachers and contributory local government employees contribute to TCRS at the rate of 5% of gross salary. Employee contribution rates vary for superseded classifications.

Effective January 1, 1987, all state employees and teachers who contribute a portion of their income to the retirement system became covered by the provisions of 414(h) of the Internal Revenue Code. Under 414(h), payment of federal income tax on an employee's retirement contributions is deferred until these contributions are withdrawn in the form of a refund or monthly benefit payments. Political subdivisions may pass a resolution adopting the provisions of 414(h) for their employees.

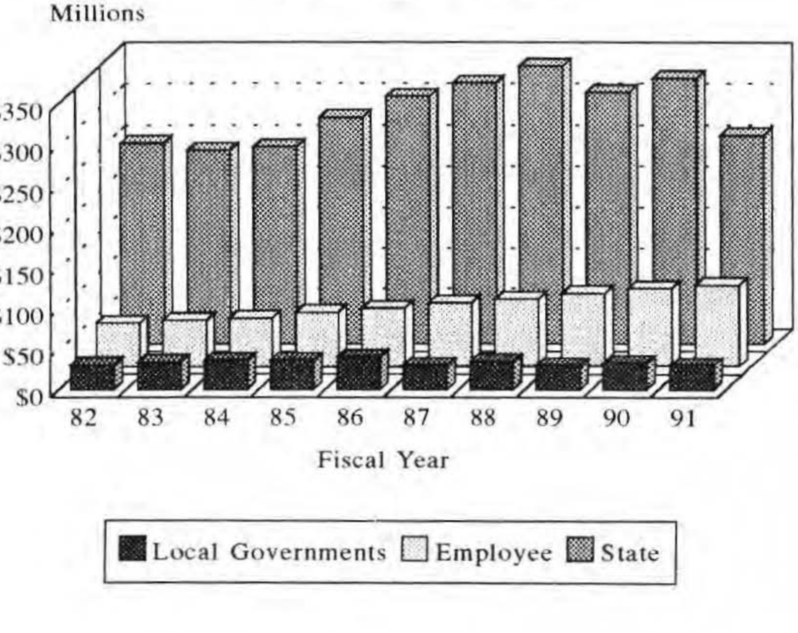
Upon termination of employment, a member may elect to withdraw his contributions and accumulated interest from the retirement system in a lump sum. By obtaining a lump sum refund, a member waives all rights and benefits in the retirement system. A vested member may leave his account balance in TCRS and apply for benefits upon meeting the age requirements. A non-vested member who terminates employment may only leave his account balance in TCRS for up to seven years; after seven years, he automatically loses membership. During the 1990-91 fiscal year, 5,289 refunds totaling $21.9 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, 1991 were as follows:

Noncontributory State and Higher Education Employees	6.85%
K-12 Teachers	10.01%
Political Subdivisions	Individually Determined
Faculty Members Electing to Participate in TIAA/CREF	10.00%*

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

Retirement Contributions
Fiscal Years 1982-91



Retirement Service Credit

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

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

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

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

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

Prior Service Credit Established During Fiscal Year 1990-91

Type of Service	Number of Employees	Years of Service	Employee Payment
Military:			
Interrupted Employment	1	1	$ 52
Purchased Peacetime	58	59	179,691
Armed Conflict	325	689	0
Redeposit of Withdrawn Service	579	2,026	2,155,897
State Service Prior to 1945	2	3	0
Teaching Service Prior to 1945	1	2	0
Out-of-State Service	14	22	51,491
Political Subdivision Enrollment Service:			
Employee Paid	179	955	539,502
Employer Paid	361	1,741	0
Noncontributory Service	140	417	0
TOTAL	1,660	5,915	$2,926,633

Retirement Benefits

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

Group I members become eligible to retire from the TCRS at age 60 with 10 years of service or at any age with 30 years of service. Retirement benefits are based on the average of the member's five highest consecutive years of salary and the years of creditable service. A reduced retirement benefit is available to vested members at age 55 or upon completion of 25 years of service.

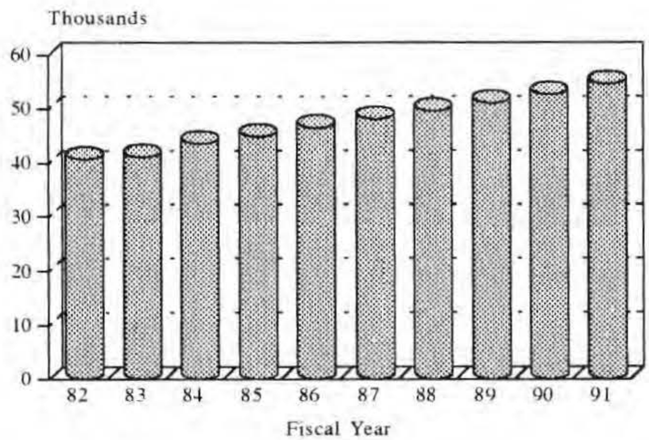
Disability benefits are available to active members with five years of service who become disabled and can not engage in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is a result of an accident or injury occurring while the member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

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

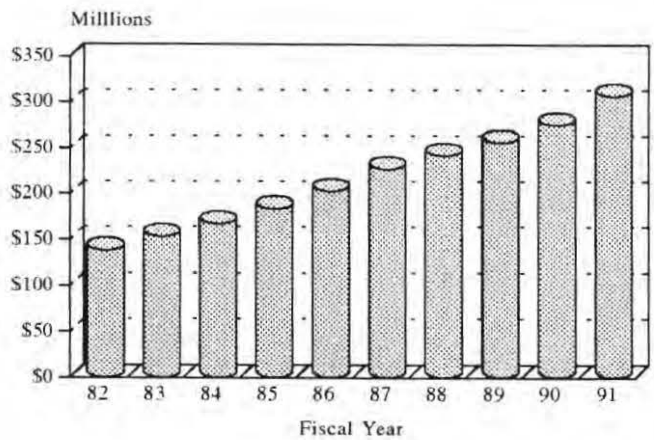
Certain death benefits are available to the beneficiary(s) of a member who dies prior to retirement. At retirement, a member can select an optional benefit which is actuarially reduced so that his beneficiary may continue to receive a benefit after his death.

As of June 30, 1991, 54,789 retirees were receiving monthly benefit payments. Benefits paid in fiscal year 1990-91 totaled $307 million.

Number of Retirees on Payroll



Annual Benefit Payments



Financial Data

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

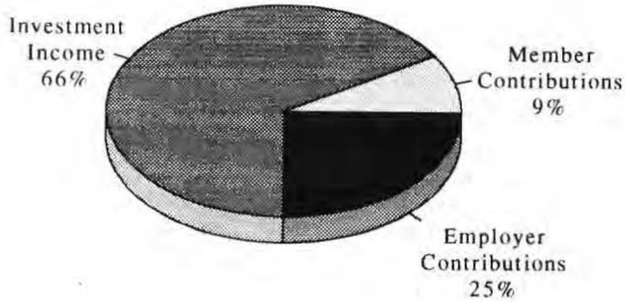
The Member Reserve Fund represents the accumulation of member contributions credited to the members' accounts plus interest.

June 30, 1990 Member Reserve Fund	$ 1,489,275,492
Member Contributions	100,587,021
Employer Provided Contributions	41,929,109
Interest	70,641,619
Refunded Account Balances	(19,331,077)
Transfers to Employer Fund of Retiring Members' Accounts	(74,027,129)
June 30, 1991 Member Reserve Fund	$ 1,609,075,035

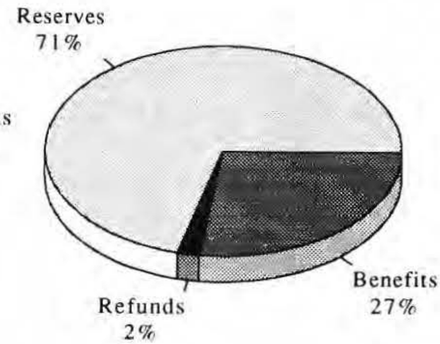
The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retiring members. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

June 30, 1990 Employer Reserve Fund	$ 6,531,374,031
Employer Contributions	285,361,613
Investment Income	752,983,018
Transfers from Retiring Members' Accounts	74,027,129
Employer Provided Contributions	(41,929,109)
Interest Credited to Members' Accounts	(70,641,619)
Lump Sum Death Benefits	(2,504,804)
Retirement and Survivor Annuities	(307,155,991)
Employer Refunds	(53,636)
June 30, 1991 Employer Reserve Fund	$ 7,221,460,632

Sources of Funds



Uses of Funds



Actuarial Valuation

An actuarial valuation of the TCRS is performed by an independent actuarial firm every two years. The purpose of the valuation is to determine the funding requirements for the employers participating in the TCRS. The latest valuation was performed June 30, 1991 to establish employer contribution rates for a two year period beginning July 1, 1992. At the June 30, 1991 valuation, the state system had an accrued liability of $1.6 billion. The accrued liability is being amortized over a 40 year period which began in 1975. Prior to 1975, only the interest on the accrued liability was being funded. In 1977, the system began actuarially funding the cost-of-living provisions for retirees. Prior to that date, the cost-of-living adjustments were funded on a pay-as-you-go basis.

In addition to the biennial actuarial valuation, an experience study is conducted every four years for the purpose of establishing actuarial and economic assumptions to be used in the actuarial valuation process. The assumptions used in the June 30, 1991 actuarial valuation of the plan are:

Economic Assumptions

(1) 8% annual return on investments
(2) 7% salary increases annually
(3) 6% annual increase in social security wage base

Actuarial Assumptions

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

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) totalled $8.453 billion at the June 30, 1991 actuarial valuation date. Net assets of $8.830 billion, equalling 104.5% of the pension benefit obligation (PBO), were available for benefits.

Political Subdivisions

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

Political Subdivision Participation at June 30, 1991

Cities	110
Counties	82
Utility Districts	25
Special School Districts	20
Joint Ventures	18
Regional Libraries	12
Development Agencies	7
Housing Authorities	9
Miscellaneous Organizations	13
911 Emergency Communication Districts	10
Total	306

Social Security

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

Effective January 1, 1956, social security coverage was extended to employees in positions under the Tennessee State Retirement System and the Tennessee Teachers' Retirement System (superseded systems) and on July 1, 1972, to the TCRS coverage group. The master agreement as executed by the state and the Secretary of Health and Human Services provides for retirement, survivors, disability and health insurance coverage.

In 1985, the federal Budget Reconciliation Act mandated medicare coverage to public employees hired after March 31, 1986, in positions not covered under the full social security program. The 1986 Act relieves the state of its responsibility for collecting social security contributions and medicare taxes from public employers, effective January, 1987.

A separate reporting of withholding for Social Security and Medicare was required in 1991 because different wage bases were applied. The Social Security tax rate is 6.2% each for employers and employees; the Medicare (hospital insurance) rate is 1.45% for each. Also in 1991, federal legislation was enacted to provide social security coverage for certain temporary, seasonal, and part-time public employees who were not mandatorily covered by social security or a governmental pension plan.

Schedule of Historical Social Security Contribution Rates

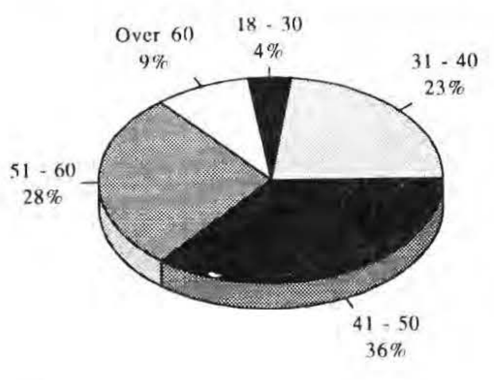
Calendar Year	Employee Rate	Employer Rate	Social Security Wage Base	Medicare Wage Base
1957	2.25%	2.25%	$ 4,200	$ 4,200
1962	3.12	3.12	4,800	4,800
1967	4.40	4.40	6,600	6,600
1972	5.20	5.20	9,000	9,000
1977	5.85	5.85	16,500	16,500
1982	6.70	6.70	32,400	32,400
1983	6.70	6.70	35,700	35,700
1984	6.70	7.00	37,800	37,800
1985	7.05	7.05	39,600	39,600
1986	7.15	7.15	42,000	42,000
1987	7.15	7.15	43,800	43,800
1988	7.51	7.51	45,000	45,000
1989	7.51	7.51	48,000	48,000
1990	7.65	7.65	51,300	51,300
1991	7.65	7.65	53,400	125,000
1992	7.65	7.65	55,500	130,200

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

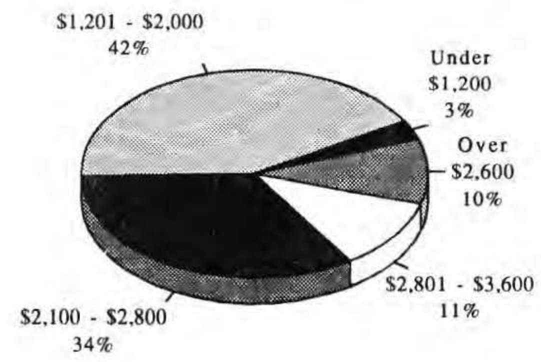
This program offers employees two plans. Plan I, authorized by Section 457(b) of the Internal Revenue Code, was implemented in the 1981-82 fiscal year. Plan II, authorized by Section 401(k) of the Internal Revenue Code, was implemented as the first governmental 401(k) plan in the 1983-84 fiscal year.

As of June 30, 1991, 6,243 employees had accounts in the program: approximately 42% had accounts in Plan I only, 36% had accounts in Plan II only, and 22% had accounts in both plans. At June 30, 1,821 state employees and 82 University of Tennessee employees were actively contributing to Plan I and 2,356 state employees and 337 University of Tennessee employees were actively contributing to Plan II. As illustrated by the following charts, the program is used by state employees of all ages and salary levels. The majority are under age 50 and earn below $30,000 per year.

Age Distribution



Monthly Salary Distribution



Employees may enroll in either plan at any time and may adjust contributions at any time. Employees may participate in either plan with a minimum deferral of $20 per month.

IRS regulations for 1991 allow a maximum deferral in Plan I of 25% of salary up to the maximum annual contribution of $7,500. The maximum deferral in Plan II is 20% of salary for Group I, II or III retirement system members up to the maximum annual contribution of $8,475. Participants who use both plans are subject to a combined plan limit of 25% of salary up to $7,500.

IRS regulations generally prohibit the withdrawal of deferrals during state employment. At retirement, participants may elect a lump sum payment, periodic payments, or fixed or variable annuity payments of their accumulations in either plan.

Participants in the program may direct the investment of their deferred salary to any of the investment products authorized and contracted by the state. Contributions are wired through the State Trust of Tennessee for immediate crediting. Deferrals may be accumulated in Fidelity Federal's time deposit account, AEtna's guaranteed accumulation account, Great-West Life's guaranteed certificate fund and three of Fidelity Investments' mutual funds.

Enrollment and recordkeeping services for the program are provided by The Holden Group. The use of a separate administrator enables the program to offer a wide variety of investment products and to offer participants the flexibility to transfer accumulated funds among investment providers without penalty.

Under the loan program offered in Plan II, active employees who have accumulated $4000 or more may borrow up to half of their account value. Participants repay principal and interest to their Plan II accounts through salary deduction. Taxes continue to be deferred while funds accumulated in the plan are in loan status.

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

For the year ending June 30, 1991, participants deferred a total of $10,870,683 through the program. At June 30, 1991, accumulated account balances totaled $104,505,851. Distribution of these funds is shown on the following schedule.

	Deferrals		**Market Value of Account Balances**	
	FY 1989-90	**FY 1990-91**	**June 30, 1990**	**June 30, 1991**
Plan I (457)				
AEtna - Closed Contract	$ 0	$ 0	$ 20,307,759	$ 20,487,974
AEtna - New Contract	237,187	237,052	1,277,347	1,542,450
American General	204,588	184,486	855,388	913,581
Fidelity Federal	1,254,548	1,195,580	11,858,478	13,233,252
Fidelity Investments	1,905,923	1,834,727	11,781,767	14,281,938
Great West	843,906	819,906	5,093,927	6,122,157
TOTAL	$4,446,152	$4,271,751	$ 51,174,666	$ 56,581,352
Plan II (401k)				
AEtna - Closed Contract	$ 0	$ 0	$ 11,773,481	$ 11,930,379
AEtna - New Contract	361,640	403,953	1,817,704	2,216,450
Fidelity Federal	1,115,134	1,381,352	5,761,885	7,162,320
Fidelity Investments	3,573,370	4,015,179	16,575,816	21,313,377
Great West	781,267	798,448	4,154,185	5,301,973
TOTAL	$5,831,411	$6,598,932	$ 40,083,071	$ 47,924,499

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. 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. During the 1990-91 fiscal year, administration was performed by VISTA Management Company and overseen jointly by the Treasury Department and the Department of Finance and Administration.

State employees enrolled in a group health insurance program are automatically enrolled in the medical insurance premium portion of the plan unless they elect not to participate. Use of the other benefit options requires a new election each year.

At June 30, 1991, 30,845 state employees were enrolled in one or more of the plan's four options: 30,704 employees used the plan to pay medical insurance premiums, 2,250 paid dental insurance premiums, 2,163 used the medical expense reimbursement account, and 335 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 1990-91, the state's F.I.C.A. savings totaled $1,311,600. Since the program began operation in January 1989, the state's F.I.C.A. savings have totaled $2,756,460. These savings have been designated for paying the administrative expenses of the plan, offsetting costs in the state's health insurance program, and providing assistance for day care programs.

The Division of Claims Administration processes claims filed against the state for the negligent operation of motor vehicles or machinery; negligent care, custody and control of persons or property; professional malpractice; workers' compensation claims by state employees; dangerous conditions on state maintained highways and bridges; and nuisances created or maintained by the state. The Division of Claims Administration operates in conjunction with the Attorney General's Office and the Tennessee Claims Commission in this claims process. The Division of Claims Administration handles all workers' compensation claims, employee property damage claims and tort claims up to a certain monetary limit. During fiscal year 1990-91, the Division of Claims Administration received a total of 5,951 claims falling within these categories.

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

This division also provides staff support to the Board of Claims. The Board of Claims has the authority to hear claims which do not fall within the jurisdiction of the Tennessee Claims Commission. Claims which come under the jurisdiction of the Board of Claims are immediately referred to the Board. During fiscal year 1990-91, the Board took action on a total of six 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 1990-91

	Claims Filed	Payments Made	
Workers' Compensation Claims	3,948		
Death Payments		$ 163,863	
Medical Payments		3,984,264	
Assault Injury Payments		18,978	
Temporary Disability (Lost Time)		665,317	
Permanent Disability		2,102,061	
Subtotal			$6,934,483
Employee Property Damage	210		24,896
Tort Claims	1,793		
Death Payments		$ 1,354,275	
Bodily Injury Payments		1,300,218	
Property Damage Payments		676,535	
Subtotal			3,331,028
TOTALS	5,951		$10,290,407

The purpose of the Criminal Injury Compensation Program is to assist persons who are innocent victims of crime. Payments made under the Criminal Injury Compensation Program are intended to defray the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either the victim of a crime or to the dependents of deceased victims. This program is funded through privilege taxes assessed in courts against criminal defendants and other offenders upon conviction, fees levied against parolees and probationers, the proceeds of bonds forfeitures in felony cases, and a federal grant.

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

During the 1990-91 fiscal year, the Division of Claims Administration made payments on 2,400 criminal injury claims for a total of $11,066,540. Payments are issued promptly to the victim and, if appropriate, his or her attorney. Federal funding assistance for the program has aided in allowing prompt claim payment.

The Criminal Injury Compensation Program ended fiscal year 1991 with a fund balance of $4,004,613 -- a decrease of 56 percent from the previous fiscal year's fund balance.

The Board of Claims determined that the estimated balance in the fund at June 30, was less than 50 percent of the actual claims paid during the fiscal year. Therefore, they did not make the supplemental award program operative for victimizations occurring on or after July 1, 1991. Victims of crimes occurring on or after July 1, 1991 are eligible to receive up to $7,000 plus attorney's fees.

The same assistance is also available to victims of drunk drivers. Effective July 1, 1990, the 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, 1991. During fiscal year 1991, 100 claims were paid from this fund for a total of $272,568.

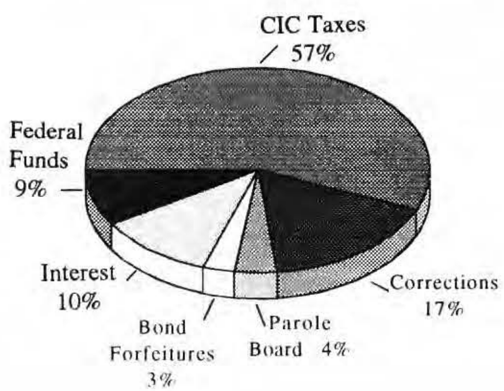
Since the first claims were paid in 1982, the program has awarded a total of over $39.7 million to crime victims. Cumulative award amounts are shown on the accompanying chart. The Division of Claims Administration has made an effort to educate members of the public of the existence and benefits of the Criminal Injury Compensation and Victims of Drunk Drivers Programs 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.

Analysis of Victim Compensation Awards Paid During Fiscal Year 1990-91

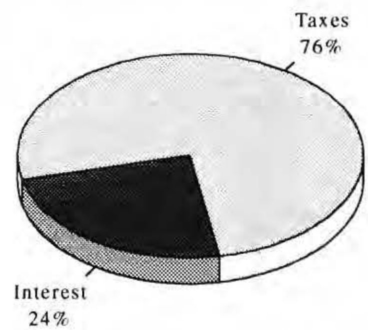
Classification of Crime	Number of Awards	Percent of Total	Dollar Value of Awards	Percent of Total	Average Award
Criminal Injuries:					
Homicide	370	15.4%	$2,023,542	18.3%	$5,469
Sexual Assault	707	29.4	2,199,286	19.9	3,111
Robbery	107	4.5	415,164	3.7	3,880
Assault	1214	50.6	6,418,680	58.0	5,287
Other	2	.1	9,868	.1	4,934
Total	2,400	100.0%	$11,066,540	100.0%	$4,611
Drunk Drivers	100	100.0%	$ 272,568	100.0%	$2,726

Sources of Funds

Victims of Criminal Injury



Victims of Drunk Drivers



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 1990-91, the Defense Counsel Commission/Subcommittee authorized payments of attorney's fees and litigation expenses which totaled $177,156. The Defense Counsel Commission/Subcommittee considered 276 requests for representation, of which 151 were approved and one was denied. At the end of the fiscal year, there were 124 active Defense Counsel Commission/ Subcommittee files.

Prior to seeking approval through the Defense Counsel Commission/Subcommittee, a state employee must first contact the Attorney General's Office and request defense through the Attorney General's staff. If the Attorney General cannot represent the state employee, the employee must make a formal request to the Defense Counsel Commission/Subcommittee. The number of requests for reimbursement of attorney's fees referred to the Defense Counsel Subcommittee increased dramatically during the past fiscal year. This increase was due to the Attorney General's inability to take on the defense of state employees due to budgetary/staffing constraints.

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

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

The Unclaimed Property Act provides that cash property which an organization or individual is holding for another person will be reported to the Treasurer if the holder of the property has had no contact with the owner for a period of seven years and if the holder cannot locate the owner. Once property is reported, the Treasurer advertises the owner's name and last known address and attempts to direct the owners to their property. A total of $6,151,083 was advertised during the 1990-91 fiscal year.

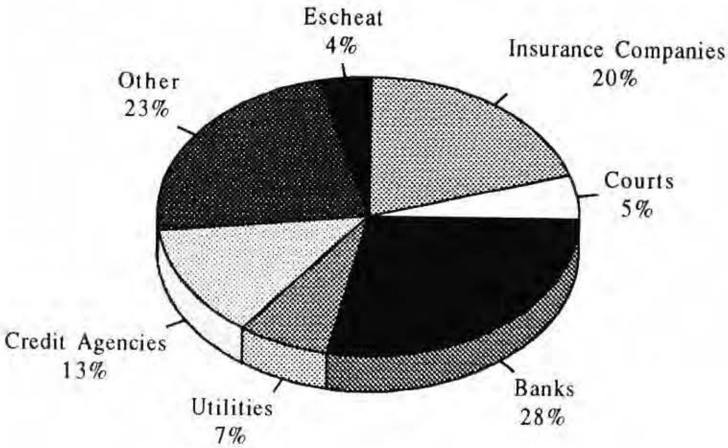
Property which is not claimed from the holder as a result of advertising is turned over to the Treasurer's custody. During the period July 1, 1990 through June 30, 1991, $4,901,412 of cash property was turned over to the Treasurer. The chart below illustrates the sources of cash collections for fiscal year 1990-91.

After the Treasurer receives the property from the holders, additional efforts are made to locate the rightful owner. The first location method used is to send notification to the last known address of each owner. If no response is received, additional search efforts are made through employment security records, telephone directories, city directories, retirement records, and other sources. In addition, the records of unclaimed property owners are available for viewing by the public in the Unclaimed Property office. 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.

Effective July 1, 1989 all money that is received from this program which is not used to pay claims or administrative expenses is deposited into the Health Access Incentive fund. Since the inception of this fund, over $6.9 million has been deposited to provide financial assistance to doctors who agree to set up practice in rural areas of the state where health care is not currently available.

During the period July 1, 1990 through June 30, 1991, $1,722,956 of cash property was returned by holders and the Unclaimed Property Division to the owners or their heirs. Of this total, $1,185,466 represented accounts returned by the state and $537,490 represented accounts returned by holders as a result of the division's efforts. An analysis of the property returned during the 1990-91 fiscal year is shown on page 51.

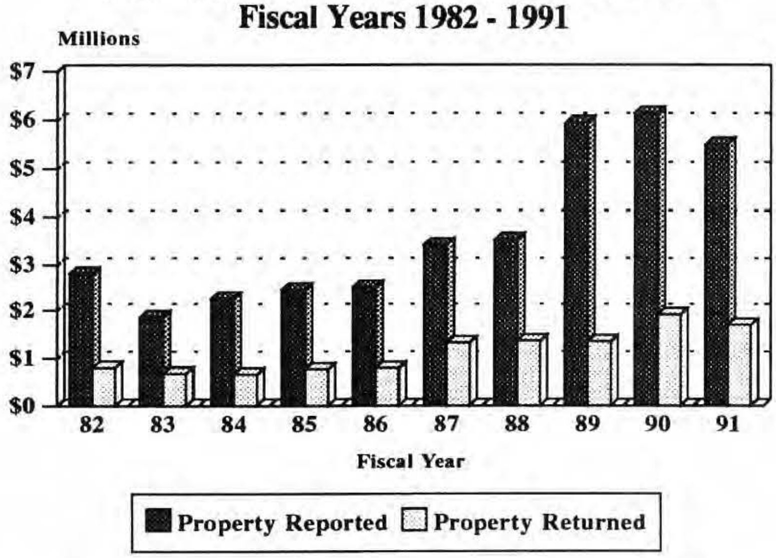
Sources of Unclaimed Property



Property Returned
July 1, 1990 - June 30, 1991

Reporting Entity	Number of Accounts	Value of Claims	Percentage of Total Value
Banks	992	$ 504,770	29.3%
Insurance Companies	1,346	292,528	17.0
Credit Agencies	358	208,227	12.1
Utilities	486	40,365	2.4
Courts	51	57,709	3.5
TCRS	10	2,433	.1
Other	1,317	616,924	35.6
TOTAL	4,560	$ 1,722,956	100.0%

Unclaimed Property Reported and Returned
Fiscal Years 1982 - 1991



Since the program began in 1979, $48.4 million in unclaimed property has been reported to the Treasurer and $13.6 million (28%) has been returned to 49,335 owners or their heirs. The schedule above shows the amount of property reported and returned in each of the last ten years. Outside audit organizations remitted $368,493 in cash and stock from out-of-state non-reporting holders for Tennessee residents this past fiscal year.

The first auction of abandoned safe deposit box contents was held in May of this year. Over 243 property groups for over 700 owners were sold for a total of $76,798. This was the only auction of this type for the department since non-cash property is no longer remitted to the state.

Administration of the state's Escheat Law is also the responsibility of the Treasurer's Office. When an individual in Tennessee dies without any known heirs, his property becomes subject to escheat. The law provides that this property will be reported to the Treasurer and, after a determination by a court of law that there are no known surviving heirs, the property is turned over to the state. This property is then held in custody by the Treasurer and may be claimed by the rightful heirs. During the past fiscal year, the Treasurer's Office has received funds totaling $67,328 representing 41 estates. Since fiscal year 1981-82, a total of $894,803 representing 220 estates has been received.

The Chairs of Excellence (COE) Trust provides funds with which state colleges and universities are able to contract with persons of regional or national prominence to teach in specified academic areas. The program is open to all state 4-year colleges and universities, and the UT Space Institute. The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus, creating a chair. Income from the fixed income portion of the trust is used to fund required expenditures for the chair. All other funds, including equity income and profit/loss, become part of the corpus of the fund for use in supporting the trust in future years. Since the start of the program in 1984, there have been 80 chairs created, with state appropriations totaling $44,000,000 and matching contributions totaling $43,719,649. For the year ending June 30, 1991, investment income totaled $10,010,429 with expenditures of $5,678,326.59.

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 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

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)

Space Institute

- Boling COE in Space Propulsion

Tennessee Board of Regents

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

East Tennessee State University
- Quillen COE of Medicine in Geriatrics & Gerontology
- AFG Industries COE in Business & Technology
- Harris COE in Business
- Long Chair of Surgical Research
- Dishner COE in Medicine

Middle Tennessee State University
- Seigenthaler Chair of First Amendment Studies
- Jones Chair of Free Enterprise
- Adams COE in Health Care Services
- National Healthcorp COE in Nursing
- Russell COE in Manufacturing Excellence
- Murfree Chair of Dyslexic Studies

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

Tennessee Technological University
- Owen Chair of Business Administration
- Mayberry Chair of Business Administration

*Chair established during fiscal year 1990-91.

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

Boards and Commissions	Tennessee Code Annotated Section
Board of Equalization	4-3-5101
Board of Trustees of the Tennessee Consolidated Retirement System	8-34-301 - 8-34-319
Commission to Purchase Federal Property	12-1-103
Council on Pensions and Insurance	3-9-101
Defense Counsel Commission	9-8-107
Funding Board	9-9-101
Investment Advisory Council	8-37-108
Public Records Commission	10-7-302
Sick Leave Bank Board	8-50-903
State Building Commission	4-15-101
State 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 Child Care Loan Guarantee Board	4-37-101, et seq.
Tennessee Competitive Export Corporation	13-27-104
Tennessee Housing Development Agency	13-23-106
Tennessee Local Development Authority	4-31-103
Tennessee Student Assistance Corporation	49-4-202
Tuition Guaranty Fund Board	49-7-2018

Administration

Baccalaureate Education System Trust	49-7-801, et seq.
Board of Claims	9-8-101, et seq.
Chairs of Excellence Trust	49-7-501 - 49-7-502
Collateral Pool	9-4-501 - 9-4-523
Collateral Program	9-4-101 - 9-4-105
Criminal Injury Compensation Fund	29-13-101, et seq.
Deferred Compensation	8-25-101, et seq.
Escheat	31-6-101, et seq.
Flexible Benefits Plan (Cafeteria Plan)	8-25-305
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704
National Resources Trust Fund	11-14-304
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Pooled Investment Fund	9-4-704
Receipt and Disbursement of Public Funds	8-5-106 - 8-5-111; 9-4-301, et seq.
Security	9-4-401 - 9-4-409
State Deposits	9-4-106 - 9-4-108
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

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

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

Financial Statements

Local Government Investment Pool
Tennessee Consolidated Retirement System
Deferred Compensation
Flexible Benefits Plan
Claims Award Fund
Criminal Injuries Compensation Fund
Victims of Drunk Drivers Compensation Fund
Chairs of Excellence
Bond Refunding

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697

December 20, 1991

The Honorable W. R. Snodgrass
Comptroller of the Treasury
First Floor, State Capitol
Nashville, Tennessee 37243-0260

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Local Government Investment Pool as of June 30, 1991, and June 30, 1990, and the related statements of revenue, 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, 1991, and June 30, 1990, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

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

Sincerely,

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

AAH/SMS/dm

Local Government Investment Pool
Comparative Balance Sheet

	June 30, 1991	June 30, 1990
ASSETS		
Cash and Cash Equivalents	$ 726,263,610	$ 544,001,826
Due from General Fund	2,884	133,805
Total Assets	$ 726,266,494	$ 544,135,631
LIABILITIES AND FUND BALANCE		
Liabilities:		
Member Deposits	$ 565,033,478	$ 391,347,722
Due to State Highway Fund	51,830	51,775
Due to State Capital Projects Fund	5,882,003	10,378,150
Due to State College and University Funds	151,909,945	138,743,458
Due to Community Health Access Agencies	887,129	165,031
Due to Veterans' Nursing Home	944,035	2,352,516
Total Liabilities	$ 724,708,420	$ 543,038,652
Fund Balance	$ 1,558,074	$ 1,096,979
Total Liabilities and Fund Balance	$ 726,266,494	$ 544,135,631

See accompanying Notes to the Financial Statements.

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

	For the Year Ended June 30, 1991	For the Year Ended June 30, 1990
Revenues:		
Investment Income	$ 50,641,435	$ 48,391,232
Expenditures:		
Interest on Deposits	49,554,914	47,536,304
Administrative Fees	625,426	453,828
Total Expenditures	$ 50,180,340	$ 47,990,132
Excess of Revenues over Expenditures	$ 461,095	$ 401,100
Fund Balance, July 1	$ 1,096,979	$ 695,879
Fund Balance, June 30	$ 1,558,074	$ 1,096,979

See accompanying Notes to the Financial Statements.

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 .15 percent is charged against each participant's average daily LGIP balance to provide for recovery of administrative cost. This fee may be changed as the ratio of administrative cost to the pool balance changes.

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

Some deposits are committed to the office of Old Age and Survivors Insurance, Community Health Access Agencies, the Veterans' Nursing Home, the State College and University Funds, and to the State Capital Projects Fund. Withdrawals from these accounts require authorization by the administering agencies.

Significant Accounting Policies

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

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 fund liabilities are incurred.

Monies deposited in the LGIP are invested in the Pooled Investment Fund administered by the State Treasurer. The Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, 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 State of Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1991.

During fiscal year 1991, the state changed its definition of Cash and Cash Equivalents to include only cash on hand, demand deposits, such as the Pooled Investment Fund, and investments with three months or less to maturity when purchased. However, this change does not have an effect on the prior year's financial statements for the LGIP.

	July 1, 1990 through June 30, 1991	July 1, 1989 through June 30, 1990
Cash and Cash Equivalents Balance, July 1	$ 544,001,826	$ 483,990,510
Add Cash Receipts:		
Member Deposits	2,543,088,933	$ 2,083,016,033
Investment Income	50,641,435	48,391,232
Total Cash Receipts	$ 2,593,730,368	$ 2,131,407,265
Deduct Cash Disbursements:		
Member Withdrawals	2,410,843,158	2,070,942,121
Administrative Fees Paid	625,426	453,828
Total Cash Disbursements	$ 2,411,468,584	$ 2,071,395,949
Cash and Cash Equivalents Balance, June 30	$ 726,263,610	$ 544,001,826

See accompanying Notes to the Financial Statements.

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

December 12, 1991

The Honorable W. R. Snodgrass
Comptroller of the Treasury
First Floor, State Capitol
Nashville, Tennessee 37243-0260

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Consolidated Retirement System as of June 30, 1991, and June 30, 1990, 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, 1991, and June 30, 1990, 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-3 to the financial statements, the State of Tennessee changed its policy that defines cash equivalents.

Sincerely,

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

AAH/SMS/dm

(Expressed in Thousands)

ASSETS	**June 30, 1991**	**June 30, 1990**
Cash and Cash Equivalents	$ 566,703	$ 283,334
Investments:		
Short-term Securities (Amortized Cost)	108,843	188,557
Domestic Securities:		
Government Bonds (Amortized Cost)	2,541,353	1,586,643
Corporate Bonds (Amortized Cost)	2,533,592	2,094,986
Corporate Stocks (Cost)	2,257,832	2,221,880
Mortgages (Amortized Cost)	1,394	1,658
Securities on Loan		
Government Bonds (Amortized Cost)		790,038
International Securities:		
Government Bonds (Amortized Cost)	222,767	202,476
Corporate Bonds (Amortized Cost)	67,863	112,635
Corporate Stocks (Cost)	272,208	394,987
American Depository Receipts (Cost)	30,592	34,477
Total Investments	$ 8,036,444	$ 7,628,337
Receivables:		
Member Contributions Receivable	$ 10,560	$ 9,922
Employer Contributions Receivable	6,654	8,320
Political Subdivisions Receivable	2,376	2,777
Accrued Interest Receivable	110,391	102,298
Accrued Dividends Receivable	8,204	7,807
Accrued Loan Income Receivable		134
Investments Sold	106,642	4,855
Total Receivables	$ 244,827	$ 136,113
Total Assets	$ 8,847,974	$ 8,047,784

(continued)

LIABILITIES AND FUND BALANCE	**June 30, 1991**	**June 30, 1990**
Liabilities:		
Retired Payroll Payable	$ 10,911	$ 10,376
Warrants Payable	854	475
Accounts Payable:		
Death Benefits and Refunds Payable	1,000	1,565
Other	10	9
Investments Purchased	4,664	14,710
Total Liabilities	$ 17,439	$ 27,135
Fund Balance:		
Member Reserve	$ 1,609,075	$ 1,489,275
Employer Reserve (Unfunded Accrued Liability totaled $1.66 billion as of June 30, 1991 and $1.71 billion as of June 30, 1989)	7,221,460	6,531,374
Total Fund Balance	$ 8,830,535	$ 8,020,649
Total Liabilities and Fund Balance	$ 8,847,974	$ 8,047,784

See accompanying Notes to the Financial Statements.

(Expressed in Thousands)

	For the Year Ended June 30, 1991		For the Year Ended June 30, 1990	
Operating Revenues:				
Contributions:				
Member Contributions	$ 100,587		$ 95,957	
Employer Contributions	256,168		324,725	
Political Subdivisions Contributions	29,193	$ 385,948	32,023	$ 452,705
Investment Income:				
Loan Revenue	$ 138		$ 1,575	
Interest	386,297		346,644	
Dividends	78,820		69,184	
Income from Foreign Investments	37,753		36,960	
Net Discount (Premium) Amortization	80,489		73,108	
Currency Gain (Loss) on Sale of Foreign Investments	27,689		6,557	
Net Profit (Loss) on Sale of Investments	141,797	752,983	254,687	788,715
Total Operating Revenues		$ 1,138,931		$ 1,241,420
Operating Expenses:				
Annuity Benefits:				
Retirement Benefits	$ 237,789		$ 212,917	
Survivor Benefits	13,076		11,115	
Disability Benefits	6,924		6,498	
Cost of Living	49,366		45,295	
Death Benefits	2,505		2,350	
Refunds	19,385		20,561	
Total Operating Expenses		329,045		298,736
Net Income		$ 809,886		$ 942,684
Fund Balance, July 1		8,020,649		7,077,965
Fund Balance, June 30		$ 8,830,535		$ 8,020,649

See accompanying Notes to the Financial Statements.

(Expressed in Thousands)

	For the Year Ended June 30, 1991		For the Year Ended June 30, 1990	
Cash Flows from Operating Activities:				
Cash Received from Member Contributions	$ 99,949		$ 95,104	
Cash Received from Employer Contributions	257,835		324,435	
Cash Received from Political Subdivision Contributions	29,594		31,738	
Cash Payments for Annuity Benefits	(306,621)		(277,350)	
Cash Payments for Death Benefits	(2,548)		(2,430)	
Cash Payments for Refunds to Members	(19,528)		(20,627)	
Other Operating Revenues (Expenses)	1		(657)	
Net Cash Flows Provided by Operating Activities		$ 58,682		$ 150,213
Cash Flows from Investing Activities:				
Interest on Investments	$ 380,494		$ 328,984	
Dividends on Investments	77,203		70,462	
Loan Revenue	272		1,653	
Income from Foreign Investments	36,684		35,990	
Proceeds from Sales or Maturities of Investments	3,428,725		3,072,803	
Purchase of Investments	(3,729,953)		(3,793,197)	
Net Cash Flows Used in Investing Activities		193,425		(283,305)
Net Increase (Decrease) in Cash and Cash Equivalents		$ 252,107		$ (133,092)
Net Discount (Premium) Amortization of Cash Equivalents		31,262		26,058
Cash and Cash Equivalents at July 1		283,334		390,368
Cash and Cash Equivalents at June 30		$ 566,703		$ 283,334
Reconciliation of Net Income to Net Cash Flows from Operating Activities:				
Net Income		$ 809,886		$ 942,684
Adjustments to Reconcile Net Income to Net Cash Flows Provided by (Used In) Operating Activities:				
Interest Income	$ (386,297)		$ (346,644)	
Dividend Income	(78,820)		(69,184)	
Income from Foreign Investments	(37,753)		(36,960)	
Net Profit (Loss) on Sale of Investments	(141,797)		(254,687)	
Currency Gain (Loss) on Sale of Foreign Investments	(27,689)		(6,557)	
Net Discount (Premium) Amortization	(80,489)		(73,108)	
Loan Revenue	(138)		(1,575)	
Changes in Receivables:				
Member Contributions	(638)		(854)	
Employer Contributions	1,666		(290)	
Political Subdivision Contributions	401		(285)	
Changes in Payables:				
Retired Payroll Payable	535		(1,525)	
Warrants Payable	379		2	
Accounts Payable	(564)		(804)	
Total Adjustments		(751,204)		(792,471)
Net Cash Flows Provided by Operating Activities		$ 58,682		$ 150,213

See accompanying Notes to the Financial Statements.

A. Plan Description

1. TCRS. The Tennessee Consolidated Retirement System (TCRS) is a defined benefit, agent multiple-employer public employee retirement system. Members of the system consist of teachers, general employees of the state, higher education employees and employees of participating political subdivisions. The State of Tennessee is responsible for the retirement benefits of state employees, higher education employees and teachers, while participating political subdivisions are responsible for the retirement benefits provided their employees.

2. Membership. Membership in the system is mandatory for state employees, teachers, higher education employees, and employees of participating political subdivisions. At June 30, 1991 the number of participating local government employers and the TCRS membership was:

Cities	110	Retirees and beneficiaries	
Counties	82	currently receiving benefits	54,789
Utility Districts	25	Terminated members entitled	
Special School		to benefits but not yet	
Districts	20	receiving them	4,439
Joint Ventures	18	Current members:	
Other	51	Vested	73,146
		Nonvested	85,235
Total	306	Total	217,609

3. Benefits. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 10 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system on or after July 1, 1979 become vested after 10 years of service, and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established and amended by state statute.

4. Contributions. Effective July 1, 1981, the retirement system became noncontributory for most state and higher education employees. Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate is 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 teacher employed by a state-supported institution of higher education that has an optional retirement program may elect membership in TCRS or participation in the optional retirement program.

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

Until April 1988, the higher education institutions' contributions to TIAA/CREF flowed through TCRS and were presented on the Statement of Revenues, Expenses and Changes in Fund Balance as both a revenue and an expense. Subsequently, the state's contributions are remitted directly to TIAA/CREF by the higher education institutions. State statute requires the state supported institutions to make contributions to TIAA/CREF at the rate of 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, 1991, the state of Tennessee contributed $33.5 million (10.04% of current covered payroll) to the TIAA/CREF plan. The total current-year covered payroll was $333.5 million.

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

B. Summary of Significant Accounting Policies and Plan Asset Matters

1. **Reporting Entity**. The TCRS is a component unit of the State of Tennessee Financial Reporting Entity. The TCRS forms an integral part of Tennessee state government and as such has been included as a pension trust fund in the Tennessee Comprehensive Annual Financial Report.

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

2. **Basis of Accounting and Presentation.** The accompanying financial statements have been prepared in conformity with generally accepted accounting principles using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses at the time liabilities are incurred.

3. **Cash and Cash Equivalents.** 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 approval 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, 1991.

During Fiscal Year 1991, the definition of Cash and Cash Equivalents was changed to include only the cash invested in the Pooled Investment Fund and short-term investments with three months or less to maturity when purchased. This change has been reported in the accompanying financial statements for June 30, 1990 by restating Cash and Cash Equivalents to $283,334 thousand and by presenting Short-term Securities of $188,557 thousand.

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 consist of $5,619 thousand due from other funds within the state and $13,971 thousand 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 employees' accounts are reductions to the Employer Reserve.

7. **Options.** The TCRS is authorized by policy to engage in the issuance of options. Activity is limited to selling covered call options. The TCRS had no options outstanding at June 30, 1991.

8. **Reclassification.** The amount presented for Cost of Living benefits on the Statement of Revenues, Expenses, and Changes in Fund Balance was included in Retirement Benefits in prior years and has been separately reclassified for comparative purposes.

C. Investments

State statute authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, and in other good and solvent securities subject to the approval of the Board of Trustees and further subject to the following restrictions:

a. The total sum invested in common and preferred stocks shall not exceed 75 percent 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 75 percent of the total funds of the retirement system.

c. Within the restrictions in (a) and (b) above, an amount not to exceed 11 percent of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in the following countries: Japan, the United Kingdom, West Germany, Switzerland, France, the Netherlands, and Australia. Investments are valued at their book value in determining the compliance with these restrictions.

d. Investments may not be made in (1) stocks, securities, or other obligations of any U.S. firm or company which has a direct investment in the Republic of South Africa if more than one percent of the assets of the company are maintained in the Republic of South Africa or (2) any bank or financial institution which has originated loans to the Republic of South Africa.

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. Short-term investments with a maturity greater than three months when purchased are classified as short-term securities.

The TCRS investment securities are categorized below 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.

	June 30, 1991 Book Value	June 30, 1991 Market Value	June 30, 1990 Book Value	June 30, 1990 Market Value
Cash Equivalents-Category 1:				
Commercial Paper	$ 564,029,659	$ 564,029,861	$ 277,803,188	$ 277,893,524
Cash Equivalents– Categories 2 & 3:	0	0	0	0
Cash Equivalents-Not Categorized:				
Cash in State Treasurer's Pooled Investment Fund	2,673,190	2,673,190	5,531,196	5,531,196
Total Cash Equivalents	$ 566,702,849	$ 566,703,051	$ 283,334,384	$ 283,424,720
Investments – Category 1:				
Short-term Securities:				
Commercial Paper	$ 56,082,959	$ 56,082,985	$ 0	$ 0
Medium-term Notes	37,839,013	32,926,154	138,548,116	128,450,330
U.S. Treasuries	14,921,289	15,028,050	50,008,736	37,371,848
Long-term Investments:				
Domestic Securities				
Government Bonds	2,541,352,606	2,642,591,974	1,586,642,746	1,644,025,493
Corporate Bonds	2,533,592,384	2,539,912,212	2,094,986,133	2,086,356,785
Corporate Stocks	2,257,831,910	2,835,639,324	2,221,880,123	2,842,894,087
Mortgages	1,394,132	1,326,961	1,657,804	1,541,380
International Securities:				
Government Bonds	222,767,415	202,862,204	202,475,696	189,240,931
Corporate Bonds	67,862,958	66,978,081	112,635,123	108,679,152
Corporate Stocks	272,207,952	275,432,479	394,986,579	416,715,131
American Depository Receipts	30,592,088	30,232,829	34,477,324	41,300,075
Currency Gain (Loss)		6,242,594		46,693,064
	$ 8,036,444,706	$ 8,705,255,847	$ 6,838,298,380	$ 7,543,268,276
Investments – Categories 2 & 3	0	0	0	0
Investments – Not Categorized				
Investments held by broker-dealers under securities on loan contracts:				
Government Bonds	0	0	790,037,803	798,850,601
Total Investments	$ 8,036,444,706	$ 8,705,255,847	$ 7,628,336,183	$ 8,342,118,877

Since TCRS uses the accrual basis of accounting, securities that relate to unsettled sales are not categorized in the chart above. As of June 30, 1991, the TCRS is subject to custodial credit risk since the securities are held by its agent until the settlement date. These securities, totaling $106,641,967 would be considered category 1.

The TCRS is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that the TCRS loan specific securities from its holdings to the broker in return for collateral securities. The loaned securities are collateralized at 102 percent of their market value. The collateral is maintained by a third-party custodian. The TCRS receives a fee from the borrower for the use of the loaned securities. At June 30, 1991, the TCRS had no outstanding loans to brokers; however, security loans outstanding reached $765.1 million during the year.

D. Funding Status and Progress

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

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1991. 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, 1991, the net assets exceeded the pension benefit obligation by $376.8 million as follows (in millions):

	State	Political Subdivisions	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 2,869.4	$ 343.3	$ 3,212.7
Current employees:			
Accumulated employee contributions including allocated investment earnings	1,364.4	244.7	1,609.1
Employer-financed vested	3,056.6	298.9	3,355.5
Employer-financed nonvested	246.5	29.9	276.4
Total pension benefit obligation	$ 7,536.9	$ 916.8	$ 8,453.7
Net assets available for benefits at cost or amortized cost (market value is $9,499.3)	7,794.6	1,035.9	8,830.5
Assets in excess of pension benefit obligation	$ (257.7)	$ (119.1)	$ (376.8)

E. Contributions Required and Contributions Made

It is the policy of the state to fund pension benefits by actuarially determined contributions which are intended to provide funding for both the normal liability cost and the unfunded actuarial accrued liability cost, so that sufficient assets will be available to pay benefits when due. The frozen initial liability method, a projected benefit cost method, is used to value the plan. The employer contributions include funding for a cost-of-living provision and amortization of the accrued liability using the level dollar contribution method over a 40-year closed period which began in 1975. A 30-year amortization period is used for political subdivisions joining the system after June 30, 1983. The actuarial valued assets of the Employer and Member Reserves are subtracted from the present value of each member's expected benefit accrual to arrive at the unfunded accrued liability. The unfunded accrued liability based upon the last two biennial actuarial valuations is as follows:

	June 30, 1991	June 30, 1989
Present Value of Actuarial Liability for Active and Inactive Accounts	$ 11,066,416,307	$ 9,336,839,500
Less Actuarial Valued Assets:		
Employer Reserve	7,697,151,090	6,169,822,098
Member Reserve	1,712,208,106	1,453,979,871
Unfunded Liability	$ 1,657,057,111	$ 1,713,037,531

For the year ended June 30, 1991, contributions totaling $385.9 million were made in accordance with contribution requirements determined through an actuarial valuation performed at June 30, 1989. 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 (D) above. The state contributed $256.1 million (7.0 percent of current covered payroll) to the plan and state employees and teachers contributed $77.0 million (2.1 percent of current covered payroll). Political subdivisions contributed $29.2 million (.8 percent of current covered payroll) to the plan and employees of political subdivisions contributed $23.6 million (.6 percent of current covered payroll). These contributions consisted of (a) $240.2 million normal cost (6.6 percent of current covered payroll) and (b) $145.7 million amortization of the unfunded actuarial accrued liability (4.0 percent of current covered payroll).

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 five years.

Revenues By Source

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Contributions For TIAA/CREF	Total
1982	$ 54,072,586.84	$ 277,141,406.47	$ 220,079,030.13	$ 12,127,455.36	$ 563,420,478.80
1983	57,318,039.25	271,439,203.48	272,632,717.21	13,202,604.96	614,592,564.90
1984	59,776,800.27	278,031,805.49	342,868,166.96	14,450,599.00	695,127,371.72
1985	66,725,960.18	313,438,263.15	354,196,261.88	17,597,621.93	751,958,107.14
1986	71,692,211.18	342,879,457.74	564,296,888.86	20,117,735.51	998,986,293.29
1987	78,729,737.28	348,514,508.85	726,663,407.84	22,994,583.68	1,176,902,237.65
1988	83,021,879.19	373,778,518.31	573,406,133.88	19,323,703.46*	1,049,530,234.84
1989	89,906,776.21	336,292,918.45	549,550,133.52		975,749,828.18
1990	95,957,377.07	356,747,403.17	788,715,718.83		1,241,420,499.07
1991	100,587,021.16	285,361,612.30	752,983,018.33		1,138,931,651.79

Expenses By Type

Fiscal Year	Benefits	Refunds	Contributions To TIAA/CREF	Total
1982	$ 139,376,738.39	$ 24,193,598.53	$ 12,127,455.36	$ 175,697,792.28
1983	154,443,137.65	20,707,938.89	13,202,604.96	188,353,681.50
1984	168,411,509.47	23,259,015.47	14,450,599.00	206,121,123.94
1985	185,665,724.00	22,774,019.29	17,597,621.93	226,037,365.22
1986	204,645,237.75	21,301,916.51	20,117,735.51	246,064,889.77
1987	229,300,595.94	21,750,625.72	22,994,583.68	274,045,805.34
1988	243,993,944.99	17,801,882.05	19,323,703.46*	281,119,530.50
1989	258,320,436.90	20,664,894.51		278,985,331.41
1990	278,174,928.24	20,561,179.92		298,736,108.16
1991	309,660,794.90	19,384,713.14		329,045,508.04

Contributions were made in accordance with actuarially determined contribution requirements.

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

Analysis of Funding Progress
(in Millions of Dollars)

	(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)

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligaton, 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.

Actuarial Balance Sheet
June 30, 1991

TOTAL SYSTEM

	Political Subdivisions	State	Total
Assets			
Present Assets Creditable To:			
State Accumulation Fund	$ 841,484,193	$ 6,855,666,897	$ 7,697,151,090
Members' Fund	260,238,432	1,451,969,674	1,712,208,106
Total Present Assets	$1,101,722,625	$ 8,307,636,571	$ 9,409,359,196
Present value of prospective contributions payable to:			
State Accumulation Fund:			
Normal	$ 206,960,991	$ 820,718,161	$ 1,027,679,152
Accrued Liability		1,657,057,111	1,657,057,111
Total	$ 206,960,991	$ 2,477,775,272	$ 2,684,736,263
Members' Fund:	179,639,221	864,653,653	1,044,292,874
Total Prospective Contributions	$ 386,600,212	$ 3,342,428,925	$ 3,729,029,137
Total Assets	$1,488,322,837	$11,650,065,496	$13,138,388,333
Liabilities			
Present value of prospective benefits payable on account of:			
Present retired members and contingent annuitants	$ 329,847,838	$ 2,783,913,237	$ 3,113,761,075
Present active members	1,144,995,252	8,781,683,827	9,926,679,079
Former members	13,479,747	84,468,432	97,948,179
Total Liabilities	$1,488,322,837	$11,650,065,496	$13,138,388,333

(Unaudited)

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

December 20, 1991

The Honorable W. R. Snodgrass
Comptroller of the Treasury
First Floor, State Capitol
Nashville, Tennessee 37243-0260

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the IRC Section 457 Deferred Compensation Plan as of June 30, 1991, and June 30, 1990, and the related statement of changes in assets and liabilities for the year ended June 30, 1991. 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, 1991, and June 30, 1990, and the changes in assets and liabilities for the year ended June 30, 1991, in conformity with generally accepted accounting principles.

Sincerely,

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

AAH/SMS/dm

	June 30, 1991	June 30, 1990
ASSETS		
Investments Held by Vendors		
AEtna	$ 22,030,424	$ 21,585,106
American General	913,582	855,388
Fidelity Federal	13,233,251	11,858,478
Fidelity Investments	14,281,938	11,781,767
Great West	6,122,157	5,093,927
Total	$ 56,581,352	$ 51,174,666
Receivables from State Funds For		
AEtna	8,553	11,475
American General	9,440	10,594
Fidelity Federal	41,944	49,823
Fidelity Investments	72,005	76,137
Great West	27,188	29,510
Total	$ 159,130	$ 177,539
Total Assets	$ 56,740,482	$ 51,352,205
LIABILITIES		
Amounts Held in Custody for Others	$ 56,740,482	$ 51,352,205

See accompanying Notes to the Financial Statements.

	Balance July 1, 1990	Additions	Deductions	Balance June 30, 1991
ASSETS				
Investments, at Market	$ 51,174,666	$ 8,269,603	$ 2,862,917	$ 56,581,352
Receivables from State Funds	177,539	159,130	177,539	159,130
Total Assets	$ 51,352,205	$ 8,428,733	$ 3,040,456	$ 56,740,482
LIABILITIES				
Amounts Held in Custody for Others	$ 51,352,205	$ 8,428,733	$ 3,040,456	$ 56,740,482

See accompanying Notes to the Financial Statements.

IRC Section 457 Deferred Compensation Plan
Notes to Financial Statements

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

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

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

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

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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PHONE (615) 741-3697

December 20, 1991

The Honorable W. R. Snodgrass
Comptroller of the Treasury
First Floor, State Capitol
Nashville, Tennessee 37243-0260

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Employee Flexible Benefit Plan as of June 30, 1991, and June 30, 1990, 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 Employee Flexible Benefit Plan as of June 30, 1991, and June 30, 1990, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

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

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/SMS/dm

	June 30, 1991	June 30, 1990
ASSETS		
Cash and Cash Equivalents	$ 1,804,424	$ 1,102,043
Receivable from State Funds	81,373	77,140
Accounts Receivable	597	0
Total Assets	$ 1,886,394	$ 1,179,183
LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants Payable	$ 45,533	$ 0
Checks Payable	52,153	69,880
Accounts Payable	45,357	45,142
Dependent Care Deposits	132,114	124,999
Medical Reimbursement Deposits	172,140	208,407
Total Liabilities	$ 447,297	$ 448,428
Fund Balance	1,439,097	730,755
Total Liabilities and Fund Balance	$ 1,886,394	$ 1,179,183

See accompanying Notes to the Financial Statements.

Flexible Benefits Plan
Statement of Revenues, Expenditures, and Changes in Fund Balance

	For the Year Ended June 30, 1991	For the Year Ended June 30, 1990
Revenues:		
FICA Savings	$ 1,311,600	$ 1,031,946
Flexible Benefit Forfeiture	27,662	75,167
Total Revenue	$ 1,339,262	$ 1,107,113
Expenditures:		
Administrative Fees	531,187	457,149
Excess of Revenues over Expenditures	$ 808,075	$ 649,964
Other Financing Uses:		
Operating Transfer to State General Fund	(99,733)	(94,637)
Excess of Revenues Over Expenditures and Other Uses	$ 708,342	$ 555,327
Fund Balance, July 1	730,755	175,428
Fund Balance, June 30	$ 1,439,097	$ 730,755

See accompanying Notes to the Financial Statements.

A. Significant Accounting Policies

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

2. **Basis of Presentation** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.

3. **Basis of Accounting** - The Employee Flexible Benefits Plan is accounted for on the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available and expenditures are recognized at the time the fund liabilities are incurred.

4. **Cash and Cash Equivalents** - Cash deposited in the Employee Flexible Benefits Plan is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, 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, 1991.

During fiscal year 1991, the state changed its definition of Cash and Cash Equivalents to include only cash on hand, demand deposits, such as the Pooled Investment Fund, and investments with three months or less to maturity when purchased. However, this change does not have an effect on the prior year's financial statements.

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. The plan is administered by the Fringe Benefits Management Company.

	July 1, 1990 through June 30, 1991	July 1, 1989 through June 30, 1990
Cash Balance, Beginning of Year	$ 1,102,043	$ 780,279
Add Cash Receipts:		
Plan Deposits	$ 2,152,650	$ 2,248,821
FICA Savings	1,311,326	1,032,718
Total Cash Receipts	$ 3,463,976	$ 3,281,539
Deduct Cash Disbursements:		
Plan Withdrawals	2,176,422	2,421,056
Transfer to General Fund	99,733	94,637
Administrative Fees	485,440	444,082
Total Cash Disbursements	$ 2,761,595	$ 2,959,775
Cash Balance, End of Year	$ 1,804,424	$ 1,102,043

See accompanying Notes to the Financial Statements.

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

December 20, 1991

The Honorable W. R. Snodgrass
Comptroller of the Treasury
First Floor, State Capitol
Nashville, Tennessee 37243-0260

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Claims Award Fund as of June 30, 1991, and June 30, 1990, 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 Claims Award Fund as of June 30, 1991, and June 30, 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

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

AAH/SMS/dm

	June 30, 1991	June 30, 1990
ASSETS		
Cash and Cash Equivalents	$ 58,863,108	$ 62,844,090
LIABILITIES AND FUND EQUITY		
Liabilities		
Warrants Payable	$ 155,813	$ 211,115
Checks Payable	123,475	90,343
Accounts Payable	162,168	48,718
Due to Federal Government	5,497,455	0
Claims Liability	45,683,328	41,306,637
Total Liabilities	$ 51,622,239	$ 41,656,813
Fund Equity	7,240,869	21,187,277
Total Liabilities and Fund Equity	$ 58,863,108	$ 62,844,090

See accompanying Notes to the Financial Statements.

Statement of Revenues, Expenses, and Changes in Fund Equity

		For the Year Ended June 30, 1991		For the Year Ended June 30, 1990
Operating Revenues:				
Insurance Premiums	$ 15,903,445		$ 21,027,700	
Interest Income	5,586,428		5,891,562	
Taxes	4,050		3,500	
Total Operating Revenues		$ 21,493,923		$ 26,922,762
Operating Expenses:				
Torts:				
Death	$ 1,354,275		$ 467,315	
Bodily Injury	1,300,218		1,843,190	
Property Damage	676,535	3,331,028	593,093	2,903,598
Workers Compensation:				
Death	$ 163,863		$ 218,262	
Medical	3,984,264		3,073,637	
Assault Injury	18,978		14,324	
Temporary Disability	665,317		676,312	
Permanent Disability	2,102,061	6,934,483	2,140,463	6,122,998
Employee Property Damage		24,896		28,326
Professional/Administrative		3,473,233		3,057,873
Additional/(Reduced) Funding Liability		4,376,691		(12,528,344)
Total Operating Expenses		$ 18,140,331		$ (415,549)
Operating Income		$ 3,353,592		$ 27,338,311
Operating Transfer to State General Fund		(17,300,000)		(6,300,000)
Net Income (Loss)		$(13,946,408)		$ 21,038,311
Fund Equity, July 1		21,187,277		148,966
Fund Equity, June 30		$ 7,240,869		$ 21,187,277

See accompanying Notes to the Financial Statements.

		For the Year Ended June 30, 1991		For the Year Ended June 30, 1990
Cash Flows from Operating Activities:				
Operating Income		$ 3,353,592		$ 27,338,311
Adjustments to Reconcile Net Income to Net Cash Flows Provided in Operating Activities:				
Interest Income	$ (5,586,428)		$ (5,891,562)	
Change in Liabilities:				
Increase (Decrease) in Warrants Payable	(55,302)		11,929	
Increase (Decrease) in Checks Payable	33,131		90,343	
Increase (Decrease) in Accounts Payable	113,451		41,704	
Increase (Decrease) in Due to Fed. Govt.	5,497,455		0	
Increase (Decrease) in Claims Liability	4,376,691		(12,528,344)	
Total Adjustments		4,378,998		(18,275,930)
Net Cash Flows Provided by Operating Activities		$ 7,732,590		$ 9,062,381
Cash Flows from Noncapital Financing Activities				
Transfer to State General Fund:	$ (17,300,000)		$ (6,300,000)	
Net Cash Flows Used by Noncapital Financing Activities		(17,300,000)		(6,300,000)
Cash Flows from Investing Activities:				
Interest on Investments	$ 5,586,428		$ 5,891,562	
Net Cash Flows Provided by Investing Activities		5,586,428		5,891,562
Net Increase (Decrease) in Cash and Cash Equivalents		$ (3,980,982)		$ 8,653,943
Cash and Cash Equivalents at July 1		62,844,090		54,190,147
Cash and Cash Equivalents at June 30		$ 58,863,108		$ 62,844,090

See accompanying Notes to the Financial Statements.

A. Significant Accounting Policies

1. **Reporting Entity** - Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Claims Award Fund is an integral part of state government and as such has been included as an internal service fund in the Tennessee Comprehensive Annual Financial Report.

2. **Basis of Presentation** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.

3. **Basis of Accounting** - The Claims Award Fund is accounted for on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses when liabilities are incurred.

4. **Cash and Cash Equivalents** - Cash deposited in the Claims Award Fund is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, 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, 1991.

During fiscal year 1991, the state changed its definition of Cash and Cash Equivalents to include only cash on hand, demand deposits, such as the Pooled Investment Fund, and investments with three months or less to maturity when purchased. However, this change does not have an effect on the prior year's financial statements.

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 type 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. 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.

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, the amount of these liabilities was $45,683,328. Changes in the balances of claims liabilities during fiscal years 1990 and 1991 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
1989-90	$ 53,834,981	$ (3,473,422)	$ (9,054,922)	$ 41,306,637
1990-91	$ 41,306,637	$ 14,667,098	$ (10,290,407)	$ 45,683,328

At June 30, 1991, CAF held $58.86 million in cash and cash equivalents designated for payment of these claims.

2. The basic methodology used in the June 30, 1991 study for estimating ultimate losses was consistent with that of prior years. However, beginning with the June 30, 1990 valuation, less emphasis is placed on the state's tort liability case reserves (reported outstanding losses). Experience modifiers were selected based on paid losses rather than incurred losses. This resulted in a decrease in tort liability funding requirements for fiscal year 1990.

3. The actual premium collected during fiscal year 1991 totalled $21,400,900. However, this amount has been reduced by $5,497,455 relating to funds designated to be refunded to the federal government and is shown as a liability on the balance sheet.

4. Accounting Change - In 1991, the fund adopted the provisions of Statement 9 of the Governmental Accounting Standards Board (GASB). For comparative purposes, the June 30, 1990 cash flow information is presented in conformity with GASB 9.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

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PHONE (615) 741-3697

December 20, 1991

The Honorable W. R. Snodgrass
Comptroller of the Treasury
First Floor, State Capitol
Nashville, Tennessee 37243-0260

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Criminal Injuries Compensation Fund as of June 30, 1991, and June 30, 1990, 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, 1991, and June 30, 1990, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

Arthur A. Hayes Jr.

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

AAH/SMS/dm

	June 30, 1991	June 30, 1990
ASSETS		
Cash and Cash Equivalents	$ 9,628,363	$ 12,456,688
Accounts Receivable	386,947	378,793
Total Assets	$ 10,015,310	$ 12,835,481
LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants Payable	$ 1,146,904	$ 670,767
Accounts Payable	657,540	295,795
Claims Liability	4,206,253	2,804,012
Total Liabilities	$ 6,010,697	$ 3,770,574
Fund Balance		
Reserved for Future Benefits	4,004,613	9,064,907
Total Liabilities and Fund Balance	$ 10,015,310	$ 12,835,481

See accompanying Notes to the Financial Statements.

Criminal Injuries Compensation Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance

		For the Year Ended June 30, 1991		For the Year Ended June 30, 1990
Revenues:				
State				
Taxes	$ 4,458,197		$ 4,385,740	
Fines	1,585,089		1,552,855	
Federal	638,000		1,402,000	
Interest Income	727,200		893,137	
Total Revenues		$ 7,408,486		$ 8,233,732
Expenditures:				
Death Claims	$ 2,588,835		$ 1,717,689	
Personal Injury Claims	8,618,717		5,889,210	
Attorney Fees	1,261,228		989,295	
Total Expenditures		12,468,780		8,596,194
Excess of Revenues Over Expenditures		$(5,060,294)		$ (362,462)
Fund Balance, July 1		9,064,907		9,427,369
Fund Balance, June 30		$ 4,004,613		$ 9,064,907

See accompanying Notes to the Financial Statements.

A. Significant Accounting Policies

1. **Reporting Entity** - Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Criminal Injuries Compensation Fund is an integral part of state government and as such has been included as a special revenue fund in the Tennessee Comprehensive Annual Financial Report.

2. **Basis of Presentation** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. Certain amounts presented for the preceding year have been reclassified for comparative purposes.

3. **Basis of Accounting** - The Criminal Injuries Compensation Fund is accounted for on the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available and expenditures are recognized at the time the fund liabilities are incurred.

4. **Cash and Cash Equivalents** - Cash deposited in the Criminal Injuries Compensation Fund is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, 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, 1991.

During fiscal year 1991, the state changed its definition of Cash and Cash Equivalents to include only cash on hand, demand deposits, such as the Pooled Investment Fund, and investments with three months or less to maturity when purchased. However, this change does not have an effect on the prior year's financial statements.

B. Other Accounting Disclosures

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

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 20, 1991

The Honorable W. R. Snodgrass
Comptroller of the Treasury
First Floor, State Capitol
Nashville, Tennessee 37243-0260

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Victims of Drunk Drivers Compensation Fund as of June 30, 1991, and June 30, 1990, 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 Drunk Drivers Compensation Fund as of June 30, 1991, and June 30, 1990, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

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

AAH/SMS/dm

	June 30, 1991	June 30, 1990
ASSETS		
Cash and Cash Equivalents	$ 10,424,363	$ 9,288,913
Accounts Receivable	198,440	190,203
Total Assets	$ 10,622,803	$ 9,479,116
LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants Payable	$ 22,268	$ 12,304
Accounts Payable	9,149	11,104
Claims Liability	164,340	59,597
Total Liabilities	$ 195,757	$ 83,005
Fund Balance		
Reserved for Future Benefits	$ 10,427,046	$ 9,396,111
Total Liabilities and Fund Balance	$ 10,622,803	$ 9,479,116

See accompanying Notes to the Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance

		For the Year Ended June 30, 1991		For the Year Ended June 30, 1990
Revenues:				
State				
Taxes	$ 2,303,055		$ 2,454,243	
Interest Income	720,528		625,628	
Total Revenues		$ 3,023,583		$ 3,079,871
Expenditures:				
Death Claims	$ 143,362		$ 67,584	
Personal Injury Claims	191,563		88,122	
Attorney Fees	42,385		21,399	
Total Expenditures		377,310		177,105
Excess of Revenues Over Expenditures		$ 2,646,273		$ 2,902,766
Other Financing Uses				
Operating Transfer Out:				
State General Fund		(1,615,338)		0
Excess of Revenues Over Expenditures and Other Financing Uses		$ 1,030,935		$ 2,902,766
Fund Balance, July 1		9,396,111		6,493,345
Fund Balance, June 30		$ 10,427,046		$ 9,396,111

See accompanying Notes to the Financial Statements.

A. Significant Accounting Policies

1. Reporting Entity - Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Victims of Drunk Drivers Compensation Fund is an integral part of state government and as such has been included as a special revenue fund in the Tennessee Comprehensive Annual Financial Report.

2. Basis of Presentation - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.

3. Basis of Accounting - The Victims of Drunk Drivers Compensation Fund is accounted for on the accrual basis of accounting. Revenues are recorded when they become both measurable and available and expenditures are recognized at the time the fund liabilities are incurred.

4. Cash and Cash Equivalents - Cash deposited in the Victims of Drunk Drivers Compensation Fund is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, 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, 1991.

During fiscal year 1991, the state changed its definition of Cash and Cash Equivalents to include only cash on hand, demand deposits, such as the Pooled Investment Fund, and investments with three months or less to maturity when purchased. However, this change does not have an effect on the prior year's financial statements.

B. Other Accounting Disclosures

Victims of Drunk Drivers Compensation Program - The Victims of Drunk Drivers Compensation Program is funded through privilege taxes assessed in courts. Payments made under the Drunk Drivers Compensation Program are intended to defray the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either the victime of a crime or to the dependents of deceased victims.

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

December 20, 1991

The Honorable W. R. Snodgrass
Comptroller of the Treasury
First Floor, State Capitol
Nashville, Tennessee 37243-0260

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Chairs of Excellence as of June 30, 1991, and June 30, 1990, 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, 1991, and June 30, 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

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

AAH/SMS/dm

	June 30, 1991	June 30, 1990
ASSETS		
Cash and Cash Equivalents	$ 6,083,224	$ 3,934,831
Investments:		
Government Bonds (Amortized Cost)	51,695,104	56,032,888
Corporate Bonds (Amortized Cost)	35,754,516	28,537,081
Corporate Stocks (Cost)	20,636,099	20,137,956
Total Investments	$ 108,085,719	$ 104,707,925
Receivables:		
Income Receivable	1,765,046	1,812,911
Investments Sold	1,118,384	0
Total Receivables	$ 2,883,430	$ 1,812,911
Total Assets	$ 117,052,373	$ 110,455,667
LIABILITIES AND FUND BALANCE		
Liabilities:		
Payable to Tennessee Student Assistance Corporation	$ 3,326,782	$ 3,168,239
Fund Balance:		
Fund Balance Reserved for Endowments		
State	$ 44,000,000	$ 43,000,000
College & University	10,321,300	10,321,300
Private	33,398,349	32,120,842
Total Reserved for Endowments	$ 87,719,649	$ 85,442,142
Special Reserve		
State	$ 6,562,414	$ 6,310,561
College & University	1,562,278	1,427,528
Private	2,020,867	2,021,040
Total Special Reserve	$ 10,145,559	$ 9,759,129
Restricted Reserve		
State	$ 8,430,260	$ 7,202,750
College & University	185,969	63,066
Private	7,244,154	4,820,341
Total Restricted Reserve	$ 15,860,383	$ 12,086,157
Total Fund Balance	$ 113,725,591	$ 107,287,428
Total Liabilities & Fund Balance	$ 117,052,373	$ 110,455,667

See accompanying Notes to the Financial Statements.

		For the Year Ended June 30, 1991		For the Year Ended June 30, 1990
Operating Revenues:				
Investment Income		$ 10,010,429		$ 9,766,201
Operating Expenses:				
Payments to the University of Tennessee	$ 3,168,147		$ 2,893,139	
Payments to the Tennessee Board of Regents	2,510,180		1,962,307	
Administrative Cost	171,446		161,182	
Total Operating Expenses		5,849,773		5,016,628
Operating Income		$ 4,160,656		$ 4,749,573
Operating Transfer:				
From State General Fund	$ 1,000,000		$ 0	
From State College & University Funds	0	1,000,000	1,583,300	1,583,300
Net Income		$ 5,160,656		$ 6,332,873
Other Changes in Fund Balance:				
Contributions from Private Sources		1,277,507		2,957,868
Net Change in Fund Balance		$ 6,438,163		$ 9,290,741
Fund Balance, July 1		$ 107,287,428		$ 97,996,687
Fund Balance, June 30		$ 113,725,591		$ 107,287,428

See accompanying Notes to the Financial Statements.

	For the Year Ended June 30, 1991		For the Year Ended June 30, 1990	
Cash Flows from Operating Activities:				
Operating Income	$ 4,160,656		$ 4,749,573	
Adjustments to Reconcile Operating Income to Net Cash Flows Used in Operating Activities:				
Investment Income	(10,202,163)		(9,946,419)	
Net Amortization/(Accretion)	(81,738)		(76,780)	
Interest Paid to Tennessee Student Assistance Corporation	273,472		256,998	
Change in Liabilities:				
Increase (Decrease) in Payables	158,543		1,045,920	
Net Cash Flows Used in Operating Activities		$(5,691,230)		$(3,970,708)
Cash Flows from Noncapital Financing Activities:				
Contributions from Private Sources	$ 1,277,507		$ 2,957,868	
Transfers from State College and University Funds	0		1,583,300	
Transfer from State General Fund	1,000,000		0	
Net Cash Flows Provided by Noncapital Financing Activities		2,277,507		4,541,168
Cash Flows from Investing Activities:				
Investment Income Received	$ 8,589,714		$ 8,048,792	
Proceeds from Sales and Maturities of Investments	42,498,051		33,275,992	
Purchase of Investments	(45,252,177)		(43,342,537)	
Interest Paid to Tennessee Student Assistance Corporation	(273,472)		(256,998)	
Net Cash Flows Provided by (Used in) Investing Activities		5,562,116		(2,274,751)
Net Increase (Decrease) in Cash and Cash Equivalents		$ 2,148,393		$(1,704,291)
Cash and Cash Equivalents at July 1		$ 3,934,831		$ 5,639,122
Cash and Cash Equivalents at June 30		$ 6,083,224		$ 3,934,831

See accompanying Notes to the Financial Statements.

A. Significant Accounting Policies

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

2. **Basis of Accounting and Presentation** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles using the accrual basis of accounting. Under this method, revenues are recorded when earned; expenses are recorded at the time liabilities are incurred.

3. **Cash and Cash Equivalents** - Cash received by the Chairs of Excellence Trust Fund 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 approval 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, 1991.

   During fiscal year 1991, the state changed its definition of Cash and Cash Equivalents to include only cash on hand, demand deposits, such as the Pooled Investment Fund, and investments with three months or less to maturity when purchased. However, this change does not have an effect on the prior year's financial statements for the COE Trust.

   In addition, the classification of Cash and Cash Equivalents 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 with three months or less to maturity when purchased.

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 Fund Balance Reserved for Endowments consists of funds provided from contributions from the state, colleges and universities and private sources. Income earned on the COE 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 does not meet current needs. The restricted reserve is non-expendable and consists of income earned on equity investments and profit and loss from both fixed and equity investments. This income becomes part of the Trust corpus.

B. Investments

The investment policy of the Chairs of Excellence Trust requires that not less than 80% of the total trust(based on book value) be invested in debt securities. The remaining funds may be invested in equity securities including domestic common and preferred stocks and convertible bonds.

The Chairs of Excellence Trust investment securities are categorized below 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 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, 1991		June 30, 1990	
	Book Value	**Market Value**	**Book Value**	**Market Value**
Cash Equivalents - Category 1:				
Commercial Paper	$ 6,070,258	$ 6,070,258	$ 3,844,670	$ 3,844,670
Cash Equivalents - Not Categorized:				
Cash in State Treasurer's Pooled Investment Fund	12,966	12,966	90,161	90,161
Cash Equivalents - Categories 2 & 3:	0	0	0	0
Total Cash Equivalents	$ 6,083,224	$ 6,083,224	$ 3,934,831	$ 3,934,831
Investments - Category 1:				
Domestic Corporate Stock	20,636,099	21,746,415	20,137,956	23,339,838
Domestic Government Bonds	51,695,104	52,116,735	56,032,888	55,553,721
Domestic Corporate Bonds	35,754,516	36,409,831	28,537,081	28,660,046
	$108,085,719	$110,272,981	$104,707,925	$ 107,553,605
Investments - Categories 2 & 3	0	0	0	0
Total Investments	$ 108,085,719	$110,272,981	$ 104,707,925	$ 107,553,605

Since the COE Trust uses the accrual basis of accounting, securities that relate to unsettled sales are not categorized in the chart above. As of June 30, 1991, the COE Trust is subject to custodial credit risk since the securities are held by its agent until settlement date. The securities, totaling $1,118,384.44, would be considered category 1.

C. Other Accounting Disclosures

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

   As of June 30, 1991, 80 Chairs have been established with matching contributions received totaling $43,719,649. This is an increase of 1 Chair and $1,277,507 since June 30, 1990.

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

3. **Accounting Change** - In 1991 the COE Trust adopted the provisions of Statement 9 of the Governmental Accounting Standards Board (GASB). For comparative purposes, the June 30, 1990 cash flow information is presented in conformity with GASB 9.

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

December 20, 1991

The Honorable W. R. Snodgrass
Comptroller of the Treasury
First Floor, State Capitol
Nashville, Tennessee 37243-0260

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Bond Refunding Trust as of June 30, 1991, and June 30, 1990, and the related statement of changes in assets and liabilities for the year ended June 30, 1991. 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, 1991, and June 30, 1990, and the changes in assets and liabilities for the year ended June 30, 1991, in conformity with generally accepted accounting principles.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/SMS/dm

Bond Refunding
Comparative Balance Sheet

	June 30, 1991	June 30, 1990
ASSETS		
Cash and Cash Equivalents	$ 69,892	$ 60,871
Investments (Amortized Cost)	93,407,522	41,922,399
Accrued Interest Receivable	1,378,057	1,378,056
Total Assets	$ 94,855,471	$ 43,361,326
LIABILITIES		
Amounts Held in Custody for Others	$ 94,855,471	$ 43,361,326
Total Liabilities	$ 94,855,471	$ 43,361,326

See accompanying Notes to the Financial Statements.

Bond Refunding
Statement of Changes in Assets and Liabilities

	Balance July 1, 1990	Additions	Deductions	Balance June 30, 1991
ASSETS				
Cash and Cash Equivalents	$ 60,871	$ 63,446,105	$ 63,437,083	$ 69,893
Investments	41,922,399	52,346,498	861,376	93,407,521
Accrued Interest Receivable	1,378,056	1,378,057	1,378,057	1,378,056
Total Assets	$ 43,361,326	$ 117,170,660	$ 65,676,516	$ 94,855,470
LIABILITIES				
Amounts Held in Custody for Others	$ 43,361,326	$ 61,206,673	$ 9,712,529	$ 94,855,470
Total Liabilities	$ 43,361,326	$ 61,206,673	$ 9,712,529	$ 94,855,470

See accompanying Notes to the Financial Statements

The State Treasurer is a trustee for the Tennessee Local Development Authority (the Authority) and for the Funding Board of the State of Tennessee (Funding Board). 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, 1997. In June 1991, the Funding Board issued refunding bonds of $52,325,000 to refund $50,000,000 of the State's General Purpose bonds dated November 1, 1982 and maturing on and after May 1, 1993. The refunding bonds were issued to take advantage of lower interest rates. The proceeds resulting from the advance refundings are held by the trustee in an irrevocable trust to provide for the debt service payments for bonds maturing on and after March 1, 1997 for the 1985 Series A bonds and on and after May 1, 1993 for the General Purpose bonds.

Cash held by the trustee is pooled with the Pooled Investment Fund administered by the Treasurer. The Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Fund Board gives the Treasurer approval 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, 1991.

During fiscal year 1991, the state changed its definition of Cash and Cash Equivalents to include only cash on hand, demand deposits, such as the Pooled Investment Fund, and investments with three months or less to maturity when purchased. However, this change does not have an effect on the prior year's financial statements for the Bond Refunding.

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

U.S. Government Securities

Carrying Amount	Market Value
$ 93,407,522	$ 92,717,090

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

Treasury Department, December 1991, Authorization Number 309084, 600 copies. This public document was promulgated at a cost of $3.10 per copy.