1992 State of Tennessee Treasurer's Report

For the Fiscal Year Ended June 30, 1992 • Steve Adams, Treasurer

Report of the Treasurer

1992

For the Year Ended June 30, 1992

Steve Adams, Treasurer
State of Tennessee

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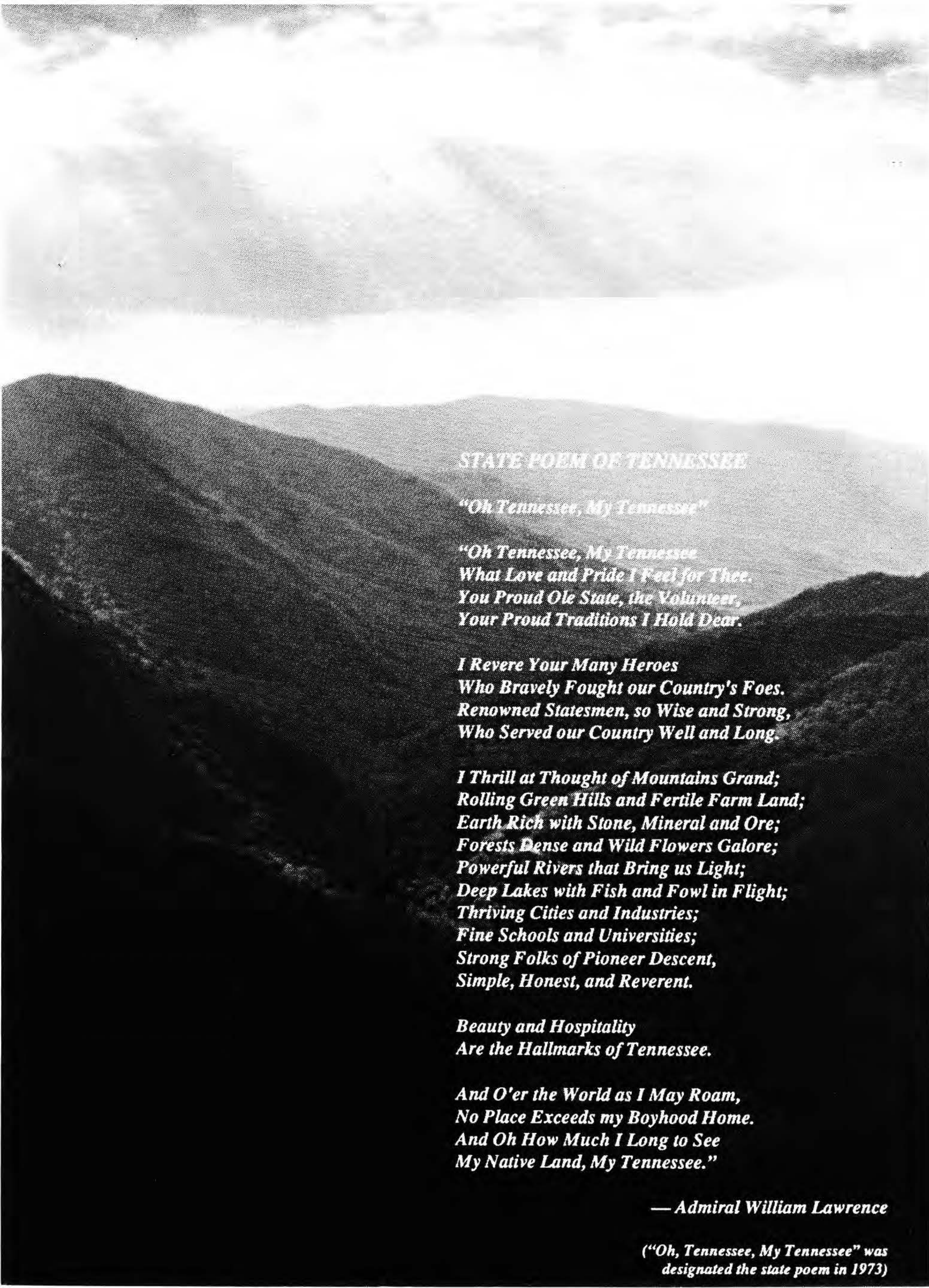

STATE POEM OF TENNESSEE

"Oh Tennessee, My Tennessee"

"Oh Tennessee, My Tennessee
What Love and Pride I Feel for Thee.
You Proud Ole State, the Volunteer,
Your Proud Traditions I Hold Dear.

I Revere Your Many Heroes
Who Bravely Fought our Country's Foes.
Renowned Statesmen, so Wise and Strong,
Who Served our Country Well and Long.

I Thrill at Thought of Mountains Grand;
Rolling Green Hills and Fertile Farm Land;
Earth Rich with Stone, Mineral and Ore;
Forests Dense and Wild Flowers Galore;
Powerful Rivers that Bring us Light;
Deep Lakes with Fish and Fowl in Flight;
Thriving Cities and Industries;
Fine Schools and Universities;
Strong Folks of Pioneer Descent,
Simple, Honest, and Reverent.

Beauty and Hospitality
Are the Hallmarks of Tennessee.

And O'er the World as I May Roam,
No Place Exceeds my Boyhood Home.
And Oh How Much I Long to See
My Native Land, My Tennessee."

— Admiral William Lawrence

("Oh, Tennessee, My Tennessee" was designated the state poem in 1973)

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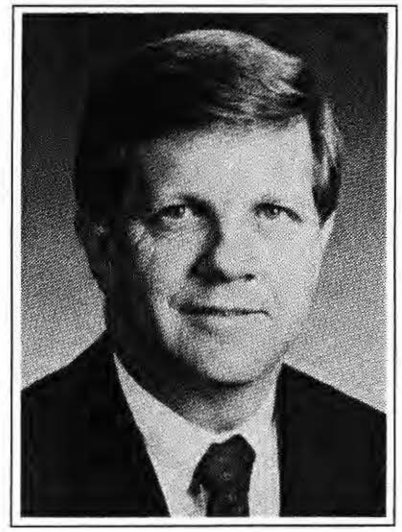


State of Tennessee
Treasury Department
State Capitol
Nashville, Tennessee 37243

December 31, 1992

To the Honorable Ned McWherter; Members of the General Assembly; and Citizens of the State of Tennessee:

It is with pride and pleasure that I present my fifth Annual Treasurer's Report. Since my election, we have diligently worked to provide superior service to our constituents in a cost effective manner through qualified personnel while maintaining the highest ethical standards. This report represents our continued commitment to this mission and conveys in detail the activities of the various divisions of the Treasurer's Office.

The sluggish economy of our state and nation has had an impact on all employers. Even under these circumstances, the Treasury Department maintained its high level of achievement. Realized rate of return on our pension fund investments exceeded last year's. As an informational item, funds handled by the Treasurer's Office qualify it as being the largest financial institution in the State of Tennessee. Major accomplishments during this past year also include conversion to in-house administration of the state employee flexible benefits program. This has resulted in administrative savings to the state as well as new and improved services to our customers —state employees. Completion of our Unclaimed Property Computer System has expanded the time our staff can spend locating owners of unclaimed property. These are but two examples of large and small changes made this year to better meet our responsibilities.

I owe a very special thanks to the entire Treasury Department team. I feel they are among the best and most committed employees in State Government! Each contributes to the success of our department. To the Governor and the Executive Branch, my sincere appreciation for the cooperation given this department. To the members of the General Assembly, my thanks for your continued confidence in me and your support and advocacy for the programs we administer. We are committed to serving you and the citizens of this great state.

Sincerely,

Steve Adams

Steve Adams

Administrative	Number of Positions		166
	Payroll Expenditures	$	4,576,700
	Other Expenditures	$	2,894,800
	Total Administrative Expenditures	$	7,471,500
Retirement Program	Retirement Benefits	$	331,776,861
	Number of Retirees		56,289
	Retirement Contributions	$	389,591,419
	Retirement Investment Earnings	$	986,220,366
	Number of Active Members		158,168
	Retirement Refunds	$	20,862,169
	Number of Refunds		5,181
Claims Administration Program	Workers' Compensation Payments	$	8,136,294
	Workers Compensation Claims Filed		3,860
	Employee Property Damage Payments	$	49,856
	Employee Property Damage Claims Filed		236
	Tort Claims Payments	$	4,221,090
	Tort Claims Filed		1,698
	Criminal Injury Payments	$	10,181,216
	Criminal Injury Claims Paid		2,331
	Victims of Drunk Drivers Payments	$	335,106
	Victims of Drunk Drivers Claims Paid		91
	Defense Counsel Payments	$	537,523
	Defense Counsel Claims Filed		573
	Claims Award Fund Revenue	$	27,591,100
Other Programs	Deferred Compensation Contributions	$	11,050,935
	Deferred Compensation Participants		6,624
	Flexible Benefits Plan Payments	$	2,417,558
	Flexible Benefits Plan Participants		33,132
	FICA Savings Generated from Flex Plan	$	1,553,559
	Unclaimed Property Revenues	$	5,429,922
	Unclaimed Property Payments	$	992,450
Cash Management Program	General Fund Earnings	$	38,963,488
	LGIP Earnings	$	42,044,979
	Restricted Fund Earnings	$	18,047,111
	Total Cash Management Earnings	$	99,055,578
Chairs of Excellence Program	Chairs of Excellence Contributions	$	775,353
	Chairs Of Excellence Investment Earnings	$	11,112,019
	Total Number of Chairs of Excellence		81
	Chairs of Excellence Expenditures	$	5,860,541
Market Value of Assets Under Management at 6/30/92	Retirement Trust Fund	$	10,904,729,183
	Chairs of Excellence Trust Fund	$	127,788,855
	State Pooled Investment Fund	$	1,855,326,714
	Deferred Compensation (outside managers)	$	122,473,571
	Bond Refunding Trust	$	43,372,176
	Total Assets Under Management	$	13,053,690,499

Introduction

The 1992 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 1991-92 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 1991-92 averaged $1.6 billion, producing $99 million in income for an average rate of return of 6.15%. Local governments participating in the Local Government Investment Pool received $40.7 million interest at a net rate averaging 4.61%.

Pension Fund Investments - This section manages the investments of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 1992 totaled $9.7 billion at book value (an increase of $1.4 billion for the year) and $10.7 billion at market value. For the year, investments produced $986.2 million in income for a realized rate of return of 11.15% on book value. This section also manages investments for the Chairs of Excellence Trust which at June 30, 1992 totaled $119.5 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, 1992, there were 158,168 active TCRS members: 40,469 state employees; 50,462 K-12 Teachers; 47,717 political subdivision employees; and 19,520 higher education employees. Three types of benefits are provided by TCRS: disability, death, and retirement benefits. As of June 30, 1992, there were 56,289 retirees. TCRS paid out $331.8 million in benefits during fiscal year 1991-92. 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. Retirement activities during 1991-92 included 3,063 retirements, 5,181 refunds, approximately 10,000 estimates provided to members, and approximately 5,200 requests to purchase prior service. TCRS received its fourth consecutive Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its June 30, 1991 Component Unit Financial Report.

Deferred Compensation Program

The State of Tennessee Deferred Compensation Program offers state employees the opportunity to accumulate supplemental retirement income on a tax deferred basis. By making salary reduction contributions to the 457 plan and/or the 401(k) plan offered under the program, employees are able to postpone income taxes on contributions and earnings until the funds are withdrawn. Participants may direct the investment of their deferred salary into a variety of investment products contracted for the program. Since the first of the program's two plans was implemented in 1981, state employees have deferred over $93 million in salary. As of June 30, 1992, 4,893 state and university employees were actively contributing to the program and the market value of accumulated account balances totaled $122.5 million, an increase of $18.0 million during the year.

Flexible Benefits Plan

The State of Tennessee Flexible Benefits Plan is an optional benefit plan which enables state employees to pay for certain expenses with before-tax dollars. Employees may use the plan to pay group medical insurance premiums, group dental insurance premiums, out-of-pocket medical expenses, and dependent care expenses. At June 30, 1992, 33,132 state employees were using the plan: 32,816 paid medical premiums, 5,696 paid dental premiums, 2,263 used the medical expense reimbursement account, and 349 used the dependent care reimbursement account. The plan generated over $1.5 million in F.I.C.A. savings for the state during fiscal year 1991-92. Effective January 1, 1992, the Treasury Department took over full administration of the Flexible Benefits Plan.

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, tort liability, and criminal injury compensation. Staff support from the Division of Claims Administration also assists the Defense Counsel Commission and the Board of Claims. The 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 claims which do not fall within the jurisdiction of the Tennessee Claims Commission. The Division of Claims Administration received 9,306 claims for tort, employee property damage, workers' compensation, criminal injuries, and drunk drivers compensation during fiscal year 1991-92. The Defense Counsel Commission heard 573 requests for representation, the Board of Claims took action on 10 cases, and 2,422 victims of criminal injury and drunk driver claims were approved for payment. Payments made during the year for workers' compensation, tort, and employee property damage claims totaled $12.4 million. Payments made to victims of criminal injuries and drunk drivers totaled $10.5 million during the year. Since the first payments were issued in 1982, a total of $50.2 million has been paid to crime victims.

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. The types of property covered by this act are primarily cash property such as bank accounts, insurance policies, utility deposits, etc. During the fiscal year, $5.4 million of unclaimed property was turned over to the Treasurer and $1.8 million was returned to owners or their heirs. Since the program began, over $54.4 million in unclaimed property has been reported to the Treasurer and over $15.4 million of that property has been returned to the owners or their heirs. Over $3.5 million was deposited to the Health Access Incentive Fund in fiscal year 1991-92. 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. 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 1992 fiscal year, one chair was created with matching contributions totaling over $725,000. Since 1984, a total of 81 chairs have been created. The Trust totaled $119.5 million book value at June 30, 1992 and produced income of $11.1 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 decreased from $94.9 million on June 30, 1991 to $41.7 million on June 30, 1992. This decrease was due to the redemption of $50 million of the state's General Purpose bonds.

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 262 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 1991-92 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was $1,630,426,045 per month and interest income of $99,055,578 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, 1992, investments had an average maturity of 212 days, and an average weighted yield of 5.33%. The total balance in the State Pooled Investment Fund at June 30, 1992 ($1,846,140,926 par value) was allocated as follows: U.S. Treasury government and agency securities, 56.65%; repurchase agreements, 12.52%; collateralized certificates of deposit, 20.25%; and commercial paper, 10.58%.

State Cash Management Comparative Returns

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.

Fiscal Year	[1]Total Pool Funds	[2]Merrill Lynch Institutional Fund	[3]New Pool Funds	[4]90 Day Treasury (CD Equivalent Yield)
1991-92	6.15%	4.66%	4.76%	4.53%
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

[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 262 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. Some banks have encouraged taxpayers to participate in a program to make their tax payments by an ACH transaction. ACH transactions are beneficial to the state and to banks due to increased efficiency over a manual method.

State Collateral Program

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

The state of the economy and the financial environment has increased the importance of monitoring collateral. Cash Management staff review collateral daily, weekly, and monthly. Any collateral deficiencies at authorized state depository institutions are reported to the Funding Board monthly. Reasons for under-collateralization include market price volatility of the security pledged, unexpected high deposits to an account, interest accruals, capital-to-asset ratios falling below five percent, and principal paydowns on asset backed securities.

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

8-5-110 Collateral

Tennessee Code Annotated, Section 8-5-110 designates the 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.

"We're excited about the amount of technology we've been able to introduce into our daily operations. This technology saves us time and gives us better management and transaction information."

— Beth Jarrard,
Assistant Director of Investments

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. Reports of collateral transactions, holdings, and maturities are regularly shared with these departments.

Collateral Pool

Legislation passed in March 1990 — "The Collateral Pool for Public Deposits Act" — authorized the formation of two collateral pools: one pool for banks and one for savings and loan institutions. Interest in forming a bank collateral pool was expressed by banking officials statewide.

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

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

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

All funds are collateralized based on the total amount of public funds held. Individual public fund accounts are accumulated, and the cumulative total is collateralized and pledged. Target collateral pledge levels are based on average balances in the public fund accounts.

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

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

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

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

The Bank Collateral Pool Board is currently engaged in a statewide program to familiarize both banks and local government officials with the benefits of the Bank Collateral Pool program. The Board is also currently accepting applications for participation in the Bank Collateral Pool.

Securities Acceptable as Collateral for State Deposits

1. U.S. Treasury Bills

2. U.S. Treasury Notes & Bonds

3. Federal Housing Administration (FHA) debentures

4. Government National Mortgage Associations (GNMA)*

5. Farm Credit System (FCS)
   a. Federal Land Bank Bond (FLBB)
   b. Farm Credit Systemwide Bonds (FCSB)
   c. Farm Credit Systemwide Discount Notes (FCDN)
   d. Farm Credit Systemwide Floating Rate Notes (FCFR)

6. Federal Home Loan Banks
   a. Bonds (FHLB)
   b. Discount Notes (FHDN)
   c. Floating Rate Notes (FHFR)

7. Federal Home Loan Mortgage Corporation (FHLMC)*
   a. Mortgage-Backed Participation Certificates and Adjustable Rate Securities (FMPC, FMAR)
   b. Discount Notes (FMDN)

8. Federal National Mortgage Association (FNMA)*
   a. Bonds, Debentures, Secondary Market Debt Obligations (FNSM)
   b. Discount Notes (FNDN)
   c. Floating Rate Notes (FNFR)
   d. Mortgage-Backed Pass-Through Certificates (FNRF)
   e. Residential Financing Securities (FNRF)
   f. Adjustable Rate Mortgage-Backed Bonds (FNAR)

9. Student Loan Marketing Association (SLMA)
   a. Discount Notes (SLDN)
   b. Fixed Rate Notes (SLMN)
   c. Floating Rate Notes (SLFR)
   d. Bonds (SLBD)

10. Tennessee Valley Authority Bonds and Notes (TVA)

11. Collateralized Mortgage Obligations (CMOs) and Real Estate Mortgage Investment Conduits (REMICs) that are direct obligations of a U.S. agency or FNMA/FHLMC, except that the "residual" class/tranche of such securities will not be acceptable. Sufficient excess securities should be pledged to allow for the periodic reduction of principal.

12. Certain Tennessee Municipal Bonds as specified in T.C.A. Section 9-4-103.

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

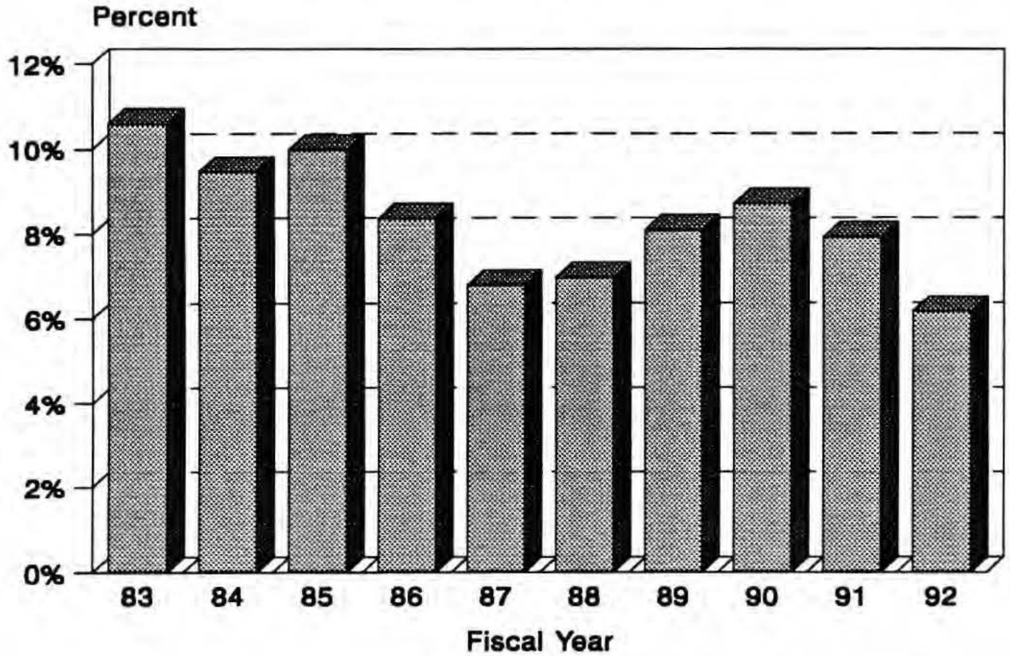
Historical Analysis of State Cash Investments

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
		Collateralized Time Deposits	
1991-92	$ 287,099,579	$ 16,274,530	5.60%
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%
		Repurchase Agreements	
1991-92	$ 213,768,838	$ 9,768,005	4.67%
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%
		Commercial Paper	
1991-92	$ 218,552,117	$ 11,206,751	5.07%
1990-91	204,276,091	15,752,444	7.65%
1989-90	61,703,591	5,166,619	8.37%
		U.S. Government Securities	
1991-92	$ 903,627,136	$ 60,499,203	6.72%
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%
		Money Market Deposit Accounts and Other	
1991-92	$ 7,378,375	$ 236,509	3.31%
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%
		Securities Lending Income	
1991-92	N/A	$ 1,070,580	N/A
1990-91	N/A	796,026	N/A
1989-90	N/A	427,177	N/A

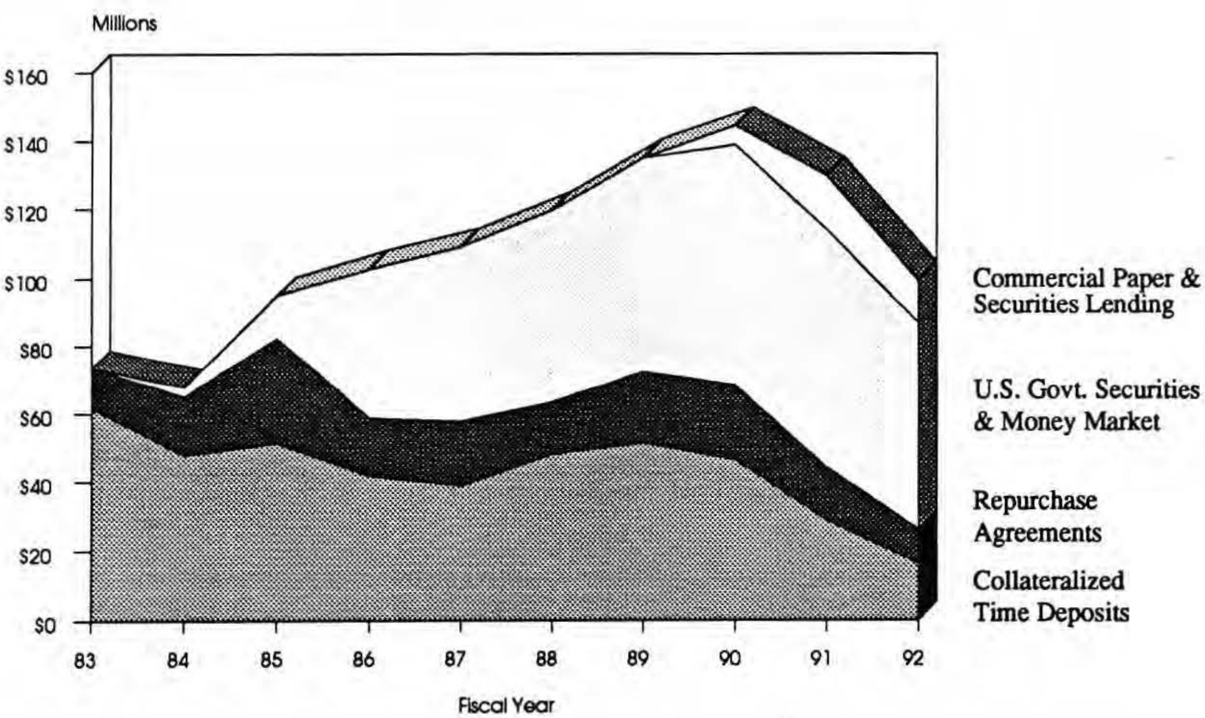
Total Funds

Fiscal Year	Average Total Funds Invested	Total Cash Management Earnings	Percent Of Total Available Cash Invested	Composite Weighted Average Rate of Return
1991-92	$ 1,630,426,045	$ 99,055,578	100.0%	6.15%
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%

Cash Management Investments
Composite Weighted Average Rate of Return 1983-1992



Analysis of State Cash Earnings 1983-1992



Cash Management Portfolio Analysis
Fiscal Year Ended June 30, 1992

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
07/91	5.95%	6.96%	224	17.08%	8.92%	55.25%	4.89%	13.86%
08/91	5.85%	6.89%	239	16.30%	10.18%	50.80%	8.30%	13.72%
09/91	5.60%	6.69%	212	15.34%	14.66%	46.48%	8.15%	15.37%
10/91	5.39%	6.62%	222	16.14%	14.46%	53.17%	7.99%	8.24%
11/91	5.00%	6.57%	252	20.29%	11.30%	49.29%	5.66%	13.46%
12/91	4.74%	6.27%	225	16.24%	16.41%	46.30%	5.24%	15.81%
01/92	4.27%	5.98%	201	13.74%	15.46%	41.38%	10.04%	19.38%
02/92	4.25%	5.87%	194	14.43%	12.36%	40.13%	10.62%	22.46%
03/92	4.17%	5.56%	180	18.45%	15.26%	41.35%	9.26%	15.68%
04/92	4.11%	5.41%	201	18.86%	10.88%	45.31%	8.52%	16.43%
05/92	3.94%	5.48%	204	20.38%	16.04%	45.83%	9.03%	8.72%
06/92	3.87%	5.46%	191	20.25%	12.52%	47.49%	9.16%	10.58%
Dollar Weighted Avg.	4.76%	6.15%	212	17.29%	13.26%	46.90%	8.07%	14.48%

Date	*General Fund* Average	Percent	*LGIP* Average	Percent	*Other Restricted* Average	Percent	Total Invested
07/91	$ 425,026,805	27.15%	$ 746,835,144	47.72%	$ 393,330,570	25.13%	$ 1,565,192,519
08/91	404,675,963	26.60%	728,833,490	47.90%	388,048,334	25.50%	1,521,557,787
09/91	334,566,656	21.00%	793,306,317	49.80%	465,033,922	29.19%	1,592,906,895
10/91	283,331,580	18.37%	783,755,039	50.81%	475,545,040	30.83%	1,542,631,659
11/91	299,693,245	20.44%	790,896,965	53.95%	375,374,523	25.61%	1,465,964,733
12/91	244,984,710	17.14%	799,323,824	55.92%	384,975,774	26.93%	1,429,284,308
01/92	234,153,098	15.23%	907,189,043	59.02%	395,654,687	25.74%	1,536,996,828
02/92	221,355,166	14.06%	970,095,416	61.61%	383,052,464	24.32%	1,574,503,046
03/92	239,221,983	13.41%	1,171,458,047	65.65%	373,727,376	20.94%	1,784,407,406
04/92	412,151,710	21.57%	1,117,952,003	58.52%	380,371,950	19.91%	1,910,475,663
05/92	456,411,784	24.57%	1,020,167,459	54.91%	381,345,653	20.54%	1,857,924,896
06/92	429,874,175	24.11%	967,087,360	54.23%	386,305,260	21.66%	1,783,266,795
Avg.	$ 332,120,573	20.30%	$ 899,741,676	55.00%	$ 398,563,796	24.69%	$ 1,630,426,045

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 279 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 increasingly delighted with the efficiency of the facsimile telecopier method. It frees staff time to actually execute the instructions and provides documentation of those instructions. LGIP reporting provides written transaction confirmation to participants prior to statement date. This documents the date, the participant entity account name and number, the transaction amount, and the transaction type. Many participants rely on this documentation for daily and weekly reconciliations.

"The Local Government Investment Pool allows local treasurers to put aside any worries about the safety and liquidity of their principal, while earning a very competitive money rate."

—Joe Runnels,
Short Term Portfolio Manager

Voice mail telephone service has been provided to permit LGIP participants to give telephone transaction instructions while staff is busy on other telephone lines. Voice mail permits an increase in productivity while holding costs constant.

Local governments which enter into agreements with the Department of Transportation (DOT) often establish an LGIP account to fund the local matching portion of a highway project grant. These DOT accounts are available to provide the local match to the specific highway project in a timely manner while earning interest for the local government. Beginning in July 1992, in a similar fashion, the Tennessee Board of Regents schools provide their matching portion of Capital Projects funds while earning interest for the benefit of the Board of Regents school.

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 1991-92 fiscal year, the average rate participants earned on their deposits after the fee reduction was 4.61%. Other activity by participant groups is shown on the following schedule.

Local Government Investment Pool Schedule of Activity by Entity Type
Fiscal Year Ended June 30, 1992

	Account Balance 7/1/91	Amount Deposited FY 1991-92	Amount Withdrawn FY 1991-92	Net Interest Credited FY 1991-92	Account Balance 6/30/92
Cities	$ 232,062,274	$ 1,062,908,971	$ 967,367,307	$ 13,975,713	$ 341,579,651
Counties	190,467,042	750,432,258	717,013,980	9,738,403	233,623,723
Commitments to D.O.T.	32,908,236	11,147,518	16,729,581	1,443,617	28,769,790
Educational Institutions	228,297,691	1,263,215,417	1,247,568,743	13,086,862	257,031,227
Community Health Access	887,129	14,330,325	13,251,496	67,190	2,033,148
Restricted Accounts	1,007,379	0	74,853	45,271	977,797
Other	39,078,668	76,467,428	52,975,673	2,336,495	64,906,918
TOTAL	$ 724,708,419	$ 3,178,501,917	$ 3,014,981,633	$ 40,693,551	$ 928,922,254

Reconciliation of Cash and Cash Equivalents
June 30, 1992

(Expressed in Thousands)

Cash and cash equivalents per Department of Finance and Administration		$2,233,624
Deduct: Net reconciling items to bank statements		(881)
Deduct: Petty cash and other departmental cash in accounts not in possession of the Treasurer		(82,825)
Deduct: Investments classified as cash equivalents, not in possession of the Treasurer		(264,040)
Cash and cash equivalents per Treasury		$1,885,878
Represented by:		
Cash in banks	$ 38,920	
Time deposits	373,775	
Repurchase agreements	231,100	
Treasury bills	1,046,029	
Commercial paper	195,237	
Repurchase agreements held in trust	817	
Total		$ 1,885,878

The cash and cash equivalents per Finance and Administration as reported in the Tennessee Comprehensive Annual Financial Report for June 30, 1992 is $2.23 billion as shown. The repurchase agreements in the amount of $817 thousand 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 objectives for the TCRS Investment Division are to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient liquidity to react to the changing environment and to pay beneficiaries in a timely manner.

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

Funds in the retirement system are actively managed with a diversified portfolio of high-quality domestic and international bonds, domestic and international stocks, mortgages, and money market instruments. Investment policy for TCRS funds is subject to the approval of the Board of Trustees. An Investment Advisory Council was established by the Consolidated Retirement Act of 1972 to provide policy guidance to the Board of Trustees and the investment staff. The current Advisory Council is comprised of five senior investment professionals from within the state of Tennessee. All five members hold the Chartered Financial Analyst designation. The Advisory Council's combined investment management experience totals over 155 years.

Initiatives

During this fiscal year, currency hedging through foreign exchange contracts was authorized by statute, policy was established by the Board of Trustees, and the hedging program was implemented by the Investment Division. Additional professional investment positions, development of an investment management system and installing additional investment services and equipment was authorized and funded by the General Assembly.

The securities lending program of domestic and international securities was reinstituted with the program being managed by the TCRS custodian bank.

The Board of Trustees in cooperation with the Investment Advisory Council, the State Attorney General and the TCRS investment consultant performed a comprehensive review and adopted a comprehensive TCRS investment policy. The TCRS investment consultant performed the first ever strategic asset allocation study on the TCRS fund to analyze the diversification of the fund in relationship to the risk associated with expected rate of return. Two other reviews included (1) an investment management review to evaluate the effectiveness and structure of the investment program and (2) a securities trading evaluation to evaluate the trading practices of the program.

"TCRS is one of the nation's 25 largest internally managed defined benefit plans. Internal management permits tighter control and faster decisions. It also enables us to see the market synergistically—in other words, the action of one asset class may tip us off on what to expect from another asset class."

—Chuck Webb,
Chief Investment Officer

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

Certain United States Government Securities are held in a definitive 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.

❑ *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.

Summary of Retirement Fund Investments

	June 30, 1992 Book Value	June 30, 1992 Market Value	June 30, 1991 Book Value	June 30, 1991 Market Value
Domestic Securities:				
Government Bonds	$ 2,643,968,761	$ 2,905,217,509	$ 2,542,746,738	$ 2,643,918,935
Corporate Bonds	2,813,316,905	2,973,919,588	2,533,592,384	2,539,912,212
Corporate Stocks	2,762,059,769	3,300,267,308	2,257,831,910	2,835,639,324
Total Domestic Securities	$ 8,219,345,435	$ 9,179,404,405	$ 7,334,171,032	$ 8,019,470,471
International Securities:				
Government Bonds	$ 340,476,070	$ 362,853,248	$ 205,407,152	$ 184,193,304
Corporate Bonds	104,745,454	115,820,045	85,223,221	83,200,038
Corporate Stocks	346,470,717	343,377,200	272,207,952	278,982,208
American Depository Receipts	13,661,309	21,729,969	30,592,088	35,372,637
Total International Securities	$ 805,353,550	$ 843,780,462	$ 593,430,413	$ 581,748,187
Short-Term Securities	$ 682,270,390	$ 683,238,107	$ 672,872,920	$ 668,067,050
Total Investments	$ 9,706,969,375	$ 10,706,422,974	$ 8,600,474,365	$ 9,269,285,708

Distribution of International Investments
June 30, 1992

	Stocks		*Fixed Income*		*Total*	
Country	**Book Value**	**Market Value**	**Book Value**	**Market Value**	**Book Value**	**Market Value**
Australia	$ 18,700,093	$ 17,434,443	$ 16,349,680	$ 21,310,076	$ 35,049,773	$ 38,744,519
France	18,080,565	19,571,555	133,261,274	144,991,992	151,341,839	164,563,547
Japan	191,384,420	171,334,536	119,759,172	127,660,862	311,143,592	298,995,398
Netherlands	15,567,595	19,181,100	10,621,347	11,894,687	26,188,942	31,075,787
Switzerland	19,439,208	18,124,030	0	0	19,439,208	18,124,030
United Kingdom	66,545,255	84,581,774	62,459,763	68,813,539	129,005,018	153,395,313
Germany	30,414,890	34,879,731	102,770,288	104,002,137	133,185,178	138,881,868
Total	$ 360,132,026	$ 365,107,169	$ 445,221,524	$ 478,673,293	$ 805,353,550	$ 843,780,462

Domestic Fixed Income Portfolio

	Rating	Coupon	Maturity			Par Value	Market Value
Governments:							
Bonds and Notes							
Cert. of Accrual Treasury - Ser. T	AAA	0.000	5	15	1996	$ 34,280,000	$ 27,184,382.80
Cert. of Accrual Treasury - Ser. T	AAA	0.000	11	15	1996	9,404,000	7,181,646.72
Coupon Treasury Receipts	AAA	0.000	8	15	1992	17,280,000	17,214,508.80
Coupon Treasury Receipts	AAA	0.000	2	15	1993	15,000,000	14,652,150.00
Coupon Treasury Receipts	AAA	0.000	8	15	1997	30,000,000	21,525,600.00
Coupon Treasury Receipts	AAA	0.000	2	15	1998	39,720,000	27,246,331.20
Coupon Treasury Receipts	AAA	0.000	8	15	1998	49,140,000	32,344,439.40
Coupon Treasury Receipts	AAA	0.000	8	15	2004	23,075,400	8,856,338.52
Coupon Treasury Receipts	AAA	0.000	11	15	2003	74,236,964	30,501,741.30
Coupon Treasury Receipts	AAA	0.000	8	15	2003	100,000,000	41,985,000.00
Coupon Treasury Receipts	AAA	0.000	8	15	2004	10,134,000	3,889,429.20
Nova Scotia (Province)	A2	8.875	3	15	2016	20,000,000	20,485,800.00
Ontario (Province)	Aa2	8.000	10	17	2001	15,000,000	15,309,300.00
Quebec (Province)	Aa3	8.625	12	1	2026	10,000,000	10,069,700.00
Treasury Invest. Growth Receipts	AAA	0.000	5	15	2005	100,000,000	35,772,000.00
Treasury Invest. Growth Receipts	AAA	0.000	5	15	2000	13,678,000	7,706,732.32
Treasury Invest. Growth Receipts	AAA	0.000	5	15	2000	4,723,875	2,661,620.13
Treasury Invest. Growth Receipts	AAA	0.000	5	15	1994	17,803,000	16,292,949.54
Treasury Invest. Growth Receipts	AAA	0.000	11	15	1994	17,812,500	15,771,009.38
Treasury Invest. Growth Receipts	AAA	0.000	5	15	1995	8,208,000	7,022,928.96
Treasury Invest. Growth Receipts	AAA	0.000	11	15	1995	17,803,000	14,692,103.78
Treasury Invest. Growth Receipts	AAA	0.000	5	15	1996	8,312,500	6,591,895.63
Treasury Invest. Growth Receipts	AAA	0.000	5	15	2000	15,513,500	8,740,926.44
United States Treasury Bonds	AAA	9.125	5	15	2009	25,000,000	28,109,250.00
United States Treasury Bonds	AAA	10.375	11	15	2012	159,000,000	197,656,080.00
United States Treasury Bonds	AAA	12.000	8	15	2013	80,000,000	111,575,200.00
United States Treasury Bonds	AAA	11.875	11	15	2003	10,000,000	13,462,500.00
United States Treasury Bonds	AAA	10.750	8	15	2005	167,000,000	212,141,770.00
United States Treasury Bonds	AAA	9.250	2	15	2016	70,000,000	80,521,700.00
United States Treasury Bonds	AAA	8.750	5	15	2017	60,000,000	65,906,400.00
United States Treasury Corpus	AAA	0.000	11	15	2001	76,000,000	35,077,040.00
United States Treasury Notes	AAA	7.375	5	15	1996	50,000,000	52,468,500.00
United States Treasury Notes	AAA	7.250	11	15	1996	56,850,000	59,266,125.00
United States Treasury Notes	AAA	8.250	8	15	1992	40,000,000	40,200,000.00
United States Treasury Notes	AAA	8.000	8	15	1999	100,000,000	106,469,000.00
United States Treasury Notes	AAA	8.875	5	15	2000	75,000,000	83,484,000.00
United States Treasury Notes	AAA	8.500	11	15	1995	25,000,000	27,148,500.00
United States Treasury Strip	AAA	0.000	5	15	2003	39,460,000	17,155,629.60
Total Bonds and Notes							$ 1,524,340,228.72
Agencies:							
Agency Int'l Development	AAA	9.300	7	1	2020	$ 25,000,000	$ 27,152,500.00
Amer. SW Financial CMO 37-C	AAA	9.200	12	1	2006	11,500,000	12,301,435.00
CMO Trust One 1-D	AAA	10.150	5	1	2007	2,192,496	2,203,458.50
CMO Trust 15-D	AAA	5.000	12	20	2016	29,550,000	28,312,446.00
Farmers Home Administration	AAA	6.000	2	10	2000	123,080	123,338.78
Farmers Home Administration	AAA	6.000	12	9	2007	73,314	73,313.68
Farmers Home Administration	AAA	6.000	10	27	2007	55,236	54,752.70
Farmers Home Administration	AAA	6.000	11	14	2000	120,976	120,976.31
Farmers Home Administration	AAA	8.750	11	26	1994	84,070	84,358.75
Farmers Home Administration	AAA	5.750	6	30	1999	30,987	27,411.91
Farmers Home Administration	AAA	6.250	10	10	1998	56,855	56,964.99
Farmers Home Administration	AAA	5.750	6	29	2001	211,006	220,794.99
Farmers Home Administration	AAA	6.500	3	26	1993	183,806	165,416.25
Farmers Home Administration	AAA	8.500	8	28	1994	142,331	143,999.04
Federal Farm Credit MT Notes	AAA	8.875	10	1	1999	10,000,000	10,981,500.00
F H A AND V A Mortgages	AAA	5.250	11	1	1995	35,409	30,604.71

Note: Please see explanation of ratings at the end of the International Bond Portfolio. *(Continued)*

Domestic Fixed Income Portfolio

	Rating	Coupon	Maturity			Par Value	Market Value
F H A AND V A Mortgages	AAA	6.000	10	1	1997	$ 70,582	$ 61,045.66
FHLMC REMIC 158 Z	AAA	0.000	5	12	2021	11,708,265	12,004,600.88
FHLMC MF	AAA	8.750	3	15	2000	74,237,654	78,529,333.20
FHLM REMIC 1141 F PAC	AAA	8.500	10	15	2020	40,000,000	42,462,400.00
FHLMC REMIC 1166-PG	AAA	8.000	2	15	2020	14,500,000	14,771,875.00
FHLMC CAP	AAA	7.950	4	3	1995	20,000,000	21,219,200.00
FHLMC CAP	AAA	11.400	5	1	1995	35,000,000	40,315,450.00
FHLMC	AAA	8.125	9	30	1996	5,000,000	5,340,600.00
FHLMC PC #170220	AAA	8.000	4	1	2017	15,729,630	16,171,946.71
FHLMC PC #189272	AAA	8.500	12	1	2007	9,422,901	9,792,467.45
FHLMC PC #256498	AAA	8.000	4	1	2009	5,572,984	5,765,418.65
FHLMC B PC #220007	AAA	8.750	8	1	2001	7,686,311	8,013,978.94
FHLMC PC #220010	AAA	8.750	8	1	2001	9,590,105	9,958,652.63
FHLMC B PC #286896	AAA	7.500	2	1	2017	12,081,370	11,968,046.35
FNMA DEB	AAA	8.700	6	10	1999	10,000,000	10,906,200.00
FNMA DEB	AAA	0.000	7	5	2014	150,000,000	23,391,000.00
FNMA DEB	AAA	9.150	9	10	1997	20,000,000	21,637,400.00
FNMA 1991 141 PX Z	AAA	0.000	7	25	2018	14,875,000	14,926,021.25
FNMA 91-24-C	AAA	8.250	9	25	2009	19,723,000	20,844,647.01
FNMA 1989-31Z	AAA	0.000	6	25	2019	401,792	401,289.81
FNMA GVT	AAA	8.875	1	10	2001	5,000,000	5,387,500.00
FNMA MBS #7238	AAA	8.000	6	1	2008	20,490,185	21,066,368.75
FNMA MBS #18742	AAA	8.500	11	1	2008	16,346,030	17,145,350.64
FNMA #050542	AAA	7.500	2	1	2007	12,012,609	12,106,427.50
FNMA MBS #89930	AAA	8.000	7	1	2009	11,864,405	12,264,710.31
FNMA MT Notes	AAA	10.350	4	1	2019	25,000,000	27,000,000.00
FNMA REMIC 1991-82 PL	AAA	7.000	12	25	2020	30,000,000	27,281,100.00
FNMA REMIC 1991 86 Z	AAA	0.000	7	25	2021	14,206,846	9,887,112.64
FNMA REMIC 1991-113 Z	AAA	0.000	12	25	2004	5,592,000	5,586,743.52
FNMA REMIC 91-160-ZB	AAA	0.000	11	25	2020	22,274,080	20,895,982.67
FNMA REMIC 92-10-ZA	AAA	0.000	9	25	2020	21,760,000	21,596,800.00
FNMA REMIC 1988-8-Z	AAA	0.000	4	25	2018	15,130,911	16,341,383.88
FNMA REMIC 89-81 E	AAA	9.000	3	25	2019	21,000,000	22,680,000.00
FNMA REMIC GNMA 27 H PAC	AAA	8.500	9	25	2020	30,377,500	31,829,848.28
FNMA REMIC Trust 90-69-Z2	AAA	0.000	6	25	2020	23,307,486	25,172,084.73
FNMA SUB DEB	AAA	0.000	10	9	2019	100,000,000	10,187,000.00
GMAC MTG SECS CMO B-2	AAA	7.800	5	20	2011	9,056,367	9,310,488.50
GNMA #198306	AAA	9.000	1	15	2017	14,145,739	15,007,639.35
GNMA #218124	AAA	9.000	6	15	2017	6,202,192	6,580,091.42
GNMA #235870	AAA	9.500	10	15	2017	3,691,577	3,967,264.24
GNMA #266932	AAA	9.500	1	15	2019	4,401,165	4,729,843.78
GNMA #270479	AAA	10.000	7	15	2019	9,066,707	9,871,377.26
GNMA #271685	AAA	9.500	4	15	2019	7,630,114	8,199,930.47
GNMA #279522	AAA	9.000	11	15	2019	20,102,956	21,327,828.90
GNMA MBS #193196	AAA	9.000	8	15	2016	19,939,955	21,154,896.83
Government Trust Certificates	AAA	9.250	11	15	2001	50,000,000	55,238,000.00
Government Trust Certificates	AAA	9.400	5	15	2002	20,000,000	22,380,600.00
International Bk. for Rec. & Dev. MT Notes	Aaa	9.380	2	1	1993	2,500,000	2,572,500.00
International Bk. for Rec. & Dev. MT Notes	Aaa	10.030	9	15	1997	5,000,000	5,683,900.00
International Bk. for Rec. & Dev. MT Notes	Aaa	9.320	10	29	2003	10,000,000	11,192,000.00
International Bk. for Rec. & Dev. MT Notes	Aaa	9.570	11	1	2018	10,000,000	11,439,200.00
International Bk. for Rec. & Dev.	Aaa	8.250	9	1	2016	17,000,000	17,156,570.00
International Bk. for Rec. & Dev.	Aaa	8.625	10	15	2016	68,000,000	71,300,720.00
International Bk. for Rec. & Dev.	Aaa	9.250	7	15	2017	5,000,000	5,571,400.00
Investors CMO Ser. J	Aaa	11.375	8	25	2013	9,739,190	10,518,325.25
Investors CMO Ser. C3	Aaa	7.875	6	25	2001	4,472,868	4,498,005.75
Investors CMO Ser. C4	Aaa	8.875	2	25	2004	8,826,680	8,925,979.64
Mtg. Bnks. Fin. Corp. CMO 87A-2	Aaa	7.200	7	25	2000	6,305,915	6,321,679.91

(Continued)

Domestic Fixed Income Portfolio

	Rating	Coupon			Maturity	Par Value	Market Value
National Archive	Aaa	8.500	9	1	2019	$ 28,782,000	$ 30,215,343.60
Navy Dept. - U S Government Cert.	Aaa	8.625	12	15	2013	20,000,000	20,187,400.00
REFCORP	Aaa	0.000	7	15	1996	100,000,000	78,239,000.00
REFCORP Strips	Aaa	0.000	10	15	1997	35,000,000	24,787,350.00
REFCORP Strips	Aaa	0.000	4	15	1998	27,000,000	18,250,920.00
REFCORP Strips	Aaa	0.000	7	15	1998	16,033,000	10,619,457.55
Rural Electric Co-Op Trust Cert.	Aaa	9.200	9	30	2001	20,000,000	20,816,600.00
Ryan Mtg. CMO IV 4-2	Aaa	9.400	1	1	2010	10,791,494	11,246,679.12
Ryan Mtg. CMO IV 8-C	Aaa	9.000	9	1	2007	16,000,000	16,934,880.00
Salomon Capital CMO Ser. 85-32	Aaa	8.625	10	1	2004	34,651,580	35,691,127.08
US SBA PC Ser. SBIC 1986A	Aaa	8.750	9	1	1996	15,817,830	16,737,795.29
US SBA PC Ser. 1987 A	Aaa	7.950	2	1	1997	5,429,616	5,609,988.15
US SBA PC SBIC 1990-10 D	Aaa	8.700	12	1	2000	11,000,000	11,537,240.00
United States Government Cert.	Aaa	8.500	7	15	2013	10,000,000	10,092,000.00
Total Agencies							$ 1,380,877,280.16
Total Governments & Agencies							$ 2,905,217,508.88
Corporates:							
AT & T Capital MT Notes	Aa3	8.875	7	12	1995	$ 8,500,000	$ 9,189,520.00
AT & T Capital MT Notes	Aa3	8.800	7	15	1994	6,000,000	6,389,940.00
Alltel	A2	9.500	3	1	2021	7,000,000	7,583,940.00
Anheuser Busch	A1	8.750	12	1	1999	11,500,000	12,452,315.00
Arkla Inc.	Ba1	8.900	12	15	2006	14,000,000	13,720,000.00
Associated Dry Goods	A3	8.850	3	1	2006	7,000,000	7,498,260.00
Arco	A1	9.875	3	1	2016	10,000,000	11,366,600.00
Arco	A1	9.125	3	1	2011	10,000,000	10,714,000.00
Arco Co. MT Notes	A1	8.300	9	15	1999	15,000,000	15,639,150.00
BP America	A1	10.000	7	1	2018	13,000,000	14,174,290.00
BP America	A1	9.875	3	15	2004	10,000,000	11,524,700.00
Bell Atlantic MT Notes	Aa3	9.530	5	17	1995	10,000,000	10,913,200.00
Bell Tel Pennsylvania	Aa3	7.500	5	1	2013	4,000,000	3,651,520.00
Boeing	Aaa	8.750	8	15	2021	25,000,000	25,823,250.00
British Gas Finance	Aaa	8.750	3	15	1998	10,000,000	10,793,000.00
British Gas Finance	Aaa	9.500	3	15	2018	15,000,000	16,148,700.00
British Tel Finance	Aaa	9.375	2	15	1999	15,000,000	16,682,700.00
CSX Corp.	A3	8.400	8	1	1996	11,000,000	11,510,950.00
Cajun Electric Co-Op	Aaa	9.520	3	15	2019	3,000,000	3,225,180.00
Cajun Electric Power	Aaa	8.920	3	15	2019	7,500,000	7,896,000.00
Central Illinois Light	Aa2	7.500	1	15	2007	10,000,000	9,712,700.00
Ches & Potomac Tel (Virg.)	Aa1	8.500	9	1	2026	5,000,000	5,003,650.00
Ches & Potomac Bell	Aa3	9.375	6	15	2026	7,000,000	7,518,840.00
Citizens Utilities	Aa1	8.450	9	1	2001	5,000,000	5,214,800.00
Coca Cola Enterprises MT Notes	A3	9.500	12	5	1994	10,000,000	10,868,700.00
Coca Cola Enterprises	A3	8.200	7	18	1994	5,000,000	5,266,950.00
Coca Cola Enterprises	A3	7.875	2	1	2002	13,000,000	12,779,650.00
Consolidated Edison	Aa1	7.900	4	15	2002	10,000,000	10,077,700.00
Consolidated Edison	Aa1	7.750	2	15	2003	7,000,000	6,958,210.00
Consolidated Edison	Aa1	9.375	6	1	2026	15,000,000	15,934,200.00
Consolidated Natural Gas	A1	8.125	6	1	1997	8,327,000	8,476,219.84
Consolidated Natural Gas	A1	7.625	4	1	1996	3,785,000	3,884,394.10
Consolidated Natural Gas	A1	8.625	12	1	2011	9,555,000	9,629,529.00
Coop Utility Trust	Aaa	8.780	3	15	1993	1,445,726	1,483,300.61
Duke Power	Aa2	8.500	2	1	2017	18,700,000	18,526,277.00
Duke Power	Aa2	8.750	3	1	2021	28,000,000	28,460,040.00
Farmers Insurance Group	A2	8.250	7	15	1996	21,000,000	21,796,320.00
Financial Assistance Credit	Aaa	8.800	6	10	2005	10,000,000	11,037,500.00
Ford Capital	A2	9.875	5	15	2002	30,000,000	33,552,000.00
Ford Motor Holdings Notes	A2	9.250	3	1	2000	40,000,000	42,854,000.00
Ford Motor Credit	A2	8.875	3	1	1996	10,000,000	10,164,500.00

(Continued)

Domestic Fixed Income Portfolio

	Rating	Coupon	Maturity			Par Value	Market Value
Ford Motor Credit Notes	A2	8.000	8	15	1993	$ 10,000,000	$ 10,311,400.00
Ford Motor Credit Notes	A2	9.750	7	1	1998	15,000,000	15,661,050.00
Ford Motor Credit MT Notes	A2	9.450	5	20	1994	15,000,000	16,039,650.00
Ford Motor Credit MT Notes	A2	10.050	4	21	1994	15,000,000	16,213,500.00
Ford Motor Credit MT Notes	A2	9.000	3	25	1998	30,000,000	32,428,200.00
GTE MT Notes	A3	9.680	2	18	1999	10,000,000	11,036,500.00
GTE	A3	10.250	11	1	2020	20,000,000	22,620,000.00
GTE	A3	9.100	6	1	2003	12,000,000	13,006,080.00
GTE Finance MT Notes	A3	7.440	8	9	1993	21,500,000	22,032,340.00
General Electric	Aaa	5.875	12	1	1994	27,000,000	27,232,470.00
General Electric Credit	Aaa	5.500	11	1	2001	24,000,000	20,629,680.00
General Electric Capital	Aaa	8.650	5	1	2018	10,000,000	10,694,800.00
General Electric Capital	Aaa	9.500	2	1	1999	25,000,000	26,250,000.00
General Electric Capital	Aaa	7.875	11	22	2004	5,000,000	5,229,750.00
General Electric Capital	Aaa	8.500	7	24	2008	13,000,000	14,033,760.00
General Electric Capital	Aaa	5.625	1	15	1995	45,000,000	44,900,550.00
GMAC Notes	A2	8.500	2	1	1993	5,000,000	5,108,350.00
GMAC DEB	A2	8.750	9	15	1993	1,000,000	1,045,320.00
GMAC DEB	A2	8.000	4	1	1994	40,000,000	41,534,400.00
GMAC DEB	A2	7.500	10	15	1995	25,000,000	25,781,250.00
GMAC MT Notes	A2	8.650	12	7	1994	20,000,000	21,271,000.00
GMAC MT Notes	A2	8.600	12	21	1993	7,000,000	7,339,570.00
GMAC MT Notes	A2	9.250	6	8	1995	6,000,000	6,491,760.00
GMAC MT Notes	A2	7.200	10	11	1994	17,500,000	17,999,625.00
GMAC MT Notes	A2	8.550	3	15	1994	25,000,000	26,231,250.00
GMAC MT Notes	A2	7.550	9	16	1994	10,000,000	10,355,200.00
GMAC MT Notes	A2	7.250	6	23	1997	12,000,000	12,202,080.00
General Electric Capital (Mont. Ward)	Aaa	8.250	6	30	2002	26,834,000	27,396,440.64
General Motors	A2	8.000	7	1	1994	20,000,000	20,855,800.00
General Tel (California)	Aa3	8.625	12	1	2016	18,000,000	18,057,960.00
General Tel (Florida)	Aa3	8.750	4	15	2026	14,750,000	14,839,827.50
General Tel Northwest	Aa3	8.750	4	15	2016	5,000,000	5,078,500.00
Gulf Power	A2	8.750	12	1	2021	5,000,000	5,082,850.00
Halliburton	Aa3	8.750	2	15	2021	5,000,000	5,190,900.00
Hershey Foods	Aa2	9.500	3	15	2008	35,385,000	36,959,632.50
Hershey Foods	Aa2	8.800	2	15	2021	11,000,000	11,528,550.00
Honeywell	A3	9.875	6	1	2017	5,000,000	5,331,750.00
Hydro-Quebec	Aa3	8.250	1	15	2027	18,000,000	17,382,780.00
Hydro-Quebec	Aa3	10.700	10	15	2007	10,000,000	11,444,300.00
Hydro-Quebec	Aa3	10.500	10	15	2021	25,000,000	26,562,500.00
Hydro-Quebec MT Notes	Aa3	9.640	12	29	1997	12,000,000	13,465,800.00
Illinois Bell Tel	Aaa	7.625	4	1	2006	17,500,000	17,486,175.00
Illinois Bell Tel	Aaa	8.250	8	18	2016	17,000,000	16,749,930.00
Illinois Bell Tel	Aaa	8.500	4	22	2026	5,000,000	5,003,500.00
Imperial Oil	Aa1	8.750	10	15	2019	23,500,000	24,259,285.00
Imperial Oil	Aa1	8.300	8	20	2001	55,000,000	57,741,750.00
Int'l Business Machines	Aaa	8.375	11	1	2019	20,000,000	20,172,000.00
Int'l Business Machines Credit Notes	Aaa	7.750	8	14	1992	20,000,000	20,058,600.00
Kennecott (BP)	A1	7.875	5	1	2001	81,601,000	82,321,536.83
Knight Ridder	A1	9.875	4	15	2009	6,000,000	6,855,180.00
MCA Funding Corp. MT Notes	Aaa	7.400	9	19	1995	5,000,000	5,237,100.00
McDonalds Corp.	Aa2	8.875	8	1	2019	20,000,000	20,477,400.00
McDonalds Corp MT Notes	Aa2	8.750	11	15	2000	7,000,000	7,548,240.00
Michigan Bell Tel	Aa1	6.375	2	1	2005	5,000,000	4,497,450.00
Michigan Bell Tel	Aa1	8.625	2	1	2010	11,500,000	11,932,285.00
Michigan Bell Tel	Aa1	7.850	1	15	2022	5,000,000	4,704,200.00
Mobil Oil Corp.	Aa2	8.375	2	15	1993	25,000,000	25,544,750.00
New England Tel & Tel	Aa2	9.000	3	1	2026	45,000,000	47,003,400.00

(Continued)

Domestic Fixed Income Portfolio

	Rating	Coupon		Maturity		Par Value	Market Value
New Jersey Bell Tel	Aaa	7.750	9	1	2013	$ 6,000,000	$ 5,621,580.00
New Jersey Bell	Aaa	8.750	6	1	2018	10,000,000	10,374,600.00
New Jersey Bell Tel	Aaa	7.850	11	15	2029	20,000,000	20,984,600.00
MCA MT Notes	Aaa	7.620	3	28	1997	5,000,000	5,172,600.00
MCA MT Notes	Aaa	7.550	3	28	1997	15,000,000	15,475,950.00
Northern Illinois Gas	Aa1	9.250	7	1	1996	5,000,000	5,094,950.00
Northern Illinois Gas	Aa1	9.000	7	1	2019	9,000,000	9,233,820.00
Northern States Power	Aa2	9.125	7	1	2019	10,000,000	10,338,700.00
Northern States Power (Wisc.)	Aa2	9.750	3	1	2018	14,842,000	15,952,330.02
Northern Telecom	Aa3	8.250	6	13	1996	10,000,000	10,612,900.00
Ohio Bell Tel	Aaa	8.750	4	15	2026	23,500,000	24,166,225.00
Ontario Hydro Global	Aa2	8.625	2	6	2002	25,000,000	24,750,000.00
Pacific Bell	Aa3	8.625	4	15	2023	25,000,000	25,352,750.00
Pacific Bell	Aa3	8.500	8	15	2031	31,000,000	30,728,750.00
Pacific Gas & Electric	A1	9.000	8	1	2019	7,000,000	7,149,660.00
Pacific Gas & Electric	A1	8.500	2	1	2020	20,000,000	19,807,600.00
Pacific Tel & Tel	Aa3	7.800	3	1	2007	20,000,000	19,941,400.00
Pacific Tel & Tel	Aa3	9.000	1	15	2018	10,000,000	10,417,800.00
Pacific Tel Capital MT Notes	A1	9.320	5	22	1995	10,000,000	10,887,400.00
Pacific Tel Capital	A1	8.950	6	20	1995	15,000,000	16,201,500.00
Pepsico Inc.	A1	7.625	11	1	1998	12,000,000	12,295,800.00
Petro Canada	Aaa	8.800	6	1	2019	5,000,000	5,532,400.00
Phillip Morris Company	A2	8.750	11	15	1994	18,000,000	19,040,580.00
Phillip Morris Company	A2	7.625	2	15	1994	5,000,000	5,165,600.00
Phillip Morris Company MT Notes	A2	8.700	2	10	1998	12,000,000	12,867,480.00
Phillip Morris Company MT Notes	A2	7.800	3	26	1993	15,000,000	15,343,950.00
Potomac Electric Capital MT Notes	A1	9.870	7	30	1998	10,000,000	10,819,200.00
Potomac Electric Capital MT Notes	A1	9.500	1	10	1995	10,000,000	10,863,500.00
Potomac Electric Capital MT Notes	A1	9.800	1	20	1998	10,000,000	11,171,500.00
Potomac Electric Capital MT Notes	A1	9.690	8	11	1997	10,000,000	10,788,700.00
Private Export Funding Notes	Aaa	8.600	6	30	1994	10,000,000	10,653,500.00
Proctor & Gamble	Aa2	9.360	1	1	2021	37,000,000	40,616,010.00
Provident Life Capital	A1	10.000	11	1	1997	25,000,000	26,725,750.00
Public Serv. Elec. & Gas MT Notes	A1	9.720	8	25	1993	10,000,000	10,406,500.00
Public Serv. Elec. & Gas MT Notes	A1	9.300	11	13	1995	20,000,000	21,013,400.00
Public Serv. Elec. & Gas MT Notes	A1	9.690	8	24	1993	10,000,000	10,402,500.00
Public Serv. Elec. & Gas	A1	9.125	7	1	2005	15,000,000	16,559,250.00
Savannah Electric & Power	A1	9.250	10	1	2019	5,000,000	5,342,350.00
Sears Credit	Aaa	8.600	5	15	1996	20,000,000	21,331,200.00
Shell Canada	Aa3	8.875	1	14	2001	11,000,000	11,631,510.00
Shell Canada Notes	Aa3	7.375	6	1	1999	20,000,000	20,174,600.00
Shell Oil	Aaa	7.700	2	1	1996	10,000,000	10,493,300.00
Shell Oil Notes	Aaa	6.000	1	15	1998	25,000,000	24,475,000.00
Sony USA Capital Corp. MT Notes	Aa3	6.450	12	13	1994	26,000,000	26,599,300.00
Sony USA Capital Corp. MT Notes	Aa3	7.250	12	13	1996	10,000,000	10,248,500.00
South Central Bell	Aaa	8.250	3	1	2017	10,000,000	9,851,600.00
South Central Bell	Aaa	8.500	8	1	2029	19,000,000	19,010,070.00
Southern Bell	Aaa	8.250	4	15	2016	15,000,000	14,932,350.00
Southern Bell	Aaa	8.625	9	1	2018	14,000,000	14,341,180.00
Southern Bell Tel	Aaa	7.375	7	15	2010	40,000,000	38,368,800.00
Southern Bell Tel	Aaa	8.000	2	15	2014	12,500,000	12,015,125.00
Southern Bell Tel	Aaa	8.125	5	1	2017	10,000,000	9,875,500.00
Southern Bell Tel	Aaa	8.625	9	1	2026	46,500,000	47,117,055.00
Southern Bell Tel	Aaa	8.750	11	1	2024	8,000,000	8,225,040.00
Southern Bell Tel	Aaa	8.500	8	1	2029	16,000,000	16,208,480.00
Southern Bell Tel & Tel	Aaa	7.600	9	1	2008	5,000,000	4,961,600.00
Southern Bell Tel & Tel	Aaa	7.625	3	15	2013	5,000,000	4,626,250.00
Southern California Edison	Aa3	8.375	12	1	2017	10,000,000	9,956,100.00

(Continued)

Domestic Fixed Income Portfolio

	Rating	Coupon			Maturity	Par Value	Market Value
Southern California Edison	Aa3	8.875	6	1	2024	$ 10,000,000	$ 10,247,300.00
Southern New England Tel	Aa2	9.625	2	15	2030	15,000,000	16,537,500.00
Southwestern Bell Tel	Aa3	7.625	10	1	2013	5,000,000	4,714,400.00
Southwestern Bell Tel Notes	Aa3	7.700	6	1	1994	5,000,000	5,224,150.00
Standard Credit Corp.	Aaa	7.875	9	7	1995	20,000,000	20,931,200.00
Standard Master Trust 1991-4	Aaa	8.000	10	7	1997	10,000,000	10,496,800.00
Standard Oil Ohio (BP)	A1	6.300	7	1	2001	10,000,000	9,114,800.00
Standard Oil Ohio (BP)	A1	9.000	6	1	2019	15,000,000	15,270,450.00
TVA	Aaa	8.625	11	15	2029	100,000,000	102,844,000.00
TVA	Aaa	6.875	1	15	2002	31,000,000	29,992,500.00
Toyota Motor Credit	Aaa	7.100	8	15	1994	15,000,000	15,549,450.00
Toyota Motor Credit MT Notes	Aaa	6.150	11	21	1994	10,000,000	10,209,600.00
Travelers Corp. Notes	Baa1	7.625	1	15	1997	25,000,000	25,126,750.00
United Parcel Services Inc.	Aaa	8.375	4	1	2020	27,000,000	27,380,430.00
U S West Capital MT Notes	A2	9.050	12	20	1999	9,000,000	9,828,180.00
Washington Gas light	Aa3	8.750	7	1	2019	15,000,000	16,062,900.00
Weyerhaeuser	A2	7.950	8	15	2006	7,000,000	6,922,020.00
Weyerhaeuser	A2	8.375	2	15	2007	15,000,000	15,370,500.00
Wisconsin Bell	Aaa	8.750	11	1	2026	5,000,000	5,142,250.00
Wisconsin Electric Power	Aa2	8.500	12	15	2016	5,000,000	4,953,600.00
Wisconsin Electric Power	Aa2	9.125	9	1	2024	3,000,000	3,105,060.00
Subtotal Corporates							$ 2,839,886,088.04
Convertible Corporates:							
Bank of New York Conv.	Baa1	7.500	8	15	2001	$ 5,000,000	$ 6,100,000.00
Century Tel Enterprises Conv.	Baa3	6.000	2	1	2007	4,500,000	4,455,000.00
Chiquita Brands Conv. Euro	Ba3	7.000	3	28	2001	3,000,000	2,520,000.00
Clayton Homes Inc. Conv.	Ba2	7.750	3	1	2003	2,500,000	3,225,000.00
Comcast Corp. Conv.	B1	7.000	2	27	2001	7,000,000	7,595,000.00
Costco Wholesale Corp. Conv.	Baa1	5.750	5	15	2002	4,500,000	4,387,500.00
Disney (Walt) Co. Lyon Conv.	A1	0.000	6	27	2005	10,000,000	4,675,000.00
Federal Realty Inv. Conv. Euro	Ba1	5.250	4	30	2002	5,000,000	5,575,000.00
Grace (W R) & Co. Conv.	Ba2	6.250	9	15	2002	5,000,000	4,875,000.00
Grace (W R) & Co. Conv. Lyon	Ba2	0.000	5	16	2006	5,500,000	1,925,000.00
Hasbro Inc. Conv.	Baa2	6.000	11	15	1998	3,000,000	3,495,000.00
Lechters Inc. Conv.	NR	5.000	9	27	2001	4,000,000	3,420,000.00
Litton Industries Inc. Lyon	Baa3	0.000	9	26	2010	16,000,000	4,920,000.00
Magnetek Inc. Conv.	B2	8.000	9	15	2001	2,850,000	3,234,750.00
Manor Care Inc. Conv.	Ba2	6.375	6	1	2011	3,000,000	3,037,500.00
Mark IV Industries Conv.	B1	6.250	2	15	2007	5,000,000	5,350,000.00
McCaw Cellular Conv.	B3	0.000	6	15	2008	5,250,000	5,250,000.00
Mobile Tele Tech Conv.	B+	6.750	5	15	2002	7,500,000	7,987,500.00
Motorola Inc. Lyon	A1	0.000	9	7	2009	5,500,000	2,076,250.00
NBD Bancorp Conv.	A1	7.250	3	15	2006	4,500,000	4,871,250.00
Rite Aid Corp. Conv.	A3	0.000	7	24	2006	12,000,000	4,680,000.00
Rogers Communications Inc. Lyon	Ba3	0.000	8	15	2011	15,000,000	3,543,750.00
SCI Systems Conv.	B1	9.000	4	1	2015	3,000,000	2,857,500.00
Service Corp. Int'l Conv.	Baa1	6.500	9	1	2001	7,000,000	7,577,500.00
Solectron Corp. Conv.	B1	0.000	5	5	2012	12,000,000	3,630,000.00
Stone Container Conv.	B3	6.750	2	15	2007	5,750,000	5,520,000.00
Synetic Inc. Conv.	B	7.000	12	1	2001	3,500,000	3,745,000.00
Turner Broadcasting Systems Lyon 144A	B1	0.000	2	13	2007	15,000,000	4,875,000.00
Unifi Inc. Conv.	Baa1	6.000	3	15	2002	4,000,000	4,080,000.00
Union Carbide Corp. Conv.	Ba1	7.500	4	15	2012	5,000,000	4,550,000.00
Subtotal Convertible Corporates							$ 134,033,500.00
Total Corporates							$ 2,973,919,588.04
TOTAL DOMESTIC FIXED INCOME PORTFOLIO							$ 5,879,137,096.92

International Fixed Income Portfolio

	Rating	Coupon			Maturity	Par Value	Market Value
Governments:							
BTAN (Bons Du Tresor)	Aaa	8.000	4	12	1994	$ 100,000,000	$ 19,014,725.09
BTAN (Bons Du Tresor)	Aaa	8.500	11	12	1996	100,000,000	19,041,936.18
BTAN (Bons Du Tresor)	Aaa	9.000	2	12	1995	160,000,000	30,967,782.06
BTAN (Bons Du Tresor)	Aaa	9.000	11	12	1995	100,000,000	19,358,751.08
Bundesobligation #86	Aaa	7.000	9	20	1994	50,000,000	31,530,793.48
Bundesrepublik	Aaa	6.000	3	20	1997	70,000,000	41,752,905.01
Bundesrepublik	Aaa	8.875	12	20	2000	15,000,000	10,197,534.42
Bundesrepublik	Aaa	9.000	10	20	2000	30,000,000	20,520,903.65
Dutch State Loan	Aaa	8.750	9	15	2001	20,000,000	11,894,687.89
Electricite De France	Aaa	5.625	10	23	1996	800,000,000	6,485,372.23
European Investment Bank	Aaa	6.750	5	10	2001	800,000,000	6,834,218.66
France (Government of)	Aaa	8.500	12	26	2012	100,000,000	18,911,711.65
France (Government of)	Aaa	8.500	10	25	2019	100,000,000	18,814,529.17
Guaranteed Export Finance Corp.	Aaa	10.625	9	15	2001	5,000,000	10,120,168.68
Guaranteed Export Finance Corp.	Aaa	11.250	2	14	1994	5,000,000	9,704,434.05
Inter American Develop Bank	Aaa	6.750	2	20	2001	1,550,000,000	13,164,492.98
Inter American Develop Bank	Aaa	7.000	6	5	1996	800,000,000	6,747,007.05
Japanese Government Bond #10	Aaa	4.900	3	20	2009	2,350,000,000	15,982,161.26
Metropolis of Tokyo	Aaa	7.500	3	18	1997	11,000,000	11,373,010.00
UK Conversion Gilt Stock	Aaa	9.000	7	12	2011	5,000,000	9,526,262.07
UK Treasury Gilt Stock	Aaa	8.750	9	1	1997	8,000,000	14,928,436.62
UK Treasury Gilt Stock	Aaa	9.000	8	6	2012	5,250,000	9,952,687.02
Victorian Finance Authority	Aa2	12.500	7	15	2000	7,000,000	6,028,738.11
Total Governments							$ 362,853,248.41
Corporates:							
Amcor Limited Conv.	NR	9.000	-	-	-	$ 10,000,000	$ 12,235,336.24
Bear Stearns Mtg. #1	Aa1	11.750	4	30	2017	7,568,410	14,581,549.47
Credit Local De France	NR	8.500	6	26	1997	100,000,000	18,882,556.91
Nippon Tel & Tel Notes	Aaa	9.500	7	27	1998	60,000,000	67,074,600.00
Pioneer Concrete Conv.	NR	9.500	6	21	1998	4,000,000	3,046,001.88
Total Corporates							$ 115,820,044.50
TOTAL INTERNATIONAL FIXED INCOME PORTFOLIO							$ 478,673,292.91
GRAND TOTAL FIXED INCOME PORTFOLIO							$ 6,357,810,389.83

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

Moody's rates securities as follows:

Aaa .... Best Quality
Aa......... High Quality
A .... Upper Medium Quality
Baa .... Medium Quality

Moody's applies numerical modifiers in each rating classification as follows:

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

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

Domestic Stock Portfolio

	Shares	Book Value	Market Value
Advanced Technology Labs Inc.	100,000	$ 2,606,043.88	$ 2,525,000.00
Air Products & Chemicals Inc.	350,000	15,367,672.70	14,875,000.00
Albertsons Inc.	200,000	5,801,866.40	8,350,000.00
Alco Standard Corp.	150,000	6,256,805.63	5,606,250.00
Allegheny Ludlum Corp.	50,000	1,794,963.00	1,781,250.00
Allied Signal Inc.	450,000	23,860,828.10	24,187,500.00
Allwaste Inc.	150,000	1,174,048.95	918,750.00
Aluminum Company of America	525,000	34,232,994.89	39,834,375.00
Alza Corp. Class A	300,000	8,206,283.00	13,687,500.00
Amerada Hess Corp.	600,000	29,797,276.10	27,150,000.00
American Express Co.	400,000	9,629,193.00	9,300,000.00
American General Corp.	400,000	14,349,255.00	19,600,000.00
American Home Products	200,000	14,335,650.00	14,300,000.00
American Telephone and Telegraph	900,000	31,765,895.00	38,700,000.00
Ameritech Corp.	350,000	21,612,815.00	22,006,250.00
Ametek Inc.	100,000	1,765,985.00	1,562,500.00
Amoco Corp.	550,000	22,252,570.50	26,262,500.00
Anheuser Busch	350,000	17,699,530.00	19,425,000.00
Apple Computer Inc.	400,000	24,124,798.00	19,200,000.00
Archer Daniels Midland Co.	100,000	2,997,400.00	2,362,500.00
Arco Chemical Co.	95,000	4,404,603.49	4,239,375.00
Ashland Oil Inc.	350,000	11,666,375.80	9,318,750.00
Atlantic Richfield	305,000	25,899,151.40	32,863,750.00
Automatic Data Processing	950,000	23,216,968.34	40,612,500.00
Avery Dennison Corporation	150,000	4,223,476.50	4,012,500.00
Avon Products	250,000	12,897,760.04	12,812,500.00
BB & T Financial Corp.	59,000	1,703,409.07	1,666,750.00
BCE Inc.	225,000	8,005,075.00	8,353,125.00
Banc One Corp.	165,000	6,391,628.99	7,528,125.00
Bank South Corp.	100,000	1,018,813.00	1,087,500.00
Baxter Int'l Inc.	1,000,000	26,129,645.42	36,375,000.00
Bell Atlantic Corp.	250,000	13,143,557.80	11,125,000.00
Bemis Inc.	100,000	2,447,500.00	2,437,500.00
Birmingham Steel Corp.	100,000	2,290,972.18	2,637,500.00
Bob Evans Farms Inc.	100,000	1,431,549.26	1,712,505.65
Boeing Company	250,000	13,217,187.50	9,968,750.00
Boston Edison Co.	700,000	14,368,968.70	18,112,500.00
Broad Inc. Pfd.	305,000	4,053,125.00	4,536,875.00
CSX Corp.	250,000	10,945,315.00	15,843,750.00
CUC International Inc.	100,000	3,103,387.50	2,987,500.00
Cabot Corporation	125,000	5,851,633.88	5,625,000.00
Carolina Power & Light	300,000	12,606,146.70	15,150,000.00
Cash America Inv. Inc.	100,000	1,237,310.30	1,050,000.00
Caterpillar Tractor	300,000	18,002,740.00	16,125,000.00
Central & South West Corp	1,050,000	20,680,221.89	29,662,500.00
Charming Shoppes, Inc.	125,000	2,771,189.50	3,593,750.00
Chemed Corp.	100,000	2,786,288.03	2,712,500.00
Chemical Banking Corp.	600,000	20,375,145.00	22,275,000.00
Chemical Banking Conv. Pfd.	110,000	6,881,250.00	8,800,000.00
Chevron Corp.	400,000	25,938,754.20	26,800,000.00
Chrysler Corp. Conv. Pfd.	80,000	4,000,000.00	5,400,000.00
Chubb Corp.	150,000	10,517,318.40	10,650,000.00
Cigna Corp.	100,000	5,369,443.20	5,575,000.00
Circuit City Stores Inc.	400,000	11,783,294.08	12,350,000.00
Cisco Systems Inc.	350,000	11,339,162.36	16,450,000.00
Citizens Utilities Co.	128,905	4,371,833.22	4,576,127.50

(Continued)

Domestic Stock Portfolio

	Shares	Book Value	Market Value
Clayton Homes Inc.	179,000	$ 4,547,711.90	$ 3,445,750.00
Clorox Co.	52,400	2,623,706.10	2,377,650.00
Coastal Corporation	300,000	7,846,638.58	7,462,500.00
Coca-Cola Co.	1,000,000	15,790,078.51	40,000,000.00
Colgate Palmolive Co.	625,000	21,544,514.70	32,343,750.00
Communications Satellite	150,000	6,296,100.00	6,318,750.00
Conner Peripherals	150,000	3,433,957.40	2,775,000.00
Consolidated Natural Gas	100,000	4,285,600.00	4,237,500.00
Consolidated Rail Corp.	200,000	18,249,350.00	18,075,000.00
Consolidated Stores Corp.	50,000	608,350.00	581,250.00
Cooper Tire & Rubber Co.	50,000	1,686,579.00	2,393,750.00
Cracker Barrel Old Country Store	226,500	7,307,768.81	7,021,500.00
Cummins Engine	152,400	9,076,978.97	10,439,400.00
DPL Inc.	100,000	2,590,054.90	2,587,500.00
Deere and Co.	250,000	13,161,462.50	10,656,250.00
Dell Computer Corp.	60,000	1,512,982.83	1,087,500.00
Delta Airlines Conv. Pfd.	90,000	4,519,445.00	4,680,000.00
Deluxe Corp.	200,000	6,699,237.50	8,500,000.00
Disney (Walt) Co.	800,000	27,981,540.00	28,900,000.00
Dollar General Corp.	137,500	1,655,005.00	2,750,000.00
Donnelley (R R) & Sons Co.	200,000	11,398,008.80	10,825,000.00
Dow Chemical	300,000	18,264,886.85	17,287,500.00
Dow Jones and Company Inc.	175,000	5,675,282.50	5,621,875.00
Dresser Ind.	200,000	4,685,462.00	4,175,000.00
Dupont (E I) De Nemours	400,000	20,280,287.50	20,200,000.00
Eaton Corp.	200,000	13,629,024.40	15,975,000.00
Emerson Electric Co.	550,000	22,041,606.08	26,812,500.00
Enron Corp.	475,000	14,524,612.90	19,890,625.00
Entergy Corp.	200,000	4,984,410.00	5,650,000.00
EQK Realty Investors I	1,250,000	5,781,250.01	2,343,750.00
Exxon Corp.	799,000	41,752,865.90	49,438,125.00
Federal Home Loan Mtg. Corp.	250,000	8,259,028.27	9,937,500.00
Federal National Mtg. Assn.	200,000	10,178,186.90	12,250,000.00
Federal Paper Board Co. Inc.	250,000	8,240,855.06	7,375,000.00
First Union Corp.	300,000	9,248,725.00	11,362,500.00
Fleet Financial Group Inc.	500,000	15,029,815.46	14,812,500.00
Fluor Corp.	300,000	11,904,782.80	12,000,000.00
Ford Motor Co.	850,000	32,951,773.00	38,993,750.00
Foster Wheeler Corp.	500,000	12,422,288.82	12,687,500.00
Fruit of the Loom	400,000	9,463,417.73	13,200,000.00
Fuller (H B) Co.	37,500	798,125.00	1,828,125.00
GTE Corp.	900,000	24,804,741.80	28,687,500.00
Gannett Co.	550,000	22,970,574.15	24,406,250.00
General Electric Co.	450,000	20,717,207.50	34,987,500.00
General Mills Inc.	300,000	12,858,055.00	20,137,500.00
General Motors Corp.	700,000	27,689,876.02	30,800,000.00
General Motors Corp. Class E	636,000	13,184,299.30	17,808,000.00
General Motors Corp. Class H	100,000	2,453,088.45	2,587,500.00
General Motors Corp. Conv. Pfd.	100,000	5,000,000.00	5,050,000.00
Genzyme Corp.	202,500	10,122,601.16	8,910,000.00
Georgia Pacific Corp.	200,000	12,189,839.88	12,250,000.00
Gillette Company	250,000	8,233,073.85	11,906,250.00
Goodrich (B F) Co.	350,000	19,184,630.30	16,581,250.00
Goodyear Tire & Rubber Co.	300,000	17,003,501.40	20,587,500.00
Great Lakes Chemical Corp.	75,000	4,606,558.65	4,650,000.00
Grow Group Inc.	150,000	1,864,951.00	1,875,000.00

(Continued)

Domestic Stock Portfolio

	Shares	Book Value	Market Value
Gulf States Utilities Co.	150,000	$ 2,245,475.00	$ 2,287,500.00
Halliburton Co.	350,000	11,592,795.20	9,318,750.00
Hasbro Inc.	300,000	5,832,129.60	8,475,000.00
Health & Rehabilitation Prop.	75,000	964,580.50	815,625.00
Healthdyne Inc.	125,000	2,871,686.70	2,562,500.00
Hercules Inc.	195,000	8,952,555.30	10,286,250.00
Hewlett Packard	350,000	27,688,992.50	24,106,250.00
Hillenbrand Industries	125,000	3,997,701.42	4,625,000.00
Home Depot Inc.	500,000	13,361,546.55	33,625,000.00
Honeywell Inc.	400,000	19,269,127.78	28,000,000.00
Houston Industries Inc.	600,000	22,885,539.96	26,325,000.00
Hunt (J B) Transport Services Inc.	100,000	2,511,727.00	2,050,000.00
IBP Inc.	325,000	5,731,060.18	6,093,750.00
Illinois Central Corp.	150,000	2,257,962.10	3,131,250.00
Ingersoll Rand Co.	800,000	20,242,767.43	22,000,000.00
Interleaf Inc.	100,000	1,158,844.18	950,000.00
Jefferson Pilot	200,000	7,187,674.44	8,375,000.00
Johnson & Johnson	400,000	8,854,585.00	17,900,000.00
K Mart Corp.	1,100,000	26,247,281.50	25,300,000.00
K Mart Corp Percs.	50,000	2,200,000.00	2,300,000.00
Kirby Corp.	100,000	1,487,311.45	1,375,000.00
LSI Logic Corp.	400,000	4,653,650.00	2,700,000.00
Lafarge Corp.	100,000	1,762,049.94	1,412,500.00
LAM Research Corp.	100,000	1,287,898.54	1,187,500.00
Liberty Corp.	50,000	1,477,203.50	1,431,250.00
Loews Corp.	200,000	21,098,895.60	22,300,000.00
Long Island Lightning Co.	450,000	9,220,025.00	10,575,000.00
Lotus Development Corp.	400,000	15,020,673.20	7,450,000.00
Louisiana Pacific Corp.	454,500	13,237,705.50	21,020,625.00
Lowes Companies Inc.	600,000	13,161,274.86	11,775,000.00
Manor Care Inc.	500,000	7,348,304.02	9,187,500.00
Mapco Inc.	75,000	2,469,299.68	4,059,375.00
Masco Corp.	250,000	7,200,391.30	6,500,000.00
Mattel Inc.	425,000	7,470,963.91	10,731,250.00
McCormick & Co. Inc.	200,000	4,028,664.00	4,450,000.00
McDermott International Inc.	250,000	6,179,426.00	5,000,000.00
McDonalds Corp.	725,000	21,868,470.74	33,350,000.00
Medco Containment Services Inc.	500,000	6,121,694.22	15,000,000.00
Medusa Corporation	100,000	1,943,729.81	1,787,500.00
Mellon Bank Corp.	500,000	17,920,227.95	20,562,500.00
Mercantile Bankcorporation Inc.	100,000	3,408,747.50	4,375,000.00
Merck and Co.	525,000	14,126,424.00	25,593,750.00
Merrill Lynch & Co.	200,000	11,265,224.68	10,100,000.00
Microsoft Corp.	300,000	15,041,856.28	21,000,000.00
Mobil Corp.	500,000	18,476,990.00	30,750,000.00
Mobile Telecom Tech Corp.	150,000	1,567,575.65	1,312,500.00
Montana Power Co.	450,000	8,687,074.00	11,812,500.00
Motorola Inc.	300,000	23,922,879.00	22,987,500.00
Murphy Oil Corp.	300,000	12,897,030.00	10,237,500.00
Mylan Laboratories Inc.	127,000	4,741,132.00	5,016,500.00
Nalco Chemical Co.	125,000	4,863,900.00	4,484,375.00
National Education Corp.	100,000	1,174,050.00	900,000.00
Nations Bank Corp.	250,000	12,047,406.70	11,906,250.00
Nellcor Inc.	100,000	2,868,389.87	2,500,000.00
New York Times	300,000	8,778,215.00	8,400,000.00
Norfolk Southern Corp.	350,000	7,382,403.18	22,268,750.00

(Continued)

Domestic Stock Portfolio

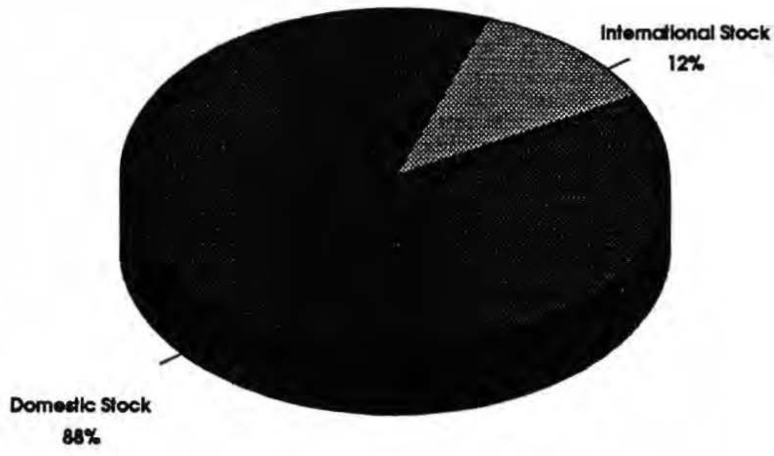
	Shares	Book Value	Market Value
Norwest Corp.	250,000	$ 4,322,225.00	$ 9,500,000.00
Novell Inc.	600,000	6,724,980.00	31,950,000.00
Nucor Corp.	120,000	4,830,162.70	6,210,000.00
Nynex Corp.	450,000	33,355,100.00	35,493,750.00
Occidental Petroleum Corp.	750,000	17,837,682.50	14,718,750.00
Office Depot Inc.	200,000	4,162,380.00	5,000,000.00
Old Kent Financial Corp.	75,000	2,546,572.30	3,075,000.00
PHM Corp. Holdings Co.	100,000	2,292,025.50	1,725,000.00
PNC Financial Corp.	385,500	19,789,928.73	20,817,000.00
PPG Industries Inc.	375,000	19,644,609.56	24,562,500.00
Paccar Inc.	75,000	4,096,838.85	4,368,750.00
Pacific Gas & Electric Co.	1,200,000	23,820,680.70	38,700,000.00
Pacific Telesis Group	450,000	16,765,113.90	18,056,250.00
Paramount Communications Inc.	400,000	18,398,650.00	18,150,000.00
Penney (J C) Co.	450,000	29,475,349.32	31,781,250.00
Pep Boys	300,000	6,547,160.00	6,825,000.00
Pepsico Inc.	875,000	15,783,740.50	30,515,625.00
Pfizer Inc.	250,000	11,046,462.90	18,250,000.00
Philip Morris Cos.	750,000	29,505,892.50	55,125,000.00
Phillips Petroleum	300,000	7,894,688.60	7,275,000.00
Piedmont Natural Gas Co. Inc.	45,000	1,187,075.00	1,530,000.00
Policy Management Systems Inc.	41,000	1,976,030.42	2,583,000.00
Portland General Corp.	100,000	1,630,000.00	1,612,500.00
Primerica Corp.	450,000	15,426,625.00	17,268,750.00
Procter & Gamble	550,000	24,247,219.60	25,300,000.00
Progressive Corp - Ohio	100,000	5,379,793.90	5,650,000.00
Quaker State Corp.	200,000	2,921,857.00	2,725,000.00
Quanex Corp. Conv. Pfd.	120,000	3,000,000.00	3,060,000.00
Reynolds Metals Co.	250,000	15,658,310.00	14,468,750.00
Richfood Holdings Inc.	75,000	1,391,438.33	1,331,250.00
Roadway Services Inc.	100,000	4,037,470.00	6,375,000.00
Sara Lee Corp.	550,000	20,470,654.00	28,325,000.00
Schering Plough Corp.	255,000	15,574,202.50	13,993,125.00
Seagram Company Ltd.	540,000	11,681,667.50	15,052,500.00
Sealed Air Corp.	50,000	1,659,861.30	2,250,000.00
Sears Roebuck & Co.	500,000	22,937,330.16	19,875,000.00
Sensormatic Electronic Corp.	125,000	2,485,625.00	3,343,750.00
Shaw Industries Inc.	400,000	9,538,597.40	8,650,000.00
Sherwin Williams Co.	200,000	5,908,875.00	5,500,000.00
Shoney's Inc.	100,000	2,400,463.00	2,037,500.00
Society Corp.	50,000	2,105,625.00	2,912,500.00
Southern National Bank Conv. Pfd.	120,000	3,050,062.50	3,450,000.00
Southwest Airlines Co.	350,000	8,274,007.00	15,006,250.00
Southwestern Bell Corp.	575,000	30,757,338.50	35,075,000.00
Spacelabs Medical Inc.	100,000	3,078,646.28	2,625,000.00
Standard Register Co.	150,000	2,737,194.74	2,250,000.00
Staples Inc.	100,000	2,725,897.60	3,125,000.00
State Street Boston Corp.	239,800	6,133,492.88	8,572,850.00
Symantec Corp.	30,000	800,781.25	1,140,000.00
Sysco Corp.	800,000	18,641,520.09	19,800,000.00
Teco Energy Inc.	300,000	7,877,118.32	11,737,500.00
Tambrands Inc.	200,000	8,896,923.85	12,750,000.00
Tele Communications	400,000	6,623,305.00	7,850,000.00
Texas Instruments	300,000	11,362,805.00	10,537,500.00
Textron Inc.	300,000	8,530,803.88	11,212,500.00
Tidewater Inc.	75,000	1,285,323.85	1,134,375.00

(Continued)

Domestic Stock Portfolio

	Shares	Book Value	Market Value
Time Warner Inc.	425,000	$ 44,427,798.24	$ 47,175,000.00
Time Warner Inc. Pfd. Series D	232,487	9,989,669.75	12,292,750.13
Torchmark Corp.	125,000	7,859,272.62	8,484,375.00
Tosco Corp.	350,000	9,189,828.04	8,137,500.00
Toys'R'Us Inc.	550,000	14,277,873.43	18,975,000.00
Tredegar Industries	75,000	1,093,919.28	1,350,000.00
Traid Systems Corp.	100,000	647,344.90	625,000.00
Turner Broadcasting Systems	200,000	4,920,015.00	3,850,000.00
Ust Inc.	1,550,000	17,368,982.20	43,400,000.00
Unum Corp.	100,000	2,561,919.75	4,125,000.00
Unifi Inc.	50,000	485,168.50	1,906,250.00
Union Carbide	400,000	11,234,772.39	10,850,000.00
Union Electric Co.	600,000	18,259,035.89	21,525,000.00
Union Planters Corp. Conv. Pfd.	130,000	3,345,000.00	3,623,750.00
United Healthcare Corp.	121,000	10,487,183.00	10,043,000.00
U S Healthcare Inc.	150,000	8,019,815.22	7,650,000.00
U S Surgical Corp.	100,000	11,009,175.00	9,525,000.00
U S West Inc.	700,000	22,084,381.63	25,550,000.00
United Technologies Corp.	500,000	24,926,037.16	26,125,000.00
Unocal Corp.	1,200,000	20,107,980.90	30,600,000.00
Verifone Inc.	100,000	2,485,912.60	2,000,000.00
Wachovia Corp.	375,000	10,816,075.17	23,109,375.00
Wal Mart Stores Inc.	1,000,000	24,170,824.25	53,750,000.00
Walgreen's Inc.	600,000	14,538,732.54	20,325,000.00
Waste Management Inc.	903,000	29,042,372.75	30,363,375.00
Wellman Inc.	200,000	5,931,067.50	4,275,000.00
Wheelabrator Technologies Inc.	269,800	7,732,061.60	7,486,950.00
Willamette Industries	601,800	23,400,259.04	22,717,950.00
Williams Companies Inc.	100,000	3,921,283.91	2,900,000.00
Worthington Industries Inc.	290,000	5,014,507.50	6,670,000.00
Xerox Corp.	250,000	18,699,295.00	17,437,500.00
TOTAL DOMESTIC STOCK PORTFOLIO		$ 2,762,059,768.63	$ 3,300,267,308.28

TCRS 1992 Stock Portfolio by Category



International Stock Portfolio

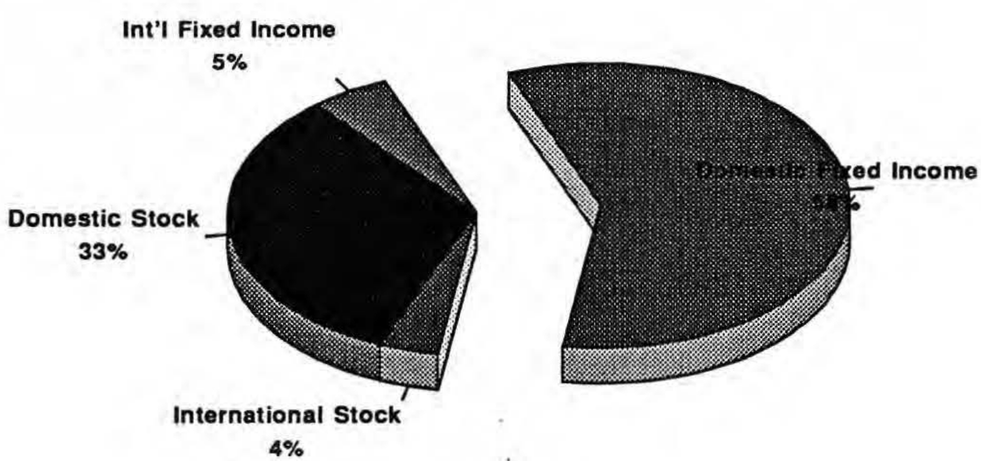
	Shares	Book Value	Market Value
Allianz AG Holdings	3,672	$ 2,584,980.25	$ 5,484,619.97
Allied Lyons	405,000	5,045,763.68	4,856,825.74
Asahi Organic Chemical Industries	310,000	2,465,970.66	1,831,047.33
Australian Gas Light Co. Ltd.	515,800	1,346,474.12	1,119,815.27
Baloise Holdings PC	1,500	2,478,215.57	2,045,583.13
Banyu Pharmaceutical	630,000	7,025,456.23	5,244,588.91
Bayerische Motoren Werke AG	15,000	4,928,366.67	5,770,705.39
Bayerische Vereinsbank	12,100	2,815,414.62	3,195,612.16
Bayerische Vereinsbank Conv. Pfd. W/Warrants	344,000	274,234.70	288,581.14
BBC Brown Boveri AG PC	12,000	7,710,683.99	7,224,825.54
British Aerospace	700,000	4,540,688.34	3,259,359.49
British Airways	1,400,000	4,562,067.91	7,090,769.83
British Telecommunications PLC	1,200,000	6,979,027.24	7,662,820.68
Broken Hill Proprietary Co. Ltd.	380,000	4,219,104.19	4,082,424.38
BTR Nylex	1,000,000	2,015,494.78	2,059,117.56
Chiyoda Corp.	480,000	6,329,875.97	6,469,515.57
Chukyo Coca Cola	140,000	1,875,115.72	2,219,931.81
Cie De Sain Gobain	50,000	5,225,462.65	5,519,965.16
Cie De Suez	32,000	1,931,572.90	1,787,535.76
CKD Corp.	550,000	2,299,339.85	2,529,136.60
Coca Cola Amatil	700,000	3,669,940.36	3,728,793.32
Collins & Leahy Holdings Ltd.	1,009,250	2,694,888.98	1,204,732.98
CS Holdings Bearer	2,835	4,104,011.42	3,609,094.14
Daifuku Machinery	110,000	1,685,339.86	1,735,510.98
Dai-Tokyo Fire & Marine	260,000	1,512,371.67	1,311,028.30
Deutsche Bank AG	7,396	2,722,448.86	3,347,034.03
Ebara	670,000	7,221,373.38	7,118,052.80
ECC Group	1,200,000	9,274,158.25	12,018,769.34
Euro Disney	100,000	2,001,994.53	2,101,085.33
Felten & Guilleaume Energie	5,000	1,139,807.49	1,192,809.06
GEA	5,900	1,966,675.47	2,003,001.68
General Electric PLC	1,930,000	7,698,492.52	8,252,926.29
Hankyu Department Store	290,000	2,982,964.80	2,069,293.58
Havas	35,000	3,538,724.56	3,319,753.70
Hitachi Ltd.	700,000	4,342,080.31	4,217,870.45
Hokkaida Takushoku Bank	400,000	2,901,524.68	1,493,696.97
Holderbank	540	2,038,829.77	2,076,049.26
Iino Kaiun	525,000	4,331,519.96	2,372,552.12
Japan Airlines	400,000	3,218,257.35	2,096,249.90
Karstadt	15,000	6,233,841.73	6,026,307.33
Kawada Industries	550,000	4,843,816.47	4,295,171.64
Kenwood	1,125,000	6,553,943.35	6,823,317.21
Legrand	7,570	5,382,811.02	6,843,215.49
Maeda Road Construction	550,000	11,050,552.44	11,991,595.97
Mannesmann AG New	40,000	7,749,119.64	7,571,060.61
Matsushita Electric Ind'l	500,000	5,076,307.25	5,193,054.78
Midland Bank	400,000	1,944,742.61	3,489,320.13
Mikuni Coca Cola Bottling	250,000	2,996,779.21	5,331,800.52
Mim Holdings Ltd.	1,050,000	1,600,814.75	2,350,079.82
Mitsubishi Cable	700,000	4,264,837.17	2,719,416.47
Mitsubishi Motors	1,750,000	10,058,164.16	8,810,354.39
Mitsui Fudosan Co. Ltd.	350,000	3,966,543.80	2,158,883.69
Mitsukoshi Ltd.	525,000	4,667,140.63	2,809,601.20
Morinaga & Co.	940,000	5,033,665.58	3,659,240.46
National Power ADR	83,550	2,921,824.62	3,561,318.75
NEC	700,000	5,435,188.68	4,573,059.54

(Continued)

International Stock Portfolio

	Shares	Book Value	Market Value
Nippon Electric Glass Co.	300,000	$ 3,873,535.63	$ 3,425,037.65
Nippon Koei	971,000	10,031,351.96	8,930,151.43
Nippon TV Network	50,000	7,305,128.31	6,461,587.25
NTN Corp.	220,000	1,012,524.48	811,067.94
Pasminco Ltd.	1,550,000	1,790,462.17	1,734,582.73
Philips Electronics	250,000	5,161,030.85	4,373,474.36
Polly Peck Int'l PLC	2,589,285	647,321.25	0.00
Polygram NV	500,000	8,116,662.00	14,562,500.00
Powergen PLC ADR	75,000	2,622,822.82	3,606,150.00
Redland PLC	300,000	2,859,138.31	2,708,214.15
Roche Genuss Holdings AG	1,300	3,107,467.22	3,168,477.70
Rothmans International	365,000	4,457,639.81	8,064,063.99
Royal	139,000	1,364,004.27	1,399,587.72
Royal Dutch Petroleum	70,000	5,151,284.74	6,159,479.25
S X L Corp.	80,000	1,137,248.37	551,811.62
Sakura Bank	200,000	2,857,980.80	1,504,796.63
Sanko Metal Industrial Ltd.	513,000	6,488,301.60	4,514,627.76
Sankyo Co. Ltd.	400,000	6,810,557.76	7,674,621.42
Shimachu Company Ltd.	200,000	2,274,178.73	4,519,146.91
Showa Shell	400,000	4,135,883.75	3,393,324.34
Simon Engineering PLC	50,000	293,382.37	222,358.63
Snow Brands Milk Products	425,000	3,110,302.33	2,658,566.55
Sumitomo Marine & Fire Inc. Co.	110,000	1,139,347.78	591,294.69
Takasago Thermal Engineering	19,000	72,819.27	256,084.99
Tesco	1,000,000	4,581,524.46	5,226,378.19
Tobu Railway	900,000	5,830,835.70	3,988,741.77
Tokyo Steel Manufacturing Co.	350,000	6,955,092.21	7,964,005.39
Toshoku Corp.	600,000	6,022,316.00	3,829,382.38
Toyo Sash	422,000	8,080,047.91	9,033,536.82
Unilever NV	80,000	5,255,279.66	8,648,145.99
Westpac Banking Corp.	450,000	1,362,913.42	1,154,896.37
Yamato Transport	100,000	744,833.78	753,191.15
TOTAL INTERNATIONAL STOCK PORTFOLIO		$ 360,132,027.09	$ 365,107,169.42
GRAND TOTAL STOCK PORTFOLIO		$ 3,122,191,795.72	$ 3,665,374,477.70

Total 1992 Investments by Category (Market Value)



TCRS Performance Summary
Fiscal Years 1982-83 Through 1991-92

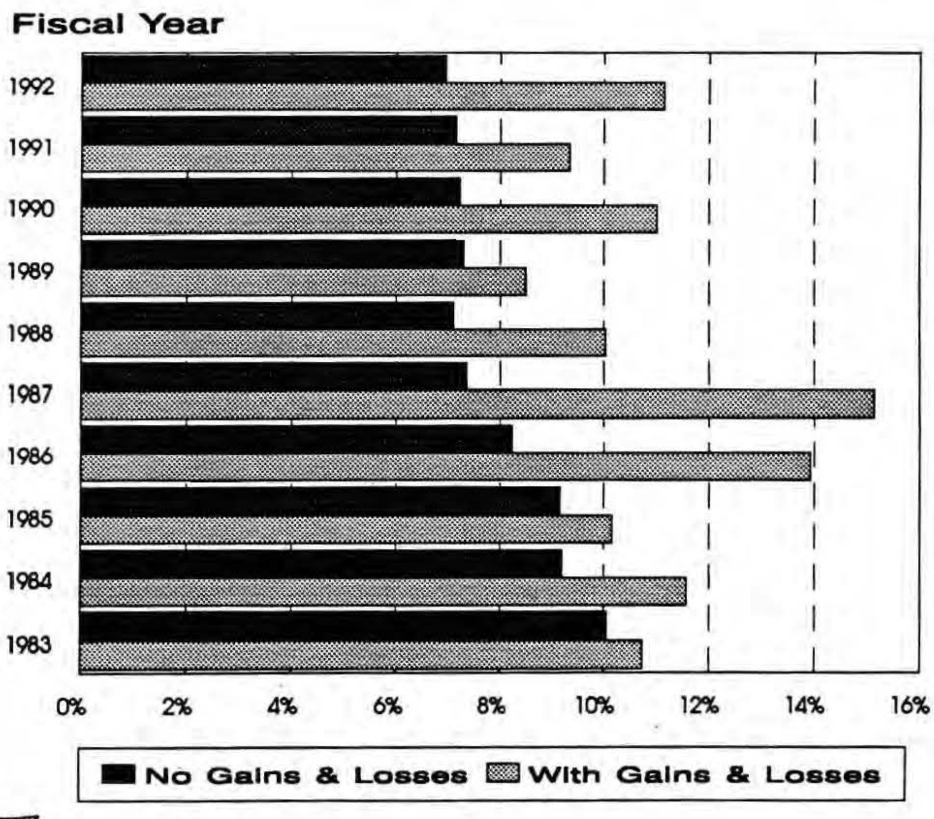
	Excluding Gains and Losses			*Including Gains and Losses*		
Fiscal Year	**Average Amount Invested**	**Amount Earned**	**Percentage Earned on Book Value**	**Average Amount Invested**	**Amount Earned**	**Percentage Earned on Book Value**
1991-92	$ 9,026,797,509	$ 627,814,872	6.96%	$ 8,847,594,762	$ 986,220,366	11.15%
1990-91	8,134,018,497	583,497,298	7.17	8,049,275,637	752,983,018	9.35
1989-90	7,285,571,828	527,470,999	7.24	7,154,949,468	788,715,719	11.02
1988-89	6,492,258,416	474,648,937	7.31	6,454,807,817	549,550,134	8.51
1987-88	5,790,721,402	412,547,763	7.12	5,710,292,216	573,406,134	10.04
1986-87	4,918,934,167	366,812,760	7.37	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

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

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

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

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



TCRS Investments Benchmark Analysis

Fiscal Year	[1]Public Fund Index Median Total Return	[2]TCRS Total Return	[3]Income Yield On Average Available Funds	[4]Yield To Maturity New Bonds
1991-92	12.1%	13.7%	5.44%	8.22%
1990-91	7.9	7.8	5.97	8.65
1989-90	10.4	11.6	6.03	9.01
1988-89	14.2	15.3	6.35	9.36
1987-88	1.9	2.0	5.49	9.21
1986-87	10.8	10.3	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

[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 1987-88 Through 1991-92

Fiscal Year	Cash Management Earnings	TCRS Portfolio Earnings	Total Treasury Earnings
1991-92	$ 99,055,579	$ 986,220,366	$ 1,085,275,945
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

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.

"The State Trust of Tennessee, committed to providing superior service."

— Grady Martin,
Director of Management Services

State Trust Of Tennessee Federal Reserve Bank Transactions
Fiscal Year 1991-92

Transaction Type	Number	Amount
(1) Wire Disbursements	1,462	$ 859,084,144
(2) Wire Receipts	7,424	9,251,619,369
(3) Security Disbursements	3,569	28,950,765,962
(4) Security Receipts	3,924	29,630,279,260
(5) Check Redemptions	7,204,531	6,256,251,593
TOTAL	7,220,910	$ 74,948,000,328

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.

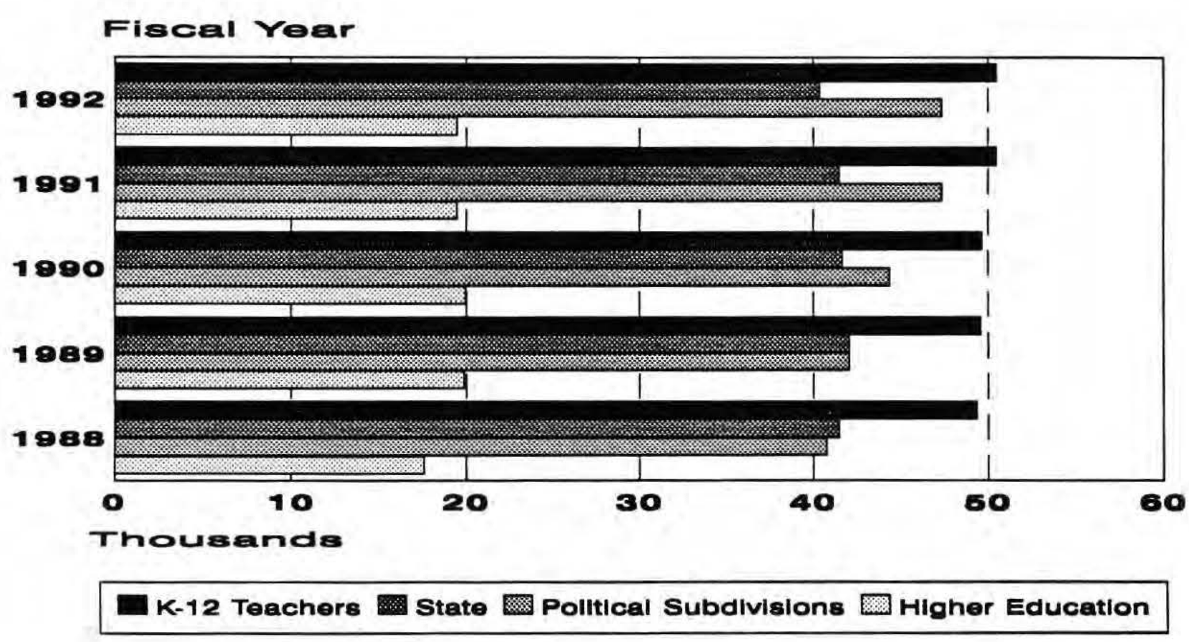
The Tennessee Consolidated Retirement System (TCRS) was established July 1, 1972. Prior to this date, there were seven different public employee retirement systems. The TCRS, a defined benefit plan which is qualified under 401(a) of the Internal Revenue Code (IRC), is a retirement system for state employees, 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 an Optional Retirement Program (ORP), which is a defined contribution plan designed for faculty employees in institutions of higher education. When an employee joins TCRS, he receives an introductory letter and membership pamphlet outlining various aspects of retirement membership. State employees and teachers become vested after five years of service. Political subdivision members attain vested status upon completion of 10 years unless five year vesting has been authorized. A vested member is guaranteed a retirement benefit once the age requirements are met. As of June 30, 1992, there were 158,168 active members of TCRS and 6,941 higher education employees participating in the ORP.

Since July 1, 1976, all new members of the TCRS except state judges have been classified as Group I members. State judges have been permitted to enroll in Group IV since September 1, 1990. From July 1, 1972 to June 30, 1976, all employees were classified as Group I with the exception of state policemen, wildlife officers, firemen and policemen who were classified as Group II and judges and elected officials who were classified as Group III. Members of seven superseded systems are permitted to retain their original rights and benefits.

Active Members Fiscal Years 1988-1992



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.

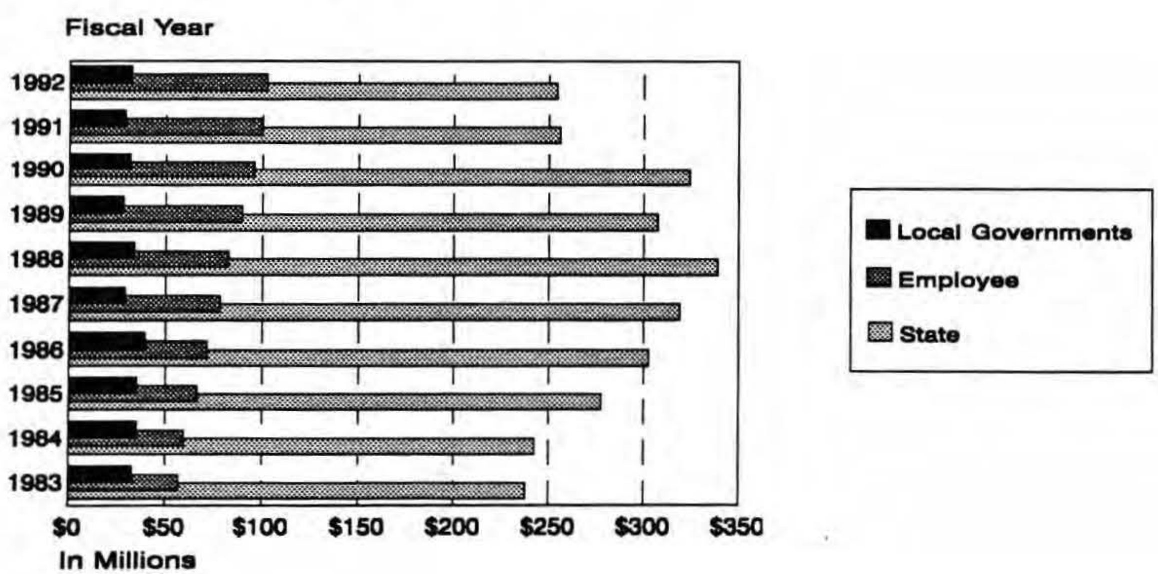
Upon termination of employment, a member may elect to withdraw his contributions and accumulated interest from the retirement system in a lump sum. By obtaining a lump sum refund, a member waives all rights and benefits in the retirement system. A vested member may leave his account balance in TCRS and 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 1991-92 fiscal year, 5,181 refunds totaling $20.9 million were issued.

The contribution rate for the employers participating in the retirement system is determined by a biennial actuarial valuation performed by an independent actuarial firm. The contribution rates include funding for the basic benefit, the cost-of-living increase provisions, and amortization of the accrued liability over a 40 year period which began in July of 1975. The employer contribution rates for the year ending June 30, 1992 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 the ORP	10.00%*

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

Retirement Contributions Fiscal Years 1983-92



"The Tennessee Consolidated Retirement System is one of the most strongly funded plans in the nation, with assets exceeding 105% of its pension benefit obligation."

— Steve Curry,
Director of TCRS

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 1991-92

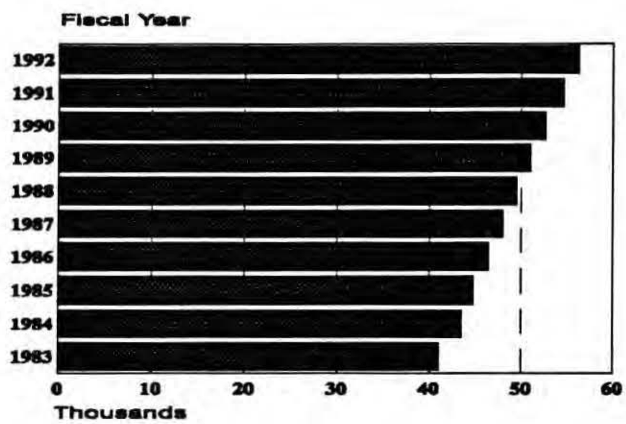
Type of Service	Number of Employees	Years of Service	Employee Payment
Military:			
Interrupted Employment	6	7	$ 4,016
Purchased Peacetime	39	38	122,672
Armed Conflict	332	657	0
Redeposit of Withdrawn Service	494	1,916	2,159,837
State Service Prior to 1945	4	10	0
Teaching Service Prior to 1945	2	1	0
Out-of-State Service	17	31	87,810
Political Subdivision Enrollment Service:			
Employee Paid	137	330	222,556
Employer Paid	414	1,997	0
Noncontributory Service	102	132	0
TOTAL	1,547	5,119	$ 2,596,891

Retirement Benefits

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

As of June 30, 1992, 56,289 retirees were receiving monthly benefit payments.

Number of Retirees on Payroll



Group I state employees and teachers become eligible to retire from the TCRS at age 60 with five years of service or at any age with 30 years of service. State employees and teachers become vested after five years of service. Political subdivision members attain vested status upon completion of 10 years unless five year vesting has been authorized. Retirement benefits are based on the average of the member's five highest consecutive years of salary and the years of creditable service. A reduced retirement benefit is available to vested members at age 55 or upon completion of 25 years of service.

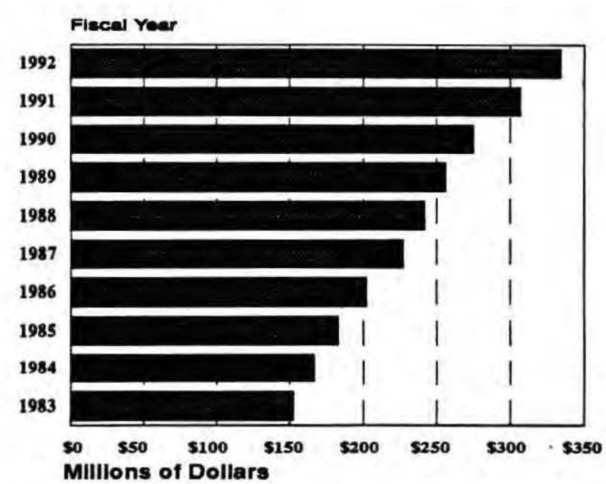
Disability benefits are available to active members with five years of service who become disabled and can not engage in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is a result of an accident or injury occurring while the member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

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

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

Benefits paid in fiscal year 1991-92 totaled $331.8 million.

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.

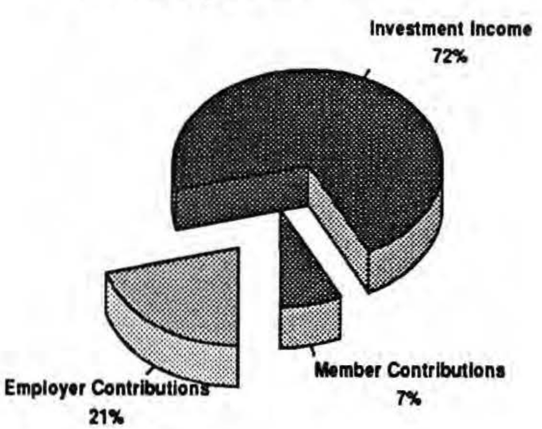
The Member Reserve Fund represents the accumulation of employee contributions plus interest.

June 30, 1991 Member Reserve Fund	$ 1,609,075,035
Member Contributions	102,603,249
Employer Provided Contributions	41,350,660
Interest	77,476,063
Refunded Account Balances	(20,247,091)
Transfers to Employer Fund of Retiring Members' Accounts	(58,211,907)
June 30, 1992 Member Reserve Fund	$ 1,752,046,009

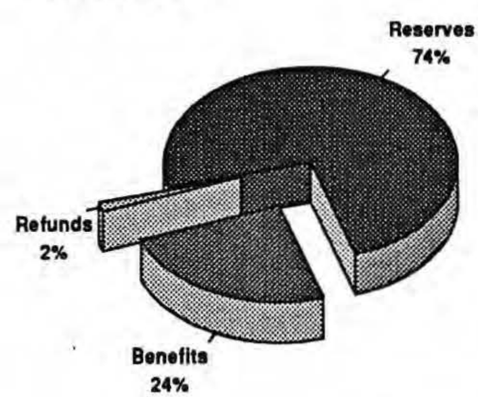
The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the member fund for retirees. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

June 30, 1991 Employer Reserve Fund	$ 7,221,460,632
Employer Contributions	286,988,170
Investment Income	986,220,366
Transfers from Retiring Members' Accounts	58,211,907
Employer Provided Contributions	(41,350,660)
Interest Credited to Members' Accounts	(77,476,063)
Lump Sum Death Benefits	(2,834,197)
Retirement and Survivor Annuities	(331,776,861)
Employer Refunds	(615,079)
June 30, 1992 Employer Reserve Fund	$ 8,098,828,215

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. The next valuation is scheduled for June 30, 1993.

"The legislature and the administration continue to make the money available to fund TCRS at the actuarially recommended levels. Not only should this reassure TCRS members, it saves the state money by helping its credit rating."

— Ed Hennessee,
Assistant Director of TCRS

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) totaled $8.453 billion at the June 30, 1991 actuarial valuation date. Net assets of $8.831 billion, equaling 104.5% of the pension benefit obligation (PBO), were available for benefits. As determined by an actuarial update, the PBO at June 30, 1992 totaled $9.332 billion with net assets available for benefits equaling 105.6%of the PBO.

Political Subdivisions

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

Political Subdivision
Participation as of June 30, 1992

Cities	111
Counties	83
Utility Districts	25
Special School Districts	20
Joint Ventures	20
Miscellaneous Organizations	15
Regional Libraries	12
911 Emergency Communication Districts	12
Housing Authorities	10
Development Agencies	9
Total	317

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 relieved the state of its responsibility for collecting social security contributions and medicare taxes from public employers, effective January, 1987.

Effective in 1991, separate wage bases were implemented for Social Security and Medicare and separate reporting of withholding was required. The Social Security tax rate is 6.20% each for employers and employees; the Medicare (hospital insurance) rate is 1.45% for each. Also in 1991, federal legislation was enacted to mandate social security coverage for state and political subdivision employees who do not participate in a retirement plan of the state or political subdivision employer.

Schedule of Historical Social Security Contribution Rates

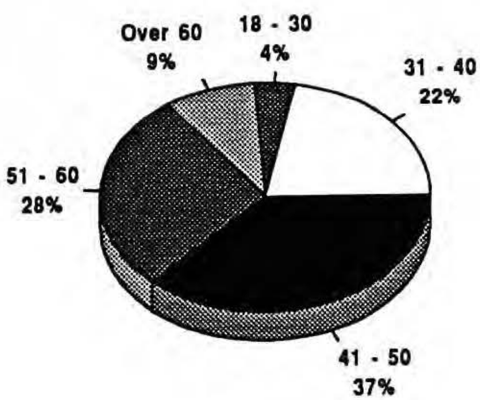
Calendar Year	Employee Rate	Employer Rate	Social Security Wage Base	Medicare Wage Base
1957	2.25%	2.25%	$ 4,200	$ 4,200
1962	3.12	3.12	4,800	4,800
1967	4.40	4.40	6,600	6,600
1972	5.20	5.20	9,000	9,000
1977	5.85	5.85	16,500	16,500
1982	6.70	6.70	32,400	32,400
1983	6.70	6.70	35,700	35,700
1984	6.70	7.00	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
1993	7.65	7.65	57,600	135,000

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

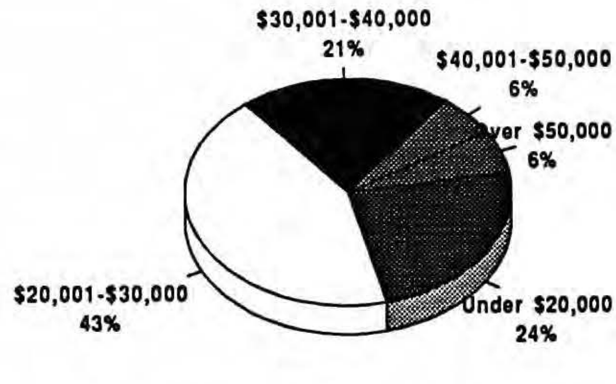
This program offers employees two plans. Plan I, authorized by Section 457(b) of the Internal Revenue Code, was implemented in the 1981-82 fiscal year. Plan II, authorized by Section 401(k) of the Internal Revenue Code, was implemented as the first governmental 401(k) plan in the 1983-84 fiscal year.

As of June 30, 1992, 6,624 employees had accounts in the program: approximately 34% had accounts in Plan I only, 45% had accounts in Plan II only, and 21% had accounts in both plans. At June 30, 1,741 state employees and 91 University of Tennessee employees were actively contributing to Plan I and 2,674 state employees and 387 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



Annual 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 1992 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 $8,728. 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 Union Planters time deposit account, AEtna's fixed account, Great-West Life's guaranteed certificate fund, Calvert's bond fund, and four 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. There were 70 loans issued to participants in fiscal year 1992, bringing the total number of outstanding loans to 133.

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 Deferred Compensation Program makes it much easier for state employees to build supplemental retirement savings. Since 1981, state employees have used this program to set aside over $93 million of tax-deferred salary for retirement."

— Deana Reed,
Director of Deferred Compensation

For the year ending June 30, 1992, participants deferred a total of $11,050,935 through the program. At June 30, 1992, accumulated account balances totaled $122,473,571. Distribution of these funds is shown on the following schedule.

	Deferrals		*Market Value of Account Balances*	
	FY 1991-92	**FY 1990-91**	**June 30, 1992**	**June 30, 1991**
Plan I (457)				
AEtna - Closed Contract	$ 0	$ 0	$ 21,540,158	$ 20,487,974
AEtna - New Contract	351,582	237,052	2,623,852	1,542,450
American General	106,859	184,486	976,401	913,581
Union Planters	883,840	1,195,580	12,531,619	13,233,252
Fidelity Investments	1,838,514	1,834,727	19,603,019	14,281,938
Great West	567,366	819,906	6,642,312	6,122,157
Calvert	12,816	0	89,316	0
TOTAL	$ 3,760,977	$ 4,271,751	$ 64,006,677	$ 56,581,352
Plan II (401k)				
AEtna - Closed Contract	$ 0	$ 0	$ 13,611,108	$ 11,930,379
AEtna - New Contract	688,271	403,953	2,390,048	2,216,450
Union Planters	1,228,690	1,381,352	7,348,673	7,162,320
Fidelity Investments	4,603,877	4,015,179	29,017,555	21,313,377
Great West	730,921	798,448	6,008,577	5,301,973
Calvert	38,199	0	90,933	0
TOTAL	$ 7,289,958	$ 6,598,932	$ 58,466,894	$ 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.

"A unique feature of this benefit program is that it doesn't cost the state a penny. The state's F.I.C.A. savings fund the administrative costs and help fund a wellness program for state employees."

— Jamie Fohl,
Manager of Flexible Benefits

Tennessee's Flexible Benefits Plan, or "cafeteria" plan was implemented January 1, 1989. From 1989 through the first half of the 1991-92 fiscal year, administration was performed by VISTA Management Company and overseen jointly by the Treasury Department and the Department of Finance and Administration. The Treasury Department took over administration of the program effective January 1, 1992.

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, 1992, 33,132 state employees were enrolled in one or more of the plan's four options: 32,816 employees used the plan to pay medical insurance premiums, 5,696 paid dental insurance premiums, 2,263 used the medical expense reimbursement account, and 349 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 1991-92, the state's F.I.C.A. savings totaled $1,533,559. Since the program began operation in January 1989, the state's F.I.C.A. savings have totaled $4,290,019. 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. As of June 30, 1992, $24,983 has been transferred to offset costs of the state's health insurance program and $353,659 has been transferred to provide day care program assistance.

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 1991-92, the Division of Claims Administration received a total of 5,794 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 1991-92, the Board took action on a total of 10 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 task of the Division of Claims Administration causes its employees to be in contact with virtually every sector of the state. Our goal is to treat everyone with whom we come in contact in a professional, equitable, and courteous manner."

— Susan Clayton,
Director of Claims

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 1991-92

	Claims Filed	Payments Made	
Workers' Compensation Claims	3,860		
Death Payments		$ 176,779	
Medical Payments		4,536,030	
Assault Injury Payments		12,311	
Temporary Disability (Lost Time)		801,254	
Permanent Disability		2,609,920	
Subtotal			$ 8,136,294
Employee Property Damage	236		49,856
Tort Claims	1,698		
Death Payments		$ 2,043,870	
Bodily Injury Payments		1,456,861	
Property Damage Payments		720,359	
Subtotal			4,221,090
TOTALS	5,794		$ 12,407,240

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.

"The Criminal Injury Fund receives over half of its revenues from individuals convicted of crimes. It is very satisfying to use such revenues to compensate innocent victims for their crime related out-of-pocket expenses."

— Anne Adams, Supervisor of Claims

During the 1991-92 fiscal year, the Division of Claims Administration made payments on 2,331 criminal injury claims for a total of $10,181,216. 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 1992 with a fund balance of $526,387 -- a decrease of 86 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, 1992. Victims of crimes occurring on or after July 1, 1992 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, 1992. During fiscal year 1992, 91 claims were paid from this fund for a total of $335,106.

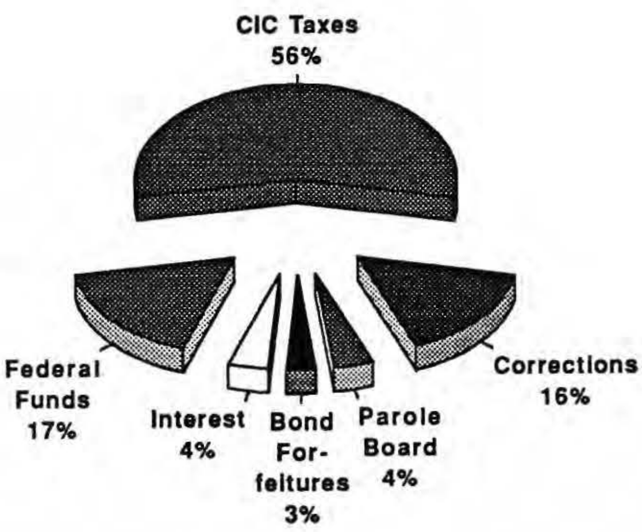
Since the first claims were paid in 1982, the program has awarded a total of over $50.2 million to crime victims. The Division of Claims Administration has made an effort to educate members of the public of the existence and benefits of the Criminal Injury Compensation and Victims of Drunk Drivers Programs 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 1991-92

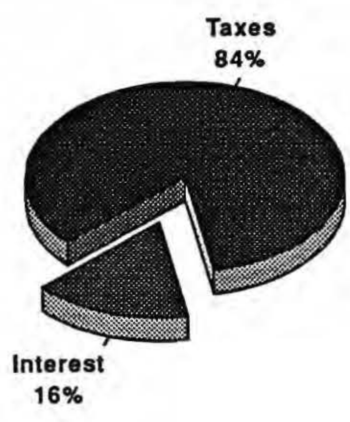
Classification of Crime	Number of Awards	Percent of Total	Dollar Value of Awards	Percent of Total	Average Award
Criminal Injuries:					
Homicide	357	15.3%	$ 1,759,503	17.3%	$ 4,929
Sexual Assault	579	24.8	2,097,477	20.6	3,623
Robbery	96	4.1	406,260	4.0	4,232
Assault	1,298	55.7	5,909,840	58.0	4,553
Other	1	.1	8,136	.1	8,136
Total	2,331	100.0%	$ 10,181,216	100.0%	$ 4,368
Drunk Drivers	91	100.0%	$ 335,106	100.0%	$ 3,682

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 1991-92, the Defense Counsel Commission/Subcommittee authorized payments of attorney's fees and litigation expenses which totaled $537,523. The Defense Counsel Commission/Subcommittee considered 573 requests for representation, of which 570 were approved and three were denied. At the end of the fiscal year, there were 146 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.

"In this litigation-prone society, state employees deserve an adequate defense when they are named in lawsuits arising out of their employment. The DCC provides that avenue of protection."

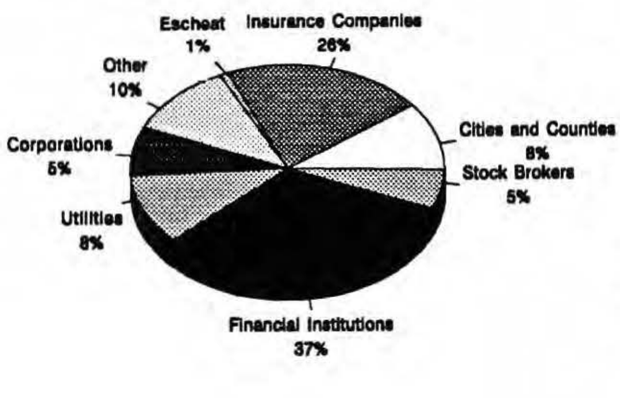
— Susan Clayton,
Director of Claims

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. Over $5.5 million was advertised during the 1991-92 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, 1991 through June 30, 1992, $5,429,922 of cash property was turned over to the Treasurer. The chart below illustrates the sources of cash collections for fiscal year 1991-92.

Sources of Unclaimed Property



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

"The new computer system we installed this year has really simplified the work we do in-house, giving us more time to spend on locating individuals. "

— Kim Morrow,
Supervisor of Unclaimed Property

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 $10.4 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. At June 30, 1992, 87 practitioners had been placed in health resource shortage areas of the state.

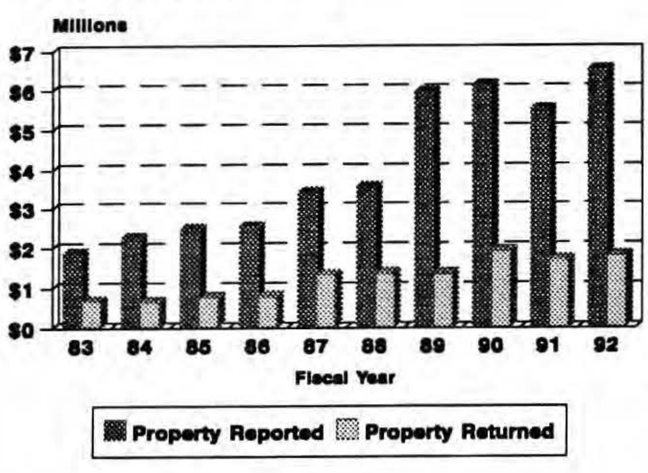
During the period July 1, 1991 through June 30, 1992, $1,864,572 of cash property was returned by holders and the Unclaimed Property Division to the owners or their heirs. Of this total, $992,450 represented accounts returned by the state and $872,122 represented accounts returned by holders as a result of the division's efforts. An analysis of the property returned during the 1991-92 fiscal year is shown on the next page.

Property Returned by the Treasury Department
July 1, 1991 - June 30, 1992

Reporting Entity	**Number of Accounts**	**Value of Claims**	**Percentage of Total Value**
Financial Institutions	466	$ 353,271	23.1%
Insurance Companies	553	150,084	27.4
Stock Brokers	85	46,253	4.2
Escheat	12	11,304	0.6
Cities & Counties	28	15,969	1.4
Corporations	399	180,142	19.8
Hospitals	44	43,283	2.2
Utilities	149	22,939	7.4
Other	280	169,205	13.9
TOTAL	2,016	$ 992,450	100.0%

Since the program began in 1979, $54.4 million in unclaimed property has been reported to the Treasurer and $15.4 million (28%) has been returned to owners or heirs. The following schedule shows the amount of property reported and returned in each of the last ten years.

Unclaimed Property Reported and Returned
Fiscal Years 1983 - 1992



Outside audit organizations remitted $440,454 in cash and stock from out-of-state non-reporting holders for Tennessee residents this past fiscal year.

Escheat

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 $61,267 representing 25 estates. Since fiscal year 1981-82, a total of $956,070 representing 245 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 81 chairs created, with state appropriations totaling $44,000,000 and matching contributions totaling $44,445,002. For the year ending June 30, 1992, investment income totaled $11,112,019 with expenditures of $5,860,541.

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
- * Moss COE in Education

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

*Chair established during fiscal year 1991-92.

"The Chairs of Excellence program has allowed the state colleges and universities to compete for top scholars and research grants which might not otherwise be available to the schools."

— Jill Bachus,
Director of Accounting

Treasurer's Office

Treasurer	Steve Adams, CPA	(615) 741-2956
Executive Assistant	Dale Sims	(615) 741-2956
Executive Assistant	Janice Cunningham	(615) 741-2956
Director of Personnel	Ann Taylor-Tharpe	(615) 741-2956

Investments

Chief Investment Officer	Chuck Webb, CFA	(615) 532-1157
Assistant Director for Treasury Investments	Beth Jarrard, CPA	(615) 532-1165
Senior Equity Portfolio Manager	Jeremy Conlin	(615) 532-1152
Senior Fixed Income Portfolio Manager	Frank Puryear, CFA	(615) 532-1153
International Fixed Income Portfolio Manager	Roy Wellington, CFA	(615) 532-1151
International Equity Portfolio Manager	William Howard, CFA	(615) 532-1155
Senior Short-Term Portfolio Manager	Randy Graves, CPA	(615) 532-1154

Retirement Administration

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

Claims

Director of Claims Administration and Unclaimed Property	Susan Clayton	(615) 741-2734
Staff Attorney-Defense Counsel	Phyllis Simpson, JD	(615) 741-2734

Support Divisions

Director of Internal Audit	Rhonda Hicks, CPA	(615) 532-1164
Director of Financial Control	Rick DuBray	(615) 741-5220
Director of Information Systems	Newton Molloy, III, CDP	(615) 741-3601
Director of Computer Operations	Sam Baker, CDP, CCP	(615) 741-3601
Director of Accounting	Jill Bachus, CPA	(615) 741-1337
Director of Management Services	Grady Martin	(615) 741-4985
Budget Officer	Wendy Padgett	(615) 741-4985

The Treasurer is housed on the 1st floor of the State Capitol Building.
The Division of Internal Audit is housed on the 2nd floor of the Rachael Jackson Building.
All other divisions are housed on the 10th and 11th floors of the Andrew Jackson Building.

References to the various duties and responsibilities assigned to the office of State Treasurer set forth in the code are indexed below.

The office of the State Treasurer is a constitutional office authorized by Article 7, Section 3 of the State Constitution and established by Title 8, Chapter 5 of the Tennessee Code.

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 Corp.	13-27-104
Tennessee Housing Development Agency	13-23-106
Tennessee Local Development Authority	4-31-103
Tennessee Student Assistance Corp.	49-4-202
Tuition Guaranty Fund Board	49-7-2018
Workers Compensation Fund Board	50-6-604

Administration	*Tennessee Code Annotated Section*
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	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 & 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

"The majority of the Treasurer's functions are of a financial nature; however, he also represents the interest of the General Assembly on various Boards and Commissions."

— Janice Cunningham,
Executive Assistant

The office of State Treasurer is a constitutional office authorized by Article 7, Section 3 of the State Constitution and established by Title 8, Chapter 5 of the Tennessee Code. Chapter 9 of the Acts of 1794 provided for the appointment of two Regional Treasurers: one for East Tennessee and one for West Tennessee. In 1827, a third Regional Treasury Department was created. Chapter 27 of the Acts of 1836 repealed the authorization for Regional Treasurers and provided for one Treasurer for the state. The individuals who have served as State Treasurer since 1836 are listed below.

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

"I do solemnly swear that, as Treasurer for the state of Tennessee, I will support the Consititution of the United States and the Constitution of the state of Tennessee, and that I will perform with fidelity and faithfully execute the duties of this office to the best of my ability, so help me God."

When Tennessee became a state in 1796, provision was made in the Constitution for a seal for the state of Tennessee:

> "There shall be a seal of this State, which shall be kept by the Governor, and used by him officially, and shall be called the Great Seal of the State of Tennessee."

In 1801, a legislative commission was appointed to create a design and a motto. The committee recommended a design for the seal very similar to the one in use today, containing a plough, sheaf of wheat, cotton plant, boat, and the "Agriculture and Commerce" motto. The state seal created as a result of that recommendation was first used in 1802.

In 1987, the 95th General Assembly passed Public Chapter 402, placing the state motto and the description of the current seal into the statutes.

Great Seal of the State of Tennessee —

(a) The great seal of the state of Tennessee shall be in the shape of a circle. The circumference of the circle shall bear the words "THE GREAT SEAL OF THE STATE OF TENNESSEE," and in the lower part of the circumference shall be the date "1796," being the year in which the constitution of Tennessee was adopted and Tennessee became one of the United States of America.

(b) Inside the upper semicircle of the circle shall be set the numerals "XVI," being the number of the state in chronological order within the United States; below the numerals shall be the figures of a plough, sheaf of wheat, and cotton plant, emblematic of agriculture within the state; and under the base of the upper semicircle shall be the word "AGRICULTURE."

(c) Inside the lower semicircle of the circle shall be set the figure of a boat with sail, emblematic of commercial activity in the state; and below this figure the word "COMMERCE."

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 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0230
(615) 741-3697

December 11, 1992

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Local Government Investment Pool as of June 30, 1992, and June 30, 1991, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Government Investment Pool as of June 30, 1992, and June 30, 1991, 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

Local Government Investment Pool

Comparative Balance Sheet

		June 30, 1992		June 30, 1991
Assets				
Cash and Cash Equivalents	$	930,465,507	$	726,263,610
Due from General Fund		765,509		2,884
Total Assets	$	931,231,016	$	726,266,494
Liabilities and Fund Balance				
Liabilities:				
Member Deposits	$	751,507,038	$	565,033,478
Due to State Highway Fund		0		51,830
Due to State Capital Projects Fund		867,054		5,882,003
Due to State College and University Funds		174,191,989		151,909,945
Due to Community Health Agencies		1,610,016		887,129
Due to Veterans' Nursing Home		746,157		944,035
Total Liabilities	$	928,922,254	$	724,708,420
Fund Balance	$	2,308,762	$	1,558,074
Total Liabilities and Fund Balance	$	931,231,016	$	726,266,494

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, 1992		For the Year Ended June 30, 1991
Revenues:				
Investment Income	$	42,044,979	$	50,641,435
Expenditures:				
Interest on Deposits		40,693,551		49,554,914
Administrative Cost		600,740		625,426
Total Expenditures	$	41,294,291	$	50,180,340
Excess of Revenues Over Expenditures	$	750,688	$	461,095
Fund Balance, July 1	$	1,558,074	$	1,096,979
Fund Balance, June 30	$	2,308,762	$	1,558,074

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 Community Health 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 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, 1992.

Schedule of Cash Receipts and Disbursements

		July 1, 1991 through June 30, 1992		July 1, 1990 through June 30, 1991
Cash and Cash Equivalents Balance, July 1	$	726,263,610	$	544,001,826
Add Cash Receipts:				
Member Deposits	$	3,177,739,291	$	2,543,088,933
Investment Income		42,044,979		50,641,435
Total Cash Receipts	$	3,219,784,270	$	2,593,730,368
Deduct Cash Disbursements:				
Member Withdrawals	$	3,014,981,633	$	2,410,843,158
Administrative Cost Paid		600,740		625,426
Total Cash Disbursements	$	3,015,582,373	$	2,411,468,584
Cash and Cash Equivalents Balance, June 30	$	930,465,507	$	726,263,610

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 37243-0230
(615) 741-3697

December 8, 1992

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Consolidated Retirement System as of June 30, 1992, and June 30, 1991, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the system's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Consolidated Retirement System as of June 30, 1992, and June 30, 1991, 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.
Arthur A. Hayes, Jr., CPA
Director, Division of State Audit

Comparative Balance Sheet

(Expressed in Thousands)	June 30, 1992	June 30, 1991
Assets		
Cash and Cash Equivalents	$ 2,212	$ 2,673
Investments:		
Short-term Securities (Amortized Cost)	682,270	672,873
Domestic Securities:		
Government Bonds (Amortized Cost)	1,941,086	2,542,747
Corporate Bonds (Amortized Cost)	2,720,951	2,533,592
Corporate Stocks (Cost)	2,762,060	2,257,832
Domestic Securities on Loan:		
Government Bonds (Amortized Cost)	702,883	0
Corporate Bonds (Amortized Cost)	92,366	0
International Securities:		
Government Bonds (Amortized Cost)	294,291	205,407
Corporate Bonds (Amortized Cost)	104,746	85,223
Corporate Stocks (Cost)	306,917	272,208
American Depository Receipts (Cost)	13,661	30,592
International Securities on Loan:		
Government Bonds (Amortized Cost)	46,185	0
Corporate Stocks (Cost)	39,553	0
Total Investments	$ 9,706,969	$ 8,600,474
Receivables:		
Member Contributions Receivable	$ 11,467	$ 10,560
Employer Contributions Receivable	7,361	6,654
Political Subdivisions Receivable	2,633	2,376
Accrued Interest Receivable	125,479	110,391
Accrued Dividends Receivable	9,443	8,204
Accrued Loan Income Receivable	91	0
Investments Sold	39,620	106,642
Total Receivables	$ 196,094	$ 244,827
Total Assets	$ 9,905,275	$ 8,847,974
Liabilities and Fund Balance		
Liabilities:		
Retired Payroll Payable	$ 11,877	$ 10,911
Warrants Payable	540	854
Accounts Payable:		
Death Benefits and Refunds Payable	1,300	1,000
Other	49	10
Investments Purchased	40,635	4,664
Total Liabilities	$ 54,401	$ 17,439
Fund Balance:		
Member Reserve	$ 1,752,046	$ 1,609,075
Employer Reserve (Unfunded Accrued Liability totaled $1.66 billion as of June 30, 1991 and $1.71 billion as of June 30, 1989)	8,098,828	7,221,460
Total Fund Balance	$ 9,850,874	$ 8,830,535
Total Liabilities and Fund Balance	$ 9,905,275	$ 8,847,974

See accompanying Notes to the Financial Statements.

(Expressed in Thousands)

		For the Year Ended June 30, 1992		For the Year Ended June 30, 1991
Operating Revenues:				
Contributions:				
Member Contributions	$	102,603	$	100,587
Employer Contributions		254,494		256,168
Political Subdivisions Contributions		32,495		29,193
Total Contributions	$	389,592	$	385,948
Investment Income:				
Loan Revenue	$	494	$	138
Interest		414,692		386,297
Dividends		85,832		78,820
Income from Foreign Investments		45,397		37,753
Net Discount (Premium) Amortization		81,400		80,489
Currency Gain (Loss) on Sale of Foreign Investments		(4,320)		27,689
Net Profit (Loss) on Sale of Investments		362,725		141,797
Total Investment Income	$	986,220	$	752,983
Total Operating Revenues	$	1,375,812	$	1,138,931
Operating Expenses:				
Annuity Benefits:				
Retirement Benefits	$	253,108	$	235,275
Survivor Benefits		14,631		13,076
Disability Benefits		7,462		6,924
Cost of Living		56,576		51,880
Death Benefits		2,834		2,505
Refunds		20,862		19,385
Total Operating Expenses	$	355,473	$	329,045
Net Income	$	1,020,339	$	809,886
Fund Balance, July 1	$	8,830,535	$	8,020,649
Fund Balance, June 30	$	9,850,874	$	8,830,535

See accompanying Notes to the Financial Statements.

(1991 and 1992 Expressed in Thousands)

	For the Year Ended June 30, 1992	For the Year Ended June 30, 1991
Cash Flows from Operating Activities:		
Cash Received from Member Contributions	$ 101,697	$ 99,949
Cash Received from Employer Contributions	253,787	257,835
Cash Received from Political Subdivision Contributions	32,237	29,594
Cash Payments for Annuity Benefits	(330,810)	(306,621)
Cash Payments for Death Benefits	(2,851)	(2,548)
Cash Payments for Refunds to Members	(20,859)	(19,528)
Other Operating Revenues	1	1
Net Cash Flows Provided by Operating Activities	$ 33,202	$ 58,682
Cash Flows from Investing Activities:		
Interest on Investments	$ 407,722	$ 380,494
Dividends on Investments	84,456	77,203
Loan Revenue	402	272
Income from Foreign Investments	37,416	36,684
Proceeds from Sales and Maturities of Invesments	10,934,405	9,888,575
Purchase of Investments	(11,498,064)	(10,444,768)
Net Cash Flows Used in Investing Activities	$ (33,663)	$ (61,540)
Net Decrease in Cash and Cash Equivalents	$ (461)	$ (2,858)
Cash and Cash Equivalents at July 1	$ 2,673	$ 5,531
Cash and Cash Equivalents at June 30	$ 2,212	$ 2,673
Reconciliation of Net Income to Net Cash Flows from Operating Activities:		
Net Income	$ 1,020,339	$ 809,886
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:		
Interest Income	$ (414,692)	$ (386,297)
Dividend Income	(85,832)	(78,820)
Income from Foreign Investments	(45,397)	(37,753)
Net Profit on Sale of Investments	(362,725)	(141,797)
Currency (Gain) Loss on Sale of Foreign Investments	4,320	(27,689)
Net (Discount) Premium Amortization	(81,400)	(80,489)
Loan Revenue	(494)	(138)
Changes in Receivables:		
Member Contributions	(906)	(638)
Employer Contributions	(707)	1,666
Political Subdivision Contributions	(257)	401
Changes in Payables:		
Retired Payroll Payable	966	535
Warrants Payable	(314)	379
Accounts Payable	301	(564)
Total Adjustments	$ (987,137)	$ (751,204)
Net Cash Flows Provided by Operating Activities	$ 33,202	$ 58,682

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, 1992, the number of participating local government employers and the TCRS membership was as follows:

Cities	111	Retirees and beneficiaries currently receiving benefits	56,289
Counties	83	Terminated members entitled to benefits	
Utility Districts	25	but not yet receiving them	7,418
Special School Districts	20	Current Members	
Joint Ventures	20	Vested	99,787
Other	58	Non-vested	58,381
Total	317	***Total***	221,875

3. *Benefits.* The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. During fiscal year 1992, vesting was changed from 10 years of service to five years of service for members joining the system on or after July 1, 1979. Members joining prior to July 1, 1979 continue to be vested after four years of service. Political subdivision members joining on or after July 1, 1979 are vested upon completion of 10 years of service unless five-year vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute.

4. *Contributions.* Effective July 1, 1981, the retirement system became noncontributory for most state and higher education employees. Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate is 5 percent of gross salary for teachers and contributory employees of political subdivisions. In addition, the employers contribute a set percentage of their payroll determined by an actuarial valuation. State statute provides that the contribution rates be adopted by the TCRS Board of Trustees.

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 (ORP).

   The Optional Retirement Program has been established as a defined contribution plan and the Teachers Insurance and Annuity Association and College Retirement Equity Fund (TIAA/CREF) 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 Tennessee Board of Regents institutions' and the University of Tennessee System's faculty are eligible to become members of Optional Retirement Program in lieu of membership in TCRS.

   State statute requires the state supported institutions to make contributions to the Optional Retirement Program at the rate of 10 percent of gross salary below the Social Security wage base and 11 percent of gross salary above the Social Security wage base. The contributions for each employee (and interest allocated to the employee's account) are fully and immediately vested. During the year ended June 30, 1992, the state of Tennessee contributed $34.5 million (10.1 percent of current covered payroll) to the Optional Retirement Plan. The total current-year covered payroll was $342.6 million.

A second, now closed group of University of Tennessee faculty also participates in the Optional Retirement Plan 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 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, 1992.

   During fiscal year 1992, the state's policy regarding the definition of Cash and Cash Equivalents for the pension trust fund was amended to exclude all securities held in a portfolio consisting of short-term securities whose primary purpose is to facilitate the placement of funds in long-term investment vehicles. This change has been reported in the accompanying financial statements for June 30, 1991 by restating Cash and Cash Equivalents to $2,673 thousand and by presenting Short-term Securities of $672,873 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 $5,103 thousand due from other funds within the state and $16,358 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. *Reclassifications.* Investments in the amount of $1,394 thousand that were previously classified as Mortgages on the June 30, 1991 Balance Sheet have been reclassified as Government Bonds. Investments in the amount of $17,360 thousand that were previously classified as International Government Bonds on the June 30, 1991 Balance Sheet have been reclassified as International Corporate Bonds. Annuity Benefits in the amount of $2,514 thousand that were previously classified as Retirement Benefits on the June 30, 1991 Statement of Revenues, Expenses and Changes in Fund Balance have been reclassified as Cost-of-Living Benefits.

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, 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 1 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.

Beginning with fiscal year 1991, the TCRS was authorized by state statute to include Canadian securities in its domestic portfolios for purposes of calculating the 11 percent maximum described in Note C.c above. At June 30, 1992, the Balance Sheet classification of Domestic Government Bonds includes Canadian Government bonds of $44,828,869 at book value and $45, 864,800 at market value. Domestic Corporate Bonds include Canadian Corporate bonds of $200,250,756 at book value and $216,488,675 at market value. At June 30, 1991, Domestic Government Bonds include Canadian Government bonds of $29,817,550 at book value and $28,246,900 at market value. Domestic Corporate Bonds include Canadian Corporate Bonds of $89,188,960 at book value and $88,849,880 at market value.

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

The TCRS investment securities are categorized 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, 1992		June 30, 1991	
	Book Value	Market Value	Book Value	Market Value
Cash Equivalents-Not Categorized:				
Cash in State Treasurer's Pooled Investment Fund	$ 2,212,068	$ 2,212,068	$ 2,673,190	$ 2,673,190
Investments – Category 1:				
Short-term Securities:				
Commercial Paper	$ 465,019,118	$ 465,019,187	$ 620,112,618	$ 620,112,846
Medium-term Corporate Notes	152,822,345	153,194,220	37,839,013	32,926,154
U.S. Treasuries	64,428,927	65,024,700	14,921,289	15,028,050
Long-term Investments:				
Domestic Securities:				
Government Bonds	1,941,086,094	2,152,144,793	2,542,746,738	2,643,918,935
Corporate Bonds	2,707,361,829	2,861,593,425	2,532,089,634	2,538,382,212
Corporate Stocks	2,756,759,074	3,294,787,308	2,257,831,910	2,835,639,324
International Securities:				
Government Bonds	284,506,829	302,498,850	205,407,152	184,193,304
Corporate Bonds	104,745,454	115,820,045	85,223,221	83,200,038
Corporate Stocks	294,989,436	293,976,180	269,054,665	275,972,122
American Depository Receipts	13,661,309	21,729,969	30,592,088	35,372,637
	$ 8,785,380,415	$9,725,788,677	$ 8,595,818,328	$ 9,264,745,622
Investments – Categories 2 & 3	$ 0	$ 0	$ 0	$ 0
Investments – Not Categorized:				
Investments held by broker-dealers under securities on loan contracts:				
Domestic Securities:				
Government Bonds	$ 702,882,667	$ 753,072,716	$ 0	$ 0
Corporate Bonds	92,366,036	98,564,083	0	0
International Securities:				
Government Bonds	46,185,386	50,401,711	0	0
Corporate Stocks	39,553,434	37,821,612	0	0
Unsettled Investment Acquisitions:				
Domestic Securities:				
Corporate Bonds	13,589,040	13,762,080	1,502,750	1,530,000
Corporate Stocks	5,300,695	5,480,000	0	0
International Securities:				
Government Bonds	9,783,855	9,952,687	0	0
Corporate Stocks	11,927,847	11,579,408	3,153,287	3,010,086
Total Investments	$ 9,706,969,375	$10,706,422,974	$ 8,600,474,365	$ 9,269,285,708

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, 1992, the TCRS is subject to custodial credit risk since the securities are held by its agent until the settlement date. These securities, totaling $39,620,261 would be considered Category 1.

The TCRS is authorized by investment policy to engage in the issuance of options. Activity is limited to selling covered call options. The TCRS had no options outstanding at June 30, 1992.

The TCRS invested in repurchase agreements during the year but had no outstanding agreements at June 30, 1992. The outstanding balance of repurchase agreements reached $88.1 million during the year and would have been included in Category 1. The TCRS is authorized to enter into collateralized securities lending agreements whereby TCRS loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 10 percent of the book value of TCRS' assets. The loaned securities are collateralized at 102 percent of their market value. TCRS' custodian bank manages the lending program and maintains the collateral on behalf of TCRS. At June 30, 1992, the market value of TCRS Securities on Loan to brokers was $939,860,122 and the market value of Collateral Pledged for the Securities on Loan was $976,964,901.

The TCRS is authorized by statute to engage in forward contracts to exchange different currencies at a specified future date and at a specified rate. The allowable currencies for hedging purposes are limited by policy of the Board of Trustees to the Pound Sterling, Deutschemarks and Japanese Yen.

Forward exchange contracts in effect at June 30, 1992 are summarized as follows:

Commitments to deliver foreign currency		U.S. Currency to be received upon delivery of foreign currency		Market Value at 6/30/92 to purchase foreign currency for delivery	
5,000,000,000	Japanese Yen	$	39,382,483	$	39,700,000
100,000,000	Deutschemarks		60,936,595		65,000,000
	Total	$	100,319,078	$	104,700,000

The Currency Gain (Loss) on Sale of Foreign Investments line item on the Statement of Revenues, Expenses and Changes in Fund Balance includes net loss on forward contracts in the amount of $7,965,787.

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 and an actuarial update performed at June 30, 1992. 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 7 percent (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) per year compounded annually, (c) a projected 6 percent annual increase in the Social Security wage base, and (d) projected post-retirement benefit increases of 3 percent of the retiree's initial benefit. No actuarial assumptions were changed during the year.

At June 30, 1992, the net assets exceeded the pension benefit obligation by $519.2 million as follows (in millions):

	State	Political Subdivisions	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits & terminated employees not yet receiving benefits	$ 3,065.0	$ 402.5	$ 3,467.5
Current employees:			
Accumulated employee contributions including allocated investment earnings	1,482.3	270.9	1,753.2
Employer-financed vested	3,440.7	357.1	3,797.8
Employer-financed non-vested	277.5	35.7	313.2
Total pension benefit obligation	$ 8,265.5	$ 1,066.2	$ 9,331.7
Net assets available for benefits at cost or amortized cost (market value is $10,850.4)	8,689.0	1,161.9	9,850.9
Assets in excess of pension benefit obligation	$ (423.5)	$ (95.7)	$ (519.2)

The legislature enacted the following benefit provisions in 1992: 1) members joining the system on or after July 1, 1979 become vested after five years of service rather than after ten years of service; and 2) disability and death benefits were made available for inactive vested members. At June 30, 1992, the pension benefit obligation totaled $9,331,766,221 ($8,265,506,826 for the state and $1,066,259,395 for political subdivisions) when compared to a pension benefit obligation of $9,265,083,768 ($8,198,824,373 for the state and $1,066,259,395 for political subdivisions) as calculated utilizing the previous provisions.

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 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 Retired 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, 1992, contributions totaling $389.6 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 $254.5 million (6.9 percent of current covered payroll) to the plan and state employees and teachers contributed $78.2 million (2.1 percent of current covered payroll). Political subdivisions contributed $32.5 million (.9 percent of current covered payroll) to the plan and employees of political subdivisions contributed $24.4 million (.7 percent of current covered payroll). These contributions consisted of (a) $243.9 million normal cost (6.6 percent of current covered payroll) and (b) $145.7 million amortization of the unfunded actuarial accrued liability (3.9 percent of current covered payroll).

The two benefit improvements made to the plan during fiscal year 1992 (the vesting requirement changed from 10 years of service to five years of service, and improved death and disability benefits for inactive vested members) will require additional annual contributions of $3,896,000. The additional required annual contribution from these two benefit improvements was determined by amortizing, in equal payments, the additional lump-sum liability over 20 years.

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 six years.

Revenues By Source

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Contributions for ORP	Total
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
1992	102,603,249.02	286,988,169.67	986,220,365.72	—	1,375,811,784.41

Expenses By Type

Fiscal Year	Benefits	Refunds	Contributions to ORP	Total
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
1992	334,611,058.42	20,862,169.32	—	355,473,227.74

Contributions were made in accordance with actuarially determined contribution requirements.

* The State's contributions to the Optional Retirement Program (ORP) flowed through TCRS until April 1988. Subsequently, these contributions are remitted directly to ORP 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 Obiligation	Percentage Funded (1) / (2)	Unfunded (Assets in excess of) P.B.O. (2) - (1)	Annual Covered Payroll	Unfunded (Assets in excess of) P.B.O. as Percentage of Covered Payroll (4) / (5)
1987	$ 5,612.8	$ 5,820.1	96.4%	$ 207.3	$ 2,826.9	7.3%
1988	6,381.2	6,376.1	100.1	(5.1)	3,003.1	(0.2)
1989	7,078.0	7,107.2	99.6	29.2	3,242.2	0.9
1990	8,020.6	7,801.3	102.8	(219.3)	3,468.8	(6.3)
1991	8,830.5	8,453.7	104.5	(376.8)	3,648.6	(10.3)
1992*	9,850.9	9,331.7	105.6	(519.2)	3,706.0	(14.0)

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the TCRS's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the system.

Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the TCRS's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

These analyses are shown only for the years available. Additional years will be added as data becomes available.

* In fiscal year 1992, changes in the benefit provisions resulted in an increase of $66.7 million in the pension benefit obligation when compared to the pension benefit obligation before the provision changes.

Actuarial Balance Sheet as of June 30, 1991

Total System

Assets	Political Subdivisions	State	Total
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	0	1,657,057,111	1,657,057,111
State Accumulation Fund 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

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0230
(615) 741-3697

December 11, 1992

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
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, 1992, and June 30, 1991, and the related statement of changes in assets and liabilities for the year ended June 30, 1992. 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 Deferred Compensation Plan as of June 30, 1992, and June 30, 1991, and the changes in assets and liabilities for the year ended June 30, 1992, in conformity with generally accepted accounting principles.

Sincerely,

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

Comparative Balance Sheet

	June 30, 1992	June 30, 1991
Assets		
Investments Held by Vendors:		
AEtna	$ 24,164,010	$ 22,030,424
American General	976,401	913,582
Calvert Group	89,316	0
Fidelity Investments	19,603,019	14,281,938
Great West	6,642,312	6,122,157
Union Planters	12,531,619	13,233,251
Total	$ 64,006,677	$ 56,581,352
Receivables from State Funds for:		
AEtna	$ 31,982	$ 8,553
American General	8,435	9,440
Calvert Group	975	0
Fidelity Investments	84,708	72,005
Great West	16,855	27,188
Union Planters	30,325	41,944
Total	$ 173,280	$ 159,130
Total Assets	$ 64,179,957	$ 56,740,482
Liabilities		
Amounts Held in Custody for Others	$ 64,179,957	$ 56,740,482

See accompanying Notes to the Financial Statements.

Statement of Changes in Assets and Liabilities

	Balance July 1, 1991	Additions	Deductions	Balance June 30, 1992
Assets				
Investments, at Market	$ 56,581,352	$ 18,767,103	$ 11,341,778	$ 64,006,677
Receivables from State Funds	159,130	173,280	159,130	173,280
Total Assets	$ 56,740,482	$ 18,940,383	$ 11,500,908	$ 64,179,957
Liabilities				
Amounts Held in Custody for Others	$ 56,740,482	$ 18,940,383	$ 11,500,908	$ 64,179,957

See accompanying Notes to the Financial Statements.

IRC Section 457 Deferred Compensation

Notes to the Financial Statements, June 30, 1992

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 legal liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The state believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

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

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY
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(615) 741-3697

December 11, 1992

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Flexible Benefits Plan as of June 30, 1992, and June 30, 1991, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Flexible Benefits Plan as of June 30, 1992, and June 30, 1991, 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

Flexible Benefits Plan
Comparative Balance Sheet

	June 30, 1992	June 30, 1991
Assets		
Cash and Cash Equivalents	$ 2,418,020	$ 1,804,424
Receivable from State Funds	85,447	81,373
Accounts Receivable	0	597
Total Assets	$ 2,503,467	$ 1,886,394
Liabilities and Fund Balance		
Liabilities:		
Warrants Payable	$ 1,439	$ 45,533
Checks Payable	4,414	52,153
Accounts Payable	59,402	45,357
Dependent Care Deposits	116,375	132,114
Medical Reimbursement Deposits	145,481	172,140
Total Liabilities	$ 327,111	$ 447,297
Fund Balance	$ 2,176,356	$ 1,439,097
Total Liabilities and Fund Balance	$ 2,503,467	$ 1,886,394

See accompanying Notes to the Financial Statements.

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

	For the Year Ended June 30, 1992	For the Year Ended June 30, 1991
Revenues:		
FICA Savings	$ 1,533,559	$ 1,311,600
Flexible Benefit Forfeiture	35,388	27,662
Total Revenues	$ 1,568,947	$ 1,339,262
Expenditures:		
Administrative Fees	$ 694,036	$ 531,187
Excess of Revenues over Expenditures	$ 874,911	$ 808,075
Other Financing Uses:		
Operating Transfer to State General Fund	$ (137,652)	$ (99,733)
Excess of Revenues Over Expenditures and Other Uses	$ 737,259	$ 708,342
Fund Balance, July 1	$ 1,439,097	$ 730,755
Fund Balance, June 30	$ 2,176,356	$ 1,439,097

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 Benefit Plan is an integral part of state government and as such has been included as an expendable trust fund in the Tennessee Comprehensive Annual Financial Report.

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

3. *Cash and Cash Equivalents* - Cash deposited in the Employee Flexible Benefit Plan is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, 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, 1992.

B. Other Accounting Disclosures

The state offers its employees a cafeteria plan created in accordance with Internal Revenue Code Section 125. The plan is available on an optional basis to all state employees. Through the plan, employees may elect to direct a portion of their salary to pay for certain benefits. Benefits which may be purchased through the plan include state group medical insurance, state group dental insurance, out-of-pocket medical expenses and/or dependent care expenses. Because elections must be filed before the salary or the benefits are received and because salary directed to the plan may not be withdrawn by participants for any other purpose, salary directed to the plan is exempt from federal income tax and social security tax. Elections made by employees may not be changed during the calendar plan year except in the event of a corresponding change in the participant's family status. 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 Fringe Benefits Management Company administered the program from January 1989 through December 1991. Beginning January 1992, the Treasury Department began administering the plan for the benefit of the state employees.

	July 1, 1991 through June 30, 1992	July 1, 1990 through June 30, 1991
Cash Balance, July 1	$ 1,804,424	$ 1,102,043
Add Cash Receipts:		
Plan Deposits	$ 2,374,941	$ 2,152,650
FICA Savings	1,533,258	1,311,326
Total Cash Receipts	$ 3,908,199	$ 3,463,976
Deduct Cash Disbursements:		
Plan Withdrawals	$ 2,417,558	$ 2,176,422
Transfer to General Fund	137,652	99,733
Administrative Fees	739,393	$ 485,440
Total Cash Disbursements	$ 3,294,603	$ 2,761,595
Cash Balance, June 30	$ 2,418,020	$ 1,804,424

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 37243-0230
(615) 741-3697

December 11, 1992

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Claims Award Fund as of June 30, 1992, and June 30, 1991, 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, 1992, and June 30, 1991, 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

	June 30, 1992	June 30, 1991
Assets		
Cash and Cash Equivalents	$ 70,309,687	$ 58,863,108
Liabilities and Fund Equity		
Liabilities:		
Warrants Payable	$ 243,073	$ 155,813
Checks Payable	103,947	123,475
Accounts Payable	58,399	162,168
Deferred Revenue	5,497,455	5,497,455
Claims Liability	45,613,000	45,683,328
Total Liabilities	$ 51,515,874	$ 51,622,239
Fund Equity	$ 18,793,813	$ 7,240,869
Total Liabilities and Fund Equity	$ 70,309,687	$ 58,863,108

See accompanying Notes to the Financial Statements.

Claims Award Fund

Statement of Revenues, Expenses and Changes in Fund Balance

		For the Year Ended June 30, 1992		For the Year Ended June 30, 1991
Operating Revenues:				
Insurance Premiums	$	23,508,998	$	15,903,445
Interest Income		4,078,427		5,586,428
Taxes		3,675		4,050
Total Operating Revenues	$	27,591,100	$	21,493,923
Operating Expenses:				
Torts:				
Death	$	2,043,870	$	1,354,275
Bodily Injury		1,456,861		1,300,218
Property Damage		720,359		676,535
Total Torts	$	4,221,090	$	3,331,028
Workers Compensation:				
Death	$	176,779	$	163,863
Medical		4,536,029		3,984,264
Assault Injury		12,312		18,978
Temporary Disability		801,254		665,317
Permanent Disability		2,609,920		2,102,061
Total Workers Compensation	$	8,136,294	$	6,934,483
Employee Property Damage	$	49,856	$	24,896
Professional/Administrative		3,701,244		3,473,233
Additional/(Reduced) Funding Liability		(70,328)		4,376,691
Total Operating Expenses	$	16,038,156	$	18,140,331
Operating Income	$	11,552,944	$	3,353,592
Operating Transfer to State General Fund		0		(17,300,000)
Net Income (Loss)	$	11,552,944	$	(13,946,408)
Fund Equity, July 1	$	7,240,869	$	21,187,277
Fund Equity, June 30	$	18,793,813	$	7,240,869

See accompanying Notes to the Financial Statements.

		For the Year Ended June 30, 1992		For the Year Ended June 30, 1991
Cash Flows from Operating Activities:				
Operating Income	$	11,552,944	$	3,353,592
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:				
Interest Income		(4,078,427)		(5,586,428)
Change in Liabilities:				
Increase (Decrease) in Warrants Payable		87,260		(55,302)
Increase (Decrease) in Checks Payable		(19,528)		33,131
Increase (Decrease) in Accounts Payable		(103,769)		113,451
Increase (Decrease) in Deferred Revenue		0		5,497,455
Increase (Decrease) in Claims Liability		(70,328)		4,376,691
Total Adjustments	$	(4,184,792)	$	4,378,998
Net Cash Flows Provided by Operating Activities	$	7,368,152	$	7,732,590
Cash Flows from Noncapital Financing Activities:				
Transfer to State General Fund	$	0	$	(17,300,000)
Net Cash Flows Used by Noncapital Financing Activities	$	0	$	(17,300,000)
Cash Flows from Investing Activities:				
Interest on Investments	$	4,078,427	$	5,586,428
Net Cash Flows Provided by Investing Activities	$	4,078,427	$	5,586,428
Net Increase (Decrease) in Cash and Cash Equivalents	$	11,446,579	$	(3,980,982)
Cash and Cash Equivalents at July 1	$	58,863,108	$	62,844,090
Cash and Cash Equivalents at June 30	$	70,309,687	$	58,863,108

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 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 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, 1992.

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 $45,613,000. Changes in the balances of claims liabilities during fiscal 1991 and 1992 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims & Changes in Estimates	Claim Payments	Balance at Fiscal Year-end
1990-91	$ 41,306,637	$ 14,667,098	$ (10,290,407)	$ 45,683,328
1991-92	$ 45,683,328	$ 12,336,912	$ (12,407,240)	$ 45,613,000

At June 30, 1992, CAF held $70.31 million in cash and cash equivalents designated for payment of these claims.

2. Due to an overcollection of premiums in prior fiscal years and a subsequent transfer of funds from the Claims Award Fund, a reserve was established to offset the liability of the fund to non-appropriation funding sources, which includes the federal government. This reserve, deferred revenue, along with available fund balance will be used to offset premiums in fiscal years 1993 and 1994.

3. *Reclassification* - The liability account classified as Due to the Federal Government in the amount of $5,497,455 on the June 30, 1991 balance sheet and cash flow statement has been reclassified as Deferred Revenue for comparative purposes.

4. The actual premium collected during fiscal year 1991 totaled $21,400,900. However, this amount has been reduced by $5,497,455 relating to funds designated as deferred revenue on the balance sheet.

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0230
(615) 741-3697

December 11, 1992

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Criminal Injuries Compensation Fund as of June 30, 1992, and June 30, 1991, 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, 1992, and June 30, 1991, 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

		June 30, 1992		June 30, 1991
Assets				
Cash and Cash Equivalents	$	6,342,068	$	9,628,363
Accounts Receivable		402,034		386,947
Total Assets	$	6,744,102	$	10,015,310
Liabilities and Fund Balance				
Liabilities:				
Warrants Payable	$	499,417	$	1,146,904
Accounts Payable		212,247		657,540
Claims Liability		5,506,051		4,206,253
Total Liabilities	$	6,217,715	$	6,010,697
Fund Balance Reserved for Future Benefits	$	526,387	$	4,004,613
Total Liabilities and Fund Balance	$	6,744,102	$	10,015,310

See accompanying Notes to the Financial Statements.

Statement of Revenues, Expenditures & Changes in Fund Balance

		For the Year Ended June 30, 1992		For the Year Ended June 30, 1991
Revenues:				
State				
Taxes	$	4,806,478	$	4,458,197
Fines		1,546,494		1,585,089
Federal		1,347,000		638,000
Interest Income		302,817		727,200
Total Revenues	$	8,002,789	$	7,408,486
Expenditures:				
Death Claims	$	2,144,426	$	2,588,835
Personal Injury Claims		8,183,400		8,618,717
Attorney Fees		1,153,189		1,261,228
Total Expenditures	$	11,481,015	$	12,468,780
Excess of Revenues Over Expenditures	$	(3,478,226)	$	(5,060,294)
Fund Balance, July 1	$	4,004,613	$	9,064,907
Fund Balance, June 30	$	526,387	$	4,004,613

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

3. *Cash 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, 1992.

B. Other Accounting Disclosures

1. Criminal Injuries Compensation Program - The Criminal Injuries Compensation Program is funded through privilege taxes assessed in courts against certain criminal defendants upon conviction, fees levied against parolees, probationers, and 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.

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

C. Subsequent Events

Beginning July 1, 1992, the Victims of Drunk Drivers Compensation Fund will be included in the Criminal Injuries Compensation Fund.

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0230
(615) 741-3697

December 11, 1992

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building
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, 1992, and June 30, 1991, 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, 1992, and June 30, 1991, 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

Victims of Drunk Drivers Compensation Fund

Comparative Balance Sheet

	June 30, 1992	June 30, 1991
Assets		
Cash and Cash Equivalents	$ 13,198,994	$ 10,424,363
Accounts Receivable	207,858	198,440
Total Assets	$ 13,406,852	$ 10,622,803
Liabilities and Fund Balance		
Liabilities:		
Warrants Payable	$ 22,621	$ 22,268
Accounts Payable	0	9,149
Claims Liability	217,935	164,340
Total Liabilities	$ 240,556	$ 195,757
Fund Balance Reserved for Future Benefits	$ 13,166,296	$ 10,427,046
Total Liabilities and Fund Balance	$ 13,406,852	$ 10,622,803

See accompanying Notes to the Financial Statements.

Victims of Drunk Drivers Compensation Fund

Statement of Revenues, Expenditures & Changes in Fund Balance

	For the Year Ended June 30, 1992	For the Year Ended June 30, 1991
Revenues:		
State Taxes	$ 2,620,691	$ 2,303,055
Interest Income	507,260	720,528
Total Revenues	$ 3,127,951	$ 3,023,583
Expenditures:		
Death Claims	$ 92,810	$ 143,362
Personal Injury Claims	263,886	191,563
Attorney Fees	32,005	42,385
Total Expenditures	$ 388,701	$ 377,310
Excess of Revenues Over Expenditures	$ 2,739,250	$ 2,646,273
Other Financing Uses Operating Transfer Out: State General Fund	0	(1,615,338)
Excess of Revenues over Expenditures and Other Financing Uses	2,739,250	1,030,935
Fund Balance, July 1	$ 10,427,046	$ 9,396,111
Fund Balance, June 30	$ 13,166,296	$ 10,427,046

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

3. *Cash 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, 1992.

B. *Other Accounting Disclosures*

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

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

C. *Subsequent Events*

Beginning July 1, 1992, the Victims of Drunk Drivers Compensation Fund will be included in the Criminal Injuries Compensation Fund.

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0230
(615) 741-3697

December 11, 1992

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Chairs of Excellence as of June 30, 1992, and June 30, 1991, and the related statements of revenues, expenses, and changes in fund balance 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, 1992, and June 30, 1991, 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 A-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

		June 30, 1992		June 30, 1991
Assets				
Cash & Cash Equivalents	$	0	$	12,966
Investments:				
Short-term Securities (Amortized Cost)	$	5,041,202	$	6,070,258
Domestic Securities:				
Government Bonds (Amortized Cost)		42,880,605		51,695,104
Corporate Bonds (Amortized Cost)		45,004,613		35,754,516
Corporate Stocks (Cost)		22,887,688		20,636,099
International Securities:				
Government Bonds (Amortized Cost)		3,187,945		0
Corporate Bonds (Amortized Cost)		2,204,291		0
Total Investments	$	121,206,344	$	114,155,977
Receivables:				
Investment Income Receivable	$	1,854,409	$	1,765,046
Investments Sold		0		1,118,384
Total Receivables	$	1,854,409	$	2,883,430
Total Assets	$	123,060,753	$	117,052,373
Liabilities and Fund Balance				
Liabilities:				
Payable to Tennessee Student Assistance Corporation	$	3,440,413	$	3,326,782
Payable to State General Fund		45,650		0
Investments Purchased		52,160		0
Total Liabilities	$	3,538,223	$	3,326,782
Fund Balance:				
Endowment Reserve	$	88,445,002	$	87,719,649
Special Reserve		8,090,050		10,145,559
Restricted Reserve		22,987,478		15,860,383
Total Fund Balance	$	119,522,530	$	113,725,591
Total Liabilities and Fund Balance	$	123,060,753	$	117,052,373

See accompanying Notes to the Financial Statements.

Statement of Revenues, Expenses & Changes in Fund Balance

	For the Year Ended June 30, 1992	For the Year Ended June 30, 1991
Operating Revenues:		
Investment Income	$ 11,112,019	$ 10,010,429
Operating Expenses:		
Payments to the University of Tennessee	$ 3,768,739	$ 3,168,147
Payments to the Tennessee Board of Regents	2,091,802	2,510,180
Administrative Cost	179,892	171,446
Total Operating Expenses	$ 6,040,433	$ 5,849,773
Operating Income	$ 5,071,586	$ 4,160,656
Operating Transfer:		
From State General Fund	$ 0	$ 1,000,000
From State College & University Funds	500,000	0
Net Income	$ 5,571,586	$ 5,160,656
Other Changes in Fund Balance:		
Contributions from Private Sources	$ 225,353	$ 1,277,507
Net Change in Fund Balance	$ 5,796,939	$ 6,438,163
Fund Balance, July 1	$ 113,725,591	$ 107,287,428
Fund Balance, June 30	$ 119,522,530	$ 113,725,591

See accompanying Notes to the Financial Statements.

	For the Year Ended June 30, 1992	For the Year Ended June 30, 1992
Cash Flows from Operating Activities:		
Operating Income	$ 5,071,585	$ 4,160,656
Adjustments to Reconcile Operating Income to Net Cash Flows Used in Operating Activities:		
Investment Income	(11,358,578)	(10,202,163)
Net (Discount) Premium Amortization	(53,937)	(81,738)
Interest Paid to Tennessee Student Assistance Corporation	300,496	273,472
Change in Liabilities:		
Increase in Payables	159,281	158,543
Net Cash Flows Used in Operating Activities	$ (5,881,153)	$ (5,691,230)
Cash Flows from Noncapital Financing Activities:		
Contributions from Private Sources	$ 225,354	$ 1,277,507
Transfers from State College and University Funds	500,000	0
Transfer from State General Fund	0	1,000,000
Net Cash Flows Provided by Noncapital Financing Activities	$ 725,354	$ 2,277,507
Cash Flows from Investing Activities:		
Investment Income Received	$ 8,375,196	$ 8,589,714
Proceeds from Sales and Maturities of Investments	87,550,295	42,498,052
Purchase of Investments	(91,511,218)	(45,252,177)
Net Investment in Short-term Securities	1,029,056	(2,225,588)
Interest Paid to Tennessee Student Assitance Corporation	(300,496)	(273,472)
Net Cash Flows Provided by Investing Activities	$ 5,142,833	$ 3,336,529
Net Decrease in Cash and Cash Equivalents	$ (12,966)	$ (77,194)
Cash and Cash Equivalents at July 1	$ 12,966	$ 90,160
Cash and Cash Equivalents at June 30	$ 0	$ 12,966

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, 1992.

   During Fiscal Year 1992, the state's policy regarding the definition of Cash and Cash Equivalents for the Chairs of Excellence Trust was amended to exclude all securities held in a portfolio consisting of short-term securities whose primary purpose is to facilitate the placement of funds in long-term investment vehicles. This change has been reported in the accompanying financial statements for June 30, 1991 by restating Cash and Cash Equivalents to $12,966 and by presenting Short-term Securities of $6,070,258.

4. *Method Used to Value Investments* - Equity securities are reported at cost subject to adjustment for market declines judged to be other than temporary. Fixed-income securities are reported at amortized cost with discounts or premiums amortized using the effective interest rate method, subject to adjustment for market declines judged to be other than temporary. Investment income is recognized as earned. Gains and losses on sales and exchanges of fixed-income and equity securities are recognized on the transaction date.

5. *Fund Balance* - The Endowment Reserve consists of funds provided by contributions from the state, colleges and universities and private sources. Income earned on the COE Trust is distributed between two reserve accounts: Special Reserve and Restricted Reserve. The Special Reserve consists of income earned on the fixed investments which was not expended by the schools during the year it was earned. At the discretion of the COE Trust Board, this reserve may be used for future payments when current earnings do not meet current needs. The Restricted Reserve is 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. The Endowment, Special and Restricted Reserves were presented on the June 30, 1991 Balance Sheet with line items for State, Colleges and Universities, and Private Contributions. These reserves are presented on the June 30, 1992 Comparative Balance Sheet in total amounts for each reserve.

B. *Investments*

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

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

The Chairs of Excellence Trust investment securities 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, 1992		June 30, 1991	
	Book Value	Market Value	Book Value	Market Value
Cash Equivalents - Not Categorized:				
Cash in State Treasurer's Pooled Investment Fund	$ 0	$ 0	$ 12,966	$ 12,966
Investments - Category 1:				
Short-term Securities:				
Commercial Paper	$ 5,041,202	$ 5,041,202	$ 6,070,258	$ 6,070,258
Long-term Investments:				
Domestic Securities:				
Corporate Stock	22,835,528	23,625,890	20,636,099	21,746,415
Government Bonds	42,880,605	44,968,541	51,695,104	52,116,735
Corporate Bonds	45,004,613	46,771,844	35,754,516	36,409,831
International Securities:				
Government Bonds	3,187,945	3,239,400	0	0
Corporate Bonds	2,204,291	2,235,820	0	0
	$ 121,154,184	$ 125,882,697	$ 114,155,977	$ 116,343,239
Investments - Categories 2 & 3:	$ 0	$ 0	$ 0	$ 0
Investments - Not Categorized:				
Unsettled Investment Acquisitions:				
Domestic Securities:				
Corporate Stock	$ 52,160	$ 51,750	$ 0	$ 0
Total Investments	$ 121,206,344	$ 125,934,447	$ 114,155,977	$ 116,343,239

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 percent of the funds are from private contributions.

   As of June 30, 1992, 81 Chairs have been established with matching contributions received totaling $44,445,002. This is an increase of one Chair and $725,354 since June 30, 1991. Total contributions to the COE Trust totaled $88,445,002 as of June 30, 1992. This includes $44,000,000 from the state, $10,821,300 from Colleges and Universities, and $33,623,702 from private contributions.

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

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0230
(615) 741-3697

December 11, 1992

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Bond Refunding Trust as of June 30, 1992, and June 30, 1991, and the related statement of changes in assets and liabilities for the year ended June 30, 1992. 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, 1992 and June 30, 1991, and the changes in assets and liabilities for the year ended June 30, 1992, in conformity with generally accepted accounting principles.

Sincerely,

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

Bond Refunding
Comparative Balance Sheet

	June 30, 1992	June 30, 1991
Assets		
Cash and Cash Equivalents	$ 74,890	$ 69,892
Investments (amortized cost)	40,207,893	93,407,522
Accrued Interest Receivable	1,380,562	1,378,057
Total Assets	$ 41,663,345	$ 94,855,471
Liabilities		
Amounts Held in Custody for Others	$ 41,663,345	$ 94,855,471

See accompanying Notes to the Financial Statements.

Bond Refunding
Statement of Changes in Assets and Liabilities

	Balance July 1, 1991	Additions	Deductions	Balance June 30, 1992
Assets				
Cash and Cash Equivalents	$ 69,892	$ 58,622,063	$ 58,617,065	$ 74,890
Investments	93,407,522	28,514	53,228,143	40,207,893
Accrued Interest Receivable	1,378,057	1,380,562	1,378,057	1,380,562
Total Assets	$ 94,855,471	$ 60,031,139	$ 113,223,265	$ 41,663,345
Liabilities				
Amounts Held in Custody for Others	$ 94,855,471	$ 0	$ 53,192,126	$ 41,663,345

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, 1998. 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, 1998 for the 1985 Series A bonds and on and after May 1, 1993 for the General Purpose bonds. On May 1, 1992, the proceeds of the 1991 Series A bonds were used to redeem the General Purpose bonds dated November 1, 1982, maturing on and after May 1, 1993.

Cash held by the trustee is pooled with the Pooled Investment Fund administered by the State Treasurer. The Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding 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, 1992.

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
$ 40,207,893	$ 41,916,724

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, January 1993, Authorization #309084, 600 copies. This public document was promulgated at a cost of $3.36 per copy.