1990 TREASURER'S REPORT

Steve Adams, Treasurer

For the fiscal year ended June 30, 1990

1990 Report of the Treasurer

Steve Adams, Treasurer
State of Tennessee

Year Ended June 30, 1990

Cover: This statue of Andrew Jackson was erected on the East Lawn of the State Capitol in 1880, the year of the Nashville Centennial. Cast around 1850, it was the first equestrian statue by an American sculptor. Artist Clark Mills of South Carolina made three castings of this statue; the other two are located in Lafayette Square in Washington, D.C. and Jackson Square in New Orleans, Louisiana. Andrew Jackson represented Tennessee in the U.S. House of Representatives and the U.S. Senate and served two terms as the seventh U.S. president.

Cover photo by Karina McDaniel
Inside photos by Murray Lee

Steve Adams

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

—Treasury Department Staff

STATE OF TENNESSEE

Steve Adams
Treasurer

Dale Sims
Executive Assistant

Janice Cunningham
Executive Assistant

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

December 31, 1990

The Honorable Ned McWherter, Governor

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

The Honorable Ed Murray, Speaker of the House of Representatives

Members of the General Assembly

State of Tennessee
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The following pages were compiled to provide you a report of activity of the programs administered by the Treasurer's Office for the fiscal year ended June 30, 1990. Upon completion of your review, I hope you will agree that not only was the year successful, but the department continued to adhere to its mission. This mission includes being committed to providing superior service to our constituents in a cost effective manner through qualified personnel while maintaining the highest ethical standards.

During the 1989-90 fiscal year, the Retirement Division processed 200 more retirement applications and provided 2,000 more estimates than in the previous fiscal year. In addition, the Retirement Benefits Division responded to 2,600 more member requests by telephone for a total of 14,500 for the fiscal year. The number of claims received by the Division of Claims Administration increased by 600. TCRS assets increased by $900 million this fiscal year. Interest received by participants in the Local Government Investment Pool was $9.8 million more than last year and 82 new accounts were created at the request of local governments. The redemption of warrants, drafts, and checks increased by 400,000 items over the prior fiscal year. Working with the Department of Revenue, we implemented the collection of taxes electronically which accelerated the availability of funds for investment.

The above services, as well as the other activities of the Treasury Department outlined in this report, were provided to our constituents within existing resources. We continue to explore ways to become more efficient while maintaining and improving the level of service provided.

I sincerely appreciate the dedication and commitment of the Treasury Department staff who have performed in an outstanding manner. To the Governor, his administration, and the members of the General Assembly, I appreciate your continued support and interest in this department and the programs we administer. I look forward to maintaining this relationship as we work together to serve all Tennesseans.

Sincerely,

Steve Adams

Steve Adams

Dale Sims, Executive Assistant

- TCRS investments at June 30, 1990 totaled $7.9 billion at book value, an increase of $881.3 million for the year.
- TCRS investments produced $788.7 million in income for a realized rate of return of 11.02%.
- Investments of the state's cash produced $144.2 million of income with an average rate of return of 8.69%. Cash investments averaged $1.66 billion.
- Local governments participating in the Local Government Investment Pool received $47.5 million interest at a net rate averaging 8.36%.
- As of June 30, 1990, there were 155,799 active TCRS members: 41,678 state employees; 49,718 K-12 Teachers; 44,406 political subdivision employees; and 19,997 higher education employees.
- As of June 30, 1990, there were 52,697 TCRS retirees. TCRS paid out $276 million in benefits during fiscal year 1989-90.
- The TCRS received its second consecutive Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its June 30, 1989 Component Unit Financial Report.
- Retirement activities included 2,798 retirements, 6,046 refunds, approximately 10,000 estimates provided to members, and approximately 6,500 requests to purchase prior service.
- The state increased its support of the Medicare supplement insurance plan to $3 million in 1989-90. There are over 12,000 retirees and dependents covered under this plan and 2,300 retired teachers covered under equal or superior local plans who receive the benefit of the state's support.

Janice Cunningham, Executive Assistant

Ann Taylor-Tharpe, Personnel

- The State of Tennessee Deferred Compensation Program had 4,999 employees actively contributing at June 30, 1990. Accumulated account balances in the two plans totaled $91.3 million, an increase of $14.5 million during the year.

- 30,641 state employees were using the State of Tennessee Flexible Benefits Plan at June 30, 1990. This "cafeteria" plan offers state employees the opportunity to pay for medical/dental insurance premiums and out-of-pocket medical and dependent care expenses with tax-free salary.

Grady Martin, Management Services

- The Division of Claims Administration received 8,929 claims for workers' compensation, tort, employee property damage, criminal injuries, and victims of drunk drivers during fiscal year 1989-90. Payments made during the year for worker's compensation, tort, and employee property damage claims totaled $9.05 million.

- Payments made to victims of criminal injuries and drunk drivers totaled $6.06 million during the year. Since the first payments were issued in 1982, a total of $28.37 million has been paid to crime victims.

Susan Clayton and Kim Morrow, Claims and Unclaimed Property

- During the fiscal year, $5.4 million of unclaimed property was turned over to the Treasurer and $1.9 million was returned to owners or their heirs. As of June 30, 1990, $3.7 million from unclaimed property revenue was deposited in the Health Access Incentive fund.

- The Chairs of Excellence Trust created 5 chairs during fiscal year 1989-90 for a total of 79 chairs. The Trust totaled $107.3 million at June 30, 1990.

The 1990 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 and Escheat Programs, 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 1989-90 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 1989-90 averaged $1.7 billion, producing $144.2 million in income for an average rate of return of 8.69%.

Pension Fund Investments - This section manages the investments of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 1990 totaled $7.9 billion at book value and $8.6 billion at market value. For the year, investments produced $788.7 million in income for a realized rate of return of 11.02% on book value. This section also manages investments for the Chairs of Excellence Trust which at June 30, 1990 totaled $107.3 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 TCRS 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, 1990, there were 155,799 active members and 52,697 retirees. Three types of benefits are provided by TCRS: disability, death, and retirement benefits. Members become eligible for full service retirement upon the attainment of age 60 and 10 years of service or after 30 years of service regardless of age. The state of Tennessee is responsible for the pension liability for state employees, teachers, and higher education employees while each political subdivision is responsible for the liability of their employees. Teachers contribute 5% to TCRS while state employees and higher education employees do not contribute. Political subdivisions can establish a contributory or non-contributory program for their employees.

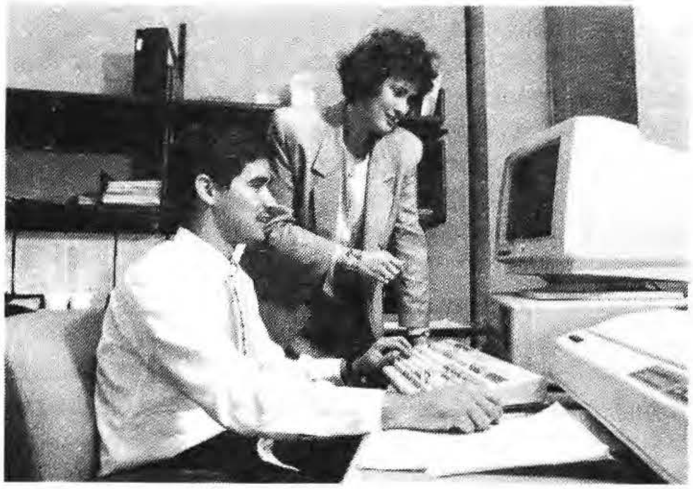
Deferred Compensation Program: The State of Tennessee Deferred Compensation Program offers state employees the opportunity to accumulate supplemental retirement income on a tax deferred basis. By making salary reduction contributions to the 457 plan and/or the 401(k) plan offered under the program, employees are able to postpone income taxes on contributions and earnings until the funds are withdrawn. Participants may direct the investment of their deferred salary into a variety of investment products contracted for the program. Since the first of the program's two plans was implemented in 1981, state employees have deferred over $71 million in salary. As of June 30, 1990, 4,999 state and university employees were actively contributing to the program and the market value of accumulated account balances totaled $91.3 million. During the 1989-90 fiscal year, 37 participants received loans from the 401(k) plan's loan program.

Flexible Benefits Plan: The State of Tennessee Flexible Benefits Plan is an optional benefit plan which enables state employees to pay for certain expenses with tax-free salary. Employees may use the plan to pay group medical insurance premiums, group dental insurance premiums, out-of-pocket medical expenses, and dependent care expenses. At June 30, 1990, 30,641 state employees were using the plan: 30,501 paid medical premiums, 2,077 paid dental premiums, 2,097 used the medical expense reimbursement account, and 349 used the dependent care reimbursement account. The plan generated over two million dollars in F.I.C.A. savings for state employees and the state during fiscal year 1989-90.

Claims Administration: The Division of Claims Administration is responsible for investigating and making determinations on claims made against the state for workers' compensation by state employees, employee property damage, and tort liability. Effective January 1, 1990, applications for victims of criminal injury and drunk drivers compensation are filed with the Division of Claims Administration. The division is responsible for investigating the claim and determining the eligibility and amount of compensation due to a crime victim. Staff support from the Division of Claims Administration assists the Defense Counsel Commission and the Board of Claims. The Defense Counsel Commission/Subcommittee hears and determines requests by state employees for approval of private counsel when an employee has been sued in civil litigation. The Board of Claims has the authority to hear and determine certain claims which do not fall within the jurisdiction of the Tennessee Claims Commission. During fiscal year 1989-90, the Division of Claims Administration received 6,744 claims for tort, employee property damage, and workers' compensation. The Defense Counsel Commission heard requests for representation on 25 lawsuits, the Board of Claims took action on 21 cases, and 1,417 victims of criminal injury and drunk driver claims were approved for payment.

Unclaimed Property and Escheat Program: This division is responsible for the administration of the state's Uniform Disposition of Unclaimed Property Act which has been in effect since 1978. Under this act the state provides one centralized location for the owners of abandoned property, or their heirs, to turn to when searching for forgotten assets. As part of this service, owner location attempts are made for all accounts turned over to the Treasurer. If the owner can not be located, his property will be held in trust in perpetuity. The types of property covered by this act are primarily cash property such as bank accounts, insurance policies, utility deposits, etc. Since the program began, over $42.8 million in unclaimed property has been reported to the Treasurer and over $11.2 million of that property has been returned to 44,181 owners or their heirs. Over $3.7 million was deposited to the Health Access Incentive Fund in fiscal year 1989-90. This fund is used to offer financial assistance to doctors who agree to set up practice in a rural area of the state where medical care is not currently available. At June 1, 1990, eight physicians had been placed in health resource shortage areas of the state. Administration of the state's escheat law is handled in conjunction with unclaimed property. Escheat of property occurs when an individual in Tennessee dies without any known heirs.

Chairs of Excellence: The Chairs of Excellence Trust is a nonexpendable trust fund authorized in 1984 to further the cause of education in Tennessee. The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus, creating a chair. Income from the chair is used to offset the expenditures of nationally or regionally recognized persons at state colleges and universities teaching in specified academic areas. During the 1990 fiscal year, five chairs were created with matching contributions totaling over $4.5 million. Since 1984, a total of 79 chairs have been created. The Trust totaled $107.3 million book value at June 30, 1990 and produced income of $9.7 million during the year.



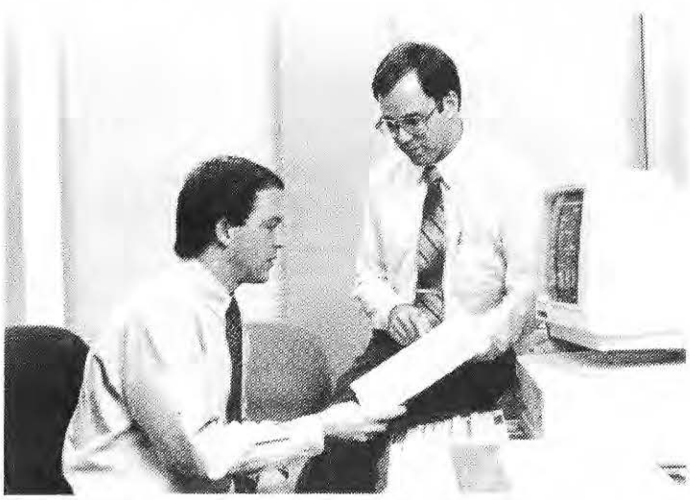
Joe Runnels, Manager of Cash Investments, and Beth Jarrard, Assistant Director for Treasury Investments

Randy Graves, Short-Term Portfolio Manager

Jeremy Conlin, Equity Portfolio Manager, and Deborah Sheffield, Assistant Equity Portfolio Manager

Chuck Webb, Chief Investment Officer

Andrew Watts, Assistant Fixed Income Portfolio Manager and Marshall Cox, Fixed Income Portfolio Manager



William Howard and Roy Wellington, International Portfolio Managers

The state of Tennessee receives revenues from many sources such as taxes, licenses, fees, and the federal government. As these monies are collected, they are deposited into one of the 300 financial institutions in Tennessee that have contracted with the state to serve as depositories. Under the state Constitution, the state may not spend more money on its programs than it has collected in revenues. Consequently, at any point in time the state has a sizable sum of money collected but not yet spent. These monies are invested by the Treasury Department until needed to pay for state expenses, payroll, or benefit program disbursements. During the 1989-90 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was $1,659,787,000 per month and interest income of $144,237,000 was earned. This includes deposits in the Local Government Investment Pool administered by the Treasury Department.

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

Up to 20% of the portfolio or $300,000,000, whichever is less, may be invested for maturity greater than one year but less than five years. Funds may be invested in collateralized certificates of deposit with Tennessee financial institutions; bills, notes and bonds of the U.S. Treasury; other obligations guaranteed as to principal and interest by the United States or any of its agencies; and repurchase agreements against obligations of the United States or its agencies. Securities underlying repurchases must be book-entry and delivered to the State Trust of Tennessee. In March 1988, the General Assembly approved investment in prime commercial paper, prime banker's acceptances, and money market mutual funds subject to passage of a resolution by the State Funding Board approving policy guidelines applicable to these investment instruments. The State Funding Board passed a resolution approving such policy guidelines in June 1989. Constant change in financial markets makes diversification an important tool for enhancing return.

At June 30, 1990, investments had an average maturity of 229 days, and an average weighted yield of 8.39%. The total invested balance at June 30, 1990 ($1,675,839,500 par value) was allocated as follows: U.S. Treasury government and agency securities, 41%; repurchase agreements, 18%; collateralized certificates of deposit, 30%; and commercial paper, 11%. In order to insure that state investment returns reflect current market conditions, several market indicators are carefully monitored. Among these are rates reported daily in the Wall Street Journal, rates on U.S. Treasury securities and institutional money market funds. The following table illustrates state returns compared with two of these indicators:

State Cash Management Comparative Returns

Fiscal Year	[1]Total State Funds	[2]Merrill Lynch Institutional Fund	[3]New State Funds	[4]90 Day Treasury (CD Equivalent Yield)
1989-90	8.69%	8.25%	8.51%	8.01%
1988-89	8.08	8.34	8.79	8.24
1987-88	6.95	6.61	6.91	6.11
1986-87	6.78	6.38	6.23	5.67
1985-86	8.35	7.27	7.52	7.06

[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 demand deposits are maintained at almost 300 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.

State Collateral Program

Collateral is required to secure state deposits held in authorized state depository institutions. Statute sets required collateral at a market value of 105% of the value of the deposit secured, less the amount secured by the Federal Deposit Insurance Corporation. However, if the state depository is operating with a capital-to-asset ratio of less than five percent, additional collateral with a market value of $100,000 is required. The types of investment instruments which are eligible to be pledged as collateral are listed on the next page. The current state of the economy and the financial environment has increased the importance of monitoring collateral. Cash Management staff review collateral daily, weekly, and monthly. Any collateral deficiencies at authorized state depository institutions are reported to the Funding Board monthly. Reasons for under-collateralization include market price volatility of the security pledged, unexpected high deposits to an account, interest accruals, and capital-to-asset ratios falling below five percent. Legislation was passed in 1990 which permitted out-of-state financial institutions to apply to become trustee custodians for securities pledged to the state of Tennessee. In addition to the normal considerations, two major agreements are required of such out-of-state institutions: (1) they must agree to be subject to the laws of the state of Tennessee and (2) they must be designated as Treasury, Tax and Loan institutions.

8-5-110 Collateral

Tennessee Code Annotated, Section 8-5-110 designates the State Treasurer as the custodian of all collateral, securities, bonds and other valuable papers deposited with the state or any department thereof, and requires the State Treasurer to be exclusively responsible for the safekeeping thereof. Cash Management personnel work directly with the personnel of the state agencies to accept and release collateral held in accordance with their specific instructions.

Collateral Pool

Legislation passed in March 1990 authorized the formation of two collateral pools. Banks and savings and loan institutions are each authorized to form a pool to jointly collateralize all public deposits at their respective institutions. Interest has been expressed in forming a collateral pool for banks. Board members have been appointed and board meetings have been held to discuss the criteria and requirements of forming, operating, and administering such a collateral pool. Board members include the State Treasurer and the Commissioner of Financial Institutions as ex officio members. Three board members have been appointed by the Tennessee Banker's Association and one collateral pool board member represents local governments.

Securities Acceptable as Collateral by the State of Tennessee

1. U.S. Treasury Bills

2. U.S. Treasury Notes & Bonds

3. Federal Housing Administration (FHA) debentures

4. Government National Mortgage Associations (GNMA)

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

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

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

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

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

10. Tennessee Valley Authority Bonds and Notes (TVA)

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

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

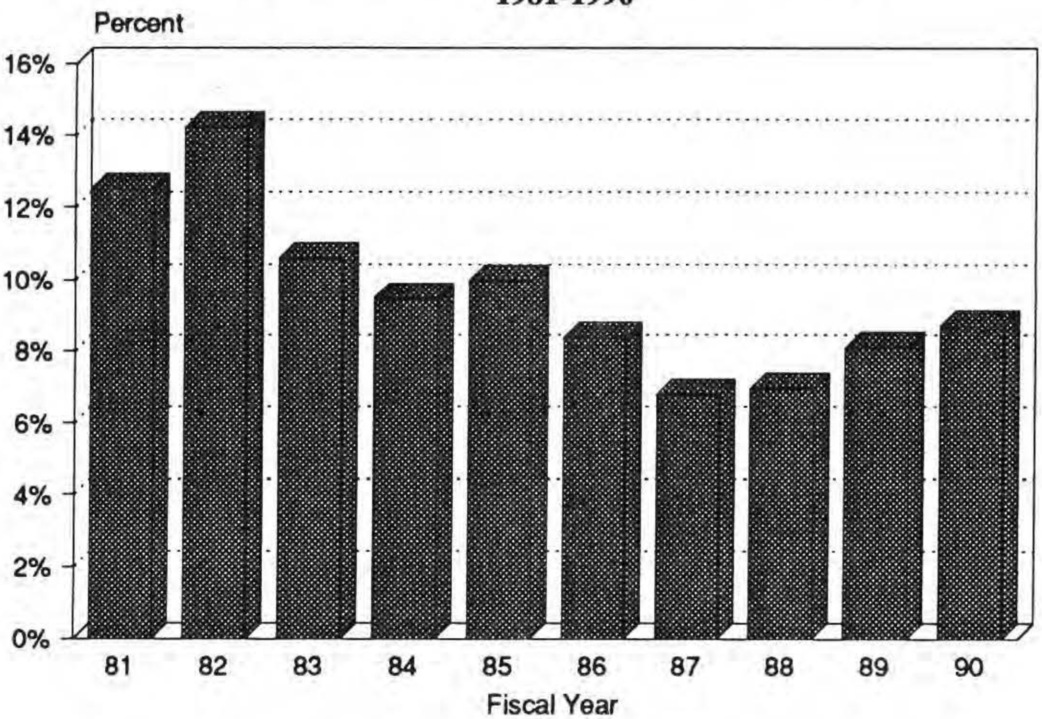
HISTORICAL ANALYSIS OF STATE CASH INVESTMENTS

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
		COLLATERALIZED TIME DEPOSITS	
1989-90	$534,537,343	$46,386,265	8.64%
1988-89	627,977,376	51,357,880	8.18%
1987-88	679,024,771	48,090,904	7.07%
1986-87	594,006,672	38,871,102	6.52%
1985-86	513,425,919	41,711,815	8.13%
		REPURCHASE AGREEMENTS	
1989-90	$255,968,844	$21,592,013	8.60%
1988-89	226,195,963	20,365,993	8.90%
1987-88	225,662,529	15,078,114	6.70%
1986-87	306,224,111	18,804,873	6.15%
1985-86	227,202,051	16,723,921	7.43%
		COMMERCIAL PAPER	
1989-90	$ 61,703,591	$ 5,166,619	8.37%
		U.S. GOVERNMENT SECURITIES	
1989-90	$797,028,872	$70,186,714	8.74%
1988-89	801,265,661	62,644,827	7.77%
1987-88	810,127,768	55,735,584	6.91%
1986-87	719,499,940	50,525,274	7.25%
1985-86	482,407,939	43,487,272	9.01%
		MONEY MARKET DEPOSIT ACCOUNTS AND OTHER	
1989-90	$ 10,548,553	$ 478,192	4.42%
1988-89	11,111,732	506,154	4.57%
1987-88	11,890,553	539,365	4.54%
1986-87	12,890,402	598,037	4.68%
1985-86	12,421,084	672,858	5.42%
		SECURITIES LENDING INCOME	
1989-90	N/A	$ 427,177	N/A

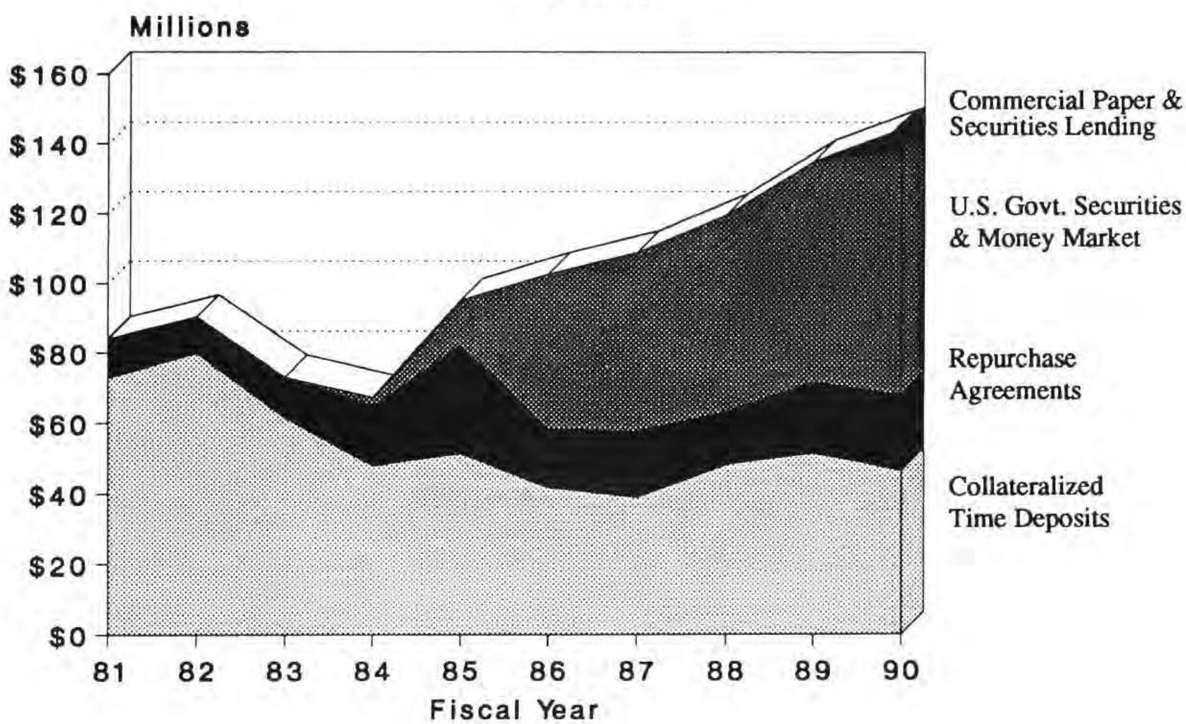
TOTAL FUNDS

Fiscal Year	Average Total Funds Invested	Total Cash Management Earnings	Percent Of Total Available Cash Invested	Composite Weighted Average Rate of Return
1989-90	$1,659,787,203	$144,236,980	100.0%	8.69%
1988-89	1,666,550,732	134,874,854	100.0%	8.08%
1987-88	1,726,705,621	119,443,968	100.0%	6.95%
1986-87	1,632,621,125	108,799,286	100.0%	6.78%
1985-86	1,235,456,993	102,595,865	100.0%	8.39%

Cash Management Investments
Composite Weighted Average Rate of Return
1981-1990



Analysis of State Cash Earnings
1981-1990



Cash Management Portfolio Analysis
Fiscal Year Ended June 30, 1990

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
07/89	9.03%	9.02%	168	31.01%	24.77%	44.22%	-	-
08/89	8.72%	8.90%	195	30.64%	20.54%	48.82%	-	-
09/89	8.93%	8.88%	182	30.83%	19.67%	36.59%	12.91%	-
10/89	8.77%	8.84%	186	32.01%	21.93%	34.40%	11.66%	-
11/89	8.52%	8.76%	191	32.85%	19.93%	33.33%	13.89%	-
12/89	8.56%	8.78%	191	35.06%	11.37%	37.64%	15.93%	-
01/90	8.20%	8.69%	171	34.08%	12.00%	35.55%	12.93%	5.44%
02/90	8.21%	8.59%	174	31.70%	17.95%	31.53%	12.21%	6.61%
03/90	8.33%	8.50%	204	29.04%	17.38%	36.03%	11.47%	6.08%
04/90	8.34%	8.47%	235	24.66%	19.01%	35.62%	10.05%	10.66%
05/90	8.28%	8.46%	231	29.58%	14.98%	30.83%	9.24%	15.37%
06/90	8.25%	8.44%	229	29.86%	18.05%	32.94%	8.48%	10.67%
Dollar Weighted Avg.	8.51%	8.69%	196	30.94%	18.13%	36.46%	9.90%	4.57%

Date	General Fund Average	General Fund Percent	LGIP Average	LGIP Percent	Other Restricted Average	Other Restricted Percent	Total Invested
07/89	$976,489,700	55.46%	$490,438,852	27.86%	$293,690,740	16.68%	$1,760,619,292
08/89	955,637,969	54.57%	498,652,414	28.48%	296,880,309	16.95%	1,751,170,692
09/89	935,308,959	53.34%	525,665,268	29.98%	292,437,268	16.68%	1,753,411,495
10/89	877,898,413	51.57%	523,985,356	30.78%	300,457,208	17.65%	1,702,340,977
11/89	796,417,438	49.36%	512,070,401	31.73%	305,152,021	18.91%	1,613,639,860
12/89	684,511,908	46.69%	474,551,722	32.37%	307,050,472	20.94%	1,466,114,102
01/90	672,925,850	43.49%	561,407,762	36.28%	312,935,155	20.23%	1,547,268,766
02/90	627,297,303	40.98%	599,294,624	39.15%	304,260,098	19.87%	1,530,852,025
03/90	614,400,179	37.47%	718,133,485	43.79%	307,352,346	18.74%	1,639,886,010
04/90	721,072,213	42.02%	696,693,246	40.60%	298,198,247	17.38%	1,715,963,705
05/90	817,426,463	46.30%	641,052,068	36.31%	306,877,033	17.39%	1,765,355,564
06/90	776,209,804	46.46%	603,736,960	36.13%	290,877,182	17.41%	1,670,823,945
Avg.	$787,966,350	47.31%	$570,473,513	34.46%	$301,347,340	18.24%	$1,659,787,203

Local Government Investment Pool

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

The Local Government Investment Pool began operations in November of 1980. Since that time, over 190 local government units have taken the opportunity to participate in the LGIP program. The Treasurer's Office has provided a facsimile copy machine to assist participants of the LGIP in communicating their instructions regarding deposits, transfers or withdrawals of funds. Thus, participants have the choice of communicating these instructions by telephone or telecopier. Participants have been delighted with the efficiency of the facsimile telecopier method. It frees staff time to actually execute the instructions and provides documentation of those instructions.

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 1989-90 fiscal year, the average rate participants earned on their deposits after the fee reduction was 8.36%. Other activity by participant groups is scheduled below.

Schedule of Activity by Entity Type
Fiscal Year Ended June 30, 1990

	Account Balance 7/1/89	Amount Deposited FY 1989-90	Amount Withdrawn FY 1989-90	Net Interest Credited FY 1989-90	Account Balance 6/30/90
Cities	$172,275,532	$ 730,319,682	$ 711,341,013	$15,250,800	$206,505,001
Counties	43,514,250	149,039,723	137,448,627	4,835,588	59,940,934
Commitments to D.O.T.	27,951,753	5,267,437	7,689,968	2,440,260	27,969,482
Educational Institutions	209,037,682	1,177,351,990	1,190,786,864	22,537,837	218,140,645
Commitments to OASI	55,103	0	0	4,790	59,893
Restricted Accounts	5,433,594	0	461,616	451,113	5,423,091
Community Health Agencies	0	316,095	153,830	2,778	165,043
Other	25,026,717	20,854,912	23,060,203	2,013,137	24,834,563
TOTAL	$483,294,631	$2,083,149,839	$2,070,942,121	$47,536,303	$543,038,652

Reconciliation of Cash and Cash Equivalents

June 30, 1990

(Expressed in Thousands)

Cash and cash equivalents per Department of Finance and Administration		$2,555,505
Add: Net reconciling items to bank statements		965
Deduct: Petty cash, travel advances and other departmental cash in accounts not in possession of the Treasurer		(383,119)
Cash and cash equivalents per Treasury		$2,173,351
Represented by:		
TCRS and COE short term investments	$470,295	
Cash in banks	21,950	
Time deposits	500,531	
Repurchase agreements	302,468	
Treasury bills	699,280	
Commercial paper	178,827	
Total		$2,173,351

The cash and cash equivalents per Finance and Administration as reported in the State of Tennessee Annual Financial Report for June 30, 1990 is $2.56 billion as shown. The $470 million shown as short term investments for TCRS and COE was invested in commercial paper, U.S. Treasuries and medium term corporate notes.

Investment Objective

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

Funds in the retirement system are actively managed with a diversified portfolio of high-quality domestic and international bonds, domestic and international stocks, mortgages, and money market instruments. Investment policy for TCRS funds is subject to the approval of the Board of Trustees. An Investment Advisory Council was established by the Consolidated Retirement Act of 1972 to provide policy guidance to the Board of Trustees and the investment staff.

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

Investment performance for the 1989-90 fiscal year ranked in the upper quartile of public funds. Some of the favorable investment results can be attributed to the investment staff's success in anticipating and taking advantage of several major investment trends which occurred during the fiscal year. The equity portfolio benefited from a restructuring which increased diversification and lessened the portfolio's vulnerability to the volatile market and futures-related trading practices used by others. In addition, this portfolio benefited from being positioned in large capitalization growth stocks, a sector which excelled during the year relative to other types of equity investments.

While bond yields increased modestly during the course of the year, the fixed income portfolio benefited significantly from its very high-quality standards and credit-worthiness emphasis. By being in high-credit quality securities before they became vogue, the portfolio was enhanced when the quality spreads on lower rated securities widened in anticipation of the coming economic slowdown.

TCRS's positioning in other asset classes also added to the fund's return. While the international bond and stock markets generally declined during the year, the bearish effects to the portfolio were greatly softened by gains in foreign currencies as the U. S. dollar fell. Also, because TCRS has never had an asset class devoted to real estate, the fund did not experience the negative returns which real estate has experienced over the past few years.

Quotation Services

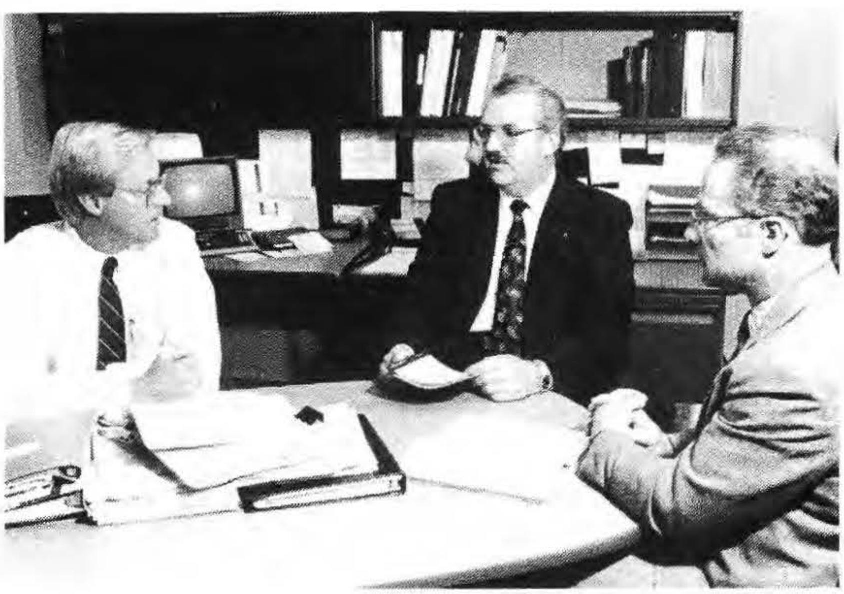
Quotation services have been acquired for fixed income and equity securities. The equity quotation service provides detailed quote information, trading history, market making information, and graphics. Additional watch monitors can be set for portfolio pricing. Analysts utilize historical data such as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

Securities Custodian

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

Retirement Fund Investments

	June 30, 1990 Book Value	June 30, 1990 Market Value	June 30, 1989 Book Value	June 30, 1989 Market Value
Domestic Securities:				
Certificate of Deposit	$ 0	$ 0	$ 1,550,000	$ 1,550,000
Government Bonds	2,376,680,549	2,442,876,094	2,070,543,698	2,192,044,696
Corporate Bonds	2,094,986,133	2,086,356,785	1,734,472,148	1,782,693,233
Corporate Stocks	2,221,880,123	2,842,894,087	1,978,491,968	2,443,316,928
Mortgages	1,657,804	1,541,380	2,056,610	1,897,716
International Securities:				
Government Bonds	202,475,696	189,240,931	178,984,505	174,264,481
Corporate Bonds	112,635,123	108,679,152	114,074,332	115,815,470
Corporate Stocks	394,986,579	416,715,131	395,068,945	418,050,741
American Depository Receipts	34,477,324	41,300,075	7,118,032	7,970,875
Currency Gain (Loss)		46,693,064		(23,028,078)
Cash and Cash Equivalents	471,891,236	471,891,236	547,946,752	548,555,609
Total Investments	$7,911,670,567	$8,648,187,935	$7,030,306,990	$7,663,131,671



Portfolio Managers Marshall Cox, Randy Graves, and Jeremy Conlin

DOMESTIC FIXED INCOME PORTFOLIO

Description	Rating	Coupon	Maturity			Par Value	Market Value
GOVERNMENTS:							
Bonds and Notes							
Cert. of Accrual Treasury-Ser. E	Aaa	0.000	11	15	1991	20,000,000	$ 17,889,400.00
Cert. of Accrual Treasury-Ser. G	Aaa	0.000	5	15	1992	17,850,000	15,285,312.00
Cert. of Accrual Treasury-Ser. L	Aaa	0.000	11	15	1991	15,000,000	13,417,050.00
Cert. of Accrual Treasury-Ser. P	Aaa	0.000	11	15	1991	10,000,000	8,944,700.00
Cert. of Accrual Treasury-Ser. T	Aaa	0.000	5	15	1996	34,280,000	20,769,909.20
Cert. of Accrual Treasury-Ser. T	Aaa	0.000	11	15	1996	9,404,000	5,462,313.40
Coupon Treasury Receipts	Aaa	0.000	8	15	1992	17,280,000	14,479,430.40
Coupon Treasury Receipts	Aaa	0.000	2	15	1993	15,000,000	12,042,450.00
Coupon Treasury Receipts	Aaa	0.000	8	15	1997	30,000,000	16,296,000.00
Coupon Treasury Receipts	Aaa	0.000	2	15	1998	39,720,000	20,638,512.00
Coupon Treasury Receipts	Aaa	0.000	8	15	1998	49,140,000	24,456,978.00
Coupon Treasury Receipts	Aaa	0.000	8	15	2004	23,075,400	6,804,012.44
Coupon Treasury Receipts	Aaa	0.000	11	15	2003	74,236,964	23,421,762.06
Coupon Treasury Receipts	Aaa	0.000	8	15	2003	100,000,000	32,114,000.00
Coupon Treasury Receipts	Aaa	0.000	5	15	1992	6,625,000	5,673,120.00
Coupon Treasury Receipts	Aaa	0.000	8	15	2004	10,134,000	2,988,111.24
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	2000	13,678,000	5,844,882.96
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	2000	4,723,875	2,018,606.27
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	1994	17,803,000	12,839,879.66
Treasury Invest. Growth Receipts	Aaa	0.000	11	15	1994	17,812,500	12,318,056.25
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	1995	8,208,000	5,430,494.88
Treasury Invest. Growth Receipts	Aaa	0.000	11	15	1995	17,803,000	11,287,636.09
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	1996	8,312,500	5,036,460.63
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	2000	15,513,500	6,629,228.82
Treasury Invest. Growth Receipts	Aaa	0.000	5	15	2005	100,000,000	27,636,000.00
United States Treasury Bonds	Aaa	7.625	2	15	2007	53,000,000	48,792,860.00
United States Treasury Bonds	Aaa	8.750	11	15	2008	66,832,000	67,646,682.08
United States Treasury Bonds	Aaa	9.125	5	15	2009	25,000,000	26,000,000.00
United States Treasury Bonds	Aaa	10.375	11	15	2012	100,000,000	115,344,000.00
United States Treasury Bonds	Aaa	12.000	8	15	2013	80,000,000	104,275,200.00
United States Treasury Bonds	Aaa	10.750	8	15	2005	155,000,000	182,900,000.00
United States Treasury Bonds	Aaa	9.250	2	15	2016	70,000,000	75,228,300.00
United States Treasury Bonds	Aaa	8.750	5	15	2017	25,000,000	25,648,500.00
United States Treasury Bonds	Aaa	8.875	2	15	2019	35,000,000	36,509,200.00
United States Treasury Corpus	Aaa	0.000	11	15	2001	76,000,000	28,501,520.00
United States Treasury Notes	Aaa	7.375	5	15	1996	50,000,000	47,468,500.00
United States Treasury Notes	Aaa	7.125	10	15	1993	50,000,000	48,250,000.00
United States Treasury Notes	Aaa	7.250	11	15	1996	56,850,000	53,403,184.50
United States Treasury Notes	Aaa	8.250	8	15	1992	60,000,000	59,943,600.00
United States Treasury Notes	Aaa	8.000	8	15	1999	85,000,000	82,476,350.00
United States Treasury Strip	Aaa	0.000	5	15	1995	59,664,000	39,761,282.88
United States Treasury Strip	Aaa	0.000	5	15	2002	25,000,000	9,139,250.00
United States Treasury Strip	Aaa	0.000	5	15	2003	39,460,000	13,253,035.60
Total Bonds and Notes							$1,394,265,771.36

Description	Rating	Coupon	Maturity			Par Value	Market Value
Agencies							
Amer. SW Financial CMO 37-C	Aaa	9.200	12	1	2006	11,500,000	$11,194,560.00
CMO Trust 15-D	Aaa	5.000	12	20	2016	29,550,000	22,347,187.50
CMO Trust One 1-D	Aaa	10.150	5	1	2007	8,086,877	8,150,035.49
Federal Farm Credit MT Notes	Aaa	8.875	10	1	1999	10,000,000	9,778,100.00
FHLM CORP A-1	Aaa	6.700	2	28	1991	4,228,853	4,189,228.43
FHLMC B PC #220007	Aaa	8.750	8	1	2001	9,258,010	8,915,000.48
FHLMC B PC #286896	Aaa	7.500	2	1	2017	14,292,427	12,854,180.07
FHLMC CAP DEB	Aaa	7.950	4	3	1995	20,000,000	19,275,600.00

Description	Rating	Coupon	Maturity			Par Value	Market Value
FHLMC CAP DEB	Aaa	11.400	5	1	1995	35,000,000	38,379,600.00
FHLMC DEB	Aaa	8.125	9	30	1996	5,000,000	4,837,500.00
FHLMC MF	Aaa	8.750	2	15	2000	77,863,703	74,165,176.92
FHLMC PC #170220	Aaa	8.000	4	1	2017	20,702,343	19,084,868.93
FHLMC PC #189272	Aaa	8.500	12	1	2007	12,642,110	12,160,066.28
FHLMC PC #220010	Aaa	8.750	8	1	2001	10,454,659	10,284,770.30
FHLMC PC #256498	Aaa	8.000	4	1	2009	7,379,725	6,941,517.20
FHLMC Series 20-J Class Z	Aaa	9.500	3	15	2018	29,180,000	31,514,400.00
FNMA	Aaa	8.000	7	10	1996	35,000,000	33,621,700.00
FNMA	Aaa	9.000	10	11	1999	5,000,000	4,948,450.00
FNMA 1989-31Z	Aaa	10.000	6	25	2019	5,000,000	4,718,750.00
FNMA DEB	Aaa	8.450	7	15	1996	25,000,000	24,453,250.00
FNMA DEB	Aaa	8.700	6	10	1999	10,000,000	9,868,700.00
FNMA DEB	Aaa	0.000	7	5	2014	150,000,000	18,468,000.00
FNMA MBS #2426	Aaa	7.750	4	1	2008	5,932,652	5,506,213.20
FNMA MBS #7238	Aaa	8.000	6	1	2008	25,049,899	23,672,154.56
FNMA MBS #18742	Aaa	8.500	11	1	2008	23,181,906	22,384,911.92
FNMA MT Notes	Aaa	10.350	4	1	2019	25,000,000	26,047,250.00
FNMA SUB DEB	Aaa	0.000	10	9	2019	100,000,000	8,250,000.00
GMAC MTG SECS CMO SER B-2	Aaa	7.800	5	20	2011	13,095,834	12,310,083.79
GNMA MBS #193196	Aaa	9.000	8	15	2016	24,766,920	24,062,548.41
GNMA #174621	Aaa	9.500	8	15	2016	15,213,364	15,132,428.81
GNMA #175468	Aaa	9.000	9	15	2016	8,493,448	8,251,893.91
GNMA #198306	Aaa	9.000	1	15	2017	16,518,650	16,048,859.90
GNMA #218124	Aaa	9.000	6	15	2017	7,711,434	7,492,120.76
GNMA #235870	Aaa	9.500	10	15	2017	4,458,660	4,434,939.50
GNMA #250734	Aaa	9.500	6	15	2018	4,737,129	4,711,927.88
GNMA #259880	Aaa	10.000	8	15	2018	39,861,469	40,571,401.76
GNMA #266932	Aaa	9.500	1	15	2019	5,050,673	5,023,803.03
GNMA #270479	Aaa	10.000	7	15	2019	11,401,887	11,604,954.13
GNMA #270849	Aaa	9.500	2	15	2019	4,943,137	4,916,839.52
GNMA #271685	Aaa	9.500	4	15	2019	9,118,582	9,070,071.12
GNMA #279522	Aaa	9.000	11	15	2019	21,799,158	21,179,190.38
Government Trust Certificates	Aaa	9.250	11	15	2001	50,000,000	50,740,000.00
Government Trust Certificates	Aaa	9.400	5	15	2002	20,000,000	20,482,000.00
International Bk. for Rec. & Dev	Aaa	8.250	9	1	2016	17,000,000	15,658,190.00
International Bk. for Rec. & Dev.	Aaa	8.625	10	15	2016	68,000,000	65,102,520.00
International Bk. for Rec. & Dev	Aaa	9.250	7	15	2017	5,000,000	5,089,850.00
International Bk. for Rec. & Dev. MT Notes	Aaa	10.030	9	15	1997	5,000,000	5,217,950.00
International Bk. for Rec. & Dev. MT Notes	Aaa	9.320	10	29	2003	10,000,000	10,010,800.00
International Bk. for Rec. & Dev. MT Notes	Aaa	9.570	11	1	2018	10,000,000	10,332,000.00
Investors CMO Ser. C2	Aaa	11.900	2	25	2012	2,594,150	2,602,269.68
Investors CMO Ser. C3	Aaa	7.875	6	25	2001	13,350,000	13,016,250.00
Investors CMO Ser. C4	Aaa	8.875	2	25	2004	28,691,755	28,476,567.04
Investors CMO Ser. J	Aaa	11.375	8	25	2013	10,700,000	11,522,616.00
Mtg. Bnks. Fin. Corp. 1 87-A-2	Aaa	7.200	7	25	2000	31,020,043	30,079,825.08
Rural Electric Coop Trust Cert.	Aaa	9.200	9	30	2001	20,000,000	19,749,000.00
Ryan Mtg. CMO IV 4-2	Aaa	9.400	1	1	2010	22,144,677	22,068,499.66
Ryan Mtg. CMO IV 8-C	Aaa	9.000	9	1	2007	16,000,000	15,464,960.00
Salomon Capital CMO Ser. 1985-32	Aaa	8.625	10	1	2004	39,500,000	38,660,625.00
Small Bus. Admin. PC 1986-A	Aaa	8.750	9	1	1996	16,353,624	15,789,097.17
Small Bus. Admin. PC 1987-A	Aaa	7.950	2	1	1997	8,263,254	7,725,068.55
Total Agencies							$1,048,610,322.36
TOTAL GOVERNMENTS							$2,442,876,093.72
CORPORATES:							
AT & T MT Notes	Aa3	8.700	12	30	1999	10,000,000	$9,455,000.00
American Express Credit	Aa2	10.875	5	15	2013	18,000,000	19,308,060.00

Description	Rating	Coupon	Maturity			Par Value	Market Value
Ameritech Credit Corp. MT Notes	Aa2	8.740	5	15	1992	10,000,000	10,011,600.00
Anheuser Busch	A1	8.750	12	1	1999	10,000,000	9,734,100.00
Arkla Inc.	A3	8.900	12	15	2006	14,000,000	13,173,020.00
Associated Dry Goods	A2	8.850	3	1	2006	7,000,000	6,525,750.00
Arco	A1	9.875	3	1	2016	10,000,000	10,536,200.00
Arco	A1	9.125	3	1	2011	10,000,000	9,830,100.00
Bell Atlantic MT Notes	Aa3	9.000	11	4	1991	5,000,000	5,022,450.00
Bell Atlantic MT Notes	Aa3	8.400	5	13	1991	7,900,000	7,819,973.00
Bell Atlantic MT Notes	Aa3	8.650	6	24	1992	5,000,000	4,903,650.00
Bell Atlantic MT Notes	Aa3	9.530	5	17	1995	10,000,000	10,171,000.00
Bell Tel Pennsylvania	Aa1	8.000	8	1	2009	4,000,000	3,557,040.00
BP America	Aa3	10.000	7	1	2018	13,000,000	13,357,500.00
BP America	Aa3	9.875	3	15	2004	10,000,000	10,462,700.00
British Gas Finance	Aaa	8.750	3	15	1998	10,000,000	9,812,400.00
British Gas Finance	Aaa	9.500	3	15	2018	15,000,000	15,024,300.00
British Tel Finance	Aaa	9.375	2	15	1999	15,000,000	15,248,850.00
Ches & Potomac Tel (Virg.)	Aaa	9.500	4	15	2019	7,900,000	7,849,993.00
Ches & Potomac Tel (Virg.)	Aaa	8.500	9	1	2026	5,000,000	4,588,750.00
Coca-Cola Enterprises MT Notes	A2	9.500	12	5	1994	10,000,000	10,147,800.00
Coca-Cola Enterprises MT Notes	A2	9.660	1	29	2018	25,000,000	25,211,500.00
Consolidated Edison	Aa1	6.850	10	1	1998	5,000,000	4,352,950.00
Consolidated Edison	Aa1	7.900	4	15	2002	10,000,000	9,043,500.00
Consolidated Edison	Aa1	7.750	2	15	2003	14,500,000	12,950,675.00
Consolidated Natural Gas	Aa2	8.625	12	1	2011	5,000,000	4,623,500.00
Coop Utility Trust	Aaa	8.780	3	15	1993	3,951,399	3,924,450.85
CSX Corp.	A3	8.400	8	1	1996	11,000,000	10,543,500.00
Dominion Fin. Inc. MT Notes	Aaa	8.820	6	25	1991	20,000,000	20,002,800.00
Duke Power	Aa2	7.750	6	1	2003	9,750,000	8,661,705.00
Duke Power	Aa2	9.000	5	1	2016	20,000,000	18,935,000.00
Duke Power	Aa2	8.500	2	1	2017	42,200,000	38,749,728.00
Dupont (El) Denemours & Co.	Aa2	6.000	12	1	2001	30,000,000	23,412,600.00
Farmers Insurance Group	A1	8.250	7	15	1996	21,000,000	19,763,310.00
Financial Assistance Credit	Aaa	8.800	6	10	2005	10,000,000	10,006,300.00
Florida Power & Light	A2	9.875	2	1	2016	15,000,000	15,051,600.00
Florida Power & Light	A2	9.750	4	1	2017	5,000,000	4,971,950.00
Ford Capital	Aa2	9.875	5	15	2002	30,000,000	30,835,800.00
Ford Motor Credit	Aa2	9.250	3	1	2000	40,000,000	39,670,800.00
Ford Motor Credit	Aa2	8.875	3	1	1996	10,000,000	9,831,900.00
Ford Motor Credit	Aa2	8.000	8	15	1993	10,000,000	9,718,400.00
Ford Motor Credit	Aa2	9.750	7	1	1998	15,000,000	15,122,250.00
Ford Motor Credit MT Notes	Aa2	9.000	3	25	1998	30,000,000	29,328,000.00
Ford Motor Credit MT Notes	Aa2	10.050	4	21	1994	15,000,000	15,408,750.00
General Electric	Aaa	6.875	4	15	1991	5,000,000	4,910,950.00
General Electric Credit	Aaa	5.500	11	1	2001	20,000,000	15,010,000.00
General Electric Credit	Aaa	8.250	3	1	1993	10,000,000	9,903,900.00
General Electric Credit	Aaa	6.750	11	1	1991	7,000,000	6,839,070.00
General Electric Credit	Aaa	8.250	1	15	1991	42,000,000	41,842,500.00
General Electric Capital	Aaa	9.000	6	1	1993	5,000,000	5,003,400.00
General Electric Capital	Aaa	9.500	2	1	1999	25,000,000	25,326,000.00
General Motors Accept. Corp MT Notes	Aa3	8.650	12	7	1994	20,000,000	19,654,800.00
General Motors Accept. Corp	Aa3	9.100	6	8	1993	25,000,000	25,735,000.00
General Motors Accept. Corp MT Notes	Aa3	8.600	12	21	1993	7,000,000	6,952,400.00
General Motors Accept. Corp MT Notes	Aa3	9.250	6	8	1995	6,000,000	5,994,840.00
General Motors	Aa3	8.125	4	15	2016	11,500,000	9,821,115.00
General Motors	Aa3	7.500	8	15	1993	5,000,000	4,786,500.00
General Tel (California)	Aa3	8.625	12	1	2016	18,000,000	16,382,880.00
General Tel (Florida)	Aa3	8.750	4	15	2026	14,750,000	13,537,845.00
General Tel Northwest	Aa3	8.750	4	15	2016	5,000,000	4,612,350.00
GTE	A3	10.250	5	1	2019	15,000,000	15,257,100.00
GTE MT Notes	A3	9.680	2	18	1999	10,000,000	9,788,100.00
Gulf Power	A2	10.125	2	1	2016	15,000,000	15,353,400.00
Hershey Foods	Aa	9.500	3	1	2008	44,028,000	45,749,494.80
Honeywell	Baa2	9.875	6	1	2017	9,000,000	8,566,290.00
Illinois Bell Tel	Aa1	8.500	4	22	2026	5,000,000	4,491,500.00

Description	Rating	Coupon	Maturity			Par Value	Market Value
Imperial Oil	Aa1	8.750	10	15	2019	21,500,000	20,130,450.00
Int'l Bus. Machines Credit MT Notes	Aaa	7.750	8	14	1992	20,000,000	19,667,400.00
Int'l Bus. Machines Credit MT Notes	Aaa	9.780	10	15	1992	12,000,000	12,271,800.00
Int'l Bus. Machines Credit MT Notes	Aaa	8.375	11	1	2019	40,000,000	37,277,200.00
Johnson & Johnson	Aaa	9.125	9	15	1992	10,000,000	10,030,500.00
Kansas Power & Light	Aa3	8.250	7	1	1996	10,000,000	9,566,200.00
Kennecott (BP)	Aa3	7.875	5	1	2001	84,436,000	79,202,656.72
Knight Ridder	A1	9.875	4	15	2009	6,000,000	6,159,840.00
McDonalds Corp.	Aa2	9.750	11	1	2017	5,000,000	5,016,000.00
McDonalds Corp	Aa	8.875	8	1	2019	20,000,000	18,841,200.00
MDU Resources Group	Baa1	11.250	11	15	2010	9,352,000	9,926,306.32
Michigan Bell Tel	Aa1	8.625	2	1	2010	11,500,000	10,822,650.00
Michigan Bell Tel	Aa1	7.750	6	1	2011	11,500,000	9,976,020.00
Michigan Bell Tel	Aa1	8.125	6	1	2015	5,000,000	4,449,800.00
Mobil Oil	Aa2	8.375	2	15	1993	25,000,000	24,722,000.00
Morgan (JP) & Co.	Aa1	8.000	3	15	1996	15,000,000	14,303,100.00
Morgan (JP) GTY	Aa1	7.875	8	9	1991	15,000,000	14,890,350.00
National Fuel Gas	A3	9.875	9	1	2006	8,000,000	8,028,160.00
New England Tel	Aa1	9.000	3	1	2026	45,000,000	42,353,550.00
New Jersey Bell Tel	Aaa	7.750	9	1	2013	11,000,000	9,473,090.00
New Jersey Bell Tel	Aaa	8.750	6	1	2018	10,000,000	9,482,300.00
Northern Illinois Gas	Aa1	8.250	3	15	1993	10,000,000	9,786,400.00
Northern Illinois Gas	Aa1	9.250	7	1	1996	5,000,000	4,912,400.00
Northern Illinois Gas	Aa1	9.000	7	1	2019	9,000,000	8,590,230.00
Northern States Power (Wisc.)	Aa2	9.125	7	1	2019	10,000,000	9,572,900.00
Northern States Power (Wisc.)	Aa2	9.750	3	1	2018	15,000,000	14,910,000.00
Northwestern Bell Tel	Aa3	7.500	4	1	2005	11,000,000	9,467,810.00
Ohio Bell Tel	Aaa	8.750	4	15	2026	10,000,000	9,368,400.00
Pacific Bell	Aa3	8.625	4	15	2023	5,000,000	4,537,250.00
Pacific Gas & Electric	A1	9.000	8	1	2019	7,000,000	6,564,670.00
Pacific Gas & Electric	A1	8.500	2	1	2020	20,000,000	17,586,800.00
Pacific Tel & Tel	Aa3	11.375	8	15	2024	27,000,000	29,342,250.00
Pacific Tel & Tel	Aa3	8.750	8	15	2025	10,000,000	9,201,600.00
Pacific Tel & Tel	Aa3	7.800	3	1	2007	20,000,000	17,562,600.00
Pacific Tel & Tel	Aa3	9.000	1	15	2018	10,000,000	9,392,700.00
Pacific Tel Capital	Aa3	8.950	6	20	1995	15,000,000	14,969,550.00
Potomac Electric Capital MT Notes	Aa3	9.870	7	30	1998	10,000,000	10,114,700.00
Potomac Electric Capital MT Notes	Aa3	9.500	1	10	1995	10,000,000	9,892,700.00
Potomac Electric Capital MT Notes	Aa3	9.800	1	20	1998	10,000,000	9,973,100.00
Potomac Electric Capital MT Notes	Aa3	9.690	8	11	1997	10,000,000	10,033,400.00
Potomac Electric Power	Aa3	8.750	11	15	2016	10,000,000	9,223,500.00
Private Export Funding	Aaa	8.600	6	30	1994	10,000,000	9,922,300.00
Provident Life Cap. Corp.	Aa3	10.000	11	1	1997	25,000,000	25,365,250.00
Public Serv. Elec. & Gas MT Notes	A1	9.720	8	25	1993	10,000,000	10,160,800.00
Public Serv. Elec. & Gas MT Notes	A1	9.300	11	13	1995	20,000,000	20,000,200.00
Public Serv. Elec. & Gas MT Notes	A1	9.690	8	24	1993	10,000,000	10,152,700.00
South Central Bell	Aaa	8.250	3	1	2017	8,000,000	7,195,360.00
South Central Bell	Aaa	9.625	3	1	2019	6,700,000	6,667,974.00
South Central Bell	Aaa	8.500	8	1	2029	15,000,000	13,727,550.00
Southern Bell Tel	Aaa	7.375	7	15	2010	5,000,000	4,177,500.00
Southern Bell Tel	Aaa	8.625	9	1	2018	14,000,000	12,952,940.00
Southern Bell Tel	Aaa	8.625	9	1	2026	46,500,000	43,007,850.00
Southern Bell Tel	Aaa	8.750	11	1	2024	8,000,000	7,400,240.00
Southern Bell Tel	Aaa	8.500	8	1	2029	20,000,000	18,211,600.00
Southern California Edison	Aa2	8.375	12	1	2017	10,000,000	8,952,100.00
Southern California Edison	Aa2	9.375	2	15	2017	10,000,000	9,781,200.00
Southern New England Tel	Aa1	9.625	2	1	2030	15,000,000	14,819,250.00
Standard Oil Ohio (BP)	Aa3	6.300	7	1	2001	10,000,000	7,980,000.00
Standard Oil Ohio (BP)	Aa3	9.000	6	1	2019	15,000,000	14,174,850.00
Travelers Corp.	A1	7.625	1	15	1997	25,000,000	22,816,500.00
TVA	Aaa	8.750	10	1	2019	45,000,000	41,457,600.00
TVA	Aaa	8.625	11	15	2029	55,000,000	50,106,100.00
Union Camp	A1	10.875	7	1	2010	28,604,000	29,982,998.84
United Parcel Services Inc.	Aaa	8.375	4	1	2020	35,000,000	32,576,250.00

Description	Rating	Coupon	Maturity			Par Value	Market Value
Virginia Elec. & Power	A1	9.875	6	1	2017	5,000,000	4,996,950.00
Virginia Elec. & Power	A1	9.750	3	1	2020	10,000,000	9,933,500.00
Washington Gas Light	Aa3	8.750	7	1	2019	15,000,000	14,630,100.00
Weyerhaeuser	A1	8.375	2	15	2007	15,000,000	13,360,200.00
Wisconsin Bell	Aaa	8.750	11	1	2026	5,000,000	4,683,700.00
Wisconsin Electric Power	Aa2	9.625	1	15	2018	21,000,000	21,132,300.00
Subtotal Corporates							$1,994,100,035.53
Convertible Corporates							
Allegheny Corporation Conv.	Ba1	6.500	6	15	2014	3,000,000	$2,790,000.00
Amoco Canada Conv.	Baa3	7.375	9	2	2013	5,000,000	5,650,000.00
Anadarko Petroleum Conv.	Baa1	6.250	5	15	2014	4,000,000	4,540,000.00
Avnet Inc. Conv.	A2	6.000	4	15	2012	2,000,000	1,800,000.00
Bergen Brunswig Lyon	Baa1	0.000	11	16	2004	3,000,000	1,132,500.00
Browning Ferris Ind. Conv.	A3	6.750	7	18	2005	4,500,000	4,601,250.00
Brunos Inc. Conv.	Baa1	6.500	9	1	2009	2,500,000	2,875,000.00
General Instruments Conv.	Baa2	7.250	6	15	2012	5,000,000	5,081,250.00
Home Depot Conv.	A3	6.750	5	15	2014	8,300,000	14,774,000.00
Illinois Tool Works Conv.	A3	0.000	6	22	2005	10,000,000	4,012,500.00
Int'l Business Machines Conv.	Aa1	7.875	11	21	2004	4,000,000	4,000,000.00
Int'l Mineral & Chemical Conv.	Ba1	0.000	11	14	2005	13,000,000	3,737,500.00
Kaufman & Broad Conv.	Ba3	0.000	8	10	2004	5,000,000	1,325,000.00
Loews Inc. Lyons	A2	0.000	10	17	2004	10,000,000	3,875,000.00
MCI Communications Lyons Conv.	Baa2	0.000	12	11	2004	10,000,000	3,862,500.00
MEDCO Containment Conv.	Ba1	7.500	8	1	2000	3,000,000	3,720,000.00
Motorola Inc. Lyon	Baa2	0.000	9	7	2009	7,500,000	3,037,500.00
Nat'l Medical Enterprises Conv.	Baa2	0.000	12	4	2004	8,000,000	3,520,000.00
Novell Inc. Conv.	B1	7.250	9	15	2013	2,000,000	3,020,000.00
SCI Systems Inc. Conv.	B1	5.625	3	1	2012	3,150,000	2,110,500.00
Seagate Technology Conv.	B2	6.750	5	1	2012	3,500,000	2,047,500.00
Silicon Graphics Conv.	B2	5.750	4	1	2012	1,000,000	1,250,000.00
Storage Tech Inc. Conv.	Ba3	8.000	5	31	2015	1,500,000	1,661,250.00
Thermo Electronic Inc. Conv.	Ba3	5.750	4	1	2012	1,600,000	1,696,000.00
Walt Disney Co. Lyon Conv.	A2	0.000	6	27	2005	10,000,000	4,137,500.00
Western Co. North America Conv.	B3	7.250	1	15	2015	2,000,000	2,000,000.00
Subtotal Convertible Corporates							$92,256,750.00
TOTAL CORPORATES							$2,086,356,785.53
MORTGAGES:							
Farmers Home Administration	Aaa	6.000	2	10	1992	190,520	$177,366.38
Farmers Home Administration	Aaa	6.000	12	9	1991	79,904	76,723.85
Farmers Home Administration	Aaa	6.000	10	27	1991	60,517	59,987.60
Farmers Home Administration	Aaa	6.000	11	14	1991	158,643	152,715.93
Farmers Home Administration	Aaa	5.000	12	21	1990	10,063	10,039.05
Farmers Home Administration	Aaa	8.750	11	26	1994	106,646	100,178.37
Farmers Home Administration	Aaa	5.750	6	30	1999	38,599	30,227.79
Farmers Home Administration	Aaa	6.250	10	10	1992	96,914	91,055.61
Farmers Home Administration	Aaa	5.750	6	29	2001	318,256	308,352.04
Farmers Home Administration	Aaa	6.500	3	26	1993	273,362	245,260.12
Farmers Home Administration	Aaa	8.500	8	28	1994	157,670	153,409.80
F H A and V A Mortgages	Aaa	5.250	11	1	1995	64,069	51,775.20
F H A and V A Mortgages	Aaa	6.000	10	1	1997	104,225	84,288.00
TOTAL MORTGAGES							$1,541,379.74
TOTAL DOMESTIC FIXED INCOME PORTFOLIO							$4,530,774,258.99

INTERNATIONAL FIXED INCOME PORTFOLIO

Description	Rating	Coupon	Maturity			Par Value	Market Value
GOVERNMENTS:							
Bundesrepublik	Aaa	6.000	3	20	1997	70,000,000	$36,110,676.22
France (Government of)	Aaa	9.000	2	12	1995	100,000,000	17,284,127.55
Japan L.T. Govt. Bonds #100	Aaa	4.000	6	20	1997	800,000,000	4,403,814.53
Japan L.T. Govt. Bonds #99	Aaa	4.700	6	20	1997	1,710,000,000	9,866,379.48
Japan L.T. Govt. Bonds #104	Aaa	4.900	9	22	1997	750,000,000	4,343,143.70
Japan L.T. Govt. Bonds #106	Aaa	4.900	3	20	1998	750,000,000	4,319,960.53
Metropolis of Tokyo	Aaa	7.500	3	18	1997	11,000,000	10,147,610.00
New South Wales Treasury Corp.	Aaa	11.500	7	1	1999	7,000,000	4,859,396.24
Nova Scotia (Province)	A2	8.875	3	15	2016	20,000,000	18,898,200.00
Quebec (Province)	Aa3	8.625	12	1	2026	10,000,000	9,299,100.00
South Australia Govt. Finance	Aaa	12.500	3	15	1998	7,000,000	5,304,862.64
UK Treasury Gilt Stock	Aaa	13.250	1	22	1997	11,000,000	20,393,339.99
UK Treasury Gilt Stock	Aaa	12.750	11	15	1995	9,000,000	16,336,167.20
UK Treasury Gilt Stock	Aaa	9.000	10	13	2008	15,000,000	22,504,724.05
Victorian Finance Authority	Aa1	12.500	7	15	2000	7,000,000	5,062,012.14
TOTAL GOVERNMENTS							$189,133,514.27
CORPORATES:							
Amcor Limited Conv.	NR	9.000	—	—	—	10,000,000	$7,491,960.00
Hydro-Quebec	Aa3	10.700	10	15	2007	10,000,000	10,589,700.00
Hydro-Quebec	Aa3	8.250	1	15	2027	30,000,000	26,734,500.00
Nippon Tel & Tel	Aaa	9.500	7	27	1998	55,000,000	56,231,450.00
Petro Canada	Aaa	8.800	6	1	2019	5,000,000	4,999,250.00
Pioneer Concrete Conv.	NR	9.500	6	21	1998	4,000,000	2,406,148.00
TOTAL CORPORATES							$108,453,008.00
TOTAL INTERNATIONAL FIXED INCOME PORTFOLIO							$297,586,522.27
GRAND TOTAL FIXED INCOME PORTFOLIO							$4,828,360,781.26

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

Moody's rates securities as follows:

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

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

DOMESTIC STOCK PORTFOLIO

Description	Shares	Book Value	Market Value
Abbot Laboratories	675,000	$10,786,950.00	$27,675,000.00
Ahmanson (H F) & Co.	600,000	10,931,642.50	12,300,000.00
Albertson's Inc.	600,000	12,098,701.20	21,600,000.00
Allegheny Ludlum	138,000	5,602,323.40	6,537,750.00
Aluminum Company of America	250,000	10,963,898.19	15,937,500.00
Alza Corp. Class A	150,000	6,395,540.00	7,012,500.00
Amerada Hess	375,000	17,885,127.20	16,546,875.00
American Cyanamid Co.	200,000	11,358,325.00	11,475,000.00
American General Corp	100,000	4,607,000.00	4,800,000.00
American Home Products	300,000	15,210,059.34	15,750,000.00
American Int'l Group Inc.	100,000	9,180,249.40	9,637,500.00
American Telephone & Telegraph	500,000	13,579,710.00	19,250,000.00
Amgen Inc.	200,000	12,166,247.00	15,550,000.00
Amoco Corp.	524,000	16,839,418.00	26,789,500.00
Anadarko Petroleum	325,000	11,698,446.54	10,968,750.00
Archer Daniels Midland Co.	975,000	15,532,416.50	24,984,375.00
Atlantic Richfield	375,000	23,664,741.41	44,062,500.00
Autodesk Inc.	250,000	10,277,200.00	13,875,000.00
Automatic Data Processing	500,000	23,808,193.34	27,625,000.00
Baxter Int'l Inc.	250,000	6,184,274.00	6,000,000.00
Baxter Int'l Inc. Pref.	102,000	7,119,430.00	7,344,000.00
Becton Dickinson	200,000	12,088,926.80	14,025,000.00
Bell Atlantic Corp	400,000	21,266,057.80	19,850,000.00
Betz Laboratories Inc.	105,000	6,181,875.00	7,901,250.00
Biogen Inc.	200,000	3,541,250.00	4,825,000.00
BMC Software Inc.	75,000	1,757,810.00	1,950,000.00
Boeing Company	525,000	14,414,916.67	30,712,500.00
Borland Int'l Inc.	150,000	2,467,498.50	3,206,250.00
Boston Edison Co	900,000	18,439,396.20	17,325,000.00
Bristol Myers Squibb Co.	400,000	15,839,508.75	25,350,000.00
Brunos Inc.	450,000	6,508,434.50	6,975,000.00
Burlington Northern Inc	500,000	16,532,515.00	18,875,000.00
Calgon Carbon	165,000	6,366,251.00	7,672,500.00
Capital Cities ABC Inc	60,000	20,147,256.80	37,380,000.00
Capitol Holding Corp.	400,000	19,602,099.26	18,100,000.00
Carolina Power & Light	300,000	12,606,146.70	13,050,000.00
Centerior Energy Corp.	600,000	12,231,602.92	11,250,000.00
Centex Corp.	100,000	4,289,376.00	3,975,000.00
Chemical Waste Mgmt Inc	275,000	5,819,537.50	6,634,375.00
Chevron Corp	485,000	28,167,062.50	34,131,875.00
Chubb Corp.	400,000	19,694,875.00	17,900,000.00
Circus Circus Enterprises Inc.	125,000	7,275,950.00	8,265,625.00
Clorox Co.	400,000	14,193,832.75	16,850,000.00
Coastal Corp.	675,000	15,451,509.32	22,696,875.00
Coca-Cola Co.	600,000	5,821,304.51	26,625,000.00
Colgate Palmolive Co.	250,000	15,891,085.00	17,093,750.00
Computer Assoc. Int'l Inc	550,000	9,281,770.58	8,731,250.00
Conagra Inc.	500,000	13,509,265.74	17,687,500.00
Convex Computer Corp.	75,000	1,447,775.00	1,396,875.00
Cooper Industries Inc.	500,000	17,782,100.00	21,187,500.00
Cooper Industries Inc. Conv. Pref.	175,000	4,437,100.00	4,725,000.00
Cooper Tire & Rubber Co.	100,000	3,219,175.00	3,537,500.00
Coors (Adolph) Co	200,000	4,983,462.50	5,275,000.00
Corning Inc.	500,000	17,311,496.00	21,875,000.00
Costco Wholesale Corp	335,000	11,405,200.00	14,279,375.00
CPC Int'l Inc	200,000	13,044,847.30	16,025,000.00
Dayton Hudson Corp.	250,000	16,243,124.00	18,187,500.00
Deere & Co.	250,000	12,138,081.06	18,312,500.00
Delmarva Power & Light Co.	450,000	7,909,054.00	8,606,250.00
Delta Air Lines Inc.	150,000	11,316,075.00	10,968,750.00
Deluxe Corp.	350,000	11,902,537.50	12,031,250.00
Dillard Dept. Stores	250,000	17,107,796.45	22,000,000.00
Disney (Walt) Co.	75,000	5,567,667.20	9,618,750.00

Description	Shares	Book Value	Market Value
Donnelley (R R) & Sons Co.	250,000	12,037,357.27	11,812,500.00
Dover Corporation	115,000	4,303,770.50	4,485,000.00
Dow Chemical	125,000	7,172,335.00	7,156,250.00
Dresser Industries	400,000	11,109,975.00	19,850,000.00
Dupont (E I) De Nemours	450,000	18,590,185.00	17,325,000.00
Duke Power Company	450,000	18,401,750.00	25,143,750.00
Eastern Enterprises	205,800	6,427,728.91	5,942,475.00
EG & G Inc.	125,000	4,939,712.96	4,734,375.00
Emerson Electric Co	425,000	17,101,935.00	17,425,000.00
Enron Corp	100,000	5,919,440.50	5,675,000.00
EQK Realty Investors	1,250,000	5,781,250.01	5,156,250.00
Equifax Inc.	100,000	2,198,740.00	1,950,000.00
Ethyl Corp.	175,000	4,713,122.00	5,184,375.00
Exxon Corp	425,000	19,978,331.20	20,346,875.00
Federal Nat'l Mtg. Assn.	250,000	10,009,775.00	10,156,250.00
First Wachovia Corp.	400,000	10,283,017.50	16,250,000.00
Fluor Corp.	450,000	17,234,293.50	20,137,500.00
Foster Wheeler Corp.	350,000	8,439,850.00	9,362,500.00
Franklin Resources Inc.	100,000	3,222,175.00	3,387,500.00
Gannett Co	400,000	16,555,649.15	15,300,000.00
General Electric Co	550,000	13,437,084.09	38,087,500.00
General Instruments Corp.	350,000	11,924,813.00	12,687,500.00
General Mills Inc	350,000	18,368,141.00	31,456,250.00
General Motors Corp.	600,000	26,544,970.00	28,575,000.00
General RE Corp	250,000	15,986,624.50	21,375,000.00
Genetics Institute Inc.	150,000	5,728,750.00	5,493,750.00
Gillette Co	250,000	13,219,610.00	14,843,750.00
Great Lakes Chemical Corp	200,000	9,232,126.90	12,675,000.00
GTE Corp	600,000	13,730,325.00	19,425,000.00
Halliburton Co	600,000	20,092,143.36	28,875,000.00
Healthsouth Rehab. Corp.	50,000	1,178,000.00	1,181,250.00
Heinz (H J) Co.	500,000	16,778,278.20	17,375,000.00
Home Depot Inc.	300,000	11,116,071.30	17,325,000.00
Honeywell Inc.	186,300	18,517,153.03	18,350,550.00
Humana Inc.	525,000	16,900,010.70	25,725,000.00
Illinois Tool Works Inc.	150,000	1,911,895.80	8,081,250.00
Imcera Group Inc.	125,000	7,266,541.00	7,359,375.00
Ingersoll Rand Co.	400,000	18,911,391.44	22,900,000.00
Intel Corp.	600,000	20,889,978.00	28,200,000.00
Int'l Business Machines	165,000	18,132,300.00	19,387,500.00
Johnson & Johnson	400,000	9,909,850.00	27,100,000.00
JWP Inc	225,000	5,713,164.65	8,550,000.00
Kerr McGee Corp.	175,000	8,211,601.50	7,918,750.00
Knight Ridder Inc.	118,600	6,700,888.73	6,048,600.00
Lilly (Eli) & Co.	225,000	16,523,202.50	18,703,125.00
Limited (The)	700,000	14,655,288.53	16,887,500.00
Liz Claiborne	450,000	10,697,250.00	14,625,000.00
Long Island Lighting Co.	400,000	8,031,650.00	7,700,000.00
Lotus Development Corp.	350,000	11,042,175.00	12,162,500.00
Louisiana Pacific Corp	450,000	18,721,536.75	17,268,750.00
Lowes Companies Inc.	150,000	5,679,700.00	7,293,750.00
LSI Logic Corp	500,000	6,069,275.00	5,625,000.00
Lukens Inc.	175,000	6,507,566.50	6,890,625.00
Mapco Inc	200,000	6,668,184.68	9,100,000.00
Mattel Inc.	275,000	5,552,625.00	6,703,125.00
May Department Stores Co.	200,000	11,353,820.00	11,075,000.00
McDonalds Corp.	725,000	19,272,288.07	25,737,500.00
Medco Containment Ser. Inc.	225,000	4,588,439.50	5,259,375.00
Merck & Co.	150,000	7,396,510.00	13,012,500.00
Microsoft Corp.	400,000	17,031,871.00	30,400,000.00
Minnesota Mining & Mfg. Co	275,000	18,376,574.50	23,821,875.00
Mobil Corp	600,000	21,210,150.00	37,050,000.00
Montana Power Co	450,000	8,687,074.00	8,718,750.00
Motorola Inc.	275,000	16,603,262.25	22,996,875.00
Murphy Oil Corp.	275,000	11,733,780.00	11,137,500.00

Description	Shares	Book Value	Market Value
Mylan Laboratories Inc.	100,000	2,346,450.00	2,412,500.00
Nalco Chemical Co	250,000	9,910,725.04	14,156,250.00
Nat'l Medical Enterprises	350,000	10,881,327.99	13,256,250.00
Nellcor Inc.	150,000	3,075,828.50	3,131,250.00
Newmont Gold Co.	125,000	6,037,463.18	5,328,125.00
Newmont Mining Corp.	125,000	5,776,670.00	5,453,125.00
Norfolk Southern Corp.	450,000	9,385,641.85	19,293,750.00
Northern States Power Co	525,000	17,968,073.34	18,965,625.00
Norwest Corp.	300,000	5,138,600.00	6,525,000.00
Novell Inc.	350,000	11,426,655.00	19,162,500.00
Nucor Corp.	50,000	3,538,000.00	3,487,500.00
Ocean Drilling & Exploration	250,000	6,337,563.80	4,968,750.00
Oregon Steel Mills Inc	100,000	4,111,500.00	3,875,000.00
Oryx Energy Co	300,000	13,593,514.90	12,862,500.00
Pacific Gas & Electric Co.	1,100,000	21,243,330.70	25,575,000.00
Pacific Telesis Group	600,000	18,684,172.50	26,700,000.00
Penney (J C) Co.	150,000	8,795,193.20	9,093,750.00
Pepsico Inc	450,000	13,952,430.00	34,931,250.00
Philip Morris Cos.	500,000	12,143,780.00	23,250,000.00
Potlatch Corp.	100,000	4,168,500.00	4,062,500.00
PPG Industries Inc.	150,000	7,190,512.50	7,200,000.00
Primerica Corp	400,000	12,447,949.50	13,650,000.00
Procter & Gamble	300,000	20,276,869.40	26,137,500.00
Promus Companies Inc.	175,000	5,543,041.38	4,637,500.00
Pyramid Technology Corp.	150,000	4,501,265.00	4,200,000.00
Ralston Purina	150,000	12,195,021.60	13,781,250.00
Roadway Services Inc.	125,000	5,007,470.00	4,437,500.00
Rowan Companies Inc.	900,000	7,424,973.50	10,575,000.00
Rubbermaid Inc.	175,000	6,343,150.00	7,109,375.00
Ryans Family Steak Houses Inc	400,000	3,060,260.00	3,150,000.00
Safeco Corp.	300,000	11,515,188.00	10,800,000.00
Schering Plough Corp	600,000	17,243,348.15	28,350,000.00
SCI Systems	425,000	5,254,500.00	4,250,000.00
Scientific Atlanta Inc.	450,000	10,732,562.42	11,868,750.00
Scott Paper Co	150,000	6,269,275.20	7,218,750.00
Seagate Technology	300,000	5,650,100.00	4,237,500.00
Seagram Co.	100,000	8,643,712.50	8,225,000.00
Sequent Computer Systems Inc.	105,000	2,627,495.00	3,176,250.00
Silicon Graphics Inc.	300,000	7,949,300.50	11,250,000.00
Smith Int'l Conv. Pref.	35,000	1,645,000.00	1,715,000.00
Sonat Inc.	125,000	5,529,625.00	6,312,500.00
Southwestern Bell Corp.	375,000	19,246,389.80	20,203,125.00
Sundstrand Corp	250,000	9,831,417.51	8,875,000.00
Sungard Data Systems Inc.	175,000	4,018,504.00	4,243,750.00
Symantec Corp.	75,000	1,593,750.00	1,931,250.00
Sysco Corp	350,000	6,174,960.00	11,987,500.00
Tambrands Inc	50,000	4,218,330.00	4,225,000.00
Tandem Computers Inc	600,000	15,353,490.00	14,325,000.00
TECO Energy Inc.	400,000	9,659,130.76	11,600,000.00
Temple Inland Inc	600,000	17,383,679.94	20,550,000.00
Tenneco Inc.	375,000	20,574,930.55	25,406,250.00
Teradata Corp.	100,000	3,255,005.00	2,687,500.00
Texaco Inc.	525,000	26,373,415.60	29,728,125.00
Thermo Electron Corp.	150,000	5,133,290.06	4,575,000.00
Tidewater Inc.	100,000	1,680,005.00	1,512,500.00
Topps Co. Inc	300,000	5,452,495.00	7,125,000.00
Toys 'R' Us Inc	555,200	14,500,969.30	26,719,000.00
Tyco Laboratories Inc	400,000	16,677,396.70	22,750,000.00
Tyson Foods Inc.	200,000	5,055,625.00	6,175,000.00
Unum Corp.	125,000	3,612,774.39	6,671,875.00
Unif Inc.	250,000	3,014,905.00	3,875,000.00
United Technologies Corp.	225,000	12,435,613.40	12,881,250.00
United Telecommunications	250,000	11,230,161.28	9,906,250.00
Unocal Corp.	1,200,000	16,740,048.00	32,550,000.00
US West Inc.	650,000	19,403,026.68	23,318,750.00

Description	Shares	Book Value	Market Value
UST Inc.	700,000	10,563,916.20	21,525,000.00
Wal Mart Stores Inc.	600,000	16,535,765.00	37,425,000.00
Walgreen's Inc.	299,100	13,535,109.04	14,842,837.50
Waste Management Inc.	650,000	17,254,300.00	26,893,750.00
Wells Fargo & Co.	250,000	16,817,824.40	19,750,000.00
Westinghouse Electric Corp.	350,000	11,929,367.00	12,862,500.00
Woolworth Corp.	650,000	19,962,286.60	21,368,750.00
Worthington Industries Inc	200,000	4,779,374.00	4,900,000.00
TOTAL DOMESTIC STOCK PORTFOLIO		$2,221,880,122.67	$2,842,894,087.50

INTERNATIONAL STOCK PORTFOLIO

Description	Shares	Book Value	Market Value
Abbey National PLC	1,000,000	3,270,056.59	3,725,370.00
Albert Fisher Group	4,000,000	6,952,448.00	9,024,840.00
Albert Fisher Group PLC WT	400,000	68,115.08	55,968.00
Allianz AG Holding	4,000	3,284,878.28	6,695,971.57
Allianz New	800	236,406.62	1,322,333.95
Asahi Organic Chemical	775,000	6,558,125.75	7,084,840.51
Baloise Hldgs. PC	3,000	4,982,963.01	4,982,332.15
Bayerische Motoren Werke AG	36,000	13,043,721.38	12,616,366.59
Bayerische Vereinsbank	10,000	2,400,571.06	2,378,515.08
BBC Brown Boveri AG Beare	133	280,235.99	558,909.89
BBC Brown Boveri AG PC	16,000	10,383,476.09	12,144,977.03
BBC Brown Boveri AG REG	133	56,031.45	115,141.34
Beazer PLC	3,000,000	8,854,847.27	8,552,609.99
Brambles Industries	681,483	5,463,237.88	7,509,888.14
British Gas PLC ADR	125,000	2,809,587.50	4,859,375.00
British Petroleum PLC	400,000	2,386,879.79	2,238,720.00
British Steel PLC ADR	378,000	8,322,804.90	9,497,250.00
British Telecommunications PLC	1,700,000	7,236,001.39	9,009,098.99
Burns Philp & Co	300,000	716,838.38	761,088.00
Burton Group PLC	1,350,000	4,889,640.92	2,797,962.75
Cementia Hldgs. PC	4,000	2,447,917.52	3,293,286.21
CGE Cie Generale Electicite	80,918	5,450,936.40	9,190,614.83
Cie Fin Suez	141,890	7,601,966.67	11,235,288.42
Cityvision PLC	4,440,000	9,074,400.43	8,852,738.39
CKD Corp.	660,000	2,757,362.66	5,686,287.40
Coca-Cola Amatil	164,550	1,375,937.30	1,500,235.26
Collins & Leahy Hldgs. Ltd.	1,009,250	2,694,888.98	504,084.04
Daiwa Securities Co. Ltd.	146,000	1,433,363.58	1,401,907.26
Dai-Tokyo fire & Marine	300,000	1,744,238.89	1,963,170.00
Deutsche Bank AG	7,396	2,722,448.86	3,551,701.08
Elan Corp. PLC ADR	102,200	1,684,870.36	2,018,450.00
Elders IXL Limite	1,050,001	1,872,927.62	1,431,796.80
Euro Disneyland	500,000	10,009,972.67	9,243,998.56
Exicom Ltd	1,687,100	3,117,885.91	1,471,286.16
Fisons PLC	1,406,250	5,785,128.93	8,977,289.06
Getronics NV	305,000	3,488,889.56	5,512,834.22
Glaxo Hldgs. PLC ADR	200,000	5,170,861.20	5,800,000.00
Imperial Oil A	60,000	3,242,452.89	2,816,447.53
Kawada Industries	550,000	4,708,726.58	5,859,914.50
Keio Teito Electric Railway	288,000	2,993,334.43	1,988,819.46
Kirin Brewery Co.	250,000	3,084,127.73	3,041,762.57
Kobori Juken Co. Ltd.	120,000	1,865,308.64	1,538,967.44
Kyocera	89,000	3,888,086.13	5,203,617.23
Mannesmann AG	40,000	7,497,332.49	8,646,956.10
Manpower PLC	5,350,000	8,364,466.14	7,766,434.50
Marubeni Corp	850,000	5,799,367.04	4,192,699.76
Marui Co. Ltd.	226,000	4,940,094.82	4,563,104.24
Mikuni Coca-Cola Bottling	400,000	2,024,072.58	8,655,047.68

Description	Shares	Book Value	Market Value
Mitsui Real Estate Dev. Co. Ltd.	246,000	5,513,464.66	2,960,736.59
Nat'l Westminister Bank PLC	2,000,000	9,889,489.38	11,158,619.99
Nat'l Australia Bank	500,000	2,613,361.18	2,552,816.00
NCR Japan Ltd.	90,000	1,075,545.07	1,083,196.31
Nippon Oil Co. Lt	360,000	5,098,332.89	3,006,905.62
NMB Postbank Groep	307,500	7,750,475.89	8,205,481.28
Oce' Van Der Grinten	200,000	5,292,280.02	6,620,320.85
Pacific Dunlop Limited	1,585,000	4,199,020.93	6,408,598.80
Pearson PLC	200,000	2,479,269.96	2,675,970.00
Peugeot SA	106,000	10,200,825.83	15,742,386.24
Philips Gloeilampenfabrieken	432,640	10,641,701.76	7,657,959.35
Pioneer Int'l Ltd.	1,490,272	4,213,551.86	2,634,717.44
Polly Peck Int'l PLC	1,414,285	6,100,568.45	10,710,620.73
Polygram NV	1,020,000	16,489,200.00	19,125,000.00
Renaissance Energy	400,600	3,916,676.27	4,991,578.58
Reuters Hldgs. PLC	400,000	4,267,116.99	8,810,622.47
Rothmans Int'l	80,000	875,335.69	1,098,372.00
Royal Dutch Petroleum	25,000	1,328,308.65	1,883,689.83
Sankyo Co. Lt	280,000	5,043,119.82	4,732,653.73
Schindler Hldg. AG Bearer	1,300	5,172,885.52	6,844,522.96
Seiyo Food Systems	267,000	3,902,708.71	3,740,282.80
Shell Transport & Trading PLC	1,720,276	13,332,093.06	13,741,300.64
Shimachu Co. Ltd	366,000	5,338,028.56	12,613,219.33
Siemens A	15,000	5,568,144.05	6,769,735.65
Simon Engineering PLC	300,000	1,798,807.48	2,114,541.00
Sumitomo Marine & Fire Inc	250,000	2,026,243.42	1,709,963.82
Sunwave Industrial Co	84,000	1,305,416.93	2,044,064.45
Swiss RE Warrants A	3,500	43,750.00	18,551.23
Swiss RE Warrants B	3,500	43,750.00	28,445.22
Takasago Thermal Engineering	137,000	924,447.20	3,000,394.60
Takashimaya Co. L	425,000	3,625,943.47	8,133,837.55
Tayca Corp	250,000	2,082,148.55	1,742,847.74
TNT	1,600,000	4,257,503.50	3,285,363.20
Tokyo Electric Co	35,000	303,081.07	255,508.05
Toppan Printing Co. Ltd	475,000	6,897,619.25	5,435,711.93
Total Cie Francaise Petrole	115,000	14,783,352.61	14,318,344.67
Unilever NV	380,000	24,859,221.15	32,614,973.26
Union Bank of Switzerland Beare	3,780	7,899,896.62	9,510,106.00
United Biscuit Hldgs. PLC	700,000	3,944,787.67	4,382,994.00
Viag SA	20,000	2,505,219.21	5,021,978.68
Water Hldgs. Package Units	1,000	1,641,947.68	2,737,185.00
Western Mining Corp. Hldgs. Lts.	300,000	1,181,027.70	1,077,415.20
TOTAL INTERNATIONAL STOCK PORTFOLIO		$429,463,903.05	$505,041,830.47
GRAND TOTAL STOCK PORTFOLIO		$2,651,344,025.72	$3,347,935,917.97

TCRS Performance Summary
Fiscal Years 1980-81 Through 1989-90

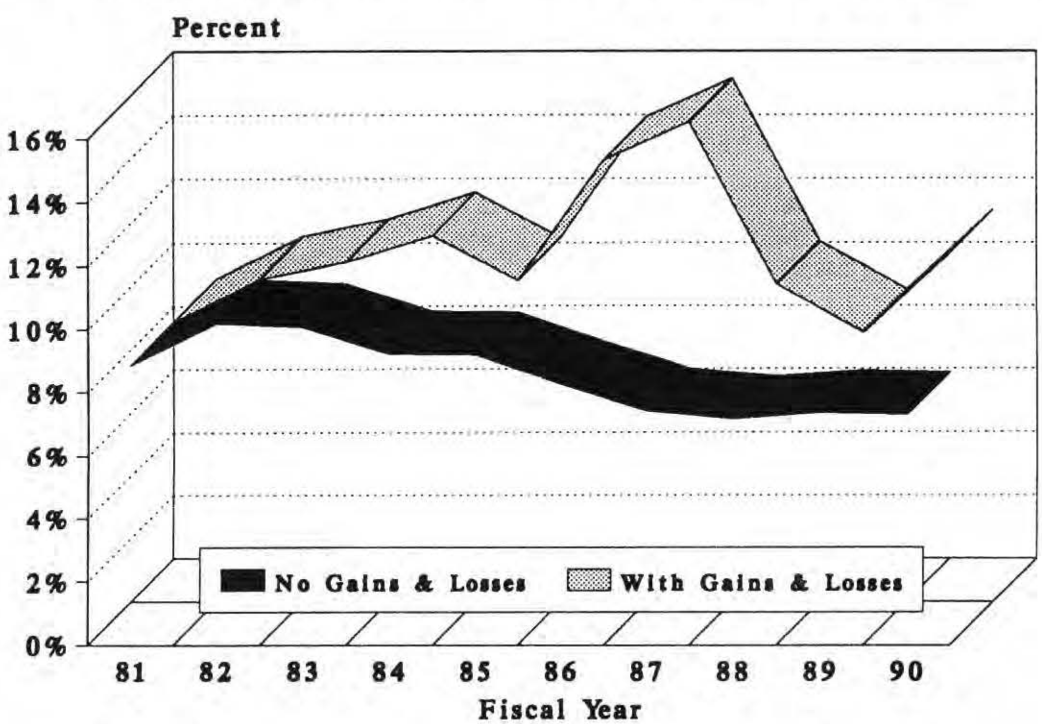
	EXCLUDING GAINS AND LOSSES			INCLUDING GAINS AND LOSSES		
Fiscal Year	Average Amount Invested	Amount Earned	Percentage Earned on Book Value	Average Amount Invested	Amount Earned	Percentage Earned on Book Value
1989-90	$7,285,571,828	$ 527,470,999	7.24%	$ 7,154,949,468	$788,715,719	11.02%
1988-89	6,492,258,416	474,648,937	7.31	6,454,807,817	549,550,134	8.51
1987-88	5,790,721,402	412,547,763	7.12	5,710,292,216	573,406,134	10.04
1986-87	4,918,934,167	366,812,760	7.37	4,802,008,843	726,663,408	15.15
1985-86	4,159,389,303	342,666,987	8.24	4,048,574,353	564,296,889	13.94
1984-85	3,502,888,237	321,331,692	9.17	3,486,456,087	354,195,992	10.16
1983-84	3,010,007,123	276,903,188	9.20	2,959,626,328	342,868,167	11.58
1982-83	2,545,242,008	256,280,401	10.07	2,537,065,851	272,632,717	10.75
1981-82	2,156,483,125	219,758,181	10.19	2,156,322,701	220,079,030	10.21
1980-81	1,827,992,630	162,099,561	8.87	1,828,006,525	162,071,771	8.87

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

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

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

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



TCRS Investments
Rate Of Return Analysis

Fiscal Year	[1]Public Fund Index Median Total Return	[2]TCRS Total Return	[3]Income Yield On Average Available Funds	[4]Yield To Maturity New Bonds
1989-90	10.4%	11.6%	6.03%	9.01%
1988-89	14.2	15.3	6.35	9.36
1987-88	1.9	2.0	5.49	9.21
1986-87	10.8	10.3	4.92	8.50
1985-86	25.2	27.7	5.21	9.67
1984-85	26.8	28.6	7.26	11.76
1983-84	(2.1)	(3.3)	8.02	12.21
1982-83	37.6	35.4	8.64	11.80
1981-82	4.1	5.6	8.08	14.50
1980-81	3.1	1.4	7.95	12.83

[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 1985-86 through 1989-90

Fiscal Year	Cash Management Earnings	TCRS Portfolio Earnings	Total Treasury Earnings
1989-90	$144,236,980	$ 788,715,719	$ 932,952,699
1988-89	134,874,854	549,550,134	684,424,988
1987-88	119,443,968	573,406,134	692,850,102
1986-87	108,799,286	726,663,408	835,462,694
1985-86	102,595,865	564,296,889	666,892,754
TOTAL	$609,950,953	$3,202,632,284	$3,812,583,237

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 State Treasurer's management. Due to restrictions imposed upon state-owned trust companies by the Federal Reserve Board, the State Trust of Tennessee is limited to the number of daily outgoing wire transfers and can no longer settle ACH transactions through its account at the Federal Reserve. The restrictions required the State Trust of Tennessee to contract with an agent bank to execute these transactions.

State Trust Of Tennessee
Federal Reserve Bank Transactions
Fiscal Year 1989-90

Transaction Type	Number	Amount
(1) Wire Disbursements	1,000	$ 7,783,107,733
(2) Wire Receipts	8,904	11,514,708,252
(3) Security Disbursements	1,003	14,717,661,521
(4) Security Receipts	923	14,547,178,280
(5) Check Redemptions	5,880,039	6,274,247,190
TOTAL	5,891,869	$54,836,902,976

Explanation of Transaction Types:

(1) Disbursements of cash for the purpose of non-Fed eligible securities, payment of Deferred Compensation, and payment of Local Government Investment Pool (LGIP).

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

(3) Disbursement of cash against the receipt of Fed eligible securities (U.S. Government securities held in book-entry form by the Federal Reserve Bank).

(4) Receipt of cash against the disbursement of Fed eligible securities.

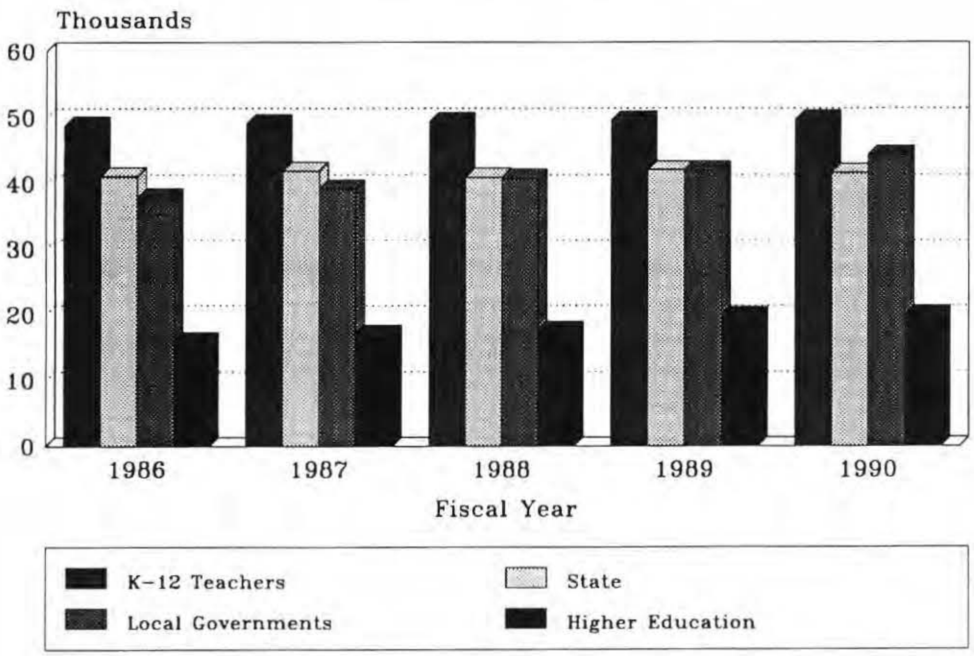
(5) Redemption of warrants, drafts, and checks issued by the state.

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

Membership

Membership in the retirement system is a condition of employment for full-time state employees, teachers, general employees in higher education, and the employees of local governments that participate in TCRS. Membership is optional for certain part-time employees. Faculty employees in higher education may participate in either TCRS or TIAA/CREF, which is a nationwide defined contribution plan designed for faculty employees in institutions of higher education. When an employee joins TCRS, he receives an introductory letter and membership pamphlet outlining various aspects of retirement membership. Members currently become vested with 10 years of creditable service. A vested member is guaranteed a retirement benefit once the age requirements are met. As of June 30, 1990, there were 155,799 active members of TCRS and 7,948 higher education employees participating in TIAA/CREF.

ACTIVE MEMBERS
Fiscal Years 1986–1990



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

Contributions

The funding of retirement benefits is financed by member contributions, employer contributions, and the earnings of the invested assets. Effective July 1, 1981, the employee contributions of certain state employees and higher education employees were assumed by the state. Local governments can also adopt these noncontributory provisions for their employees. Group I K-12 teachers and contributory local government employees contribute to TCRS at the rate of 5% of gross salary. Employee contribution rates vary for superseded classifications. Effective January 1, 1987, all state employees and teachers who contribute a portion of their income to the retirement system became covered by the provisions of 414(h) of the Internal Revenue Code. Under 414(h), payment of federal income tax on an employee's retirement contributions is deferred until these contributions are withdrawn in the form of a refund or monthly benefit payments. Political subdivisions may pass a resolution adopting the provisions of 414(h) for their employees.

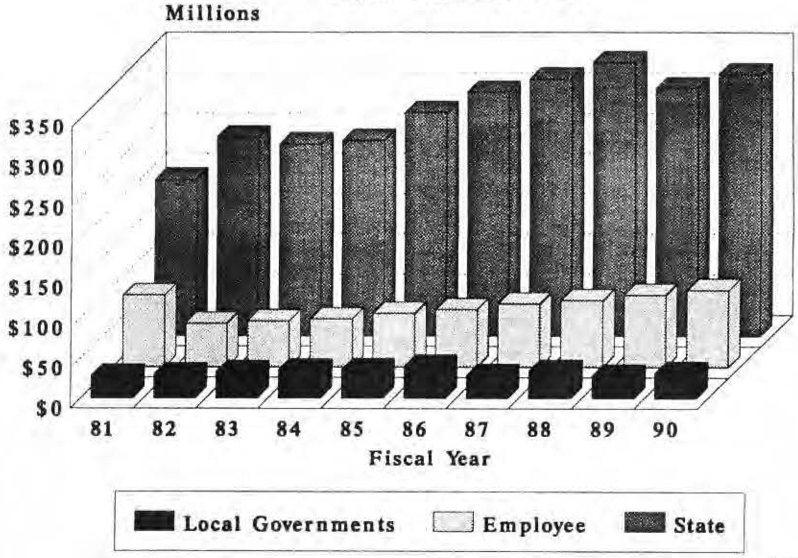
Upon termination of employment, a member may elect to withdraw his contributions and accumulated interest from the retirement system in a lump sum. By obtaining a lump sum refund, a member waives all rights and benefits in the retirement system. A vested member may leave his account balance in TCRS and apply for benefits upon meeting the age requirements. A non-vested member who terminates employment may only leave his account balance in TCRS for up to seven years; after seven years, he automatically loses membership. During the 1989-90 fiscal year, 6,046 refunds totaling $20.6 million were issued.

The contribution rate for the employers participating in the retirement system is determined by a biennial actuarial valuation performed by an independent actuarial firm. The contribution rates include funding for the basic benefit, the cost-of-living increase provisions, and amortization of the accrued liability over a 40 year period which began in July of 1975. The employer contribution rates for the year ending June 30, 1990 were as follows:

Noncontributory State and Higher Education Employees	9.86%
K-12 Teachers	12.82%
Political Subdivisions	Individually Determined
Faculty Members Electing to Participate in TIAA/CREF	10.00%*

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

Retirement Contributions
Fiscal Years 1981-90



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 1989-90

Type of Service	Number of Employees	Years of Service	Employee Payment
Military:			
Interrupted Employment	11	11	$ 2,299
Purchased Peacetime	63	48	139,411
Armed Conflict	354	753	0
Redeposit of Withdrawn Service	717	2,608	2,406,252
State Service Prior to 1945	2	5	0
Teaching Service Prior to 1945	5	16	0
Out-of-State Service	11	15	26,700
Political Subdivision Enrollment Service:			
Employee Paid	117	548	253,130
Employer Paid	692	5,075	0
Noncontributory Service	137	186	0
TOTAL	2,109	9,265	$2,827,792

Retirement Benefits

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

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

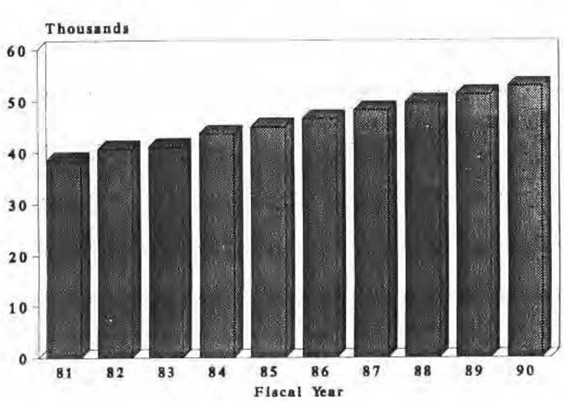
Disability benefits are available to active members with five years of service who become disabled and can not engage in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is a result of an accident or injury occurring while the member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

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

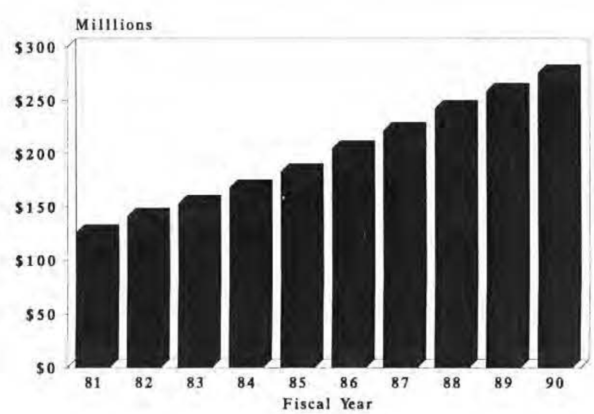
Certain death benefits are available to the beneficiary(s) of a member who dies prior to retirement. At retirement, a member can select an optional benefit which is actuarially reduced so that his beneficiary may continue to receive a benefit after his death.

As of June 30, 1990, 52,697 retirees were receiving monthly benefit payments. Benefits paid in fiscal year 1989-90 totaled $276 million. A comprehensive retired payroll data base was implemented during the 1989-90 fiscal year to replace the existing 14 year old system. The new system handles the payroll processing for over 50,000 retirees, benefit estimates for members considering retirement, and benefit calculations for those members who are retiring.

Number of Retirees on Payroll



Annual Benefit Payments



Financial Data

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

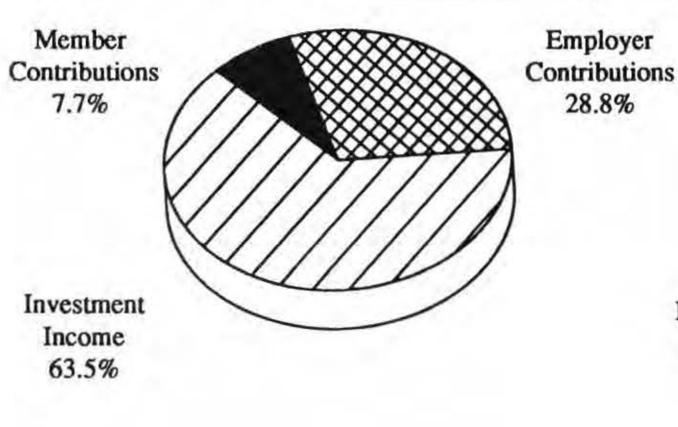
The Member Reserve Fund represents the accumulation of member contributions credited to the members' accounts plus interest.

June 30, 1989 Member Reserve Fund	$ 1,352,039,996
Member Contributions	95,957,377
Employer Provided Contributions	40,625,362
Interest	65,210,902
Refunded Account Balances	(20,358,686)
Transfers to Employer Fund of Retiring Members' Accounts	(44,199,459)
June 30, 1990 Member Reserve Fund	$ 1,489,275,492

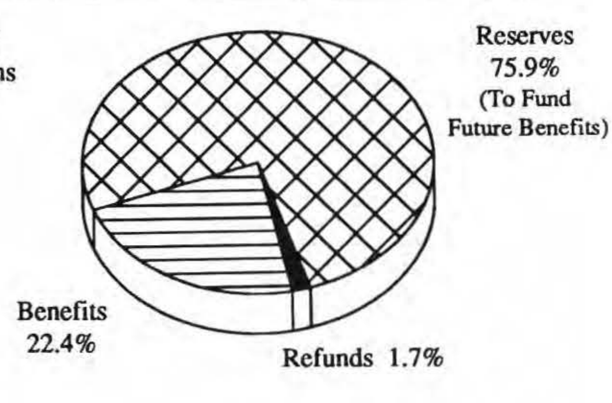
The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retiring members. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

June 30, 1989 Employer Reserve Fund	$ 5,725,925,137
Employer Contributions	356,747,403
Investment Income	788,715,719
Transfers from Retiring Members' Accounts	44,199,459
Employer Provided Contributions	(40,625,362)
Interest Credited to Members' Accounts	(65,210,902)
Lump Sum Death Benefits	(2,349,660)
Retirement and Survivor Annuities	(275,825,269)
Employer Refunds	(202,494)
June 30, 1990 Employer Reserve Fund	$ 6,531,374,031

Sources of Funds



Uses of Funds



Actuarial Valuation

An actuarial valuation of the TCRS is performed by an independent actuarial firm every two years. The purpose of the valuation is to determine the funding requirements for the employers participating in the TCRS. The latest valuation was performed June 30, 1989 to establish employer contribution rates for a two year period beginning July 1, 1990. At the June 30, 1989 valuation, the state system had an accrued liability of $1.7 billion. The accrued liability is being amortized over a 40 year period which began in 1975. Prior to 1975, only the interest on the accrued liability was being funded. In 1977, the system began actuarially funding the cost-of-living provisions for retirees. Prior to that date, the cost-of-living adjustments were funded on a pay-as-you-go basis.

In addition to the biennial actuarial valuation, an experience study is conducted every four years for the purpose of establishing actuarial and economic assumptions to be used in the actuarial valuation process. The assumptions used in the June 30, 1989 actuarial valuation of the plan are:

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

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

The pension benefit obligation (the present value of pension benefits, adjusted for projected salary increases, estimated to be payable in the future as a result of employee service to date) totalled $7.107 billion at the June 30, 1989 actuarial valuation date. Net assets of $7.078 billion, equalling 99.6% of the pension benefit obligation (PBO), were available for benefits. As determined by an actuarial update, the PBO for June 30, 1990 totaled $7.801 billion with net assets available for benefits equalling 102.8% 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 at June 30, 1990

Cities	109
Counties	82
Utility Districts	24
Special School Districts	19
Joint Ventures	19
Regional Libraries	12
Development Agencies	7
Housing Authorities	9
Miscellaneous Organizations	11
911 Emergency Communication Districts	6
Total	298

Social Security

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

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

In 1985, the federal Budget Reconciliation Act mandated medicare coverage to public employees hired after March 31, 1986, in positions not covered under the full social security program. The 1986 Act relieves the state of its responsibility for collecting social security contributions and medicare taxes from public employers, effective January, 1987. However, the state retains full responsibility for all matters relating to coverage of its state and local employees. In addition, the state's liability to the Social Security Administration with respect to wages paid for calendar year 1986 continues until the federal statute of limitations precludes such liability.

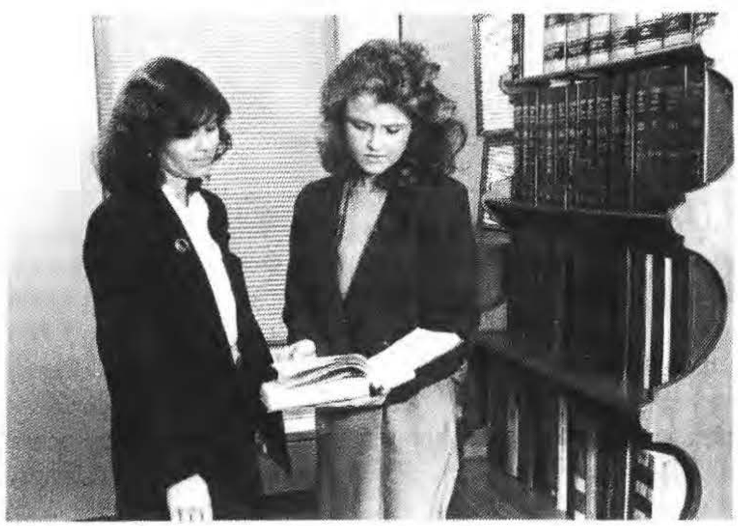
Schedule of Historical Social Security Contribution Rates

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

Steve Curry, Director of TCRS , and Ed Hennessee, Assistant Director

Mary Smith, OASI, and Velva Booker, Benefits and Retired Payroll

Jamie Fohl, Membership and Field Service, and Donna Finley, Counseling



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

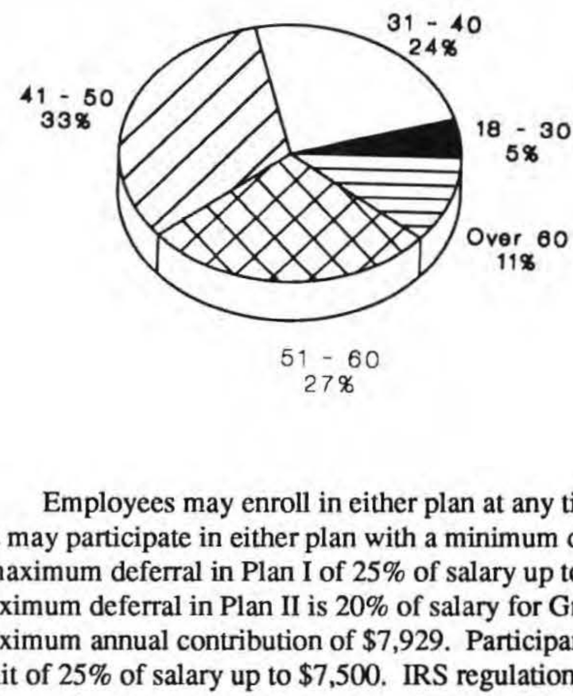
The Deferred Compensation Program is a voluntary program designed to provide state employees with the opportunity to accumulate supplemental retirement income on a tax deferred basis. Participants may postpone income taxes on contributions and earnings by agreeing to defer receipt of a portion of their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

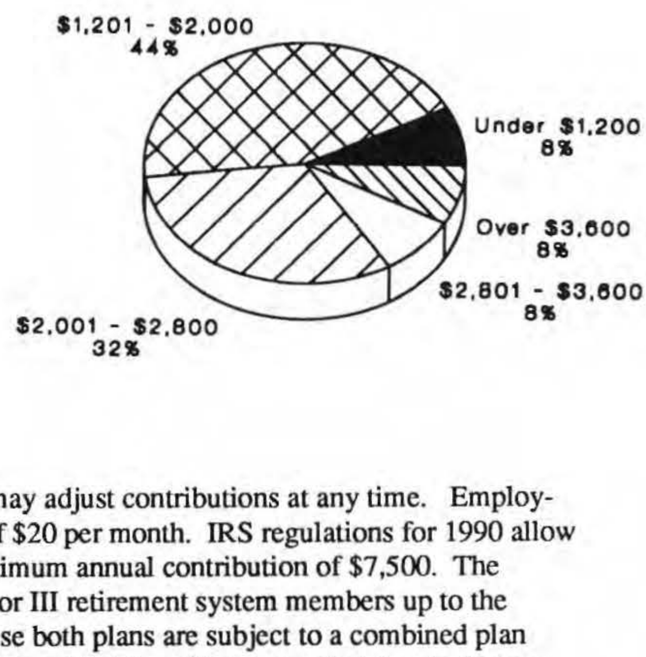
As of June 30, 1990, 6,345 employees had accounts in the program: approximately 42% had accounts in Plan I only, 37% had accounts in Plan II only, and 21% had accounts in both plans. At June 30, 2,391 state employees and 85 University of Tennessee employees were actively contributing to Plan I and 2,218 state employees and 305 University of Tennessee employees were actively contributing to Plan II. As illustrated by the following charts, the program is used by state employees of all ages and salary levels. The majority are under age 50 and earn below $24,000 per year.

Participation

Age Distribution



Monthly Salary Distribution



Employees may enroll in either plan at any time and may adjust contributions at any time. Employees may participate in either plan with a minimum deferral of $20 per month. IRS regulations for 1990 allow a maximum deferral in Plan I of 25% of salary up to the maximum annual contribution of $7,500. The maximum deferral in Plan II is 20% of salary for Group I, II or III retirement system members up to the maximum annual contribution of $7,929. Participants who use both plans are subject to a combined plan limit of 25% of salary up to $7,500. IRS regulations generally prohibit the withdrawal of deferrals during state employment. At retirement, participants may elect a lump sum payment, periodic payments, or fixed or variable annuity payments of their accumulations in either plan.

Participants in the program may direct the investment of their deferred salary to any of the investment products authorized and contracted by the state. Contributions are wired through the State Trust of Tennessee for immediate crediting. Deferrals may be accumulated in Fidelity Federal's time deposit account, AEtna's guaranteed accumulation account, Great-West Life's guaranteed certificate fund and three of Fidelity Investments' mutual funds. Enrollment and recordkeeping services for the program are provided by The Holden Group. The use of a separate administrator enables the program to offer a wide variety of investment products and to offer participants the flexibility to transfer accumulated funds among investment providers without penalty.

For the year ending June 30, 1990, participants deferred a total of $10,277,563 through the program. At June 30, 1990, accumulated account balances totaled $91,257,737. Distribution of these funds is shown on the following schedule.

	Deferrals		**Market Value of Account Balances**	
	FY 1988-89	**FY 1989-90**	**June 30, 1989**	**June 30, 1990**
Plan I (457)				
AEtna - Closed Contract	$ 0	$ 0	$19,447,324	$20,307,759
AEtna - New Contract	336,085	237,187	1,012,760	1,277,347
American General	151,493	204,588	763,961	855,388
Fidelity Federal	1,379,199	1,254,548	10,108,856	11,858,478
Fidelity Investments	2,381,184	1,905,923	9,120,820	11,781,767
Great West	1,089,810	843,906	3,978,035	5,093,927
TOTAL	$5,337,771	$4,446,152	$44,431,756	$51,174,666
Plan II (401k)				
AEtna - Closed Contract	$ 0	$ 0	$11,282,450	$11,773,481
AEtna - New Contract	417,789	361,640	1,379,686	1,817,704
Fidelity Federal	1,079,876	1,115,134	4,309,147	5,761,885
Fidelity Investments	3,347,329	3,573,370	12,085,860	16,575,816
Great West	935,952	781,267	3,254,375	4,154,185
TOTAL	$5,780,946	$5,831,411	$32,311,518	$40,083,071

During the 1989-90 fiscal year, 37 participants received loans from Plan II. Under this program, active employees who have accumulated $4000 or more in Plan II may borrow up to half of their account value. Participants repay principal and interest to their Plan II accounts through salary deduction. Taxes continue to be deferred while funds accumulated in the plan are in loan status.

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

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

In exchange for its favorable tax treatment, the plan must comply with specific rules set forth by the Internal Revenue Code and Regulations. Employees must decide what they will purchase through the plan and how much they will spend before the year begins. Enrollment in the plan is for a full calendar year. Enrollments may not be changed after the year has begun unless the employee experiences a change in family status and reports that change promptly. Employees must use the amounts set aside in each category for corresponding expenses incurred during the year and any amount not used by the employee must be subject to forfeiture.

Tennessee's Flexible Benefits Plan, or "cafeteria" plan was implemented January 1, 1989. Administration, currently performed by VISTA Management Company, is overseen jointly by the Treasury Department and the Department of Finance and Administration.

At June 30, 1989, 19,293 state employees were enrolled in the plan. Effective January 1, 1990, 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 three benefit options requires a new election each year.

At June 30, 1990, 30,641 state employees were enrolled in one or more of the plan's four options: 30,501 employees used the plan to pay medical insurance premiums, 2,077 paid dental insurance premiums, 2,097 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. During the plan's first six months of operation in fiscal year 1988-89, the state realized $412,914 in F.I.C.A. savings. In fiscal year 1989-90, the state's F.I.C.A. savings totaled $1,031,946. These savings have been designated for paying the administrative expenses of the plan, offsetting costs in the state's health insurance program, and providing assistance for day care programs.

The Division of Claims Administration processes claims filed against the state for the negligent operation of motor vehicles or machinery; negligent care, custody and control of persons or property; professional malpractice; workers' compensation claims by state employees; dangerous conditions on state maintained highways and bridges; and nuisances created or maintained by the state. The Division of Claims Administration operates in conjunction with the Attorney General's Office and the Tennessee Claims Commission in this claims process. The Division of Claims Administration handles all workers' compensation claims, employee property damage claims and tort claims up to a certain monetary limit. During fiscal year 1989-90, the Division of Claims Administration received a total of 6,744 claims.

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

This division also provides staff support to the Board of Claims. The Board of Claims has the authority to hear claims which do not fall within the jurisdiction of the Tennessee Claims Commission. Claims which come under the jurisdiction of the Board of Claims are immediately referred to the Board. During fiscal year 1989-90, the Board took action on a total of 21 claims. The Board also reviews and approves the purchase of insurance policies by the state and makes recommendations to the Commissioner of Finance and Administration and the General Assembly regarding the required funding for the Claims Award Fund.

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

Claims and Payment Activity
Fiscal Year 1989-90

	Claims Filed	Payments Made	
Workers' Compensation Claims	3,889		
Death Payments		$ 218,262	
Medical Payments		3,073,637	
Assault Injury Payments		14,324	
Temporary Disability (Lost Time)		676,312	
Permanent Disability		2,140,463	
Subtotal			$6,122,998
Employee Property Damage	242		28,326
Tort Claims	2,613		
Death Payments		$ 467,315	
Bodily Injury Payments		1,843,190	
Property Damage Payments		593,093	
Subtotal			2,903,598
TOTALS	6,744		$9,054,922

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

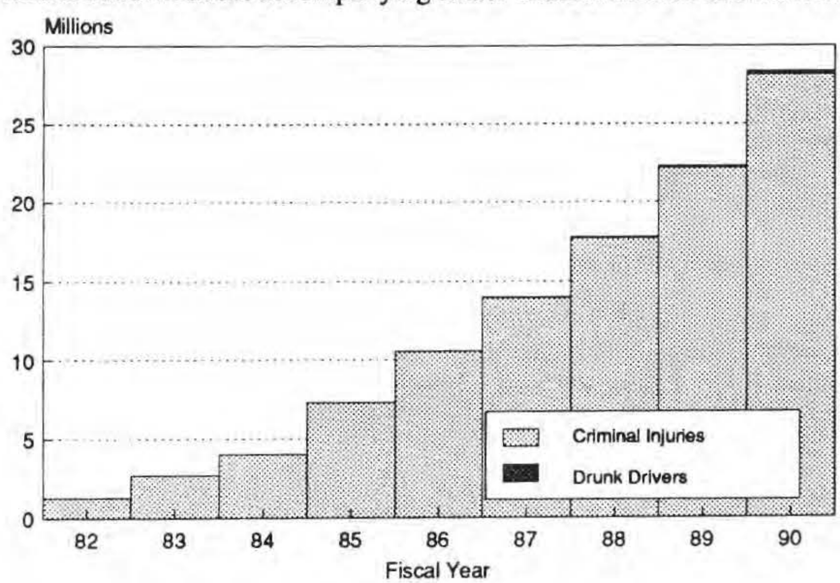
Effective January 1, 1990, applications for Criminal Injuries Compensation are filed with the Division of Claims Administration. The division's staff reviews the application and obtains supporting information from the appropriate District Attorney's Office to determine eligibility for payment from the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

During the 1989-90 fiscal year, the Division of Claims Administration made payments on 1,361 criminal injury claims for a total $5,941,595. 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 1990 with a fund balance of $9,064,907. Recent legislative changes have increased the benefits available in both the criminal injury and drunk driver compensation programs. Victims who are injured on or after July 1, 1990 may receive up to $7,000 plus attorney's fees. Supplemental benefits up to $3,000 may be added if a victim's losses and expenses exceed $7,000. A supplemental program shall be operative if the Board of Claims determines that the estimated balance in the fund at June 30 is equal to at least 50% of actual claims paid during that fiscal year. The current supplemental award program allows for additional payments to be made to victims whose injury occurred on or after July 1, 1990.

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 and, if appropriate, up to $3,000 in a supplemental award. During fiscal year 1990, 56 claims were paid from this fund for a total of $123,608.

Since the first claims were paid in 1982, the program has awarded a total of over $28.37 million to crime victims. Cumulative award amounts are shown on the accompanying chart. The Division of Claims Administration has made an effort to educate members of the public of the existence and benefits of the Criminal Injury Compensation Program by printing and distributing informative brochures explaining the program. Public awareness programs and the use of victim assistance coordinators in each judicial district have also aided in providing the public with information about the availability of criminal injury compensation.

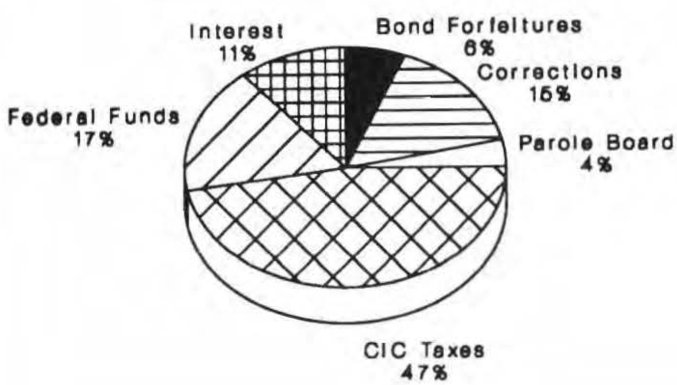


Analysis of Victim Compensation Awards Paid During Fiscal Year 1989-90

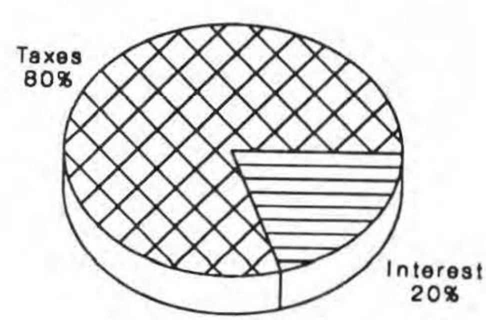
Classification of Crime	Number of Awards	Percent of Total	Dollar Value of Awards	Percent of Total	Average Award
Criminal Injuries:					
Homicide	268	19.69%	$1,334,454	22.46%	$4,979
Sexual Assault	497	36.52	1,696,510	28.55	3,413
Robbery	45	3.31	171,844	2.89	3,819
Assault	548	40.26	2,722,831	45.83	4,969
Other	3	.22	15,956	.27	5,319
Total	1,361	100.00%	$5,941,595	100.00%	$4,366
Drunk Drivers	56	100.00%	$ 123,608	100.00%	$2,207

Sources of Funds

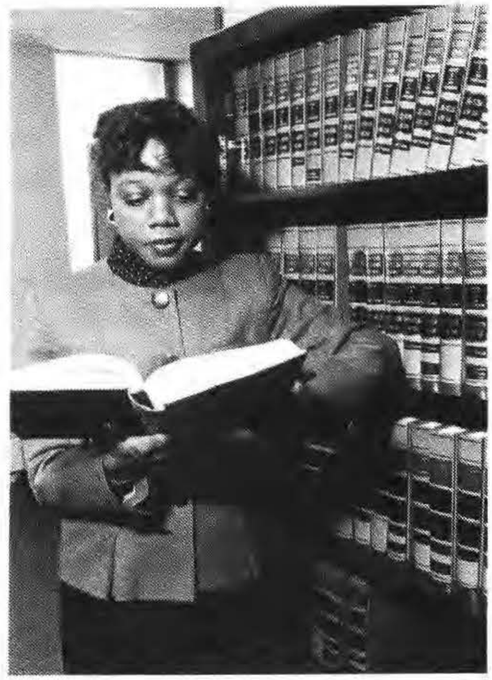
Victims of Criminal Injury



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.



Phyllis Simpson, Staff Attorney

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 1989-90, the Defense Counsel Commission/Subcommittee authorized payments of attorney's fees and litigation expenses which totaled $143,485. The Defense Counsel Commission/Subcommittee considered 34 requests on a total of 25 lawsuits of which 33 were approved. At the end of the fiscal year, there were 23 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.

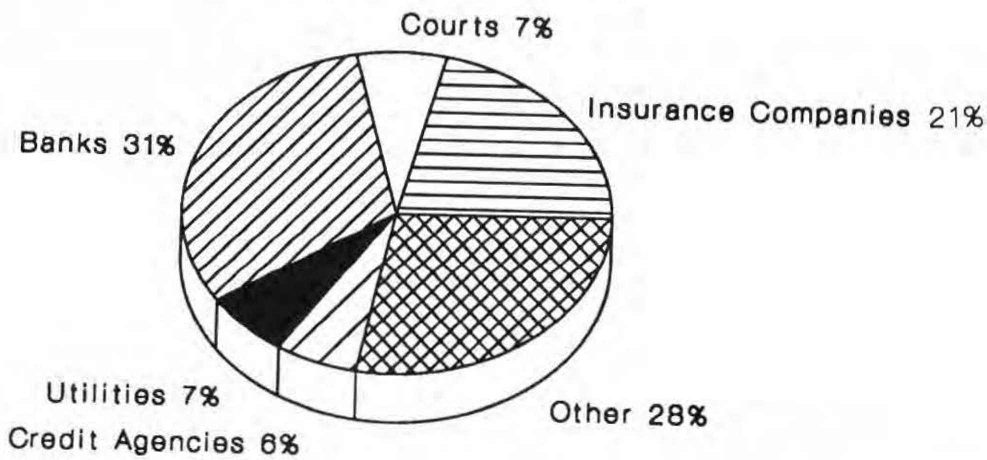
The Division of Claims Administration serves as staff to the Defense Counsel Commission/Subcommittee and maintains the records and minutes of the Defense Counsel Commission/Subcommittee. It also houses the files and processes bills for payment after approval by the members.

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

The Unclaimed Property Act provides that cash property which an organization or individual is holding for another person will be reported to the Treasurer if the holder of the property has had no contact with the owner for a period of seven years and if the holder cannot locate the owner. Once property is reported, the Treasurer advertises the owner's name and last known address and attempts to direct the owners to their property. A total of $5,735,658 was advertised during the 1989-90 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, 1989 through June 30, 1990, $5,398,286 of cash property was turned over to the Treasurer. The Unclaimed Property Division also completed a stock sale in July 1990 in which 8,423 shares of stock in various companies were sold for $229,141. The following chart illustrates the sources of cash collections for fiscal year 1989-90.

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.

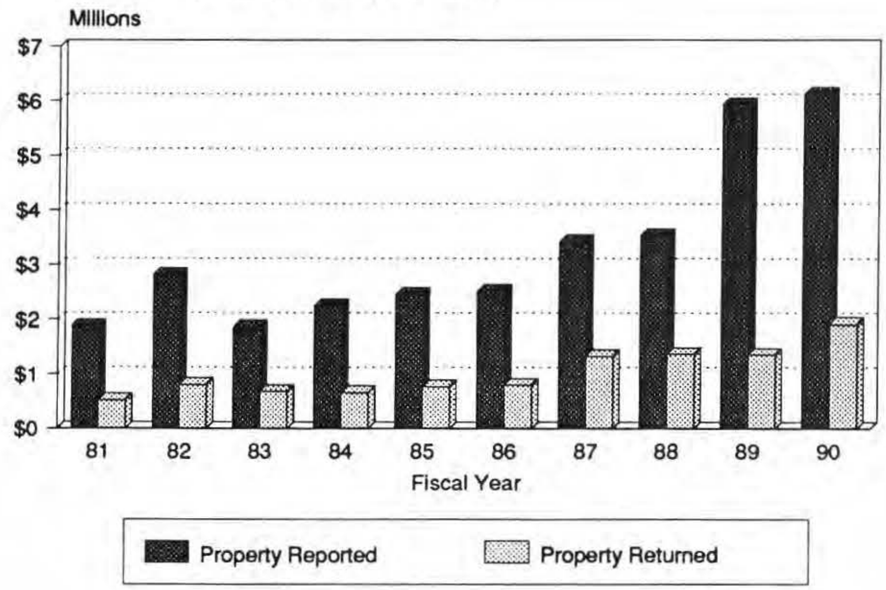
Effective July 1, 1989 all money that is received from this program which is not used to pay claims or administrative expenses is deposited into the Health Access Incentive fund. Over $3.7 million has been deposited in this fund which provides financial assistance to doctors who agree to set up practice in rural areas of the state where health care is not currently available.

During the period July 1, 1989 through June 30, 1990, $1,918,640 of cash property was returned by holders and the Unclaimed Property Division to the owners or their heirs. Of this total, $1,425,130 represented accounts advertised in 1989-90 and $493,510 represented accounts reported and turned over in previous years. Following is an analysis of the property returned during the 1989-90 fiscal year.

Property Returned
July 1, 1989 - June 30, 1990

Reporting Entity	Number of Accounts	Value of Claims	Percentage of Total Value
Banks	1,137	$ 672,474	35.05%
Insurance Companies	1,711	638,308	33.27
Credit Agencies	299	106,993	5.58
Utilities	1,804	100,817	5.25
Courts	29	13,367	.70
TCRS	17	3,799	.20
Other	1,197	382,882	19.95
TOTAL	6,194	$ 1,918,640	100.00%

Unclaimed Property Reported and Returned
Fiscal Years 1981 - 1990



Since the program began in 1979, $42.8 million in unclaimed property has been reported to the Treasurer and $11.2 million (26%) has been returned to 44,181 owners or their heirs. The accompanying schedule shows the amount of property reported and returned each year since the program began.

An audit position, which was added this fiscal year to increase holder compliance with the unclaimed property law, resulted in an additional $42,778 being remitted to the state. This position has also served to increase holder's awareness and understanding of the unclaimed property program. In addition, outside audit organizations remitted $611,862 in cash and stock from out-of-state non-reporting holders for Tennessee residents this past fiscal year.

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 $163,900 representing 28 estates. Since fiscal year 1981-82, a total of $827,475 representing 179 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 79 chairs created, with state appropriations totaling $43,000,000 and matching contributions totaling $42,442,142. For the year ending June 30, 1990, net income totaled $9,605,020 with expenditures of $4,855,446.

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

*Chair established during fiscal year 1989-90.

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

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

*Chair established during fiscal year 1989-90.

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

Boards and Commissions	**Tennessee Code Annotated Section**
Board of Equalization	4-3-5101
Board of Trustees of the Tennessee Consolidated Retirement System	8-34-301 - 8-34-319
Commission to Purchase Federal Property	12-1-103
Council on Pensions and Insurance	3-9-101
Defense Counsel Commission	9-8-107
Funding Board	9-9-101
Investment Advisory Council	8-37-108
Public Records Commission	10-7-302
Sick Leave Bank Board	8-50-903
State Building Commission	4-15-101
State Capitol Commission	4-8-301, et seq.
State Insurance Committee	8-27-101
State Library and Archives Management Board	10-1-101, et seq.
State School Bond Authority	49-3-1204
State Teacher Insurance Committee	8-27-301
State Trust of Tennessee	9-4-801, et seq.
Tennessee Child Care Loan Guarantee Board	4-37-101, et seq.
Tennessee Competitive Export Corporation	13-27-104
Tennessee Housing Development Agency	13-23-106
Tennessee Local Development Authority	4-31-103
Tennessee Student Assistance Corporation	49-4-202
Tuition Guaranty Fund Board	49-7-2018

Administration

Baccalaureate Education System Trust	49-7-801, et seq.
Board of Claims	9-8-101, et seq.
Chairs of Excellence Trust	49-7-501 - 49-7-502
Collateral Pool	9-4-501 - 9-4-523
Collateral Program	9-4-101 - 9-4-105
Criminal Injury Compensation Fund	29-13-101, et seq.
Deferred Compensation	8-25-101, et seq.
Escheat	31-6-101, et seq.
Flexible Benefits Plan (Cafeteria Plan)	8-25-305
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704
National Resources Trust Fund	11-14-304
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Pooled Investment Fund	9-4-704
Receipt and Disbursement of Public Funds	8-5-106 - 8-5-111; 9-4-301, et seq.
Security	9-4-401 - 9-4-409
State Deposits	9-4-106 - 9-4-108
Tennessee Consolidated Retirement System and Miscellaneous Systems	Title 8, Chpts. 34, 35, 36, 37 & 39
Unclaimed Property	66-29-101, et seq.
Victims of Drunk Drivers Compensation Fund	40-24-107

Rhonda Hicks, Internal Audit, and Jill Bachus, Treasury Accounting

Rick DuBray and Larry Robertson, Financial Control

Newt Molloy and Sam Baker, Information Systems

Wendy Padgett, Budget

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

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

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

December 17, 1990

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Local Government Investment Pool as of June 30, 1990, and June 30, 1989, and the related statement 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, 1990, and June 30, 1989, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

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

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/CMZ/db

Local Government Investment Pool
Comparative Balance Sheet

	June 30, 1990	June 30, 1989
ASSETS		
Cash and Cash Equivalents	$ 544,001,826	$ 483,990,510
Due from General Fund	133,805	0
Total Assets	$ 544,135,631	$ 483,990,510
LIABILITIES AND FUND BALANCE		
Liabilities:		
Member Deposits	$ 391,347,722	$ 345,552,663
Due to State Highway Fund	51,775	580,006
Due to Capital Projects Fund	10,378,150	9,548,192
Due to College and University Funds	138,743,458	127,613,770
Due to Community Health Access Agencies	165,031	0
Due to Veterans' Nursing Home	2,352,516	0
Total Liabilities	$ 543,038,652	$ 483,294,631
Fund Balance	$ 1,096,979	$ 695,879
Total Liabilities and Fund Balance	$ 544,135,631	$ 483,990,510

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, 1990	For the Year Ended June 30, 1989
Revenues:		
Investment Income	$ 48,391,232	$ 38,306,874
Expenditures:		
Interest on Deposits	47,536,304	37,663,087
Administrative Fees	453,828	777,039
Total Expenditures	$ 47,990,132	$ 38,440,126
Excess of Revenues over (under) Expenditures	$ 401,100	$ (133,252)
Fund Balance, Beginning of Year	$ 695,879	$ 829,131
Fund Balance, End of Year	$ 1,096,979	$ 695,879

See Accompanying Notes to the Financial Statements.

Description of the Local Governmental 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 contractually committed to the office of Old Age and Survivors Insurance, Community Health Access Agencies, the Veterans' Nursing Home, and to the 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 considered an Expendable Trust Fund and is accounted for on the modified accrual basis. Revenues are recorded when they become both measurable and available and expenditures are recognized at the time fund liabilities are incurred.

Monies deposited in the LGIP are invested in the Pooled Investment Fund Administered by the State Treasurer. The Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commerical paper, prime bankers' acceptances, bonds, notes and bills of the United States Treasury or other obligations of the United States or any of its agencies and in repurchase agreements for obligations of the United State or its agencies which are fully guaranteed as to principal and interest by the the United States. The Treasurer is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian agent against simultaneous receipt of collateral securities.

	July 1, 1989 through June 30, 1990	July 1, 1988 through June 30, 1989
Cash Balance, Beginning of Year	$ 483,990,510	$ 366,986,251
Add Cash Receipts:		
Member Deposits	$ 2,083,016,033	$ 1,683,431,009
Investment Income	48,391,232	38,306,874
Total Cash Receipts	$ 2,131,407,265	$ 1,721,737,883
Deduct Cash Disbursements:		
Member Withdrawals	2,070,942,121	1,603,956,585
Administrative Fees Paid	453,828	777,039
Total Cash Disbursements	$ 2,071,395,949	$ 1,604,733,624
Cash Balance, End of Year	$ 544,001,826	$ 483,990,510

See Accompanying Notes to the Financial Statements.

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

December 10, 1990

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Consolidated Retirement System as of June 30, 1990, and June 30, 1989, and the related statements of revenues, expenses, and changes in fund balances and changes in financial position for the years then ended. These financial statements are the responsibility of 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, 1990, and June 30, 1989, and the results of its operations and the changes in financial position for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

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

AAH/CMZ/db

(Expressed in Thousands)

	June 30, 1990	June 30, 1989
ASSETS		
Investments:		
Cash and Cash Equivalents	$ 471,891	$ 547,947
Domestic Securities:		
Certificates of Deposit	0	1,550
Government Bonds (Amortized Cost)	1,586,643	1,343,402
Corporate Bonds (Amortized Cost)	2,094,986	1,734,472
Corporate Stocks (Cost)	2,221,880	1,978,492
Mortgages (Amortized Cost)	1,658	2,057
Securities on Loan		
Government Bonds (Amortized Cost)	790,038	727,142
International Securities:		
Government Bonds (Amortized Cost)	202,476	178,984
Corporate Bonds (Amortized Cost)	112,635	114,074
Corporate Stocks (Cost)	394,987	395,069
American Depository Receipts (Cost)	34,477	7,118
Total Investments	$ 7,911,671	$ 7,030,307
Receivables:		
Member Contributions Receivable	9,922	9,068
Employer Contributions Receivable	8,320	8,031
Political Subdivisions Receivable	2,777	2,492
Accrued Interest Receivable	102,298	84,269
Accrued Dividends Receivable	7,807	8,484
Accrued Loan Income Receivable	134	213
Investments Sold	4,855	13,170
Total Receivables	$ 136,113	$ 125,727
Total Assets	$ 8,047,784	$ 7,156,034

(continued)

LIABILITIES AND FUND BALANCE	June 30, 1990	June 30, 1989
Liabilities:		
Retired Payroll Payable	$ 10,376	$ 11,901
Warrants Payable	475	473
Accounts Payable:		
Death Benefits and Refunds Payable	1,565	1,712
Other	9	666
Investments Purchased	14,710	63,317
Total Liabilities	$ 27,135	$ 78,069
Fund Balance:		
Member Reserve	$ 1,489,275	$ 1,352,040
Employer Reserve (Unfunded Accrued Liability totalled $1.7 billion as of June 30, 1989 and $1.6 billion as of June 30, 1987)	6,531,374	5,725,925
Total Fund Balance	$ 8,020,649	$ 7,077,965
Total Liabilities and Fund Balance	$ 8,047,784	$ 7,156,034

See Accompanying Notes to the Financial Statements.

(Expressed in Thousands)

		For the Year Ended June 30, 1990		For the Year Ended June 30, 1989
Revenues:				
Contributions:				
Member Contributions	$ 95,957		$ 89,907	
Employer Contributions	324,725		307,704	
Political Subdivisions Contributions	32,023	$ 452,705	28,588	$ 426,199
Investment Income:				
Loan Revenue	$ 1,575		$ 1,993	
Options Gain (Loss)	0		1,524	
Interest	346,644		280,646	
Dividends	69,184		73,724	
Income from Foreign Investment	36,960		36,585	
Net Discount (Premium) Amortization	73,108		80,177	
Currency Gain (Loss) on Sale of Foreign Investments	6,557		(964)	
Net Profit (Loss) on Sale of Investments	254,687	788,715	75,865	549,550
Total Revenues		$1,241,420		$ 975,749
Expenses:				
Annuity Benefits:				
Retirement Benefits	$ 258,212		$ 240,498	
Survivor Benefits	11,115		9,660	
Disability Benefits	6,498		6,167	
Death Benefits	2,350		1,995	
Refunds	20,561		20,665	
Total Expenses		298,736		278,985
Excess of Revenues Over Expenses		$ 942,684		$ 696,764
Fund Balance, Beginning of Year		7,077,965		6,381,201
Fund Balance, End of Year		$8,020,649		$7,077,965

See Accompanying Notes to the Financial Statements.

(Expressed in Thousands)

	For the Year Ended June 30, 1990	For the Year Ended June 30, 1989
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	$ 942,684	$ 696,764
Item Not Requiring (Providing) Working Capital		
Net Amortization (Acretion)	(73,108)	(80,177)
Total Sources of Working Capital	$ 869,576	$ 616,587
Uses of Working Capital:		
Purchase of Long Term Investments	884,311	761,618
Net Increase (Decrease) in Working Capital:	$ (14,735)	$ (145,031)

Elements of Net Increase (Decrease) in Working Capital:		
Cash and Cash Equivalents	$ (76,056)	$ (154,106)
Receivables	10,386	27,024
Warrants Payable	(2)	628
Retired Payroll Payable	1,525	(1,679)
Accounts Payable	804	(679)
Investment Purchases	48,608	(20,768)
Options Written	0	4,549
Net Increase (Decrease) in Working Capital:	$ (14,735)	$ (145,031)

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, 1990, the number of participating local government employers and the TCRS membership was:

Cities	109	Retirees and beneficiaries currently receiving benefits	52,697
Counties	82	Terminated members entitled to benefits but not yet receiving them	4,731
Utility Districts	24	Current members:	
Special School Districts	19	Vested	71,020
Joint Ventures	19	Nonvested	84,779
Other	45		
Total	298	Total	213,227

3. **Benefits.** The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 10 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury ocurring while the member was in performance of duty. Members joining the system on or after July 1, 1979 become vested after 10 years of service, and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established and amended by state statute.

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

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

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

Until April 1988, the higher education institutions' contributions to TIAA/CREF flowed through TCRS and were presented on the Statement of Revenues, Expenses and Changes in Fund Balance as both a revenue and an expense. Subsequently, the state's contributions are remitted directly to TIAA/CREF by the higher education institutions. State statute requires the state supported institutions to make contributions to TIAA/CREF at the rate of ten percent of gross salary below the Social Security wage base and eleven percent of gross salary above the Social Security wage base. The contributions for each employee (and interest allocated to the employee's account) are fully vested immediately. During the year ended June 30, 1990, the state of Tennessee contributed $30.9 million (10.07% of current covered payroll) to the TIAA/CREF plan. The total current-year covered payroll was $306.7 million.

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

B. Summary of Significant Accounting Policies and Plan Asset Matters

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

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

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

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

4. **Receivables.** Receivables primarily consist of interest which is recorded when earned. The receivables for contributions consist of $7,252,220 due from other funds within the state and $13,767,121 due from other governments.

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

6. **Options.** The TCRS is authorized by policy to engage in the issuance of options. Activity is limited to selling covered call options. The TCRS had no options outstanding at June 30, 1990.

C. Investments

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

a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75%) of the total funds of the retirement system.

b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five (75%) of the total funds of the retirement system.

c. Within the restrictions in a and b above, an amount not to exceed eleven percent (11%) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in the following countries: Japan, the United Kingdom, West Germany, Switzerland, France, the Netherlands, Canada and Australia.

Investments are valued at their book value in determining the compliance with these restrictions.

The balance sheet classification of "Cash and Cash Equivalents" includes short term investments such as repurchase agreements, U. S. Treasuries, medium term corporate notes and commercial paper. These investments are reported at amortized cost. In addition, cash on deposit with the TCRS that is not immediately invested in securities is invested in the Pooled Investment Fund administered by the State Treasurer. The pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States. The Pooled Investment Fund is also authorized to enter into securities lending agreements in which U. S. Government securities may be loaned to brokers for a fee.

The TCRS investments at June 30, 1990 are categorized below to give an indication of the level of risk assumed by the system. Category 1 includes investments that are insured or registered, or for which the securities are held by the TCRS or its agent in the name of the TCRS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the TCRS. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by the counterparty's trust department or agent but not in the name of the TCRS. The categorization for the investments held at June 30, 1989 was the same as that shown below for investments held at June 30,1990.

Investments	Category 1	2	3	Book Value 6/30/90	Market Value 6/30/90	Book Value 6/30/89	Market Value 6/30/89
Short Term Investments	$ 466,360,040	$	$	$ 466,360,040	$ 466,360,040	$ 542,503,684	$ 543,112,541
Domestic Securities							
Government Bonds	1,586,642,746			1,586,642,746	1,644,025,493	1,343,401,501	1,414,976,357
Corporate Bonds	2,094,986,133			2,094,986,133	2,086,356,785	1,734,472,148	1,782,693,233
Corporate Stocks	2,221,880,123			2,221,880,123	2,842,894,087	1,978,491,968	2,443,316,928
Mortgages	1,657,804			1,657,804	1,541,380	2,056,610	1,897,716
International Securities							
Government Bonds	202,475,696			202,475,696	189,240,931	178,984,505	174,264,481
Corporate Bonds	112,635,123			112,635,123	108,679,152	114,074,332	115,815,470
Corporate Stocks	394,986,579			394,986,579	416,715,131	395,068,945	418,050,741
American Depository Receipts	34,477,324			34,477,324	41,300,075	7,118,032	7,970,875
Currency Gain (Loss)					46,693,064		(23,028,078)
	$7,116,101,568	$ 0	$ 0	$7,116,101,568	$7,843,806,138	$6,296,171,725	$6,879,070,264
Investments held by broker-dealers under securities on loan contracts:							
Government Bonds				790,037,803	798,850,601	727,142,197	777,068,339
Cash in State Treasurer's Pooled Investment Fund				5,531,196	5,531,196	5,443,068	5,443,068
Certificates of Deposit				0	0	1,550,000	1,550,000
Total Investments				$7,911,670,567	$8,648,187,935	$7,030,306,990	$7,663,131,671

The TCRS is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that the TCRS loan specific securities from its holdings to the broker in return for collateral securities. The loaned securities are collateralized at 102 percent of their market value. The collateral is maintained by a third-party custodian. The TCRS receives a fee from the borrower for the use of the loaned securities. At June 30, 1990 the market value of TCRS securities on loan to brokers was $798,850,601 and the market value of collateral pledged for the securities on loan was $831,492,025.

D. Funding Status and Progress

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

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1989 and an actuarial update performed at June 30, 1990. Significant actuarial assumptions used include (a) a rate of return on investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 7 percent per year compounded annually, (c) a projected 6 percent annual increase in the Social Security wage base, and (d) projected post-retirement benefit increases of 3 percent of the retiree's initial benefit. No actuarial assumptions were changed during the year.

At June 30, 1990, the net assets exceeded the pension benefit obligation by $219.3 million as follows (in millions):

	STATE	POLITICAL SUBDIVISIONS	TOTAL
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 2,535.1	$ 302.2	$ 2,837.3
Current Employees:			
Accumulated Employee contributions including allocated investment earnings	1,269.5	219.8	1,489.3
Employer-financed vested	2,945.1	300.7	3,245.8
Employer-financed nonvested	200.6	28.3	228.9
Total Pension Benefit Obligation	$ 6,950.3	$ 851.0	$ 7,801.3
Net assets available for benefits at cost or amortized cost (market value is $8,757.2)	7,083.5	937.1	8,020.6
Unfunded (Assets in excess of) pension benefit obligation	$ (133.2)	$ (86.1)	$ (219.3)

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

For the year ended June 30, 1990 contributions totalling $452.7 million were made in accordance with contribution requirements determined through an actuarial valuation performed at June 30, 1987. Significant actuarial assumptions used to compute contribution requirements are not the same as those used to compute the standardized measure of the pension benefit obligation discussed in D above because the new assumptions adopted by the Board of Trustees were incorporated in the June 30, 1989 valuation. This valuation computed the contribution rates that became effective July 1, 1990. Significant actuarial assumptions for contribution rates that are different than the assumptions in D above are the rate of return of 8 1/2 percent instead of 8 percent and projected salary increases of 8 percent instead of 7 percent. The state contributed $324.7 million (9.4 percent of current covered payroll) to the plan and state employees and teachers contributed $73.0 million (2.1 percent of current covered payroll). Political subdivisions contributed $32.0 million (.9 percent of current covered payroll) to the plan and employees of political subdivisions contributed $23.0 million (.7 percent of current covered payroll). These contributions consisted of (a) $307.0 million normal cost (8.9 percent of current covered payroll) and (b) $145.7 million amortization of the unfunded actuarial accrued liability (4.2 percent of current covered payroll).

F. Historical Trend Information

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

Revenues By Source

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Contributions For TIAA/CREF	Total
1981	$89,451,747.44	$222,702,017.81	$162,071,267.70	$11,554,575.87	$485,779,608.82
* 1982	54,072,586.84	277,141,406.47	220,079,030.13	12,127,455.36	563,420,478.80
1983	57,318,039.25	271,439,203.48	272,632,717.21	13,202,604.96	614,592,564.90
1984	59,776,800.27	278,031,805.49	342,868,166.96	14,450,599.00	695,127,371.72
1985	66,725,960.18	313,438,263.15	354,196,261.88	17,597,621.93	751,958,107.14
1986	71,692,211.18	342,879,457.74	564,296,888.86	20,117,735.51	998,986,293.29
1987	78,729,737.28	348,514,508.85	726,663,407.84	22,994,583.68	1,176,902,237.65
1988	83,021,879.19	373,778,518.31	573,406,133.88	19,323,703.46	1,049,530,234.84
**1989	89,906,776.21	336,292,918.45	549,550,133.52	0	975,749,828.18
1990	95,957,377.07	356,747,403.17	788,715,718.83	0	1,241,420,499.07

Expenses By Type

Fiscal Year	Benefits	Refunds	Contributions To TIAA/CREF	Total
1981	$125,476,961.20	$21,877,293.22	$11,560,078.69	$158,914,333.11
1982	139,376,738.39	24,193,598.53	12,127,455.36	175,697,792.28
1983	154,443,137.65	20,707,938.89	13,202,604.96	188,353,681.50
1984	168,411,509.47	23,259,015.47	14,450,599.00	206,121,123.94
1985	185,665,724.00	22,774,019.29	17,597,621.93	226,037,365.22
1986	204,645,237.75	21,301,916.51	20,117,735.51	246,064,889.77
1987	229,300,595.94	21,750,625.72	22,994,583.68	274,045,805.34
1988	243,993,944.99	17,801,882.05	19,323,703.46	281,119,530.50
**1989	258,320,436.90	20,664,894.51	0	278,985,331.41
1990	278,174,928.24	20,561,179.92	0	298,736,108.16

Contributions were made in accordance with actuarially determined contribution requirements.

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

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

Analysis of Funding Progress
(in Millions of Dollars)

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) / (2)	(4) Unfunded (Assets in Excess of) P.B.O. (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded (Assets in Excess of) P.B.O. as percentage of Covered Payroll (4) / (5)
1987	$5,612.8	$5,820.1	96.4%	$ 207.3	$2,826.9	7.3 %
1988	6,381.2	6,376.1	100.1	(5.1)	3,003.1	(0.2)
*1989	7,078.0	7,107.2	99.6	29.2	3,242.2	0.9
1990	8,020.6	7,801.3	102.8	(219.3)	3,468.8	(6.3)

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

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

June 30, 1989

TOTAL SYSTEM

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

(Unaudited)

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

December 17, 1990

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the IRC Section 457 Deferred Compensation Plan as of June 30, 1990, and June 30, 1989, and the related statement of changes in assets and liabilities for the year ended June 30, 1990. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IRC Section 457 Deferred Compensation Plan as of June 30, 1990, and June 30, 1989, and the changes in assets and liabilities for the year ended June 30, 1990, in conformity with generally accepted accounting principles.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/CMZ/db

	June 30, 1990	June 30, 1989
ASSETS		
Investments Held by Vendors		
AEtna	$21,585,106	$20,460,084
American General	855,388	763,961
Fidelity Federal	11,858,478	10,108,856
Fidelity Investments	11,781,767	9,120,820
Great West	5,093,927	3,978,035
Total	$51,174,666	$44,431,756
Receivables from State Funds For		
AEtna	11,475	11,986
American General	10,594	12,154
Fidelity Federal	49,823	48,604
Fidelity Investments	76,137	75,853
Great West	29,510	36,936
Total	$ 177,539	$ 185,533
Total Assets	$51,352,205	$44,617,289
LIABILITIES		
Amounts Held in Custody for Others	$51,352,205	$44,617,289

See Accompanying Notes to the Financial Statements.

	Balance July 1, 1989	Additions	Deductions	Balance June 30, 1990
ASSETS				
Investments, at Market	$44,431,756	$ 8,948,287	$2,205,377	$51,174,666
Receivables from State Funds	185,533	177,539	185,533	177,539
Total Assets	$44,617,289	$ 9,125,826	$2,390,910	$51,352,205
LIABILITIES				
Amounts Held in Custody for Others	$44,617,289	$ 9,125,826	$2,390,910	$51,352,205

See Accompanying Notes to the Financial Statements.

IRC Section 457 Deferred Compensation Plan
Notes to Financial Statements

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

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

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

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

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

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

December 17, 1990

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Employee Flexible Benefit Plan as of June 30, 1990, and June 30, 1989, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Employee Flexible Benefit Plan as of June 30, 1990, and June 30, 1989, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

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

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/CMZ/db

	June 30, 1990	June 30, 1989
ASSETS		
Cash and Cash Equivalents	$1,102,043	$ 780,279
Receivable from State Funds	77,140	89,902
Total Assets	$1,179,183	$870,181
LIABILITIES AND FUND BALANCE		
Liabilities		
Checks Payable	$ 69,880	$ 45,064
Accounts Payable	45,142	32,075
Dependent Care Deposits	124,999	133,342
Medical Reimbursement Deposits	208,407	484,272
Total Liabilities	448,428	$ 694,753
Fund Balance	730,755	175,428
Total Liabilities and Fund Balance	$1,179,183	$ 870,181

See Accompanying Notes to the Financial Statements.

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

	For the Year Ended June 30, 1990	For the Year Ended June 30, 1989
Revenues:		
FICA Savings	$1,031,946	$412,914
Flexible Benefit Forfeiture	75,167	0
Total Revenue	$1,107,113	$412,914
Expenditures:		
Administrative Fees	457,149	190,865
Excess of Revenues over Expenditures	$ 649,964	$222,049
Other Financing Uses:		
Operating Transfer to General Fund	(94,637)	(46,621)
Excess of Revenues Over Expenditures and Other Uses	$ 555,327	$175,428
Fund Balance, Beginning of Year	175,428	0
Fund Balance, End of Year	$730,755	$175,428

See Accompanying Notes to the Financial Statements.

A. Significant Accounting Policies

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

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

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

4. Cash and Cash Equivalents - Cash deposited in the Employee Flexible Benefits Plan is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States. The Treasurer is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian against simultaneous receipt of collateral securities.

B. Other Accounting Disclosures

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

2. The Flexible Benefits Plan began January 1, 1989. On comparative financial statements, fiscal year 1989 contains six months of activity, whereas fiscal year 1990 contains twelve months of activity.

	July 1, 1989 through June 30, 1990	July 1, 1988 through June 30, 1989
Cash Balance, Beginning of Year	$ 780,279	$ 0
Add Cash Receipts:		
Plan Deposits	$2,248,821	$1,181,885
FICA Savings	1,032,718	412,914
Total Cash Receipts	$3,281,539	$1,594,799
Deduct Cash Disbursements:		
Plan Withdrawals	2,421,056	609,110
Transfer to General Fund	94,637	46,621
Administrative Fees	444,082	158,789
Total Cash Disbursements	$2,959,775	$ 814,520
Cash Balance, End of Year	$1,102,043	$ 780,279

See Accompanying Notes to the Financial Statements.

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

December 17, 1990

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Claims Award Fund as of June 30, 1990, and June 30, 1989, and the related statements of revenues, expenses, and changes in fund equity and changes in financial position for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Claims Award Fund as of June 30, 1990, and June 30, 1989, and the results of operations and the changes in financial position for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/CMZ/db

	June 30, 1990	June 30, 1989
ASSETS		
Cash and Cash Equivalents	$62,844,090	$54,190,147
LIABILITIES AND FUND EQUITY		
Liabilities		
Warrants Payable	$ 211,115	$ 199,187
Checks Payable	90,343	0
Accounts Payable	48,718	7,013
Claims Liability	41,306,637	53,834,981
Total Liabilities	$41,656,813	$54,041,181
Fund Equity	21,187,277	148,966
Total Liabilities and Fund Equity	$62,844,090	$54,190,147

See Accompanying Notes to the Financial Statements.

Claims Award Fund
Statement of Changes in Financial Position

	For the Year Ended June 30, 1990	For the Year Ended June 30, 1989
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	$21,038,311	$(4,276,795)
Net Increase (Decrease) in Working Capital	$21,038,311	$(4,276,795)
Elements of Net Increase (Decrease) in Working Capital:		
Cash and Cash Equivalents	$ 8,653,942	$14,960,251
Warrants Payable	(11,928)	54,370
Checks Payable	(90,343)	0
Accounts Payable	(41,704)	5,000
Claims Liability	12,528,344	(19,296,416)
Net Increase (Decrease) in Working Capital	$21,038,311	$(4,276,795)

See Accompanying Notes to the Financial Statements.

		For the Year Ended June 30, 1990		For the Year Ended June 30, 1989
Operating Revenues:				
Insurance Premiums	$21,027,700		$19,665,200	
Interest Income	5,891,562		4,403,962	
Taxes	3,500		0	
Total Operating Revenues		$26,922,762		$24,069,162
Operating Expenses:				
Torts:				
Death	$ 467,315		$ 0	
Bodily Injury	1,843,190		1,604,548	
Property Damage	593,093	2,903,598	475,868	2,080,416
Workers Compensation:				
Death	$ 218,262		$ 124,332	
Medical	3,073,637		2,221,919	
Assault Injury	14,324		8,926	
Temporary Disability	676,312		510,284	
Permanent Disability	2,140,463	6,122,998	1,702,086	4,567,547
Employee Property Damage		28,326		21,273
Professional/Administrative		3,057,873		2,380,305
Additional/(Reduced) Funding Liability		(12,528,344)		19,296,416
Total Operating Expenses		$ (415,549)		$28,345,957
Income(Loss) Before Operating Transfer		$27,338,311		$(4,276,795)
Operating Transfer to General Fund		(6,300,000)		0
Net Change in Fund Equity		$21,038,311		$(4,276,795)
Fund Equity, Beginning of Year		148,966		4,425,761
Fund Equity, End of Year		$21,187,277		$ 148,966

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

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

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

4. Cash and Cash Equivalents - Cash deposited in the Claims Award Fund is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States. The Treasurer is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian against simultaneous receipt of collateral securities.

B. Other Accounting Disclosures

1. Claims Award Fund - Chapter 972 of the Acts of 1984 created the Claims Award Fund from which all claims against the state are paid. This fund is supported by premiums paid by each state department, agency and institution with the required funding being based upon an actuarial estimate of the losses which will be incurred during each fiscal year. For the year ended June 30, 1990, 6,744 claims were filed with payments totaling $9,054,922.

2. The liability for claims against the state, is $41,306,637 at June 30, 1990 and $53,834,981 at June 30, 1989. A formal actuarial study was performed in 1990 to determine the state's liability for claims at June 30, 1990. The basic methodology used in this study for estimating ultimate losses was consistent with that of prior years. However, less emphasis was placed this year on the state's tort liability case reserves (reported outstanding losses). Experience modifiers were selected based on paid losses rather than incurred losses. This resulted in a decrease in tort liability funding requirements. At June 30, 1990, the tort liability totalled $16,244,301 based on increased experience and paid losses, a decrease of $24,617,831 when compared to funding requirements of $40,862,132 as calculated using case reserves.

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

December 17, 1990

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Criminal Injuries Compensation Fund as of June 30, 1990, and June 30, 1989, 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, 1990, and June 30, 1989, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 5 to the financial statements, the State of Tennessee changed its method of accounting for taxes in 1989.

Sincerely,

Arthur A. Hayes Jr.

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

AAH/CMZ/db

	June 30, 1990	June 30, 1989
ASSETS		
Cash and Cash Equivalents	$12,456,688	$ 9,677,037
Accounts Receivable	378,793	370,520
Total Assets	$12,835,481	$10,047,557
LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants Payable	$ 670,767	$ 378,544
Accounts Payable	295,795	92,230
Claims Liability	2,804,012	149,414
Total Liabilities	$ 3,770,574	$ 620,188
Fund Balance		
Reserved for Future Benefits	9,064,907	9,427,369
Total Liabilities and Fund Balance	$12,835,481	$10,047,557

See Accompanying Notes to the Financial Statements.

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

		For the Year Ended June 30, 1990		For the Year Ended June 30, 1989
Revenues:				
State	$5,938,595		$5,790,473	
Federal	1,402,000		928,000	
Interest Income	893,137		712,926	
Total Revenues		$8,233,732		$7,431,399
Expenditures:				
Death Claims	$1,717,689		$ 873,545	
Personal Injury Claims	5,889,210		3,017,058	
Attorney Fees	989,295		576,536	
Total Expenditures		8,596,194		4,467,139
Excess of Revenues Over Expenditures Before Cumulative Effect of Change in Accounting Principle		$ (362,462)		$2,964,260
Cumulative Effect of Change in Accounting Principle		0		311,962
Excess of Revenues Over Expenditures		$ (362,462)		$3,276,222
Fund Balance, Beginning of Year		9,427,369		6,151,147
Fund Balance, End of Year		$9,064,907		$9,427,369

See Accompanying Notes to the Financial Statements.

A. Significant Accounting Policies

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

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

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

4. Cash and Cash Equivalents - Cash deposited in the Criminal Injuries Compensation Fund is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States. The Treasurer is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian against simultaneous receipt of collateral securities.

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

B. Other Accounting Disclosures

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

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

December 17, 1990

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Victims of Drunk Drivers Compensation Fund as of June 30, 1990, and June 30, 1989, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Victims of Drunk Drivers Compensation Fund as of June 30, 1990, and June 30, 1989, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 5 to the financial statements, the State of Tennessee changed its method of accounting for taxes in 1989.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/CMZ/db

	June 30, 1990	June 30, 1989
ASSETS		
Cash and Cash Equivalents	$9,288,913	$6,280,861
Accounts Receivable	190,203	224,885
Total Assets	$9,479,116	$6,505,746
LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants Payable	$ 12,304	$ 6,300
Accounts Payable	11,104	0
Claims Liability	59,597	6,100
Total Liabilities	$ 83,005	$ 12,400
Fund Balance		
Reserved for Future Benefits	$9,396,111	$6,493,346
Total Liabilities and Fund Balance	$9,479,116	$6,505,746

See Accompanying Notes to the Financial Statements.

	For the Year Ended June 30, 1990		For the Year Ended June 30, 1989	
Revenues:				
State	$2,454,243		$2,395,671	
Interest Income	625,628		403,305	
Total Revenues		$3,079,871		$2,798,976
Expenditures:				
Death Claims	$ 67,584		$ 25,047	
Personal Injury Claims	88,122		22,199	
Attorney Fees	21,399		6,852	
Total Expenditures		177,105		54,098
Excess of Revenues Over Expenditures Before Cumulative Effect of Change in Accounting Principle		$2,902,766		$2,744,878
Cumulative Effect of Change in Accounting Principle		0		203,531
Excess of Revenues Over Expenditures		$2,902,766		$2,948,409
Fund Balance, Beginning of Year		6,493,345		3,544,936
Fund Balance, End of Year		$9,396,111		$6,493,345

See Accompanying Notes to the Financial Statements.

A. Significant Accounting Policies

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

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

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

4. Cash and Cash Equivalents - Cash deposited in the Victims of Drunk Drivers Compensation Fund is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States. The Treasurer is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian against simultaneous receipt of collateral securities.

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

B. Other Accounting Disclosures

Victims of Drunk Drivers Compensation Program - The Victims of Drunk Drivers Compensation Program is funded through privilege taxes assessed in courts. Payments made under the Drunk Drivers Compensation Program are intended to defray the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either the victim of a crime or to the dependents of deceased victims, subject to a maximum payment of $2,000 per claimant.

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

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697

December 17, 1990

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Chairs of Excellence as of June 30, 1990, and June 30, 1989, and the related statements of revenues, expenses, and changes in fund balances and changes in financial position for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chairs of Excellence as of June 30, 1990, and June 30, 1989, and the results of operations and the changes in financial position for the years then ended in conformity with generally accepted accounting principles.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/CMZ/db

	June 30, 1990	June 30, 1989
ASSETS		
Investments:		
Cash and Cash Equivalents	$ 3,934,831	$ 5,639,122
Government Bonds (Amortized Cost)	56,032,888	49,115,809
Corporate Bonds (Amortized Cost)	28,537,081	28,916,145
Corporate Stocks (Cost)	20,137,956	14,708,629
Total Investments	$ 108,642,756	$ 98,379,705
Receivables:		
Income Receivable	1,812,911	1,739,301
Total Assets	$ 110,455,667	$ 100,119,006
LIABILITIES AND FUND BALANCE		
Liabilities:		
Payable to Tennessee Student Assistance Corporation	$ 3,168,239	$ 2,110,041
Payable to State General Fund	0	12,278
Total Liabilities	$ 3,168,239	$ 2,122,319
Fund Balance:		
Fund Balance Reserved for Endowments		
State	$ 43,000,000	$ 43,000,000
College & University	10,321,300	8,738,000
Private	32,120,842	29,162,975
Total Reserved for Endowments	$ 85,442,142	$ 80,900,975
Special Reserve		
State	$ 6,310,561	$ 5,345,845
College & University	1,427,528	1,156,028
Private	2,021,040	1,762,721
Total Special Reserve	$ 9,759,129	$ 8,264,594
Restricted Reserve		
State	$ 7,202,750	$ 6,289,673
College & University	63,066	52,175
Private	4,820,341	2,489,270
Total Restricted Reserve	$ 12,086,157	$ 8,831,118
Total Fund Balance	$ 107,287,428	$ 97,996,687
Total Liabilities & Fund Balance	$ 110,455,667	$ 100,119,006

See Accompanying Notes to the Financial Statements.

Statement of Revenues, Expenses, and Changes in Fund Balance

		For the Year Ended June 30, 1990		For the Year Ended June 30, 1989
Operating Revenues:				
Investment Income		$ 9,766,201		$ 7,819,861
Operating Expenses:				
Payments to the University of Tennessee	$ 2,893,139		$ 1,984,707	
Payments to the State Board of Regents	1,962,307		1,015,590	
Administrative Cost	161,182		142,438	
Total Operating Expenses		5,016,628		3,142,735
Net Income Before Operating Transfer		$ 4,749,573		$ 4,677,126
Operating Transfer:				
From State General Fund	$ 0		$ 8,000,000	
From College & University Funds	1,583,300	1,583,300	2,250,000	10,250,000
Net Income		$ 6,332,873		$ 14,927,126
Other Changes in Fund Equity:				
Contributions from Private Sources		2,957,868		6,092,168
Net Change in Fund Equity		$ 9,290,741		$ 21,019,294
Fund Balance, Beginning of Year		$ 97,996,687		$ 76,977,393
Fund Balance, End of Year		$ 107,287,428		$ 97,996,687

See Accompanying Notes to the Financial Statements.

	For the Year Ended June 30, 1990	For the Year Ended June 30, 1989
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	$ 6,332,873	$ 14,927,126
Contributions from Private Sources	2,957,868	6,092,168
Total Sources of Working Capital	$ 9,290,741	$ 21,019,294
Uses of Working Capital:		
Purchase of Long-Term Investments	11,967,343	22,436,985
Net Increase (Decrease) in Working Capital	$ (2,676,602)	$ (1,417,691)
Elements of Net Increase (Decrease) in Working Capital		
Cash and Cash Equivalents	$ (1,704,292)	$ (2,558,520)
Receivables	73,610	573,715
Payables	(1,045,920)	(568,433)
Investment Purchases	0	1,135,547
Net Increase (Decrease) in Working Capital	$ (2,676,602)	$ (1,417,691)

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

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

4. Fund Equity - The Fund Balance Reserved for Endowments consists of funds provided from contributions from the state, colleges and universities and private sources. Income earned on the COE fund is distributed between two reserve accounts: special reserve and restricted reserve. The special reserve consists of income earned on the fixed investments which was not expended by the schools during the year it was earned. At the discretion of the COE Trust Board, this reserve may be used for future payments when current earnings does not meet current needs. The restricted reserve is non-expendable and consists of income earned on equity investments and profit and loss from both fixed and equity investments. This income becomes part of the Trust corpus.

B. Cash and Investments

The investment policy of the Chairs of Excellence Trust requires that not less than 80% of the total trust (based on book value) be invested in debt securities. The remaining funds may be invested in equity securities including domestic common and preferred stocks and convertible bonds. The classification of "Cash and Cash Equivalents" includes funds invested with the Tennessee Consolidated Retirement System in short term investments such as repurchase agreements, U.S. Treasuries, medium-term corporate notes and commercial paper as well as cash.

The Chairs of Excellence Trust investments at June 30, 1990 are categorized below to give indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the Chairs of Excellence Trust or its agent in the name of the COE Trust. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the Chairs of Excellence Trust. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the name of the Chairs of Excellence Trust. The categorization for the investments held at June 30, 1989 was the same as that shown below for investments held at June 30, 1990.

	Category 1	2	3	Book Value 6/30/90	Market Value 6/30/90	Book Value 6/30/89	Market Value 6/30/89
Short Term Investments	$ 3,934,831	$0	$0	$ 3,934,831	$ 3,934,831	$ 5,639,122	$ 5,639,122
Domestic Corporate Stock	$ 20,137,956			$ 20,137,956	$ 23,339,838	$ 14,708,629	$ 17,648,000
Domestic Government Bonds	$ 56,032,888			$ 56,032,888	$ 55,553,721	$ 49,115,809	$ 48,844,084
Domestic Corporate Bonds	$ 28,537,081			$ 28,537,081	$ 28,660,046	$ 28,916,144	$ 28,666,574
Total Investments	$108,642,756	$0	$0	$108,642,756	$111,488,436	$ 98,379,704	$100,797,780

C. Other Accounting Disclosures

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

As of June 30, 1990 79 Chairs have been established with matching contributions received totaling $42,442,142.19. This is an increase of 5 Chairs and $4,541,167.47 since June 30, 1989.

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 37243-0264
PHONE (615) 741-3697

December 17, 1990

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Bond Refunding Trust as of June 30, 1990, and June 30, 1989, and the related statement of changes in assets and liabilities for the year ended June 30, 1990. 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, 1990, and June 30, 1989, and the changes in assets and liabilities for the year ended June 30, 1990, in conformity with generally accepted accounting principles.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/CMZ/db

	June 30, 1990	June 30, 1989
ASSETS		
Cash and Cash Equivalents	$ 60,871	$ 48,034
Investments (Amortized Cost)	41,922,399	42,696,769
Accrued Interest Receivable	1,378,056	1,382,685
Total Assets	$ 43,361,326	$ 44,127,488
LIABILITIES		
Amounts Held in Custody for Others	$ 43,361,326	$ 44,127,488
Total Liabilities	$ 43,361,326	$ 44,127,488

See Accompanying Notes to the Financial Statements.

Bond Refunding
Statement of Changes in Assets and Liabilities

	Balance June 30, 1989	Additions	Deductions	Balance June 30, 1990
ASSETS				
Cash and Cash Equivalents	$ 48,034	$ 11,073,078	$ 11,060,241	$ 60,871
Investments	42,696,769	39,019	813,389	41,922,399
Accrued Interest Receivable	1,382,685	1,378,056	1,382,685	1,378,056
Total Assets	$ 44,127,488	$ 12,490,153	$ 13,256,315	$ 43,361,326
LIABILITIES				
Amounts Held in Custody for Others	$ 44,127,488	$ 8,877,003	$ 9,643,165	$ 43,361,326
Total Liabilities	$ 44,127,488	$ 8,877,003	$ 9,643,165	$ 43,361,326

See Accompanying Notes to the Financial Statements

The State Treasurer is trustee for the Tennessee Local Development Authority. In January 1987, the Authority issued refunding bonds of $39,206,000 to refund $36,666,000 of the 1985 Series A bonds maturing after March 1, 1997. The refunding bonds were issued to take advantage of lower interest rates. The proceeds resulting from the advance refunding are held by the trustee in an irrevocable trust to provide for the debt service payments for bonds maturing after March 1, 1997 on the 1985 Series A bonds.

Cash held by the trustee is pooled with the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund, administered by the State Treasurer, is authorized by state statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies which are fully guaranteed as to principal and interest by the United States. The Treasurer is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodian agent against simultaneous receipt of collateral securities.

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

U.S. Government Securities

Carrying Amount	Market Value
$41,922,399	$39,836,694

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

Treasury Department, December 1990, Authorization Number 309084, 650 copies. This public document was promulgated at a cost of $2.95 per copy.