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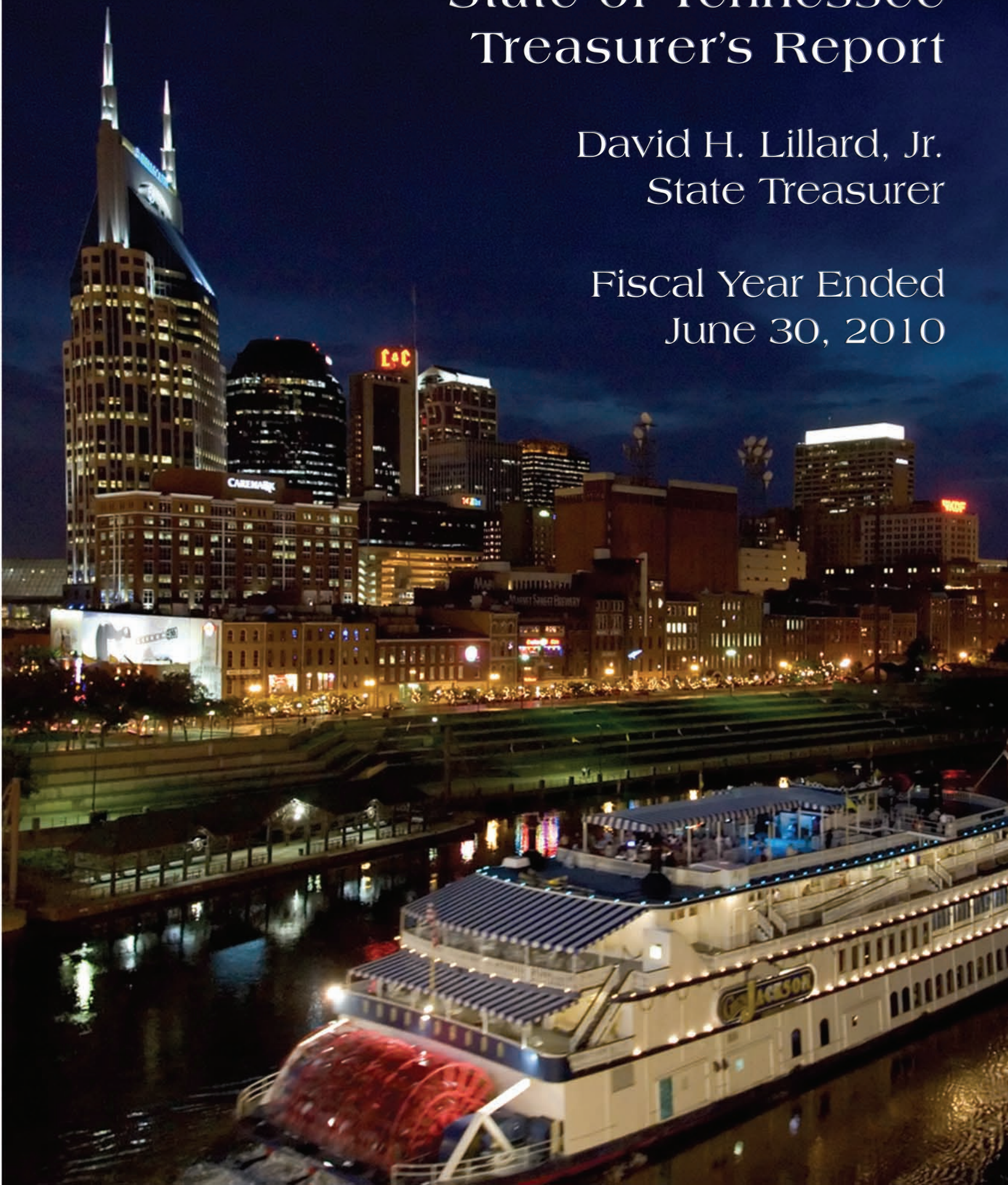
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# State of Tennessee Treasurer's Report

David H. Lillard, Jr.  
State Treasurer

Fiscal Year Ended  
June 30, 2010



# 2010 TREASURER'S REPORT



David H. Lillard, Jr., Treasurer  
State of Tennessee

Prepared by:

State of Tennessee  
Treasury Department  
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*The cover features a beautiful skyline of Nashville,  
the capitol city of the State of Tennessee, and the  
General Jackson Showboat.*

*The General Jackson is a 300-foot paddlewheel riverboat  
which boasts four massive decks with a  
beautiful two-story Victorian Theater.  
It is the world's grandest showboat that offers  
delicious meals and world-class entertainment  
while cruising the majestic Cumberland River in Nashville.*

Cover photo courtesy of  
Gaylord Opryland Resort and Convention Center,  
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Special thanks to the  
State of Tennessee, Department of Tourist Development,  
[www.tnvacation.com](http://www.tnvacation.com).

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Treasury Department, May 2011, Authorization #309208, 175 copies.  
This public document was printed at a cost of \$9.58 each.

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**LETTER OF TRANSMITTAL**

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STATE OF TENNESSEE

**TREASURY DEPARTMENT**STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

May 18, 2011

The Honorable Bill Haslam, Governor  
The Honorable Ron Ramsey, Speaker of the Senate  
The Honorable Beth Harwell, Speaker of the House of Representatives  
Members of the General Assembly  
Citizens of the State of Tennessee

Ladies and Gentlemen:

It is my honor to present the Annual Treasurer's Report for the fiscal year ended June 30, 2010, pursuant to the requirements of Section 4-4-114, Tennessee Code Annotated. The issuance of our annual report has been delayed again this year due to the State's implementation of the new Edison Financial system. This resulted in delays closing the fiscal year and the related audit of the Annual Comprehensive Financial Report of which the Treasury Department's financial statements are an integral part.

With your continued support and the outstanding employees in the Treasury Department, we have made tremendous advancements and continue to enhance on our procedures to better serve the citizens of Tennessee. On the following pages, you will find more information on the activities and accomplishments of our programs.

For your convenience, the Treasurer's Report, other publications and press are located on our website at [www.tn.gov/treasury](http://www.tn.gov/treasury). Again, thank you for your service to the state of Tennessee and her People.

Sincerely,

A handwritten signature in cursive script, reading "David H. Lillard, Jr.".

David H. Lillard, Jr.  
Tennessee State Treasurer

## MISSION OF THE TREASURY DEPARTMENT

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### ***Vision Statement***

To be faithful stewards of the state's financial and human resources. To be passionate about achieving our mission and living by our core values.

### ***Mission Statement***

We will be a leader by providing exceptional service to our customers honestly, efficiently, and effectively.

### ***Treasury Team Commitment***

In order for us to provide exceptional service, both management and employees will foster an environment that respects, challenges, motivates, and rewards each team member. Each of us has a responsibility to develop and maintain this environment so that, together, we can achieve our mission and live by our core values.

### ***Department Core Values***

*Impeccable Honesty:* We will develop relationships and interact with one another and with our customers in a manner that fosters and encourages trust. We will maintain the highest ethical and professional standards in everything that we do.

*Mutual Respect:* We will treat everyone equitably and with honor. We will communicate in a manner that promotes open dialogue with our customers, within the department, and with our peers in state government.

*Continuous Improvement:* We will continually challenge ourselves to improve the level of service that we provide by being innovative, collaborative, creative, and efficient. We will work to be the best at what we do.

*Shared Accountability:* We will work as a team and will purposely strive to leverage the strengths and overcome the weaknesses of each team member. We will accept responsibility individually and collectively for the service that we provide to our customers.

*Exceptional Service:* We will be innovative in how we provide services to our customers and in how we do our work. We will be relentless in our pursuit of quality and excellence in everything that we do. We will focus not only on solving customers' problems, but also anticipating their needs.

*Exemplary Leadership:* We will be visionary leaders and positive role models for our peers. We strive to be highly respected both inside and outside state government.



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**EXECUTIVE SUMMARY**

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The 2010 Treasurer's Report contains reports on various programs administered by the Treasury Department. The following comments represent a brief statement of the purpose and operations of programs administered by the department. The remainder of this report gives detailed data regarding the activities of these programs during the 2010 fiscal year.

**INTRODUCTION**

The Baccalaureate Education System Trust (BEST) is a Section 529 qualified tuition program that allows anyone to pay for higher education cost in advance on behalf of a beneficiary. Under the BEST division, there are two programs: The BEST Prepaid Plan and a savings plan. The BEST prepaid plan (educational services plan), introduced in 1997, is based on the weighted average tuition inflation increases at Tennessee's four-year public universities. Participants purchase units of tuition based on the current weighted average tuition. The units appreciate in value based on the future increases in the weighed average tuition. At June 30, 2010, the BEST Prepaid Plan held 9,019 active contracts with net assets totaling \$80.5 million. With respect to the savings plan, Tennessee endorses the Path2College 529 Plan through a contractual agreement with the State of Georgia. The Path2College 529 Plan offers seven investment options and an annual asset based fee of less than one percent for all options.

**BACCALAUREATE  
EDUCATION  
SYSTEM TRUST  
(BEST)**

The Careers NOW Program provides Tennessee college students, and students who are residents of Tennessee, but attend an out-of-state college or university, the opportunity to learn more about the operations of the three constitutional offices. It is a paid internship program and interns earn a competitive hourly rate. The program strives to provide students a meaningful work experience and exposure to a professional work environment. This program also broadens the awareness of students and educational institutions relative to the role of the three constitutional offices and the careers available within these offices. Students also have the opportunity to apply textbook theory to real work situations. Since the inception of the program in 1996, over 275 students have participated in the program and around 22% of our participants have been hired into full-time positions throughout state government.

**CAREERS NOW  
PROGRAM**

The University of Tennessee Institute for Public Service administers the "County Official's Certificate Training Program Act." Certain full-time county officers are eligible for an educational incentive payment if the officers have completed the continuing education requirements of the program. The UT Institute for Public Service is required to provide the Treasurer's office a listing of those officers who have successfully completed all levels of the County Officials Certificate Training Program.

**CERTIFIED PUBLIC  
ADMINISTRATOR**

The Chairs of Excellence Trust is a permanent trust fund authorized in 1984 to further the cause of higher education in Tennessee. The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus, creating a chair. Income from the chair is used to offset the cost of retaining a nationally or regionally recognized scholar at a state college or university who teaches in a specified academic area. Since 1984, a total of 99 chairs have been created. The fair market value of the assets of the 99 chairs totaled \$215.7 million at June 30, 2010.

**CHAIRS OF  
EXCELLENCE**

The Division of Claims Administration is responsible for investigating and making determinations on claims made against the state for workers' compensation by state employees, employee property damage, tort liability and criminal injury compensation. Staff support from the Division of Claims Administration also assists the Board of Claims. The Division of Claims Administration received 5,245 claims for tort, employee

**CLAIMS  
ADMINISTRATION**

## EXECUTIVE SUMMARY

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property damage and workers' compensation. Payments made during the year for workers' compensation, tort and employee property damage claims totaled \$29.7 million. The division received 5,461 criminal injury, drunk driver and sexual assault forensic exam claims. Payments made totaled \$13.5 million. Since the first payments were issued in 1982, more than \$215 million has been paid to crime victims.

### **CLAIMS COMMISSION**

The Tennessee Claims Commission is an administrative tribunal created to determine monetary claims against the State of Tennessee. There are three commissioners, one from each grand division of the state. At June 30, 2010, the commission had 637 open claims.

### **DEFERRED COMPENSATION PROGRAM**

The State of Tennessee Deferred Compensation Program offers state employees the opportunity to accumulate supplemental retirement income on a tax-advantaged basis. Participants may direct the investment of their deferred salary into a variety of investment products contracted for the program. During the fiscal year, the state, the University of Tennessee and Board of Regents each matched their employees' contributions to the 401(k) plan at \$50 per month. As of June 30, 2010, a total of 79,007 state and higher education employee accounts were held in the program. The market value of accumulated account balances totaled \$1.2 billion.

### **FLEXIBLE BENEFITS PLAN**

The State of Tennessee Flexible Benefits Plan is an optional benefit plan which enables state employees to pay for certain expenses with before-tax dollars. At June 30, 2010, state employees utilized the plan in the following manner: 39,931 paid group medical premiums, 27,053 paid group dental premiums, 4,758 used the medical expense reimbursement account and 406 used the dependent care reimbursement account. In addition, 149 and 81 state employees utilized the parking and transportation reimbursement accounts, respectively.

### **INVESTMENTS**

The Investment Division has the responsibility for investing all funds under management of the Treasury Department.

State Cash Management - This division 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. During 2010, investments averaged \$6.8 billion, producing \$26.9 million in income for an average rate of return of .40%.

Pension Fund Investments - This division manages the investments of the Tennessee Consolidated Retirement System (TCRS) which, at June 30, 2010, totaled \$28.6 billion at fair market value. For the year, investment income of \$2.69 billion was recognized, for a rate of return of 10.24% on a fair value basis. The Investment Division also manages investments for the Chairs of Excellence Trust and the Baccalaureate Education System Trust which, at June 30, 2010, had market values of \$215.7 million and \$80.5 million, respectively.

### **OPTIONAL RETIREMENT PLAN**

The Optional Retirement Plan is a defined contribution plan. Investments are participant directed selected from options offered through the plan service providers using bundled contracts. Contributions to ORP for the year ended June 30, 2010 were \$83.6 million and ORP assets were \$2.26 billion. There were 11,003 ORP participants at June 30, 2010.

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**EXECUTIVE SUMMARY**


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**RISK  
MANAGEMENT**

The Division of Risk Management is responsible for identifying the state's exposure to property and casualty risks and determining the appropriate risk control methods to protect the state against monetary loss due to unforeseen events. The division administers the state's property and casualty insurance program, including the procurement of all-risk, replacement cost property insurance for all state-owned buildings and contents, builders' risk insurance for new construction, fine arts insurance to protect all types of valuable artwork and items of antiquity, boiler insurance and inspection services for all state-owned boiler objects, fidelity and crime coverage to protect against employee dishonesty and aviation insurance for the state's aircraft. The state procures its insurance with the aid of a qualified property and/or casualty insurance broker. Loss prevention and control services are also provided for workers' compensation and tort liability. As of July 1, 2010, the state's total insured property values were \$17.7 billion.

**SMALL AND  
MINORITY-OWNED  
BUSINESS  
ASSISTANCE  
PROGRAM**

The Small and Minority-Owned Business Assistance Program is responsible for supporting outreach to new, expanding and existing businesses unable to derive benefit from conventional means of monetary resources and insight provided by traditional lenders and financial advisors. The Program consists of two components: Loans and Program Services. The loans provided must be for a specific project, however, acceptable purposes for loan proceeds can include acquisition of machinery and equipment; working capital; supplies and materials; inventory and certain other business-related activity. Program Services include technical assistance, education and consulting services to facilitate support in the areas of strategy, planning and financial management. These Program components are deemed essential resources that will enable and enhance growth of the State's small business segment. The principle function of the Small and Minority-Owned Business Assistance Program is to provide a significant statewide platform through a support structure that fosters the expansion of small and minority-owned businesses.

**TENNESSEE  
CONSOLIDATED  
RETIREMENT  
SYSTEM**

The Tennessee Consolidated Retirement System provides retirement coverage to state employees, higher education employees, teachers and employees of political subdivisions that have elected to participate in the plan. As of June 30, 2010, there were 214,711 active TCRS members: 44,422 state employees, 74,043 K-12 teachers, 79,289 political subdivision employees and 16,957 higher education employees. As of June 30, 2010, there were 112,133 retirees. TCRS paid \$1.54 billion in benefits during fiscal year 2010. The state of Tennessee is responsible for the pension liability for state employees and higher education employees and funds a significant portion of the retirement liability for teachers through the BEP. Each participating political subdivision is responsible for the liability of its employees.

**UNCLAIMED  
PROPERTY  
DIVISION**

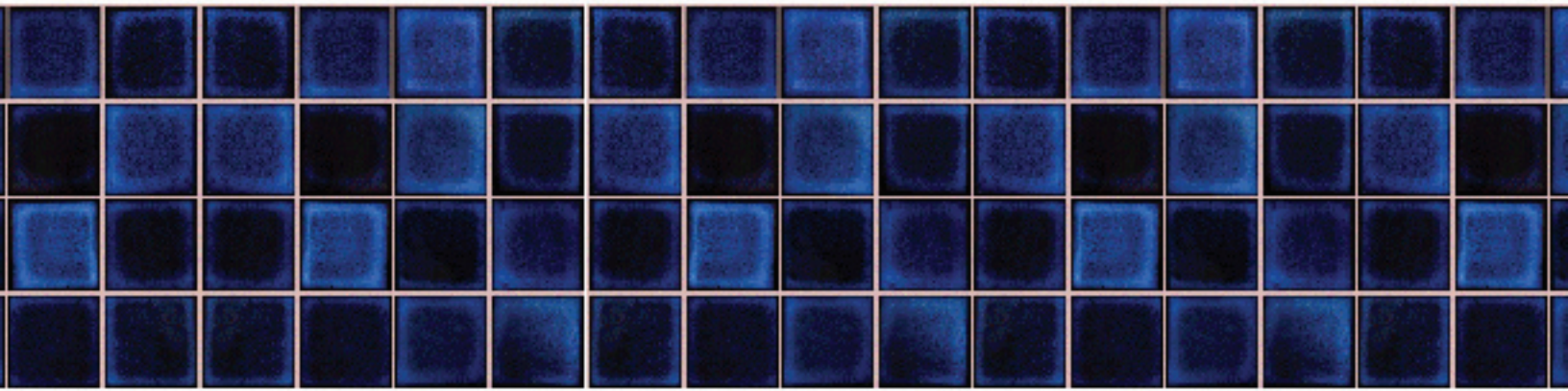
The Unclaimed Property Division administers the state's Uniform Disposition of Unclaimed Property Act. Under this act, the state provides one centralized location for the owners of abandoned property, or their heirs, to turn to when searching for checking accounts, savings accounts, insurance policies, utility deposits and securities. During the fiscal year, \$63.8 million of unclaimed property was collected, which consisted of \$50.2 million that was remitted to Treasury and \$13.6 million in the sale of securities. In addition, \$23.6 million was returned to owners or their heirs, local governments and other states. Since the program's inception in 1979, \$676.1 million in unclaimed property has been reported to the Treasury and \$222.5 million of that property has been returned to claimants.

## TREASURY NUMBERS AT A GLANCE

### FISCAL YEAR 2010

<b>ADMINISTRATIVE</b>	Number of Filled Positions	214
	Payroll Expenditures	\$ 15,373,200
	Other Expenditures	\$ 5,772,700
	Total Operating Expenditures	\$ 21,145,900
<b>CASH MANAGEMENT PROGRAM</b>	General Fund Earnings	\$ 6,309,548
	LGIP Earnings	\$ 12,374,692
	Restricted Fund Earnings	\$ 8,281,151
	Total Cash Management Earnings	\$ 26,965,391
<b>RETIREMENT PROGRAM</b>	Retirement Benefits	\$ 1,535,187,358
	Number of Retirees	112,133
	Number of Active Members	214,711
	Retirement Contributions	\$ 1,091,776,287
	Retirement Net Investment Income	\$ 2,692,345,919
<b>CLAIMS ADMINISTRATION PROGRAM</b>	Workers' Compensation Payments	\$ 23,539,002
	Workers' Compensation Claims Filed	3,360
	Employee Property Damage Payments	\$ 29,080
	Employee Property Damage Claims Filed	119
	Tort Payments	\$ 6,164,763
	Tort Claims Filed	1,766
	Criminal Injury Fund Payments	\$ 13,554,718
Criminal Injury Fund Claims Filed	5,461	
<b>RISK MANAGEMENT PROGRAM</b>	Estimated Gross Property Losses Incurred	\$ 24,438,984
	Total Property Values Insured	\$ 17,713,999,400
<b>CHAIRS OF EXCELLENCE PROGRAM</b>	Chairs of Excellence Investment Income	\$ 22,324,590
	Chairs of Excellence Expenditures	\$ 7,502,159
	Number of Chairs of Excellence	99
<b>OTHER PROGRAMS</b>	Deferred Compensation Contributions	\$ 139,695,079
	Deferred Compensation Accounts	79,007
	Flexible Benefits Plan Payments	\$ 8,516,979
	Unclaimed Property Revenues	\$ 63,818,186
	Unclaimed Property Payments	\$ 23,648,637
	BEST Prepaid Accounts	9,040
	BEST Prepaid Contributions (net of fees)	\$ 3,410,544
	Optional Retirement Plan Contributions	\$ 83,622,596
Optional Retirement Plan Participants	11,003	
<b>FAIR VALUE OF ASSETS UNDER MANAGEMENT AT JUNE 30, 2010</b>	Retirement Trust Fund	\$ 28,574,195,090
	Chairs of Excellence Trust Fund	\$ 215,665,629
	State Pooled Investment Fund	\$ 6,811,303,863
	Deferred Compensation (outside managers)	\$ 1,248,994,811
	Optional Retirement Plan Assets (outside managers)	\$ 2,256,265,181
	BEST Educational Services Plan	\$ 80,502,281
	Total Assets Under Management	\$ 39,186,926,855

# 2010 Treasurer's Report



*Employee Benefits*

## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

### TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

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, is a retirement system for state employees, higher education employees, teachers and local government employees.

### MEMBERSHIP

Membership in the retirement system is a condition of employment for full-time state employees, teachers, general employees in higher education and the employees of local governments that participate in TCRS. Membership is optional for certain part-time employees. Faculty employees in higher education may participate in either TCRS or an Optional Retirement Program (ORP), which is a defined contribution plan designed for faculty employees in institutions of higher education. An employee joining TCRS receives an introductory letter and membership

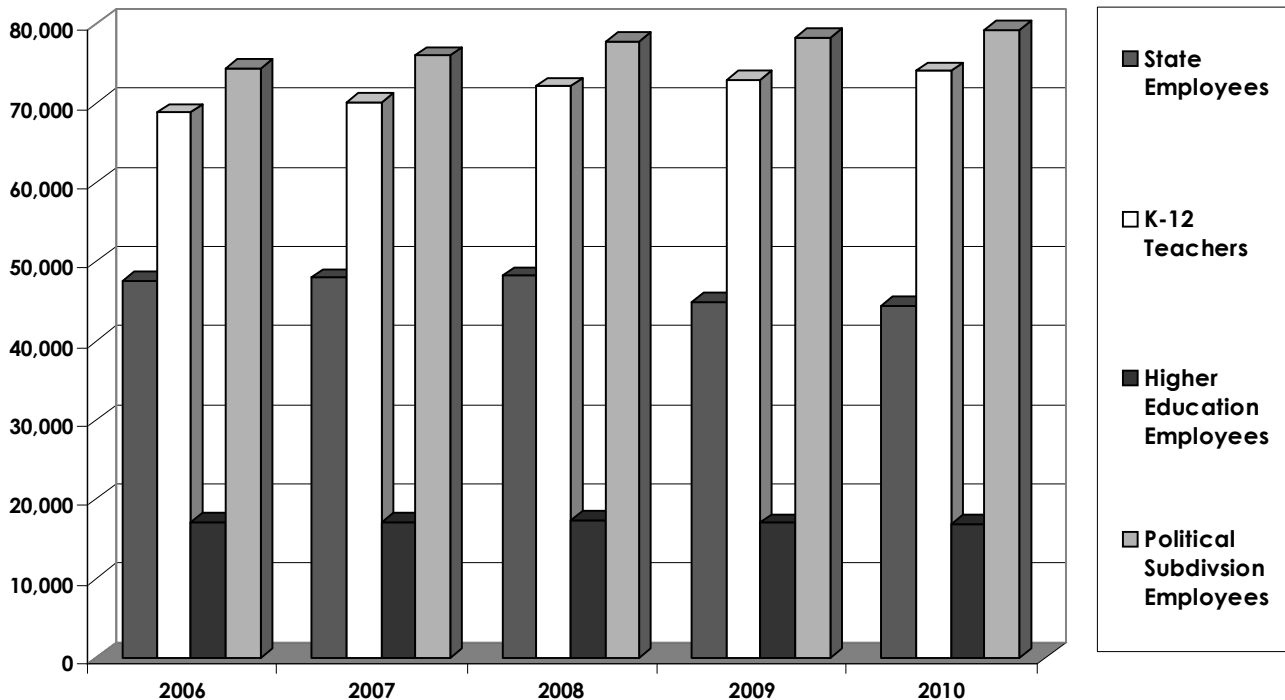
pamphlet outlining various aspects of retirement membership.

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

As of June 30, 2010, there were 214,711 active members of TCRS and 11,003 higher education employees participating in the ORP.

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

### ACTIVE MEMBERS FISCAL YEARS 2006-2010



## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

### CONTRIBUTIONS

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

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

Upon termination of employment, a member may elect to withdraw his contributions and accumulated interest from the retirement system in a lump sum. By

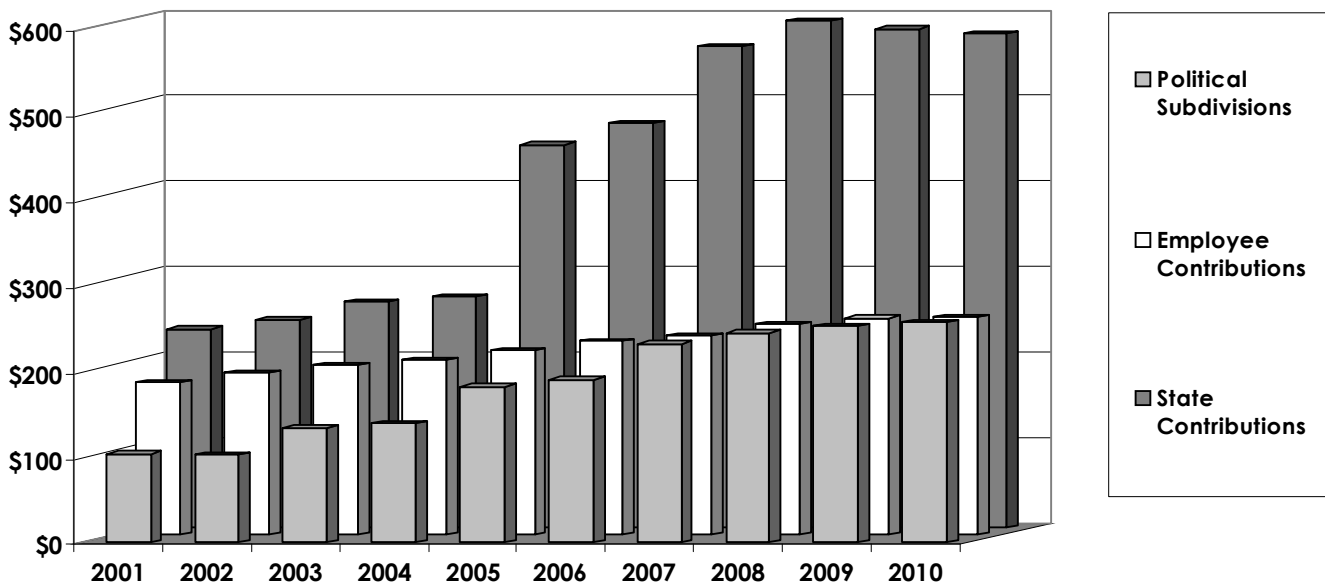
obtaining a lump sum refund, a member waives all rights and benefits in the retirement system. A vested member may leave his account balance in TCRS and apply for benefits upon meeting the age requirements. A non-vested member who terminates employment may only leave his account balance in TCRS for up to seven years. During the 2010 fiscal year, 5,154 refunds totaling \$36.4 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, 2010 were as follows:

Noncontributory State and	
Higher Education Employees	13.02%
K-12 Teachers	6.42%
Political Subdivisions Individually-	
Determined Faculty Members	
Electing to Participate in the ORP	10.0%*

\*11% for salary above the Social Security wage base.

### RETIREMENT CONTRIBUTIONS FISCAL YEARS 2001-2010 EXPRESSED IN MILLIONS



## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

### RETIREMENT BENEFITS

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

As of June 30, 2010, 112,133 retirees were receiving monthly benefit payments. This represents a 4% increase over the previous year.

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

A Group I benefits calculator is available on the program's Internet site: [tcrs.tn.gov](http://tcrs.tn.gov).

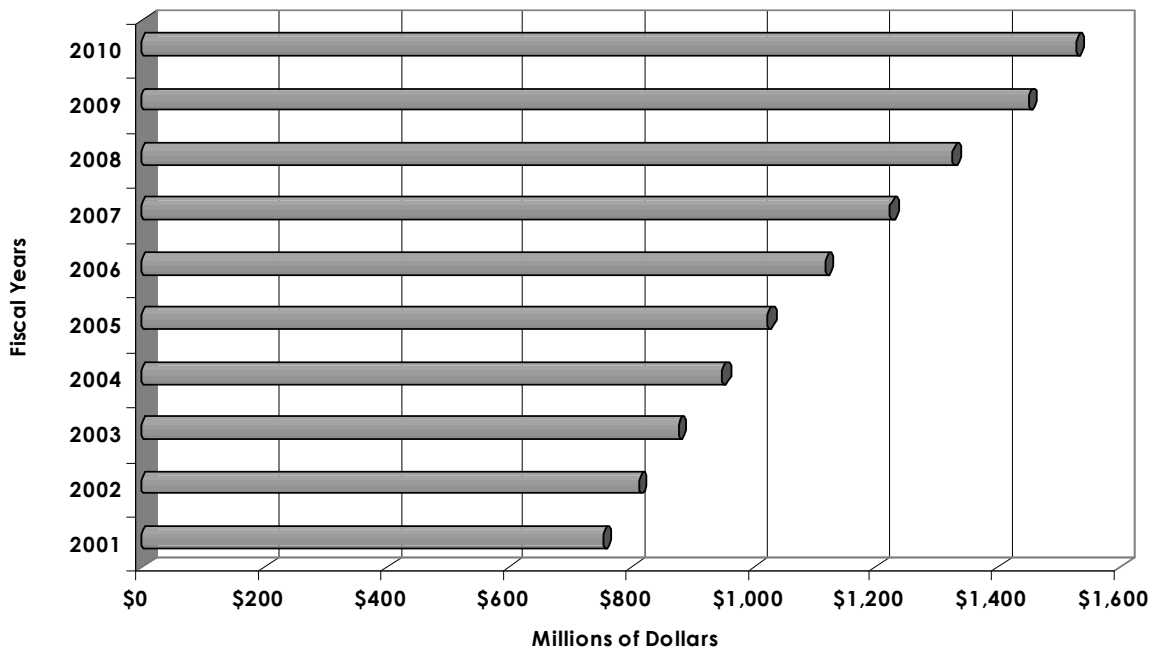
Disability benefits are available to active members with five years of service who become disabled and can not engage in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is a result of an accident or injury occurring while the member 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 in the CPI of as much as .5% in any calendar year, the retired member's benefit will be adjusted by an amount equal to the increase in the CPI, not to exceed 3% nor be less than 1%.

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

Benefits paid in fiscal year 2010 totaled \$1.54 billion, an increase of \$77 million over 2009 benefit payments.

### ANNUAL BENEFIT PAYMENTS FISCAL YEARS 2001-2010 EXPRESSED IN MILLIONS





**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

**TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS  
FOR CALENDAR YEAR 2010**

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
\$15,000	TCRS	\$ 3,544		\$ 4,725		\$ 5,906		\$ 7,088		\$ 8,269	
	Social Security	9,348		9,348		9,348		9,348		9,348	
	Total	\$ 12,892	85.9%	\$ 14,073	93.8%	\$ 15,254	101.7%	\$ 16,436	109.6%	\$ 17,617	117.4%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$ 11,025	
	Social Security	10,860		10,860		10,860		10,860		10,860	
	Total	\$ 15,585	77.9%	\$ 17,160	85.8%	\$ 18,735	93.7%	\$ 20,310	101.6%	\$ 21,885	109.4%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$ 11,813		\$ 13,781	
	Social Security	12,384		12,384		12,384		12,384		12,384	
	Total	\$ 18,290	73.2%	\$ 20,259	81.0%	\$ 22,228	88.9%	\$ 24,197	96.8%	\$ 26,165	104.7%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$ 11,813		\$ 14,175		\$ 16,538	
	Social Security	13,908		13,908		13,908		13,908		13,908	
	Total	\$ 20,996	70.0%	\$ 23,358	77.9%	\$ 25,721	85.7%	\$ 28,083	93.6%	\$ 30,446	101.5%
\$35,000	TCRS	\$ 8,269		\$ 11,025		\$ 13,781		\$ 16,538		\$ 19,294	
	Social Security	15,432		15,432		15,432		15,432		15,432	
	Total	\$ 23,701	67.7%	\$ 26,457	75.6%	\$ 29,213	83.5%	\$ 31,970	91.3%	\$ 34,726	99.2%
\$40,000	TCRS	\$ 9,450		\$ 12,600		\$ 15,750		\$ 18,900		\$ 22,050	
	Social Security	16,956		16,956		16,956		16,956		16,956	
	Total	\$ 26,406	66.0%	\$ 29,556	73.9%	\$ 32,706	81.8%	\$ 35,856	89.6%	\$ 39,006	97.5%
\$45,000	TCRS	\$ 10,631		\$ 14,175		\$ 17,719		\$ 21,263		\$ 24,806	
	Social Security	18,480		18,480		18,480		18,480		18,480	
	Total	\$ 29,111	64.7%	\$ 32,655	72.6%	\$ 36,199	80.4%	\$ 39,743	88.3%	\$ 43,286	96.2%
\$50,000	TCRS	\$ 11,813		\$ 15,750		\$ 19,688		\$ 23,625		\$ 27,563	
	Social Security	20,004		20,004		20,004		20,004		20,004	
	Total	\$ 31,817	63.6%	\$ 35,754	71.5%	\$ 39,692	79.4%	\$ 43,629	87.3%	\$ 47,567	95.1%
\$55,000	TCRS	\$ 12,994		\$ 17,325		\$ 21,656		\$ 25,988		\$ 30,319	
	Social Security	21,072		21,072		21,072		21,072		21,072	
	Total	\$ 34,066	61.9%	\$ 38,397	69.8%	\$ 42,728	77.7%	\$ 47,060	85.6%	\$ 51,391	93.4%
\$60,000	TCRS	\$ 14,317		\$ 19,089		\$ 23,861		\$ 28,634		\$ 33,406	
	Social Security	21,792		21,792		21,792		21,792		21,792	
	Total	\$ 36,109	60.2%	\$ 40,881	68.1%	\$ 45,653	76.1%	\$ 50,426	84.0%	\$ 55,198	92.0%
\$65,000	TCRS	\$ 15,695		\$ 20,927		\$ 26,158		\$ 31,390		\$ 36,621	
	Social Security	22,500		22,500		22,500		22,500		22,500	
	Total	\$ 38,195	58.8%	\$ 43,427	66.8%	\$ 48,658	74.9%	\$ 53,890	82.9%	\$ 59,121	91.0%
\$70,000	TCRS	\$ 17,073		\$ 22,764		\$ 28,455		\$ 34,146		\$ 39,837	
	Social Security	23,160		23,160		23,160		23,160		23,160	
	Total	\$ 40,233	57.5%	\$ 45,924	65.6%	\$ 51,615	73.7%	\$ 57,306	81.9%	\$ 62,997	90.0%

\* Average Final Compensation (AFC) is the average of the member's five highest consecutive years of salary.

This chart is based on a date of retirement in 2010. Social Security benefits have been calculated by Bryan, Pendleton, Swats & McAllister, actuarial consultants for the TCRS, utilizing the following assumptions:

- (1) Retirement is taking place at age 65 in 2010;
- (2) The retiree has worked a full career (TCRS plus other employers, if necessary) of 35 years or more; and
- (3) Salary increases throughout the retiree's career have followed the same pattern as National Average Earnings.

The department's Internet benefits calculator allows members to receive an immediate estimate: [tcrs.tn.gov](http://tcrs.tn.gov)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

**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 July 1, 2009 to establish the employer contribution rates effective July 1, 2010. The system's accrued liability at July 1, 2009 was \$3.6 billion. The state and teacher accrued liability is being amortized over a 20-year period. The amortization period for local governments varies by entity.

In addition to the biennial actuarial valuation, an experience study is conducted every four years for the purpose of establishing actuarial and economic assumptions to be used in the actuarial valuation process. Following are the assumptions used in the July 1, 2009 actuarial valuation of the plan:

***Economic Assumptions***

- (1) 7.5% annual return on investments
- (2) Graded salary scale reflecting plan experience
- (3) 3.5% 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
- (3) Disability rate based on age
- (4) Turnover rate based on age and length of service
- (5) Retirement age distribution based on age and service

**POLITICAL SUBDIVISIONS**

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

**POLITICAL SUBDIVISION PARTICIPATION**

Participation as of June 30, 2010:

Cities	177
Counties	89
Utility Districts	67
Special School Districts	19
Joint Ventures	23
Housing Authorities	11
911 Emergency Communication Districts	43
Miscellaneous Authorities	<u>57</u>
Total	<u>486</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

**MAJOR LEGISLATIVE IMPROVEMENTS**

- 1972** Benefit formula improved from 1.12 percent of salary up to the SSIL to 1.5 percent of salary up to the SSIL.
- 1973** Annual cost-of-living increase based on the CPI with a cap of 1.5 percent adopted for retirees.
- 1974** Disability retirement eligibility requirement reduced from 10 years to 5 years of service.  
  
Maximum annual cost-of-living increase raised to 3 percent.  
  
Provision to increase retirees' benefits whenever the benefit formula is improved.  
  
Service credit authorized for unused accumulated sick leave.
- 1976** Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.  
  
Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.
- 1978** A bonus cost-of-living increase granted to retirees at a lump-sum cost of \$15.3 million.  
  
An optional retirement plan established for teachers in the Board of Regents system.
- 1980** Death benefits for members dying in-service with 10 years of service improved by offering a 100 percent joint and survivor annuity of the member's accrued benefit for the spouse.
- 1981** Noncontributory retirement for state employees and higher education employees adopted. Employees' contributions, up to 5 percent, were assumed by the state.
- 1983** An actuarially reduced retirement benefit at any age with 25 years of service authorized.
- 1984** Credit for out-of-state service for the purpose of determining retirement eligibility authorized.  
  
Retirement credit for armed conflict approved.  
  
Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.
- 1985** \$22 million ad-hoc increase granted to retirees.

- 1987** Service credit for half of peacetime military service made available.  
  
\$17 million ad-hoc increase granted to retirees.  
  
Retirement incentive for state employees.  
  
Section 414(h) of the IRC adopted, allowing employee contributions to be made on a tax-deferred basis.
- 1990** Retirement incentive for state employees.
- 1991** 3.6 percent indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6 percent indexing was extended. In 1997, it was extended indefinitely.
- 1992** Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.
- 1993** Salary portability for service in different classifications authorized effective January 1, 1994.  
  
Benefit improvement up to 5 percent authorized.
- 1997** Compounded COLA for retirees approved.
- 1998** Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.  
  
Group 1 and Prior Class C benefit limitations increased to 80 percent.  
  
Mandatory retirement established with supplemental bridge benefit for all state public safety officers.
- 1999** Group 1 benefit maximum increased to 90 percent.
- 2000** Group 2 benefit maximum increased to 80 percent.
- 2001** Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.
- 2005** Return to work statutes were reformed, including a temporary employment increase to 120 days.
- 2006** Ad-hoc increase granted to members retired prior to 1989.
- 2007** Public Safety Officer benefits were enhanced.

## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

### OPTIONAL RETIREMENT PLAN

The Optional Retirement Plan is a defined contribution plan. Investments are participant directed selected from options offered through the plan service providers using bundled contracts. New contracts were executed in 2010 as a result of an RFP issued in 2009 for ORP plan investment management and administrative services offered by third party administrators. Group ORP participant meetings at 48 separate sessions were held to describe the new mutual fund investment options in the ORP program. Service providers and staff presented the information in person and by video posted online. Contributions to ORP for the year ended June 30, 2010 were \$83.6 million and ORP assets were \$2.26 billion. There were 11,003 ORP participants at June 30, 2010.

### SOCIAL SECURITY

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

Prior to 1951, Social Security coverage was not available to public employees. Amendments to the Social Security Act made in 1950 allowed certain groups of state and local government employees who were not covered by an employer-sponsored

retirement plan to voluntarily participate in Social Security. Amendments made in 1954 allowed coverage for public employees who were covered by an employer-sponsored retirement plan if federal referendum requirements are met.

The Tennessee Master Agreement was executed on August 16, 1951. It provided full Social Security coverage (retirement, survivors, disability and hospital insurance) to public employees who were not covered by an employer-sponsored retirement plan. A modification to the agreement, effective January 1, 1956, provided Social Security coverage to employees serving in positions which were then covered by the Tennessee State Retirement System and the Tennessee Teachers' Retirement System. After the Tennessee Consolidated Retirement System was established July 1, 1972, a statewide Social Security coverage referendum was held among eligible employees.

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

Effective in 1991, separate wage bases were implemented for Social Security and Medicare and separate reporting of withholding was required.

### SCHEDULE OF HISTORICAL SOCIAL SECURITY CONTRIBUTION RATES

Calendar Year	Employee Rate	Employer Rate	Social Security Wage Base	Medicare Wage Base
2010	7.65%	7.65%	\$ 106,800	No Limit
2009	7.65%	7.65%	106,800	No Limit
2008	7.65%	7.65%	102,000	No Limit
2007	7.65%	7.65%	97,500	No Limit
2006	7.65%	7.65%	94,200	No Limit
2005	7.65%	7.65%	90,000	No Limit
2004	7.65%	7.65%	87,900	No Limit
2003	7.65%	7.65%	87,000	No Limit
2002	7.65%	7.65%	84,900	No Limit
2001	7.65%	7.65%	80,400	No Limit

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## DEFERRED COMPENSATION PROGRAM

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### DEFERRED COMPENSATION PROGRAM

The Deferred Compensation Program is a voluntary program designed to provide state employees with the opportunity to accumulate supplemental retirement income on a tax advantaged basis. Participants may postpone income taxes on contributions and earnings by agreeing to defer receipt of a portion of their current income until retirement. In 2007, the 401(k) Plan began offering employees a designated Roth 401(k) after tax contribution option as payroll systems accommodated this change. The contributions are made after tax and the distributions are tax advantaged subject to timing restrictions.

This program offers employees two plans. The 457 plan was implemented in the 1981-82 fiscal year and the 401(k) plan was implemented in the 1983-84 fiscal year. In accordance with changes to *Internal Revenue Code Section 457*, the state's 457 plan was converted to a trust effective January 1, 1999.

As of June 30, 2010, accounts were held by 73,382 individuals in the 401(k) plan and 5,625 individuals in the 457 plan. At fiscal yearend, 31,666 state employees, 9,675 University of Tennessee employees and 11,392 Tennessee Board of Regents employees were actively contributing to the 401(k) plan and 2,304 state employees, 571 University of Tennessee employees and 405 Tennessee Board of Regents employees were actively contributing to the 457 plan.

The program is used by state employees of all ages and salary levels. The majority of active contributors are under age 48 and earn below \$38,400 per year.

IRS regulations for 2010 allow a maximum deferral in the 457 plan of 100% of compensation up to the maximum annual contribution of \$16,500. The maximum deferral in the 401(k) plan is 100% of compensation up to the maximum annual contribution of \$16,500. Participants who also use a 403(b) plan are subject to additional limits. Participants age 50 and older are eligible to make additional deferrals.

During the 2010 fiscal year, the state, the Tennessee Board of Regents and the University of Tennessee each matched their employees' contributions to the 401(k) plan at \$50 per month as authorized by the General Assembly. The amount contributed by the

state during the year was \$30.1 million. Employees contributed \$109.6 million.

Participants in the program at June 30, 2010 directed the investment of their deferred salary to the Regions Bank Time Deposit Account, ING's Fixed Account, Calvert's Income Fund, State Street Bank & Trust's S&P 500 Index Fund, Fidelity Investments' Magellan Fund, Puritan Fund, OTC Portfolio, Contrafund, International Growth and Income Fund, Government Money Market Portfolio, Dimensional Fund Advisors (DFA) International Fund, Fidelity Small Cap Independence Fund, a series of Vanguard Target Date Funds, Vanguard Total Bond Market Index Signal and several options through the ING variable annuity. A self directed brokerage account option provides access to additional mutual funds.

Enrollment and record keeping services for the program are provided by Great-West Retirement Services. The use of an unbundled arrangement enables participants to receive an objective presentation of the investment products, to avoid the sales fees traditionally associated with bundled products and to receive consolidated account statements and benefit estimates. All of the products available for new enrollment are offered without sales fees, surrender fees, mortality and expense risk fees or minimum deposit requirements.

Participants receive a quarterly statement showing their contributions and earnings during the quarter. In addition, once a year, participants receive a special statement projecting their account balance to a variety of retirement ages and showing the monthly income those account balances might provide. The program provides a variety of communication and education materials and services, including a comprehensive Internet site, a handbook for participants, several booklets on special topics, investment seminars around the state, plus a voice response telephone system and an Internet account access system which provide participants with immediate access to account balances and account transactions 24 hours a day. Online statements are available upon request.

The Internet site, [www.tn.gov/treasury/dc](http://www.tn.gov/treasury/dc), provides full information about the program. Information available through the site includes forms, participation information and illustrations, descriptions of the investment choices and historical performance figures,

## DEFERRED COMPENSATION PROGRAM

an interactive benefit calculator, complete information for participants who may be approaching retirement age or considering withdrawing funds from the program, an e-mail address for participants to request additional personalized information and full account activity access.

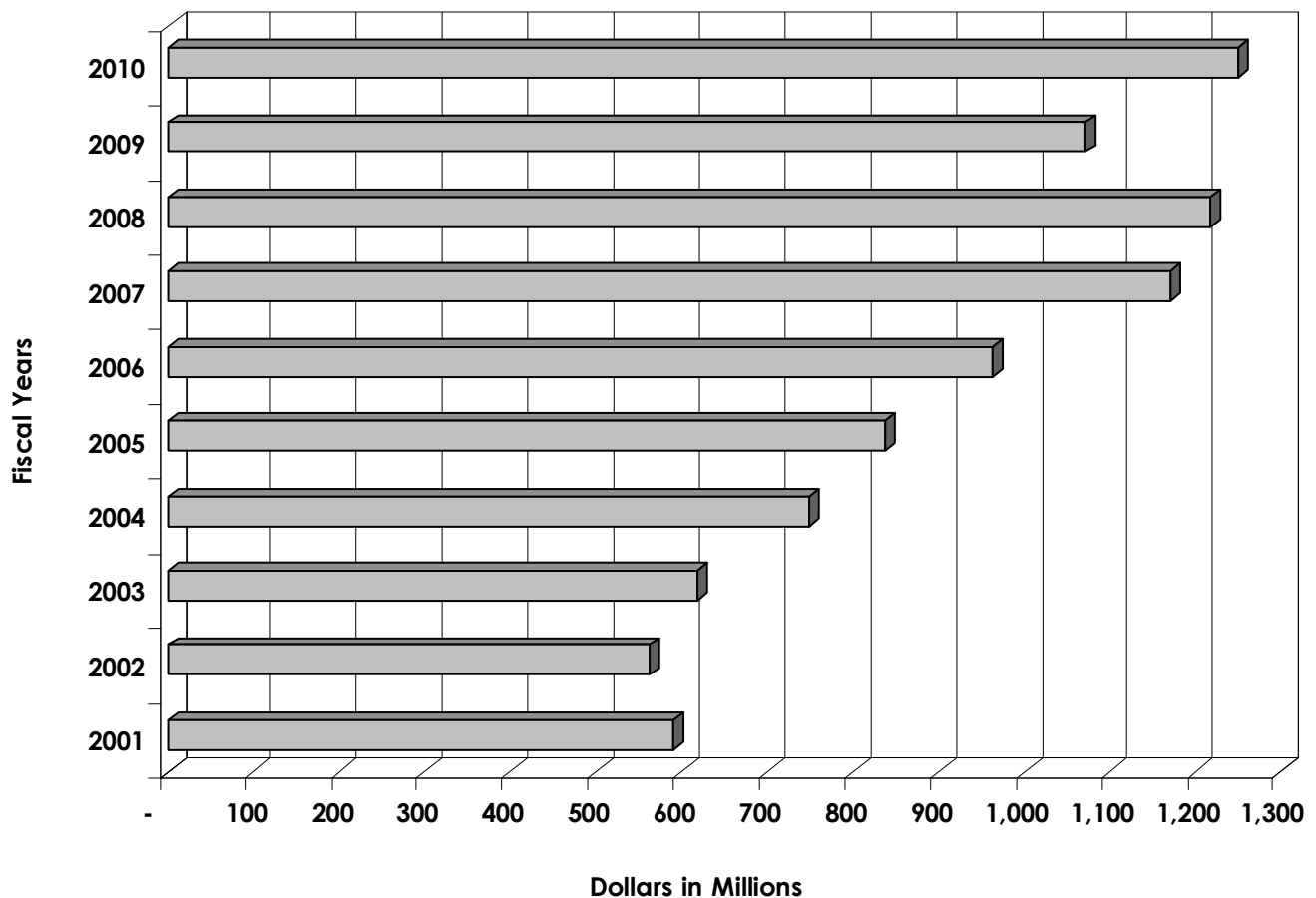
For the year ending June 30, 2010, contributions to the program totaled \$139.7 million. Contributions are wired for immediate crediting. At June 30, 2010, accumulated account balances totaled \$1.25 billion.

Under the loan program offered in the 401(k) plan, active employees who have accumulated \$4,000 or more in their 401(k) account may borrow up to half of their account value. Participants repay principal and

interest to their 401(k) account through salary deduction. Taxes continue to be deferred while funds accumulated in the plan are in loan status. As of June 30, 2010, there were 6,024 loans outstanding from the 401(k) plan. Outstanding loan balances totaled \$18.1 million.

Benefits from the program may be distributed in periodic payments, in an annuity or in a lump sum. During the year ended June 30, 2010, there were 6,766 periodic payments made from the program. Members may choose monthly, quarterly, semi-annual or annual payments. In addition, 3,709 lump-sum distributions and 5,046 partial lump-sum distributions were issued during fiscal year 2010.

### DEFERRED COMPENSATION PROGRAM ASSETS EXPRESSED IN MILLIONS FISCAL YEARS 2001-2010



## DEFERRED COMPENSATION PROGRAM

DEFERRED COMPENSATION CONTRIBUTIONS AND MARKET VALUE  
FISCAL YEAR 2010

	Contributions FY 2009-2010	Market Value June 30, 2010
<b>Plan I (457)</b>		
ING	\$ 2,698,011	\$ 37,685,043
American General	10,802	542,691
Calvert	862,622	8,205,897
Fidelity	8,764,820	91,795,865
State Street	980,433	6,303,649
Regions	1,507,841	18,965,313
Vanguard	1,956,035	7,205,195
Dimensional	282,181	1,457,700
	<u>\$ 17,062,745</u>	<u>\$ 172,161,353</u>
<b>Plan II (401K)</b>		
ING	\$ 18,784,050	\$ 178,703,778
Calvert	4,388,136	40,942,339
Fidelity	73,606,692	674,115,574
State Street	5,668,723	37,958,311
Regions	12,296,293	104,448,965
Vanguard	6,793,648	34,051,765
Dimensional	1,094,792	6,612,726
	<u>\$ 122,632,334</u>	<u>\$ 1,076,833,458</u>
<b>Total for Both Plans</b>	<u><u>\$ 139,695,079</u></u>	<u><u>\$ 1,248,994,811</u></u>

**FLEXIBLE BENEFITS PLAN****FLEXIBLE BENEFITS PLAN**

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

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

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

Effective January 1, 2009, the Flexible Benefits Plan offers employees the opportunity to open transportation and parking flexible benefits accounts as authorized by Section 132 of the Internal Revenue Code. These accounts benefit employees by allowing them to designate an amount, up to the established limitations, to be withheld from their paychecks as a pre-tax benefit. These deductions are exempt from Federal Income and Social Security taxes. Participation in this program will result in the employee having a lower tax obligation during each calendar year in which they participate.

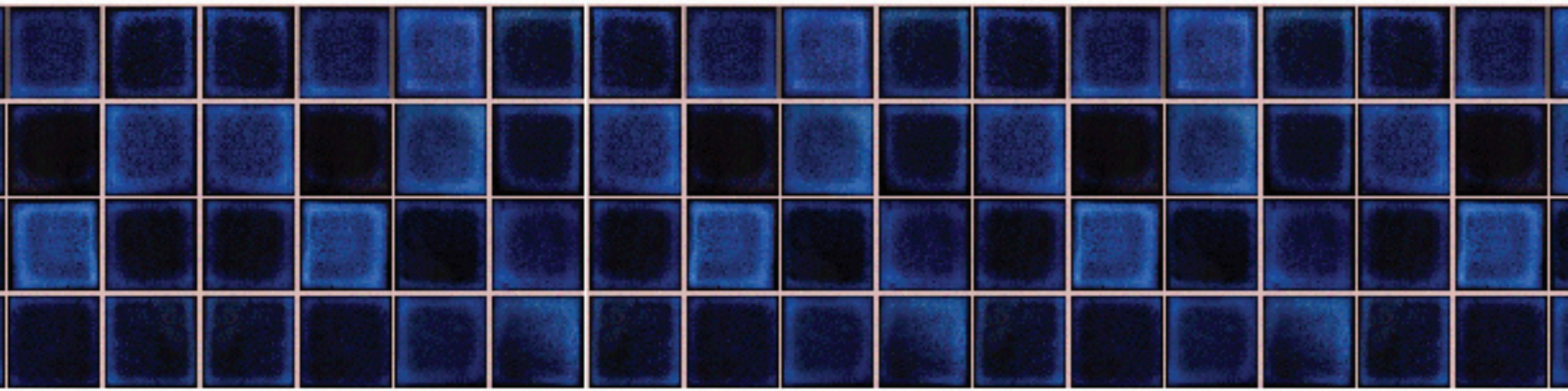
Unlike medical and dependent care flexible benefits accounts, there is no requirement for new employees to enroll within 30 days of being hired and there is no annual enrollment period for existing employees. An employee may enroll in a transportation account and/or a parking account at any time during employment. Transportation and parking flexible benefits accounts can be terminated at any time by the employee.

At June 30, 2010, over 39,000 state employees were enrolled in one or more of the plan's four Section 125 options: 39,931 employees used the plan to pay medical insurance premiums, 27,053 paid dental insurance premiums, 4,758 used the medical expense reimbursement account and 406 used the dependent care reimbursement account. In addition, 149 and 81 state employees participated in the parking and transportation reimbursement accounts, respectively.





# 2010 Treasurer's Report



*Investments*

## TCRS INVESTMENTS

### TCRS INVESTMENTS

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

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

Funds in the retirement system are actively managed with a diversified portfolio of high-quality domestic and international bonds, domestic and international stocks, real estate, private equity and money market instruments.

The investment authority for TCRS is set out in *Tennessee Code Annotated*, Section 8-37-104(a), which provides that, with certain specific exceptions, investments of TCRS assets are subject to the same terms, conditions, and limitations imposed on domestic life insurance companies. It further provides that investment policy for TCRS funds is subject to the approval of the Board of Trustees.

The Investment Advisory Council established in *Tennessee Code Annotated*, Section 8-37-108 provides policy guidance to the Board of Trustees and the investment staff. The current Advisory Council is comprised of senior investment professionals from within the State of Tennessee.

To assist in the fiduciary responsibility for managing the TCRS portfolio, Strategic Investment Solutions, Inc. serves as the general investment consultant for TCRS. The Townsend Group serves as the real estate investment consultant.

Northern Trust Company is the Master Trust Bank for TCRS which provides safekeeping and accounting services for the investment portfolio.

### COST OF INVESTMENT OPERATION

The administrative cost to operate the investment program for TCRS is less than four basis points (.04%) of assets. The cost of four basis points includes the cost of personnel, operational cost, master bank custodian cost, record keeping and the cost of external management for international equities. Commission cost for trades are capitalized. Recent peer comparisons of investment management fees and expenses indicate the investment program is managed very cost effectively.

### PERFORMANCE MEASUREMENT

An independent external investment consultant, Strategic Investment Solutions, Inc., provides performance measurement for TCRS. During the 2010 fiscal year, TCRS had a total return of 10.24%. Domestic stocks gained 13.73%, while the S&P 1500 Index gained 15.56%. Domestic bonds earned 13.89% versus the Citigroup Broad Investment Grade bond index of 9.03%. International stocks gained 9.31% versus 6.63% for the Morgan Stanley EAFE IMI Index. Real estate lost 16.33% versus a loss of 9.60% for the NCREIF index.

## TCRS INVESTMENTS

INVESTMENT SUMMARY  
AS OF JUNE 30, 2010

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	\$ 3,696,684,511	13.05%	\$ 922,254,642	3.26%	\$ 4,618,939,153	16.31%
Corporate Bonds	3,480,680,145	12.29%	0	0.00%	3,480,680,145	12.29%
Municipal/Provincial Bonds	104,066,229	0.37%	13,958,281	0.05%	118,024,510	0.42%
Total Bonds	7,281,430,885	25.71%	936,212,923	3.31%	8,217,643,808	29.02%
Asset-Backed	1,036,747,167	3.66%	0	0.00%	1,036,747,167	3.66%
Commercial Mortgage-Backed	454,042,797	1.60%	0	0.00%	454,042,797	1.60%
Government Agencies	463,186,009	1.64%	76,881,862	0.27%	540,067,871	1.91%
Government Mortgage-Backed Securities	3,263,054,519	11.52%	0	0.00%	3,263,054,519	11.52%
Non-Government CMOs	425,212,691	1.50%	0	0.00%	425,212,691	1.50%
Guaranteed Fixed Income	10,039,450	0.04%	0	0.00%	10,039,450	0.04%
Preferred Stock	1,385,500	0.00%	25,051,515	0.09%	26,437,015	0.09%
Total Fixed Income	12,935,099,018	45.67%	1,038,146,300	3.67%	13,973,245,318	49.34%
Common Stock						
Consumer Discretionary	893,415,012	3.15%	425,088,210	1.50%	1,318,503,222	4.65%
Consumer Staples	952,986,108	3.36%	350,241,202	1.24%	1,303,227,310	4.60%
Energy	910,856,717	3.22%	264,680,728	0.93%	1,175,537,445	4.15%
Financials	1,410,702,457	4.98%	690,618,125	2.44%	2,101,320,582	7.42%
Healthcare	1,062,677,516	3.75%	304,243,110	1.07%	1,366,920,626	4.82%
Industrials	978,600,393	3.46%	609,020,342	2.15%	1,587,620,735	5.61%
Information Technology	1,659,093,451	5.86%	265,115,767	0.94%	1,924,209,218	6.80%
Materials	330,861,487	1.17%	377,631,617	1.33%	708,493,104	2.50%
Rights/Warrants	0	0.00%	152,766	0.00%	152,766	0.00%
Telecommunication Services	236,741,885	0.83%	121,180,886	0.43%	357,922,771	1.26%
Utilities	319,070,249	1.13%	86,270,218	0.30%	405,340,467	1.43%
Miscellaneous/Unclassified	41,392,428	0.15%	635,090,633	2.24%	676,483,061	2.39%
Unit Trust Equity	0	0.00%	8,183,533	0.03%	8,183,533	0.03%
Total Common Stock	8,796,397,703	31.06%	4,137,517,137	14.60%	12,933,914,840	45.66%
Short-Term Investments						
Commercial Paper	251,100,558	0.89%	0	0.00%	251,100,558	0.89%
Pooled Funds and Mutual Funds	(203,930)	0.00%	0	0.00%	(203,930)	0.00%
U.S. Government Securities	160,996,846	0.57%	0	0.00%	160,996,846	0.57%
Total Short-Term Investments	411,893,474	1.45%	0	0.00%	411,893,474	1.45%
Real Estate	973,245,133	3.44%	0	0.00%	973,245,133	3.44%
Private Equities	26,612,469	0.09%	0	0.00%	26,612,469	0.09%
Derivative Instruments	4,264,311	0.02%	0	0.00%	4,264,311	0.02%
Total Investments	23,147,512,108	81.73%	5,175,663,437	18.27%	28,323,175,545	100.00%
Short-Term Investments Classified as Cash Equivalents	(411,893,474)		0		(411,893,474)	
Total Investments as Shown on the Statement of Plan Net Assets	<u>\$ 22,735,618,634</u>		<u>\$ 5,175,663,437</u>		<u>\$ 27,911,282,071</u>	

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

## TCRS INVESTMENTS

## TCRS INVESTMENTS BENCHMARK ANALYSIS

<b>Fiscal Year</b>	<b>(1) Public Fund Index Median Total Return</b>	<b>(2) TCRS Total Return</b>
2010	13.5 %	10.2 %
2009	(17.9)%	(15.3)%
2008	(4.7)%	(1.2)%
2007	14.1 %	13.2 %
2006	6.9 %	6.9 %
2005	9.4 %	7.3 %
2004	15.0 %	9.3 %
2003	3.7 %	4.9 %
2002	(5.2)%	(1.9)%
2001	(4.1)%	(1.6)%

(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.

**SUMMARY OF TCRS EARNINGS**  
***FISCAL YEARS 2006-2010***

<b>Fiscal Year</b>	<b>TCRS Portfolio Earnings</b>
2010	\$2,692,345,919
2009	(4,858,486,179)
2008	(430,058,924)
2007	3,791,403,651
2006	1,877,298,490

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## STATE CASH MANAGEMENT

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### STATE CASH MANAGEMENT

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 more than 70 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 2010 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was \$6,867,621,472 per month and interest income of \$26,965,391 was earned. This includes deposits in the Local Government Investment Pool administered by the Treasury Department.

The State Funding Board sets the investment policy for the state. The State Funding Board is composed of the Governor, Commissioner of Finance and Administration, Comptroller, Secretary of State and Treasurer. The foremost investment objective of the State Pooled Investment Fund is safety of principal, followed by liquidity and then yield.

The current investment policy for the State Pooled Investment Fund was established to follow SEC Rule 2a-7-like guidelines for a money market fund. The maximum maturity of any security can not exceed 397 days and the weighted average maturity must be 90 days or less.

Funds may be invested in collateralized certificates of deposit with authorized Tennessee financial institutions; bills, notes and bonds of the U.S. Treasury; other obligations guaranteed as to principal and interest by the U.S. or any of its agencies and repurchase agreements against obligations of the U.S. or its agencies. Securities underlying repurchase agreements must be book-entry and delivered to a third party custodian in the name of the State Treasurer. Funds may also be invested in prime commercial paper and prime banker's acceptances.

At June 30, 2010, investments had an average maturity of 84 days and an average weighted yield of .27%. The total balance in the State Pooled Investment Fund at June 30, 2010, \$6,811,303,863 fair value, was allocated as follows: U.S. Treasury government and agency securities, 57.25%; overnight deposits, 13.11%; collateralized certificates of deposit, 14.58% and commercial paper, 15.06%.

### ADMINISTRATION OF AUTHORIZED STATE DEPOSITORY ACCOUNTS

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

The four most significant functions of administering the accounts are: (1) authorizing the state depository to accept state funds; (2) cash concentration; (3) collateralizing deposits and (4) monitoring collateral and deposits. Financial institutions' requests to become authorized state depositories are received in Cash Management, reviewed and forwarded to the appropriate state officials for consideration and approval.

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

Changes in branch banking laws and bank ownership due to mergers and acquisitions have brought about a need to quickly identify the parent bank, holding company and affiliate trustee custodians for state depositories. The ability to access and update this information on a database enhances the ability to

## STATE CASH MANAGEMENT

monitor deposits and collateral based on appropriate bank ownership.

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

### STATE COLLATERAL PROGRAM

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

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

Collateral is held by an authorized trustee custodian in the name of the State of Tennessee. Treasury staff must authorize the receipt, release and substitution of all collateral.

### COLLATERAL POOL

The operation of a collateral pool for banks is authorized by Tennessee Code Annotated, Section 9-4-501, et seq. The Collateral Pool operates under the jurisdiction of the Collateral Pool Board, which is

comprised of four bankers and three government members representing state and local government divisions. The Collateral Pool Board has established rules and procedures that provide a low amount of risk and a high degree of efficiency for participating institutions.

While participation in the Collateral Pool is voluntary, participation is subject to application to and approval by the Collateral Pool Board. The Board has established minimum financial performance levels for applicants which must be met to ensure that program risk is minimized.

All public funds held by a pool participant are collateralized based on a collateral target calculated each month by the participant. The collateral target is based on the aggregate average balance of all public funds for the month multiplied by the pledge percentage level assigned to the participant by the Board.

The Board has established three different collateral pledge levels: 115 percent, 100 percent and 90 percent. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level. In March 2009, the Collateral Pool Board voted to suspend the 90% pledge level until further notice. Under the Collateral Pool, should a financial institution default with insufficient collateral to cover public deposits, then the other financial institutions must make up the difference on a pro rata basis. Accordingly, public funds are not at risk in the Collateral Pool.

All collateral transactions for the pool are monitored and processed through the Treasury Department using uniform statewide procedures. In addition, Treasury Department staff monitors all pool activity through the monthly, quarterly and annual reports required to be submitted by pool participants or obtained from third party sources.

The Collateral Pool provides collateral for both state funds and local government funds for those institutions participating in the pool. The Collateral Pool serves as a significant administrative advantage for local governments. Under the Collateral Pool, the Treasurer, rather than the local government, is responsible for monitoring the pledge level; pricing collateral;

**STATE CASH MANAGEMENT**

reconciling collateral monthly with the trustee custodian; monitoring collateral; pledging, releasing and substituting collateral and maintaining a trustee custodian relationship.

Currently, the Collateral Pool has 96 participant institutions collateralizing public funds in excess of \$8.5 billion.

**STATE TRUST**

The State Trust of Tennessee, a not-for-profit corporation chartered in the State of Tennessee in 1979, continues to be utilized to obtain check clearing services through the Federal Reserve Bank with a check redemption volume of 9,769,712 during fiscal year 2010 at an estimated savings of between \$750,000 to \$1,000,000.

**STATE CASH MANAGEMENT COMPARATIVE RETURNS**

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

<b>Fiscal Year</b>	<b>(1) Total Pool Funds</b>	<b>(2) Merrill Lynch Institutional Fund</b>	<b>(3) Standard &amp; Poor's 7-Day LGIP Yield Index</b>	<b>(4) 90-Day Treasury (CD Equivalent Yield)</b>
2010	0.40%	0.16%	0.39%	.12%
2009	1.66%	1.67%	1.33%	.64%
2008	4.13%	4.23%	2.60%	2.75%
2007	5.30%	5.11%	4.50%	5.02%
2006	4.11%	4.00%	4.00%	4.18%

- (1) Investment return on total portfolio.
- (2) This index most closely resembles the structures and objectives of the total cash portfolio.
- (3) Index is for LGIP benchmark pools rated AAAM & AAM by S&P.
- (4) This approximates the reinvestment period for new funds for the period.



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**STATE CASH MANAGEMENT**

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**SECURITIES ACCEPTABLE AS COLLATERAL FOR STATE DEPOSITS**

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

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

## STATE CASH MANAGEMENT

### HISTORICAL ANALYSIS OF STATE CASH INVESTMENTS

#### Collateralized Time Deposits

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2010	\$ 1,636,994,750	\$ 11,438,313	0.62%
2009	2,618,880,250	47,806,706	1.82%
2008	2,455,349,750	107,899,521	4.35%
2007	2,124,406,667	112,695,354	5.30%
2006	1,759,051,167	72,963,609	4.08%

#### Repurchase Agreements and Overnight Deposit Accounts

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2010	\$ 643,502,305	\$ 1,061,207	0.30%
2009	367,930,650	2,860,837	1.03%
2008	387,890,324	12,631,202	3.93%
2007	398,534,694	17,529,090	5.45%
2006	384,561,576	13,866,064	4.37%

#### Commercial Paper

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2010	\$ 1,302,143,334	\$ 2,167,028	0.17%
2009	1,476,756,250	16,759,612	1.02%
2008	2,481,205,417	92,953,120	3.87%
2007	2,002,307,667	106,634,748	5.34%
2006	1,506,052,417	64,594,383	4.24%

#### U.S. Government Securities

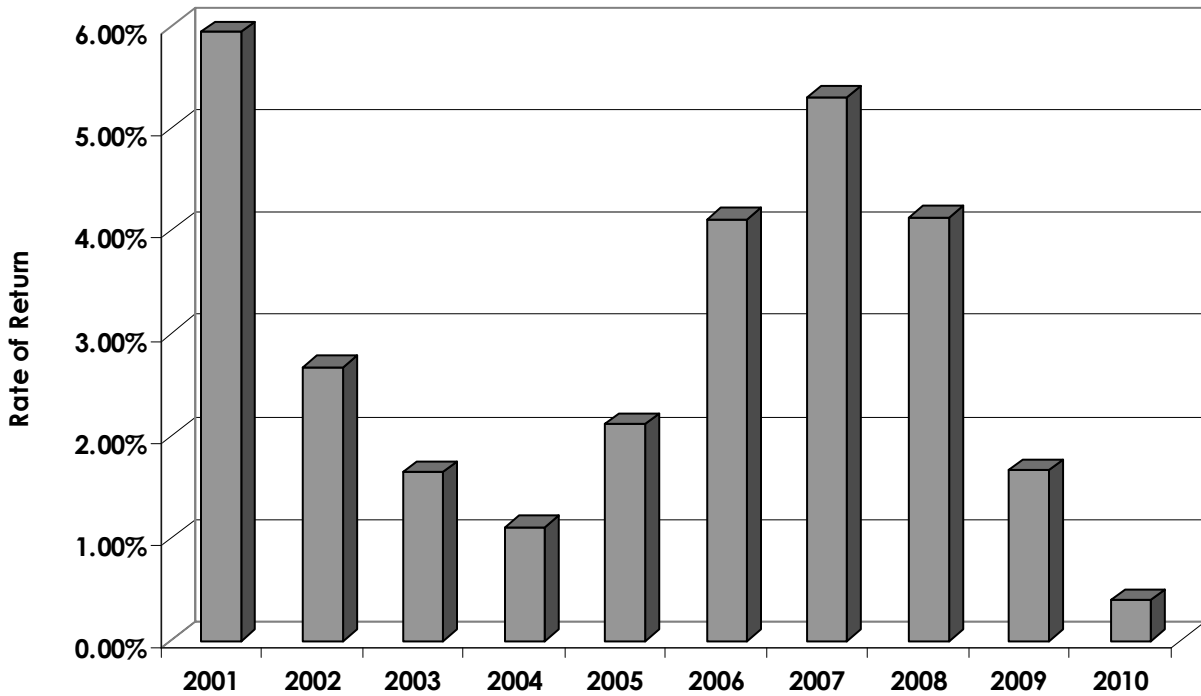
Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2010	\$ 3,284,981,083	\$ 12,298,843	0.38%
2009	2,847,377,750	52,443,415	1.89%
2008	2,774,037,333	112,693,789	4.22%
2007	2,210,772,500	115,043,989	5.26%
2006	1,747,103,333	69,817,959	3.99%

#### Total Funds

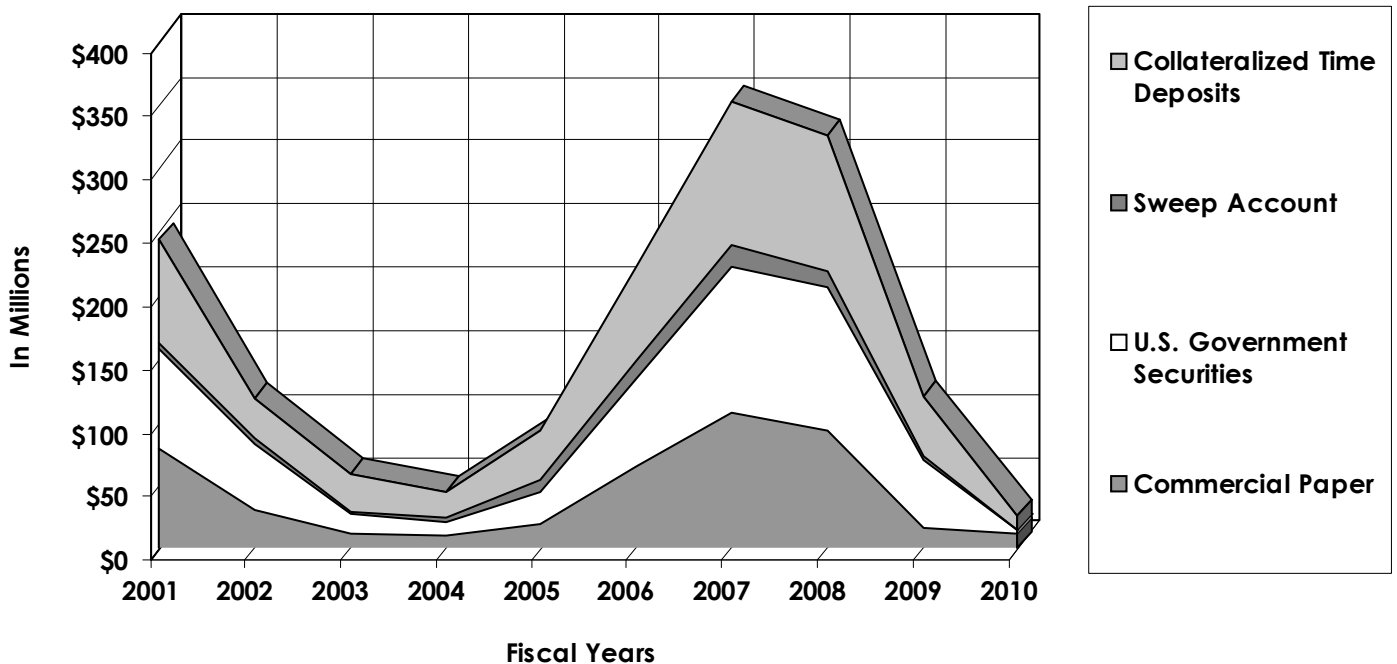
Fiscal Year	Average Total	Cash	Composite
2010	\$ 6,867,621,472	\$ 26,965,391	0.40%
2009	7,310,944,900	119,870,570	1.66%
2008	8,098,482,824	326,177,632	4.13%
2007	6,736,021,528	351,903,181	5.30%
2006	5,396,768,493	221,242,015	4.11%

STATE CASH MANAGEMENT

**CASH MANAGEMENT INVESTMENTS COMPOSITE WEIGHTED AVERAGE RATE OF RETURN**  
*FISCAL YEARS 2001-2010*



**ANALYSIS OF STATE CASH EARNINGS**  
*FISCAL YEARS 2001-2010*



**STATE CASH MANAGEMENT**

**CASH MANAGEMENT PORTFOLIO ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2010**

Date	Current Investment Yield	Total Portfolio Yield	Average Days to Maturity	Portfolio Composition				
				Certificates of Deposit	Sweep	U.S. Treasury	U.S. Agency	Commercial Paper
July, 2009	0.17%	0.62%	83	33.25%	3.64%	0.00%	43.81%	19.31%
August, 2009	0.17%	0.55%	80	33.71%	3.81%	0.00%	46.54%	15.94%
September, 2009	0.16%	0.54%	78	34.03%	4.29%	0.00%	49.64%	12.05%
October, 2009	0.12%	0.51%	87	33.88%	5.24%	0.00%	52.56%	8.32%
November, 2009	0.13%	0.49%	82	31.76%	10.47%	0.00%	49.16%	8.61%
December, 2009	0.11%	0.35%	82	20.35%	11.59%	0.00%	49.94%	18.13%
January, 2010	0.09%	0.29%	79	16.68%	11.03%	0.00%	51.33%	20.96%
February, 2010	0.11%	0.26%	70	14.81%	11.02%	0.00%	49.90%	24.28%
March, 2010	0.14%	0.26%	77	14.88%	11.02%	0.00%	52.52%	21.59%
April, 2010	0.17%	0.28%	87	14.05%	11.07%	0.00%	51.58%	23.31%
May, 2010	0.19%	0.31%	100	13.80%	11.72%	0.00%	47.03%	27.45%
June, 2010	<u>0.13%</u>	<u>0.29%</u>	<u>80</u>	14.58%	13.11%	10.57%	46.68%	15.06%
<b>Average</b>	<b><u>0.14%</u></b>	<b><u>0.40%</u></b>	<b><u>82</u></b>	<b><u>22.98%</u></b>	<b><u>9.00%</u></b>	<b><u>0.88%</u></b>	<b><u>49.22%</u></b>	<b><u>17.92%</u></b>

Month	General Fund		LGIP		Other Restricted		Total Average Invested
	Average	Percent	Average	Percent	Average	Percent	
July, 2009	\$2,400,897,963	31.38%	\$3,261,739,830	42.63%	\$1,988,002,728	25.98%	\$7,650,640,521
August, 2009	2,426,056,920	33.61%	2,874,110,769	39.81%	1,918,553,186	26.58%	7,218,720,875
September, 2009	2,249,464,773	32.18%	2,783,518,913	39.82%	1,956,516,042	27.99%	6,989,499,728
October, 2009	2,138,333,749	32.14%	2,634,222,411	39.60%	1,880,245,070	28.26%	6,652,801,230
November, 2009	1,790,328,121	29.18%	2,527,527,337	41.20%	1,817,509,042	29.62%	6,135,364,500
December, 2009	1,785,959,431	28.11%	2,867,847,753	45.14%	1,699,157,619	26.75%	6,352,964,803
January, 2010	1,886,228,043	27.93%	3,207,743,688	47.50%	1,658,994,403	24.57%	6,752,966,134
February, 2010	1,801,591,597	26.50%	3,407,042,669	50.11%	1,590,731,557	23.40%	6,799,365,823
March, 2010	1,555,351,447	22.41%	3,851,224,859	55.50%	1,533,125,430	22.09%	6,939,701,736
April, 2010	1,595,946,964	23.31%	3,689,188,185	53.88%	1,562,472,594	22.82%	6,847,607,743
May, 2010	1,739,377,987	25.13%	3,357,478,619	48.52%	1,823,319,689	26.35%	6,920,176,295
June, 2010	<u>2,099,556,567</u>	<u>29.36%</u>	<u>3,233,877,089</u>	<u>45.22%</u>	<u>1,818,214,617</u>	<u>25.42%</u>	<u>7,151,648,273</u>
<b>Average</b>	<b><u>\$1,955,757,797</u></b>	<b><u>28.48%</u></b>	<b><u>\$3,141,293,510</u></b>	<b><u>45.74%</u></b>	<b><u>\$1,770,570,165</u></b>	<b><u>25.78%</u></b>	<b><u>\$6,867,621,472</u></b>

**STATE CASH MANAGEMENT**

**LOCAL GOVERNMENT INVESTMENT POOL**

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

The Local Government Investment Pool began operations in November of 1980. Participation in the LGIP program currently stands in excess of 2,200 accounts. The Department of Transportation (DOT) program has more than 700 active accounts.

Local governments which enter into agreements with the DOT often establish an LGIP account to fund the local matching portion of a highway project grant. These DOT accounts are available to provide the local match to the specific highway project in a timely manner while earning interest for the local government. In a similar fashion, the Tennessee Board

of Regents schools provide their matching portion of Capital Projects funds while earning interest for the benefit of the Board of Regents school.

An electronic banking system allows participants to access their accounts in a secure Internet application. Thus, participants are able to communicate their instructions by telephone, telefax, or the Internet.

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

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

Participants earn interest on LGIP deposits based on the total portfolio return of the cash management pool, less a monthly administrative fee of five one hundredths of one percent (.05%). During the 2010 fiscal year, the average rate participants earned on their deposits after the fee reduction was .35%. Other activity is shown on the following schedule by participant group.

**LOCAL GOVERNMENT INVESTMENT POOL SCHEDULE OF ACTIVITY BY ENTITY TYPE  
FISCAL YEAR ENDED JUNE 30, 2010**

	Account Balance 6/30/2009	Net Deposits/(Withdrawals) FY 2009-2010	Interest Credited FY 2009-2010	Account Balance 6/30/2010
Cities	\$ 945,540,771	\$ 172,969,514	\$ 3,162,384	\$ 1,121,672,669
Counties	917,423,531	(392,717,612)	2,544,137	527,250,056
Commitments to D.O.T.	41,402,570	(645,639)	147,454	40,904,385
Educational Institutions	920,825,753	(98,059,876)	3,094,882	825,860,759
Community Health Agencies	351,097	(131,818)	1,024	220,303
Bond Finance	0	165,283,908	224,541	165,508,449
Other	548,728,727	(111,968,565)	1,630,359	438,390,521
<b>Total</b>	<b><u>\$ 3,374,272,449</u></b>	<b><u>\$ (265,270,088)</u></b>	<b><u>\$ 10,804,781</u></b>	<b><u>\$ 3,119,807,142</u></b>

## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM LARGEST HOLDINGS

### LARGEST STOCK HOLDINGS AS OF JUNE 30, 2010 BY FAIR VALUE

Shares	Security Name	Fair Value
5,464,199	iShares MSCI EAFE Index Fund	\$ 254,139,895
4,015,015	Exxon Mobile Corporation	229,136,921
836,200	Apple Incorporated	210,329,386
7,492,400	Microsoft Corporation	172,400,124
1,362,500	International Business Machines Corporation	168,241,500
2,485,800	Procter & Gamble Company	149,098,284
2,027,830	Chevron Corporation	137,608,544
9,466,400	General Electric	136,505,488
3,560,975	J P Morgan Chase & Company	130,367,295
6,693,600	Intel Corporation	130,190,520

### LARGEST BOND HOLDINGS AS OF JUNE 30, 2010 BY FAIR VALUE

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$ 235,900,000	United States Treasury Infl Index Note	0.15%	01/15/16	Aaa	\$ 279,522,614
215,000,000	United States Treasury Note	0.15%	04/15/11	Aaa	240,061,828
199,100,000	United States Treasury Infl Index Bond	1.43%	01/15/26	Aaa	231,236,506
170,000,000	United States Treasury Infl Index Note	0.15%	01/15/14	Aaa	213,665,365
200,749,000	United States Treasury Note	1.59%	11/30/16	Aaa	205,814,700
163,000,000	United States Treasury Note	1.71%	03/31/17	Aaa	171,761,250
157,000,000	United States Treasury Note	1.47%	01/15/20	Aaa	162,066,081
121,000,000	United States Treasury Infl Index Note	0.15%	04/15/12	Aaa	134,660,637
100,000,000	United States Treasury Infl Index Bond	0.90%	01/15/25	Aaa	128,290,198
120,000,000	FNMA TBA 30 Year	0.00%	09/15/33	NR	123,506,280

A complete portfolio listing is available upon request.

Key to Ratings: All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide rating for the securities (AAA is Standard & Poor's highest rating.) Government Securities are not rated per se' but are considered the best quality securities.

Moody's rates securities as follows:

Aaa	Best Quality
Aa	High Quality
A	Upper Medium Quality
Baa	Medium Quality
NR	Not Rated

## STATE CASH PORTFOLIO AS OF JUNE 30, 2010

Description	Yield to		Par Value	Fair Value
	Maturity	Maturity		
<b>U.S. TREASURY AND AGENCY OBLIGATIONS</b>				
FAMC	12/15/10	0.30%	\$ 25,000,000	\$ 24,975,000
FAMC	12/16/10	0.44%	25,000,000	24,975,000
FAMC	12/28/10	0.28%	15,000,000	14,983,500
FAMC	12/29/10	0.45%	50,000,000	49,945,000
FAMC	03/15/11	0.34%	30,000,000	29,931,000
Federal Home Loan Bank	07/06/10	0.00%	200,000,000	200,000,000
Federal Home Loan Bank	07/19/10	0.02%	85,238,000	85,238,000
Federal Home Loan Bank	07/21/10	0.18%	100,000,000	100,000,000
Federal Home Loan Bank	07/26/10	0.17%	25,000,000	25,000,000
Federal Home Loan Bank	10/01/10	0.35%	25,000,000	24,990,000
Federal Home Loan Bank	10/29/10	0.51%	50,000,000	50,047,000
Federal Home Loan Bank	11/03/10	0.27%	50,000,000	50,031,500
Federal Home Loan Bank	11/19/10	0.29%	113,000,000	112,909,600
Federal Home Loan Bank	11/24/10	0.30%	22,902,000	22,883,678
Federal Home Loan Bank	12/29/10	0.42%	50,000,000	50,078,000
Federal Home Loan Bank	01/04/11	0.46%	50,000,000	50,031,500
Federal Home Loan Bank	01/19/11	0.38%	25,000,000	25,000,000
Federal Home Loan Bank	02/23/11	0.42%	52,565,000	52,565,000
Federal Home Loan Bank	02/25/11	0.45%	50,000,000	50,000,000
Federal Home Loan Bank	03/18/11	0.39%	75,000,000	75,187,500
Federal Home Loan Bank	05/06/11	0.54%	50,000,000	50,203,000
Federal Home Loan Bank	05/06/11	0.54%	24,795,000	24,895,668
Federal Home Loan Bank	05/19/11	0.47%	25,000,000	24,912,500
Federal Home Loan Bank	05/27/11	0.63%	25,000,000	25,007,750
FFCB Discount Notes	07/15/10	0.65%	25,000,000	25,002,250
FFCB Discount Notes	09/24/10	0.46%	81,180,000	81,223,025
FFCB Discount Notes	12/28/10	0.40%	23,000,000	23,014,030
FFCB Discount Notes	02/03/11	0.40%	25,000,000	25,000,000
FFCB Discount Notes	03/25/11	0.40%	37,300,000	37,297,016
FFCB Discount Notes	03/31/11	0.45%	16,915,000	16,920,075
FFCB Discount Notes	04/20/11	0.51%	125,000,000	125,045,000
FFCB Discount Notes	04/29/11	0.53%	42,000,000	42,034,860
FFCB Discount Notes	05/11/11	0.55%	50,000,000	50,050,000
FFCB Discount Notes	05/12/11	0.44%	20,000,000	19,932,000
FFCB Discount Notes	05/17/11	0.56%	30,000,000	30,021,000
FFCB Discount Notes	06/24/11	0.50%	50,000,000	49,992,000
FFCB Discount Notes	07/01/11	0.66%	30,000,000	30,018,600
FHLB Discount Note	09/03/10	0.23%	15,000,000	14,997,000

(continued)

**STATE CASH PORTFOLIO  
AS OF JUNE 30, 2010**

Description	Maturity	Yield to Maturity	Par Value	Fair Value
FHLMC Discount Note	12/16/10	0.30%	\$ 73,705,000	\$ 73,631,295
FHLMC Note	10/01/10	0.32%	11,144,000	11,121,266
FHLMC Note 0.171	07/06/10	0.17%	102,242,000	102,242,000
FHLMC Note 0.190	08/10/10	0.19%	50,000,000	49,995,000
FHLMC Note 0.230	09/21/10	0.23%	50,000,000	49,990,000
FHLMC Note 0.230	09/22/10	0.23%	50,000,000	49,990,000
FHLMC Note 0.230	09/23/10	0.23%	50,000,000	49,990,000
FHLMC Note 0.435	03/07/11	0.44%	50,000,000	49,890,000
FHLMC Note 0.440	05/02/11	0.44%	25,000,000	24,917,500
FHLMC Note 1.430	09/03/10	0.61%	25,000,000	25,052,000
FNMA Discount Notes	07/01/10	0.20%	31,250,000	31,250,000
FNMA Discount Notes	07/06/10	0.18%	75,000,000	75,000,000
FNMA Discount Notes	07/14/10	0.18%	50,000,000	50,000,000
FNMA Discount Notes	07/21/10	0.18%	50,000,000	50,000,000
FNMA Discount Notes	08/13/10	0.23%	100,000,000	99,990,000
FNMA Discount Notes	10/27/10	0.28%	75,000,000	74,962,500
FNMA Discount Notes	11/15/10	0.28%	50,000,000	49,960,000
FNMA Discount Notes	11/15/10	0.30%	50,000,000	49,960,000
FNMA Discount Notes	11/15/10	0.28%	25,000,000	24,980,000
FNMA Discount Notes	12/01/10	0.43%	30,000,000	29,973,000
FNMA Discount Notes	12/15/10	0.32%	35,000,000	34,965,000
FNMA Discount Notes	02/01/11	0.37%	32,078,079	32,007,195
FNMA Discount Notes	02/23/11	0.37%	125,000,000	124,775,000
FNMA Discount Notes	03/23/11	0.43%	50,000,000	50,484,500
FNMA Discount Notes	04/28/11	0.49%	100,000,000	100,781,000
US Treasury Bills	07/08/10	0.01%	420,000,000	419,995,800
US Treasury Bills	07/22/10	0.10%	300,000,000	299,976,000
<b>TOTAL U.S. TREASURY AND AGENCY OBLIGATIONS</b>			<b>\$ 3,874,314,079</b>	<b>\$ 3,875,241,109</b>

**CERTIFICATES OF DEPOSIT**

Bank of Camden	08/19/10	0.30%	\$ 2,000,000	\$ 2,000,000
Bank of Crockett, Bells	07/16/10	0.30%	1,000,000	1,000,000
Bank of Crockett, Bells	08/05/10	0.30%	2,000,000	2,000,000
Bank of Gleason	08/24/10	0.40%	300,000	300,000
Bank of Gleason	11/12/10	0.40%	350,000	350,000
Bank of Gleason	11/02/10	0.40%	750,000	750,000
Bank of Gleason	07/09/10	0.49%	2,000,000	2,000,000
Bank of Halls	08/06/10	0.30%	500,000	500,000
Bank of Halls	07/16/10	0.30%	1,000,000	1,000,000

(continued)



## STATE CASH PORTFOLIO AS OF JUNE 30, 2010

Description	Yield to		Par Value	Fair Value
	Maturity	Maturity		
Bank of Halls	08/13/10	0.30%	\$ 2,000,000	\$ 2,000,000
Bank of Halls	07/23/10	0.30%	700,000	700,000
BB&T, Knoxville	11/30/10	0.35%	75,000,000	75,000,000
BB&T, Knoxville	10/22/10	0.40%	20,000,000	20,000,000
BB&T, Knoxville	08/23/10	0.50%	100,000,000	100,000,000
BB&T, Knoxville	12/23/10	0.35%	100,000,000	100,000,000
Cadence Bank, NA, Memphis	07/14/10	0.30%	5,000,000	5,000,000
Cadence Bank, NA, Memphis	07/14/10	0.30%	5,000,000	5,000,000
Cadence Bank, NA, Memphis	07/14/10	0.30%	5,000,000	5,000,000
Cadence Bank, NA, Memphis	07/14/10	0.30%	5,000,000	5,000,000
Cadence Bank, NA, Memphis	08/17/10	0.40%	5,000,000	5,000,000
CapitalMark Bank & Trust, Chattanooga	10/19/10	0.40%	4,000,000	4,000,000
CapitalMark Bank & Trust, Chattanooga	08/10/10	0.40%	2,000,000	2,000,000
CapitalMark Bank & Trust, Chattanooga	10/26/10	0.40%	2,000,000	2,000,000
CapitalMark Bank & Trust, Chattanooga	08/27/10	0.40%	2,000,000	2,000,000
CapitalMark Bank & Trust, Chattanooga	07/27/10	0.40%	4,000,000	4,000,000
CapitalMark Bank & Trust, Chattanooga	10/22/10	0.40%	4,000,000	4,000,000
CapitalMark Bank & Trust, Chattanooga	07/23/10	0.50%	5,000,000	5,000,000
Carroll Bank & Trust, Bradford	10/29/10	0.40%	90,000	90,000
Citizens Bank of Lafayette	12/03/10	0.40%	100,000	100,000
Citizens City & County Bank, Trenton	09/10/10	0.40%	95,000	95,000
Citizens State Bank, Jasper	08/03/10	0.40%	100,000	100,000
Citizens State Bank, Jasper	08/03/10	0.40%	200,000	200,000
Citizens State Bank, Jasper	07/16/10	0.50%	200,000	200,000
Civic Bank & Trust, Nashville	10/08/10	0.40%	1,000,000	1,000,000
Clayton Bank and Trust, Knoxville	09/17/10	0.40%	5,000,000	5,000,000
Community Bank and Trust, Ashland City	08/20/10	0.40%	1,000,000	1,000,000
Community Bank and Trust, Ashland City	07/16/10	0.50%	2,000,000	2,000,000
Community Bank and Trust, Ashland City	08/23/10	0.40%	1,000,000	1,000,000
Community First Bank and Trust, Columbia	11/16/10	0.40%	3,000,000	3,000,000
Community First Bank and Trust, Columbia	08/20/10	0.40%	2,000,000	2,000,000
Community First Bank and Trust, Columbia	08/06/10	0.40%	2,000,000	2,000,000
Community First Bank and Trust, Columbia	08/06/10	0.40%	1,000,000	1,000,000
Community National Bank, Dayton	10/26/10	0.40%	2,000,000	2,000,000
Community National Bank, Dayton	12/03/10	0.40%	1,000,000	1,000,000
Community National Bank, Dayton	11/26/10	0.40%	1,000,000	1,000,000
Community Trust & Banking Company, Ooltewah	11/26/10	0.40%	500,000	500,000
Community Trust & Banking Company, Ooltewah	12/21/10	0.40%	500,000	500,000
Community Trust & Banking Company, Ooltewah	09/10/10	0.40%	500,000	500,000

(continued)

**STATE CASH PORTFOLIO  
AS OF JUNE 30, 2010**

<b>Description</b>	<b>Maturity</b>	<b>Yield to Maturity</b>	<b>Par Value</b>	<b>Fair Value</b>
Farmers and Merchants Bank, Trezevant	08/19/10	0.30%	\$ 500,000	\$ 500,000
Farmers and Merchants Bank, Trezevant	08/19/10	0.30%	500,000	500,000
Farmers and Merchants Bank, Trezevant	08/19/10	0.30%	500,000	500,000
Fifth Third Bank, NA, Nashville	10/15/10	0.40%	25,000,000	25,000,000
Fifth Third Bank, NA, Nashville	10/22/10	0.40%	25,000,000	25,000,000
Fifth Third Bank, NA, Nashville	07/30/10	0.30%	50,000,000	50,000,000
Fifth Third Bank, NA, Nashville	10/22/10	0.40%	25,000,000	25,000,000
Fifth Third Bank, NA, Nashville	10/22/10	0.40%	25,000,000	25,000,000
Fifth Third Bank, NA, Nashville	07/30/10	0.30%	50,000,000	50,000,000
Fifth Third Bank, NA, Nashville	09/24/10	0.40%	30,000,000	30,000,000
First Citizens Bank, Nashville	08/27/10	0.40%	3,000,000	3,000,000
First Citizens National Bank, Dyersburg	08/27/10	0.40%	20,000,000	20,000,000
First National Bank of Pulaski	09/17/10	0.40%	500,000	500,000
First State Bank, Union City	07/13/10	0.50%	200,000	200,000
First Tennessee Bank National Association, Memphis	07/01/10	0.40%	50,000,000	50,000,000
First Volunteer Bank of Tennessee, Chattanooga	07/30/10	0.40%	500,000	500,000
First Volunteer Bank of Tennessee, Chattanooga	07/30/10	0.40%	500,000	500,000
First Volunteer Bank of Tennessee, Chattanooga	07/30/10	0.40%	300,000	300,000
First Volunteer Bank of Tennessee, Chattanooga	07/30/10	0.40%	200,000	200,000
First Volunteer Bank of Tennessee, Chattanooga	07/30/10	0.40%	500,000	500,000
First Volunteer Bank of Tennessee, Chattanooga	07/30/10	0.40%	450,000	450,000
Friendship Bank	11/12/10	0.40%	50,000	50,000
Friendship Bank	11/12/10	0.40%	525,000	525,000
Friendship Bank	11/12/10	0.40%	1,550,000	1,550,000
Gates Banking and Trust Company	07/15/10	0.30%	1,000,000	1,000,000
Gates Banking and Trust Company	08/13/10	0.30%	1,300,000	1,300,000
Gates Banking and Trust Company	08/13/10	0.30%	1,200,000	1,200,000
Gates Banking and Trust Company	08/06/10	0.30%	1,000,000	1,000,000
Gates Banking and Trust Company	08/02/10	0.30%	500,000	500,000
Gates Banking and Trust Company	07/23/10	0.30%	500,000	500,000
Gates Banking and Trust Company	07/15/10	0.30%	500,000	500,000
Gates Banking and Trust Company	07/01/10	0.30%	1,000,000	1,000,000
Gates Banking and Trust Company	07/15/10	0.30%	450,000	450,000
Gates Banking and Trust Company	08/26/10	0.30%	500,000	500,000
Gates Banking and Trust Company	08/26/10	0.30%	500,000	500,000
Gates Banking and Trust Company	07/26/10	0.30%	350,000	350,000
Landmark Community Bank, Memphis	07/06/10	0.30%	4,000,000	4,000,000
Landmark Community Bank, Memphis	07/06/10	0.30%	4,000,000	4,000,000
Landmark Community Bank, Memphis	07/06/10	0.30%	4,000,000	4,000,000

(continued)

## STATE CASH PORTFOLIO AS OF JUNE 30, 2010

Description	Yield to		Par Value	Fair Value
	Maturity	Maturity		
Landmark Community Bank, Memphis	07/02/10	0.30%	\$ 6,000,000	\$ 6,000,000
Landmark Community Bank, Memphis	07/02/10	0.30%	5,000,000	5,000,000
Landmark Community Bank, Memphis	07/02/10	0.30%	1,500,000	1,500,000
Newport Federal Bank	09/07/10	0.40%	95,000	95,000
Newport Federal Bank	12/24/10	0.30%	500,000	500,000
Newport Federal Bank	12/24/10	0.30%	500,000	500,000
Newport Federal Bank	09/07/10	0.40%	300,000	300,000
Peoples Bank & Trust Company, Manchester	09/14/10	0.40%	200,000	200,000
People's Bank and Trust Company of Pickett County, Byrdstown	07/06/10	0.50%	100,000	100,000
Peoples Bank of Bedford County, Shelbyville	11/12/10	0.40%	100,000	100,000
Pinnacle National Bank, Nashville	07/02/10	0.30%	20,000,000	20,000,000
Pinnacle National Bank, Nashville	07/16/10	0.30%	5,000,000	5,000,000
Pinnacle National Bank, Nashville	07/16/10	0.30%	5,000,000	5,000,000
Pinnacle National Bank, Nashville	07/16/10	0.30%	15,000,000	15,000,000
Pinnacle National Bank, Nashville	07/28/10	0.30%	20,000,000	20,000,000
Pinnacle National Bank, Nashville	07/16/10	0.30%	5,000,000	5,000,000
Pinnacle National Bank, Nashville	07/02/10	0.30%	20,000,000	20,000,000
Pinnacle National Bank, Nashville	07/16/10	0.30%	5,000,000	5,000,000
Pinnacle National Bank, Nashville	07/16/10	0.30%	25,000,000	25,000,000
Pinnacle National Bank, Nashville	07/16/10	0.30%	30,000,000	30,000,000
Pinnacle National Bank, Nashville	07/02/10	0.30%	20,000,000	20,000,000
Pinnacle National Bank, Nashville	07/16/10	0.30%	10,000,000	10,000,000
Putnam 1st Mercantile Bank, Cookeville	12/10/10	0.40%	1,000,000	1,000,000
Putnam 1st Mercantile Bank, Cookeville	12/07/10	0.40%	1,000,000	1,000,000
Renasant Bank, Memphis	07/20/10	0.40%	3,000,000	3,000,000
Security Bank, Dyersburg	07/26/10	0.30%	3,000,000	3,000,000
Tennessee Commerce Bank, Franklin	07/01/10	0.30%	35,000,000	35,000,000
Tennessee State Bank, Pigeon Forge	07/01/10	0.30%	20,000,000	20,000,000
The Bank of Jackson	08/20/10	0.30%	1,000,000	1,000,000
The Bank of Jackson	08/12/10	0.30%	1,000,000	1,000,000
The Bank of Jackson	08/20/10	0.30%	1,000,000	1,000,000
The Bank of Jackson	08/20/10	0.30%	500,000	500,000
The Bank of Jackson	07/19/10	0.30%	2,000,000	2,000,000
The Bank of Mason	07/02/10	0.30%	100,000	100,000
The Bank of Mason	07/02/10	0.30%	900,000	900,000
The Bank of Nashville	08/19/10	0.30%	5,000,000	5,000,000
The Coffee County Bank, Manchester	09/07/10	0.40%	95,000	95,000
The Farmers & Merchants Bank, Dyer	11/22/10	0.40%	2,000,000	2,000,000
The First National Bank of McMinnville	08/06/10	0.30%	9,000,000	9,000,000

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## STATE CASH PORTFOLIO AS OF JUNE 30, 2010

Description	Maturity	Yield to Maturity	Par Value	Fair Value
The Hardin County Bank, Savannah	12/24/10	0.40%	1,000,000	\$ 1,000,000
The Peoples Bank, Maury City	10/12/10	0.40%	200,000	200,000
Wayne County Bank, Waynesboro	09/24/10	0.40%	500,000	500,000
Wayne County Bank, Waynesboro	12/24/10	0.40%	900,000	900,000
<b>TOTAL CERTIFICATES OF DEPOSIT</b>			<b><u>\$ 990,950,000</u></b>	<b><u>\$ 990,950,000</u></b>
<b>OVERNIGHT DEPOSIT ACCOUNTS</b>				
Regions Bank - Overnight Deposit Account	7/1/2010	0.30%	\$ 892,499,822	\$ 892,499,822
<b>TOTAL OVERNIGHT DEPOSIT ACCOUNTS</b>			<b><u>\$ 892,499,822</u></b>	<b><u>\$ 892,499,822</u></b>
<b>COMMERCIAL PAPER</b>				
B N P	07/01/10		\$ 350,000,000	\$ 350,000,000
Chevron	07/07/10		20,000,000	19,999,533
Citi	07/01/10		100,000,000	100,000,000
General Electric	07/26/10		100,000,000	99,987,500
General Electric	07/01/10		200,000,000	200,000,000
Koch Industries	07/06/10		37,000,000	36,998,972
Koch Industries	07/23/10		50,000,000	49,993,889
Nestle	07/06/10		50,000,000	49,999,931
Pepsi	07/09/10		75,000,000	74,998,333
United Parcel Service	07/02/10		43,700,000	43,699,927
<b>TOTAL COMMERCIAL PAPER</b>			<b><u>\$ 1,025,700,000</u></b>	<b><u>\$ 1,025,678,085</u></b>
<b>TOTAL STATE CASH PORTFOLIO</b>			<b><u>\$ 6,783,463,901</u></b>	<b><u>\$ 6,784,369,016</u></b>

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**BACCALAUREATE EDUCATION SYSTEM TRUST PORTFOLIO**


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**BACCALAUREATE EDUCATION SYSTEM TRUST**  
**AS OF JUNE 30, 2010**

<b>Fixed Mutual Funds</b>	<b>Units</b>	<b>Fair Value</b>
State Street Lehman Aggregate Index	2,704,326	<u>\$ 35,659,248</u>
<b>Total Fixed Mutual Funds</b>		<b><u>\$ 35,659,248</u></b>
<b>Equity Mutual Funds</b>	<b>Units</b>	<b>Fair Value</b>
Northern Institutional Fund	2,913,166	\$ 2,913,166
State Street MSCI EAFE Index Fund	1,310,067	15,216,432
State Street S&P 500 Index Fund	597,001	<u>26,650,704</u>
<b>Total Equity Mutual Funds</b>		<b><u>\$ 44,780,302</u></b>
<b>Total Portfolio</b>		<b><u>\$ 80,439,550</u></b>

**CHAIRS OF EXCELLENCE LARGEST HOLDINGS**

**LARGEST BOND HOLDINGS  
AS OF JUNE 30, 2010  
BY FAIR VALUE**

Par Value	Security Name	Yield at Market	Maturity	Moody's Quality Rating	Fair Value
\$ 4,730,000	US Treasury Notes Index Linked	0.15%	01/15/16	Aaa	\$ 5,604,671
3,500,000	PPN CMO GS MTG SECS CORP II COML MTG	2.77%	05/03/18	Aaa	3,635,727
3,370,000	US Treasury Bonds Index Linked	1.43%	01/15/26	Aaa	3,913,948
3,000,000	US Treasury Notes Index Linked	0.15%	07/15/13	Aaa	3,766,369
3,000,000	FHLMC Bonds	0.37%	03/23/12	Aaa	3,074,127
2,969,373	FNMA Pool # AC8040	3.32%	01/01/40	NR	3,083,130
2,650,000	US Treasury Notes	1.71%	03/31/17	Aaa	2,792,438
2,500,000	US Treasury Notes Inflation Indexed	0.15%	01/15/12	Aaa	3,235,662
2,430,735	FNMA Pool # 745250	2.00%	01/01/21	NR	2,610,561
2,327,595	FNMA Pool # 867662	1.43%	05/01/36	NR	2,556,490

A complete portfolio listing is available upon request.

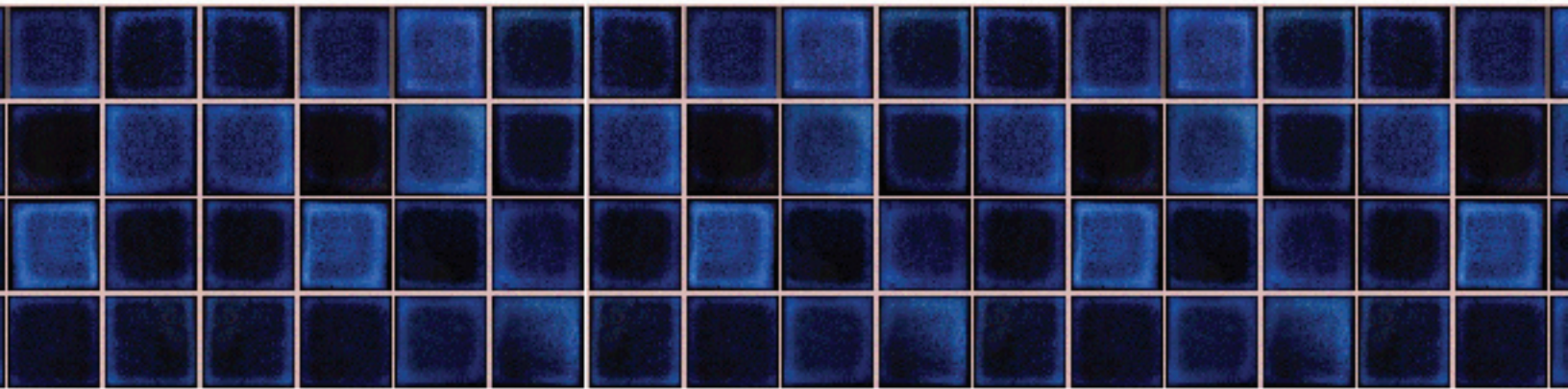
Mutual Funds	Units	Fair Value
State Street S&P 500 Index Fund	1,455,927	\$ 64,994,048
State Street MCSI EAFE Index Fund	2,509,312	29,145,663
Northern Institutional Fund	10,102,809	10,102,809
<b>Total Mutual Funds</b>		<b><u>\$104,242,520</u></b>

Key to Ratings: All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating.) Government Securities are not rated per se' but are considered the best quality securities.

Moody's rates securities as follows:

- Aaa Best Quality
- Aa High Quality
- A Upper Medium Quality
- Baa Medium Quality
- NR Not Rated

# 2010 Treasurer's Report



*Programs*

## BACCALAUREATE EDUCATION SYSTEM TRUST

### BACCALAUREATE EDUCATION SYSTEM TRUST

*Tennessee Code Annotated*, Title 49, Chapter 7, Part 8 sets forth the Tennessee Baccalaureate Education System Trust (BEST) Act. The Act creates a tuition program, as an agency and instrumentality of the State of Tennessee, under which parents and other interested persons may assist students in saving for tuition cost of attending colleges and universities. The tuition program is known as the BEST Program and is comprised of two types of tuition plans: The BEST Savings Plan and the BEST Prepaid College Tuition Plan. On May 30, 2008, the BEST Savings Plan was closed in an effort to provide customers in the plan a wider range of investment options and lower fees. Effective June 1, 2008, BEST contracted with the Georgia Higher Education Savings Plan to offer the Path2College 529 Plan to Tennesseans.

The federal guidelines for both 529 plans are contained in Section 529 of the Internal Revenue Code. The requirements for participation and administration of the Prepaid College Tuition Plan are contained in *Chapter 1700-5-1 of the Official Compilation of the Rules and Regulations of the State of Tennessee*.

The BEST program offers several favorable tax benefits to its participants. BEST contracts are exempt from all federal, state and local taxes if used for qualified education expenses. In addition, earnings on any distribution used to pay for qualified higher education expenses are exempt from taxation. The maximum account limit for a beneficiary in the BEST Prepaid program is \$235,000. Additionally, the maximum account balance limit for the Path2College 529 Plan is \$235,000.

### BEST PREPAID COLLEGE TUITION PLAN

The BEST Prepaid College Tuition Plan allows anyone to pay for higher education tuition in advance on behalf of a beneficiary. Tuition and mandatory fees may be purchased in increments known as tuition units. One tuition unit represents a value of one percent of the weighted average undergraduate tuition at Tennessee's four-year public universities plus an amount to cover administration and actuarial soundness of the program. The cost for one academic year of tuition at the average-priced, four-year undergraduate Tennessee public university will be covered by approximately 100 tuition units. Higher

education institutions that cost more than the average Tennessee four-year public university will require more units; those that cost less will require fewer units.

Qualified expenses include tuition, fees, supplies, books, room and board, and supplies and equipment required for enrollment or attendance. The units may be used at any accredited higher education institution — in-state or out-of-state, public or private. They may also be used at vocational and technical schools or professional and graduate schools. Participants do not have to choose a specific school when they enroll in the program.

Participants may utilize BEST's website for program information, located at [www.tnbest.org](http://www.tnbest.org), to learn about the program. The site features account forms, which can be downloaded, completed, and mailed to the BEST office. Questions or comments may be emailed to a BEST customer service representative.

The BEST prepaid program began accepting contracts and contributions in June 1997. At June 30, 2010, BEST had 9,019 active contracts with net assets totaling \$80.5 million. The unit price was \$72.52 per unit for the January 1, 2010 – July 31, 2010 enrollment period. The unit price increased to \$76.84 from August 1, 2010 until November 22, 2010 when the board voted to stop selling units in the BEST Prepaid Plan. The BEST Board annually sets the weighted average tuition of Tennessee's public colleges and universities which is effective August 1 of each year.

From the first payout in Fall 1999, the BEST Prepaid program has issued \$34.8 million in payments to colleges and universities.

### PATH2COLLEGE 529 PLAN

Anyone interested in investing for a college education can open an account on a child's behalf in the Path2College 529 College Savings Plan. There are no residency requirements. The account can be used to pay for qualified higher education expenses at any eligible college, university, trade or vocational school, or other post-secondary institution in the State of Tennessee or anywhere in the country, and at certain schools abroad. Qualified expenses include tuition, fees, supplies, books, certain room and board expenses, and equipment required for enrollment or attendance.



## BACCALAUREATE EDUCATION SYSTEM TRUST

The Path2College529 Plan, established by the Georgia Higher Education Saving Plan, offers seven investment options: The Managed Allocation Option, the Aggressive Managed Allocation Option, the 100% Equity Option, the Balance Fund Option, the Fixed

Income Option, the Guaranteed Option and the Money Market Option. There are no enrollment or administrative fees. Annual asset-based fees are less than one percent.

### PREPAID TUITION PLAN

#### *HISTORY OF PER UNIT PAYOUT, PRICES AND FEE*

<b>Enrollment Fiscal Year</b>	<b>Unit Payout</b>	<b>Administrative Fee</b>	<b>Actuarial Soundness</b>	<b>Unit Price (Aug. 1-Dec. 31)</b>	<b>Adjustment for Purchases after December 31*</b>	<b>Unit Price (Jan. 1-July 31)</b>
1997	\$ 21.64	\$ 2.11	\$ -	\$ 23.75	\$ -	\$ 23.75
1998	21.64	2.11	-	23.75	-	23.75
1999	25.00	1.75	-	26.75	1.25	28.00
2000	27.08	1.92	-	29.00	1.25	30.25
2001	29.58	1.92	-	31.50	1.50	33.00
2002	33.51	0.99	-	34.50	2.35	36.85
2003	35.98	1.02	-	37.00	1.40	38.40
2004	40.70	1.30	-	42.00	1.60	43.60
2005	43.15	2.10	3.71	48.96	1.84	50.80
2006	47.71	2.28	4.07	54.06	2.03	56.09
2007	49.72	2.98	4.24	56.94	2.14	59.08
2008	53.79	3.13	4.56	61.48	2.15	63.63
2009	56.93	3.87	4.86	65.66	2.05	67.71
2010	61.20	3.90	5.22	70.32	2.20	72.52
2011	65.57	5.68	5.59	76.84		

\*Adjustment equal to 1/2 earnings rate assumption.

On November 22, 2010, the BEST Board of Trustees voted to stop selling units in the plan.

## CAREERS NOW PROGRAM

### CAREERS NOW PROGRAM

College students in Tennessee have the opportunity to learn more about the operation of state government and the various career opportunities in state government through the Careers NOW Program. Students in the program work in one of the three constitutional offices for a semester. The Treasurer, the Comptroller of the Treasury, and the Secretary of State work together to match opportunities with students' interests.

Since the program's inception in 1996, over 275 students have been selected to participate. New classes begin each spring and summer semester.

The goal of the program is to develop a pool of students who, upon graduation, will be candidates for career positions in one of the three constitutional offices. Twenty-two percent of our students have been hired in full time positions in the three constitutional offices and throughout state government. The students receive hands on work experience and the participating institutions and constitutional offices jointly facilitate the development of a detailed curriculum to meet the academic commitment made to higher education institutions.

Careers NOW is designed to offer students a combination of practical work experience and formal training, while giving them the opportunity to see the challenges of public service. In addition to their daily work responsibilities, students attend seminars, visit state agencies, complete written work assignments, engage in opportunities to increase their overall understanding and knowledge of Tennessee state government, and research a current government issue for their special project. Past projects selected by students have included voter registration and election issues, Internet voting, prisons and capital punishment, and higher education issues.

To be eligible for the program, students must be classified as juniors, seniors, or graduate students and have a "B" average or better. Major fields of study may include Accounting, Business Administration, Computer Science, Economics, English, Finance, Geoscience, History, Journalism, Law, Library Science, Management Information Systems, Marketing, Math, Political Science, Public Administration, Public Relations, Social Science, and related fields. Previously, students have been required to be enrolled in a college or university located within Tennessee.

Applicants have come from Austin Peay State University, Carson Newman College, Covenant College, Cumberland University, David Lipscomb University, East Tennessee State University, Fisk University, Maryville College, Middle Tennessee State University, Rhodes College, Tennessee State University, Tennessee Technological University, University of Memphis, University of Tennessee at Knoxville, University of Tennessee at Martin, University of the South and Vanderbilt University. The majority of the participants have been Business or Accounting majors and have come from Middle Tennessee State University, Tennessee State University and Tennessee Technological University. Approximately 40 percent of the student participants have been minorities and 38 percent of the students have come from Tennessee State University.

The Careers NOW Program accepts Tennessee residents who are attending out-of-state colleges and universities including Centre College, College of William and Mary, Furman University, Murray State, Samford University, St. Louis University, University of North Alabama and University of Washington. The expectation is that the program will benefit from a broadened base of experience and that the students will benefit from the opportunity to gain experience in state government leading to permanent employment opportunities in their home state of Tennessee.

Current program information, assignment descriptions, and program application forms are available on the Internet at [www.tn.gov/treasury/now](http://www.tn.gov/treasury/now).

**CERTIFIED PUBLIC ADMINISTRATOR  
EDUCATIONAL INCENTIVE PAYMENT PROGRAM**

**CERTIFIED PUBLIC ADMINISTRATOR**

The University of Tennessee Institute for Public Service administers the "County Official's Certificate Training Program Act." Certain full-time county officials are eligible for an educational incentive payment if the officials have completed the continuing education requirements of the program. The UT Institute for Public Service is required to provide the Treasurer's office a listing of those officers who have successfully completed all levels of the County Officials Certificate Training Program. The educational incentive payments are issued by the State Treasurer. The State Treasurer must issue such payments no later than October 31 of each year. The program began in 1998.

For the 2009-10 fiscal year, there were 312 officials that received the \$1,500 educational incentive payment. The total paid to all officials was \$468,000. The following table sets out the number of payments by position.

<u>Officer</u>	<u>Number Receiving Payment</u>
Assessor of Property	30
Circuit Court Clerk	40
Clerk & Master	47
County Clerk	39
County Mayor/County Executive	29
Criminal Court Clerk	1
General Sessions Court Clerk	2
Chief Administrative Officer of Highways	11
Juvenile Court Clerk	3
Probate Court Clerk	1
Register of Deeds	50
Sheriff	4
Trustee	<u>55</u>
Total	<u><u>312</u></u>

The table below sets out a five-year history of recipients to receive educational incentive payments:

<u>Fiscal Year Ended June 30</u>	<u>Recipients</u>	<u>Amount Paid Per Recipient</u>	<u>Total Payments</u>
2010	312	\$ 1,500	\$ 468,000
2009	287	1,500	430,500
2008	282	1,500	423,000
2007	288	1,500	432,000
2006	274	1,500	411,000

**COUNTY PROVIDED INCENTIVE PAYMENT**

Each county is encouraged and authorized to provide, in its annual budget, for payment of an annual educational incentive to certain employees who attain the designation of a "certified public administrator" in an amount not to exceed \$3,000 less any incentive payment made by the state treasurer. Such payments shall be paid by the county by October 31 of each year. The county mayors shall provide to the state treasurer the amount of any educational incentive paid by the county and the number of persons receiving such incentive. Summary information is as follows:

Number of counties that provided an incentive	12
Number of counties that did not provide an incentive	36
Number of counties that did not provide information	<u>47</u>
Total	95
Total amount of incentives paid	\$159,640
Total number of recipients	121
Average incentive payment	\$ 1,319

## CHAIRS OF EXCELLENCE TRUST

### CHAIRS OF EXCELLENCE TRUST

The Chairs of Excellence (COE) Trust provides funds with which state colleges and universities are able to contract with persons of regional or national prominence to teach in specified academic areas. The program is open to all state four-year colleges and universities and the UT Space Institute.

The funding of the program is provided through contributions (corpus) made by a private donor and

a matching amount by the state, thus creating a chair. A chair is authorized to spend 4% of the 3-year average market value of the chair. However, the corpus can not be spent.

Since the beginning of the program in 1984, there have been 99 chairs created, with state appropriations totaling \$44 million and matching contributions totaling \$55.9 million.

### FIVE-YEAR HISTORY

#### FISCAL YEARS 2006-2010

<u>Fiscal Year</u>	<u>Investment Income/(Loss)</u>	<u>Total Spending of the Chairs</u>	<u>Asset Balance</u>
2010	\$ 22,324,590	\$6,937,327	\$215,665,629
2009	(28,334,670)	7,441,722	200,843,198
2008	(7,631,048)	7,368,032	236,954,830
2007	33,163,435	6,515,606	252,447,384
2006	12,471,255	6,689,303	226,159,791

### ANNUALIZED INVESTMENT RETURN

	<u>1 Year</u>	<u>5 Years</u>	<u>10 Years</u>
Domestic Equity	14.47 %	(0.77)%	(1.54)%
International Equity	5.87 %	-	-
Fixed Income	10.74 %	5.79 %	6.19 %
Short-Term	.01 %	3.34 %	2.98 %
Total Portfolio	10.87 %	2.82 %	2.44 %

## CHAIRS OF EXCELLENCE TRUST

### AUTHORIZED CHAIRS OF EXCELLENCE

#### The University of Tennessee

##### *Chattanooga*

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Cline COE in Rehabilitation Technology	McKee COE in Learning
COE in Judaic Studies	Miller COE in Management and Technology
Frierson COE in Business Leadership	Sun Trust Bank COE in the Humanities
Harris COE in Business	Unum COE in Applied Mathematics
Lyndhurst COE in Arts Education	West COE in Communications and Public Affairs

##### *Knoxville*

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Blasingame COE in Agricultural Policy Studies	Holly COE in Political Economy
Clayton Homes COE in Finance	Hunger COE in Environmental Studies
COE in English	Lincoln COE in Physics
COE in Policy Studies	Pilot COE in Management
COE in Science, Technology and Medical Writing	Racheff Chair of Material Science and Engineering
Condra COE in Computer Integrated Engineering and Manufacturing	Racheff Chair of Ornamental Horticulture
Condra COE in Power Electronics Applications	Schmitt COE in History
Goodrich COE in Civil Engineering	Shumway COE in Romance Languages

##### *Martin*

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

##### *Memphis*

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COE in Obstetrics and Gynecology	LeBonheur COE in Pediatrics
Bronstein COE in Cardiovascular Physiology	LeBonheur COE in Pediatrics (II)
Crippled Children's Hospital COE in Biomedical Engineering	Muirhead COE in Pathology
Dunavant COE in Pediatrics	Plough COE in Pediatrics
Federal Express COE in Pediatrics	Semmes-Murphey COE in Neurology
First Tennessee Bank COE in Pediatrics	Soloway COE in Urology
Gerwin COE in Physiology	Van Vleet COE in Biochemistry
Goodman COE in Medicine	Van Vleet COE in Microbiology and Immunology
Hyde COE in Rehabilitation	Van Vleet COE in Pharmacology
	Van Vleet COE in Virology

##### *Space Institute*

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Boling COE in Space Propulsion	H. H. Arnold COE in Computational Mechanics
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**CHAIRS OF EXCELLENCE TRUST**


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**AUTHORIZED CHAIRS OF EXCELLENCE****Tennessee Board of Regents***Austin Peay State University*


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

*East Tennessee State University*


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AFG Industries COE in Business & Technology	Leeanne Brown and Universities Physicians Group
Basler COE for Integration of Arts, Rhetoric and Sciences	COE in General Pediatrics
Dishner COE in Medicine	Long Chair of Surgical Research
Harris COE in Business	Quillen COE in Teaching and Learning
	Quillen COE of Medicine in Geriatrics & Gerontology

*Middle Tennessee State University*


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Adams COE in Health Care Services	Murfree Chair of Dyslexic Studies
Jones Chair of Free Enterprise	National Healthcorp COE in Nursing
Jones COE in Urban and Regional Planning	Russell COE in Manufacturing Excellence
Miller COE in Equine Health	Seigenthaler Chair of First Amendment Studies
Miller COE in Equine Reproductive Physiology	

*Tennessee State University*


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COE in Banking and Finance	Frist COE in Business Administration
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*Tennessee Technological University*


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Mayberry Chair of Business Administration	Owen Chair of Business Administration
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*University of Memphis*


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Arthur Andersen Company Alumni COE in Accounting	Herff COE in Computer Engineering
Bornblum COE in Judaic Studies	Herff COE in Law
COE in Accounting	Lowenberg COE in Nursing
COE in Art History	Moss COE in Education
COE in English Poetry	Moss COE in Philosophy
COE in Free Enterprise Management	Moss COE in Psychology
COE in Molecular Biology	Plough COE in Audiology and Speech Language Pathology
Federal Express COE in Management Information Systems	Sales and Marketing Executives of Memphis COE in Sales
Fogelman COE in Real Estate	Shelby County Government COE in International Economics
Hardin COE in Combinatorics	Sparks COE in International Relations
Hardin COE in Economics/Managerial Journalism	Wang COE in International Business
Herff COE in Biomedical Engineering	Wunderlich COE in Finance

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## CLAIMS AGAINST THE STATE

### CLAIMS AGAINST THE STATE

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 Risk Management 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.

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 also handles all employee property damage claims and tort claims. The Division of Claims Administration operates in conjunction with the Attorney General's Office and the Tennessee Claims Commission in this claims process.

The Division of Claims Administration contracts with a third party administrator for the processing of workers' compensation claims. The division's staff monitors the work done by the third party administrator and acts as a liaison between state employees and the third party administrator. For claims occurring on or after July 1, 2005, worker's compensation claim disputes are filed with the Department of Labor and Workforce Development's Benefit Review Conference program for possible resolution without litigation.

The division contracts with a managed care organization which has established a workers' compensation preferred provider network for medical treatment for injured state employees. Currently, all state employees have access to this network. The managed care organization also provides case management services such as pre-certification for inpatient hospital care, bill review, large case management and other services to manage the costs of workers' compensation claims. The use of a preferred provider network allows the state to negotiate further savings off workers' compensation medical bills after the mandated fee schedule reduction, which became required on January 1, 2006. Currently, the state has obtained approximately

44% savings off billed charges as a result of the fee schedule, plus an additional 4% savings (after fee schedule reduction) as a result of the preferred provider arrangement.

During fiscal year 2010, the Division of Claims Administration received 5,226 claims falling within these categories (including workers' compensation claims filed with the third party administrator). In order for a claim to be acted upon by the Division of Claims Administration, notice must be filed with the division. The division then has 90 days to make a determination on the claim. If the division is unable to act, the claim is automatically referred to the Tennessee Claims Commission. This process ensures that claims will be processed in a timely fashion.

This division also provides staff support to the Board of Claims. The Board of Claims has the authority to hear claims which do not fall within the jurisdiction of the Tennessee Claims Commission. During the 2010 fiscal year, the Board took action on a total of three 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 Risk Management Fund.

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**CLAIMS AGAINST THE STATE**


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**CLAIMS AND PAYMENT ACTIVITY**  
**FISCAL YEAR 2010**

Claims Activity	Payments Made
Worker's Compensation Claims	
Death Payments	\$ 147,503
Medical Payments	11,706,953
Temporary Disability	3,123,938
Permanent Disability	8,560,608
Subtotal	<u>23,539,002</u>
Employee Property Damage	<u>29,080</u>
Tort Claims	
Death Payments	1,341,010
Bodily Injury Payments	3,988,802
Property Damage Payments	834,951
Subtotal	<u>6,164,763</u>
<b>Total Claims Against the State</b>	<b><u><u>\$ 29,732,845</u></u></b>

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**FIVE-YEAR CLAIMS HISTORY**  
**FISCAL YEARS 2006-2010**

Fiscal Year	Amount of Claims Paid
2010	\$ 29,732,845
2009	29,502,257
2008	27,480,776
2007	25,997,535
2006	24,420,318

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**CLAIMS FILED BY PROGRAM**  
**FISCAL YEARS 2006-2010**

Fiscal Year	Workers' Compensation	Employee Property Damage	Tort	Total
2010	3,360	119	1,766	5,245
2009	3,431	117	1,289	4,837
2008	3,250	141	1,319	4,710
2007	3,579	115	1,162	4,856
2006	3,471	147	1,288	4,906



## CRIMINAL INJURIES COMPENSATION FUND

### CRIMINAL INJURIES COMPENSATION FUND

The Criminal Injuries Compensation Fund ("Fund") provides financial assistance to crime victims through two types of programs. The funding for the programs includes privilege taxes assessed in courts against criminal defendants and other offenders upon conviction, fees levied against parolees and probationers, the proceeds of bond forfeitures in felony cases and a federal grant. Jurors may also elect to donate their jury service reimbursement to the fund.

### CRIMINAL INJURIES COMPENSATION PROGRAM

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 an innocent victim of a crime or to the dependents of a deceased victim. Applications for Criminal Injuries Compensation are filed with the Division of Claims Administration. During the 2010 fiscal year, 3,024 new claims were filed.

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 transferred to the Tennessee Claims Commission. Eligible payments are issued promptly and are payable directly to the service provider if the bill is unpaid, to the victim for out-of-pocket expenses and, if appropriate, his or her attorney. On average, the division renders a decision on claims within 52 days.

During the 2010 fiscal year, the Division of Claims Administration made payments to victims of crime totaling \$13.5 million.

Victims of drunk drivers are also paid from the Criminal Injuries Compensation Fund. When the proximate cause of a death or injury is the operator's intoxication as prohibited by T.C.A. Section 55-10-401, the victim's death or injury is eligible for compensation, not to exceed a maximum award of \$30,000 plus attorney's fees.

Since the first claims were paid in 1982, the program has awarded a total of more than \$215 million to crime victims.

The Division of Claims Administration has made an effort to educate members of the public of the existence and benefits of the Criminal Injuries Compensation Program by printing and distributing informative brochures explaining the program. Public awareness efforts and the use of victim assistance coordinators in each judicial district have also aided in providing the public with information about the benefits provided through the Criminal Injuries Compensation Fund.

### SEXUAL ASSAULT FORENSIC EXAM REIMBURSEMENT

In 2007, the General Assembly amended the Criminal Injuries Compensation Act to provide payment for services related to sexual assault forensic examinations. The Fund provides reimbursement to a facility that performs sexual assault forensic exams on victims of certain sexually-oriented crimes. Facilities must bill the Fund (not the victim) and cannot seek any additional payment from the victim after payment by the Fund. Payment is up to \$750 for such services for crimes occurring on or after July 1, 2007. During the 2010 fiscal year, 3,618 forensic claims were filed. On average, the division renders a decision within nine days.

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**CRIMINAL INJURIES COMPENSATION FUND**


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**SOURCES OF FUNDS**  
**FISCAL YEARS 2008-2010**

Source	2010		2009		2008	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Fines	\$ 6,539,643	44%	\$ 6,649,241	38%	\$ 7,038,358	44%
Federal Funds	5,181,000	34%	5,642,000	32%	5,253,000	32%
ARRA Stimulus Funds	0	0%	1,472,799	8%	0	0%
Probation Fees	2,589,475	17%	2,976,080	17%	3,178,573	20%
Bond Forfeitures	735,349	5%	698,424	4%	397,807	2%
Other	31,483	0%	169,318	1%	272,009	2%
<b>Total</b>	<b>\$ 15,076,950</b>	<b>100%</b>	<b>\$ 17,607,862</b>	<b>100%</b>	<b>\$ 16,139,747</b>	<b>100%</b>

**CLAIMS PAID BY CRIME OR CLAIM TYPE**  
**FISCAL YEAR 2010**

Crime or Claim Type	Number Paid	Percentage of Total Claims	Amount Paid	Percentage of Total Paid
Assault	877	16.2%	\$ 5,312,882	39.1%
Homicide	328	6.0%	2,424,073	17.9%
Robbery by Force	186	3.4%	1,267,124	9.3%
Child Sexual Abuse	372	6.8%	907,649	6.7%
DUI	76	1.4%	512,369	3.8%
Adult Sexual Assault	188	3.4%	483,051	3.6%
Hit and Run	23	0.4%	306,602	2.3%
Vehicular (non-DUI)	18	0.3%	89,548	0.7%
Child Physical Abuse	1	0.0%	30,000	0.2%
Arson	1	0.0%	21,116	0.2%
Kidnapping	1	0.0%	5,330	0.0%
Subtotal	2,071	37.9%	\$ 11,359,744	83.8%
Forensic Exam	3,390	62.1%	2,194,974	16.2%
<b>Grand Total</b>	<b>5,461</b>	<b>100.0%</b>	<b>\$13,554,718</b>	<b>100.0%</b>

**CRIMINAL INJURIES COMPENSATION FUND**

**NEW CLAIMS FILED  
FISCAL YEAR 2010**

<u>Crime or Claim Type</u>	<u>Number Filed</u>
Assault	1,184
Child Sexual Abuse	575
Homicide	476
Adult Sexual Assault	277
Robbery by Force	252
DUI	88
Vehicular (non-DUI)	67
Hit and Run	65
Other	25
Child Physical Abuse	8
Arson	5
Kidnapping	<u>2</u>
Subtotal	3,024
Forensic Exam	<u>3,618</u>
<b>Grand Total</b>	<b><u>6,642</u></b>

**CLAIMS DENIED  
FISCAL YEAR 2010**

<u>Criminal Injuries Claims Reason Type</u>	<u>Number Denied</u>	<u>Percentage</u>
Contributory Behavior	315	22.0%
Failure to Cooperate/Prosecute	264	18.4%
Insufficient Documentation	200	14.0%
Collateral Resource Covered Loss(es)	153	10.7%
Ineligible Crime	106	7.4%
Late Filing of Claim	61	4.3%
Insufficient Proof of a Crime	60	4.2%
Ineligible Claimant	59	4.1%
Loss(es) Less than \$100	56	3.9%
Other	55	3.8%
Ineligible Loss(es)	46	3.2%
Late Reporting of Crime	27	1.9%
No Collateral Resource Information	18	1.3%
Passenger with Drunk Driver	9	0.6%
No Report of Crime	<u>2</u>	<u>0.1%</u>
<b>Total Denial Reasons</b>	<b><u>1,431</u></b>	<b><u>100.0%</u></b>

In fiscal year 2010, 1,121 criminal injuries claims were denied. Some claims are denied for more than one reason.

## CLAIMS COMMISSION

### CLAIMS COMMISSION

The Claims Commission is an administrative tribunal created under Tennessee Code Annotated, Section 9-8-301, *et seq.*, to hear money damages claims against the state based on the acts or omissions of state employees in 22 statutory categories. Most notably, the Commission has jurisdiction over claims in tort (e.g. negligent care, custody and control of persons, property or animals; professional malpractice; negligent operation or maintenance of a motor vehicle; dangerous conditions on state maintained highways or state controlled real property); claims for breach of a written contract; claims for recovery of taxes paid under protest to the Department of Commerce and Insurance; state workers compensation claims and criminal injuries compensation claims. As a condition for the waiver of the state's sovereign immunity, state employees are immunized from liability for state law claims for acts or omissions within the scope of their employment, except for willful, malicious or criminal acts. Claims are payable from the Risk Management Fund.

Damages for tort claims falling within the Commission's jurisdiction are limited to \$300,000 per claimant or \$1,000,000 per occurrence. There is no limitation on awards for breach, a written contract. The maximum award for criminal injuries compensation claims is \$30,000.

There are three Claims Commissioners, each of whom hears cases arising in his or her grand division. The current Commissioners are:

Nancy Miller-Herron, Western Division (Dresden)  
Stephanie Reeves, Middle Division (Nashville)  
William Shults, Eastern Division (Newport)

As required by Tennessee Code Annotated, Section 9-8-302, each of the Commissioners was appointed by the Governor and confirmed by the General Assembly. In addition, the Commissioners have been residents of Tennessee for more than five years, have been residents of their respective grand divisions for more than one year, have practiced law for more than one year and do not maintain a private law practice.

The Commissioners' terms end as follows: The Eastern Division on June 30, 2017, the Middle Division on June 30, 2011 and the Western Division on June 30, 2015.

The Claims Commission has a Clerk's office in Nashville that serves all three grand divisions. The Clerk is manager and custodian of the official record of claims appealed or transferred from the Division of Claims Administration. The clerk is responsible for the management of the Commission's docket, receipt and filing of pleadings, preparation and filing of the appellate record in the cases before the Tennessee Court of Appeals and the Tennessee Supreme Court, responding to case inquiries from litigants and communicating with other state agencies on behalf of the Commission. In addition, the clerk acts as an administrative liaison between the Treasury Department and the Claims Commission.

The Claims Commission is attached to the Department of Treasury for administrative purposes. The Treasury Department processes financial and personnel transactions on behalf of the Commission. The department also provides information technology support and other administrative support to the Commission.

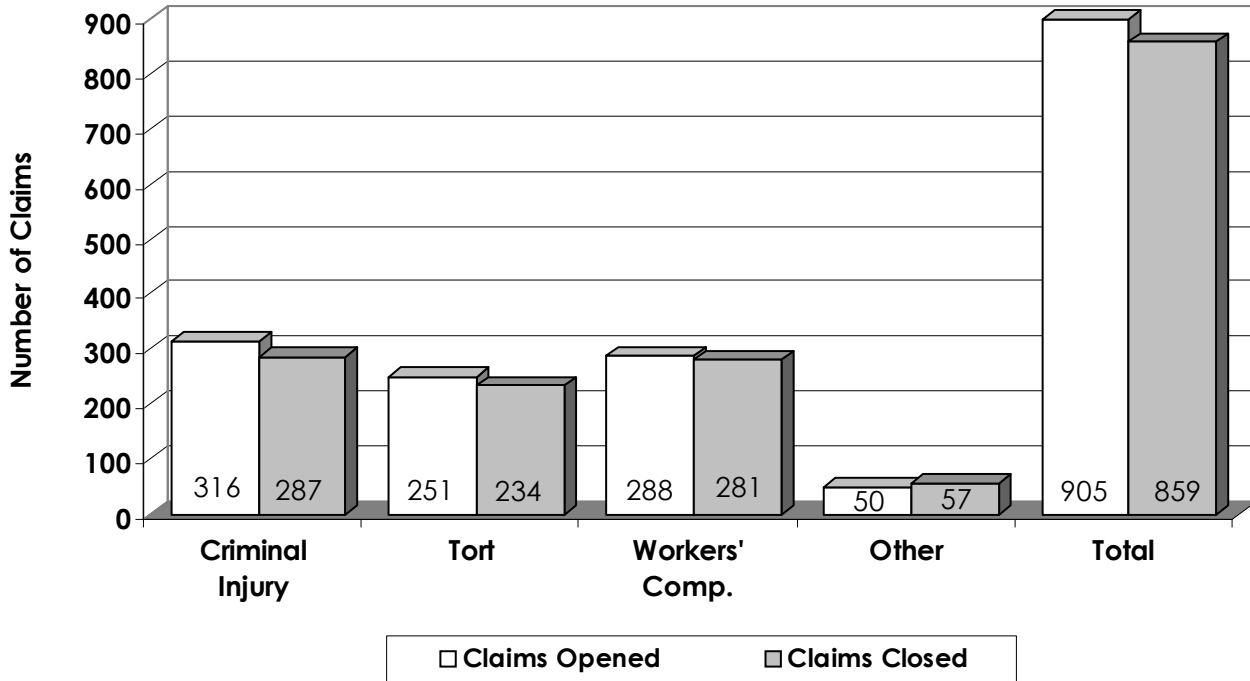
### CLAIMS COMMISSION'S OPERATION

Except for claims for the recovery of taxes, which are initiated by filing with the clerk of the Claims Commission, claims are commenced by filing a notice of claim with the Division of Claims Administration or in the case of workers' compensation actions with the third party administrator. If the claim is denied, it may be appealed to the Claims Commission. Claims upon which no action is taken within 90 days automatically transfer to the Commission.

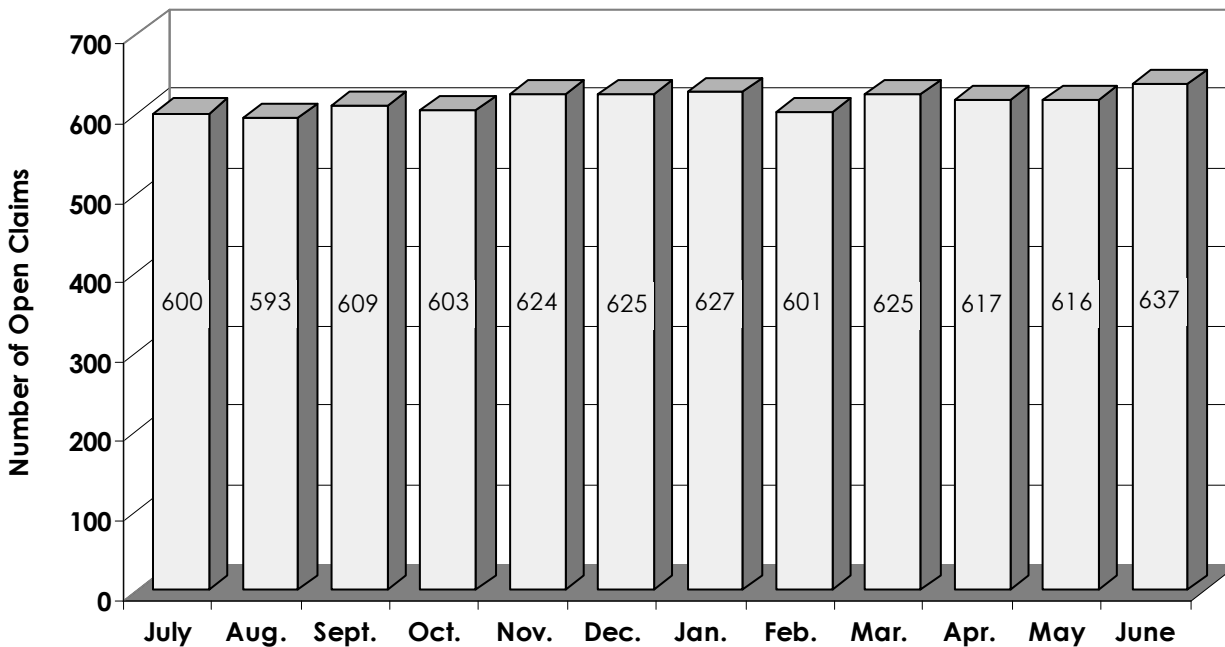
The state is represented before the Commission by the Office of the Attorney General or his delegatee. The Commission maintains two separate dockets: a regular docket consisting of claims with a monetary value of more than \$25,000 and a small claims docket for claim of \$25,000 and under. The Tennessee Rules of Civil Procedure are applicable. Commissioners are required to make written findings of fact and conclusions of law in all regular docket claims. At the request of two Commissioners, the Commission can sit en banc to decide any matter in which there is a disagreement among Commissioners. Decisions in regular docket claims may be appealed to the Tennessee Court of Appeals and workers' compensation cases may be appealed to the Tennessee Supreme Court. Judgments rendered against the state in the Claims Commission are paid by the Division of Claims Administration.

**CLAIMS COMMISSION**

**NUMBER OF CLAIMS OPENED AND NUMBER OF DISPOSITIONS BY CLAIM TYPE  
(INCLUDING DISPOSITIONS BY ADMINISTRATIVE LAW JUDGES)  
FISCAL YEAR 2010**



**CLAIMS COMMISSION OPEN CLAIMS  
FISCAL YEAR 2010**



## RISK MANAGEMENT

### DIVISION OF RISK MANAGEMENT

The Division of Risk Management identifies and analyzes the state's exposure to property and casualty risks and implements certain risk management techniques to mitigate the state's exposure to loss. The state funds various levels of risk retention through the Risk Management Fund.

The state contracts with private insurance brokers to research the insurance marketplace and target only those insurance carriers with the highest A.M. Best ratings, which are capable and willing to provide competitive insurance quotes for the state's various lines of coverage. The lines of insurance coverage that the state acquires include property, builders' risk, aviation, fidelity and crime, boiler and machinery and fine arts. Fiscal year 2009-2010 premium costs for all lines of property and casualty coverage amounted to \$3.33 million.

The state's primary level of property insurance limits remained at \$250 million, but an additional \$500 million was procured through five excess insurance companies, providing the state with total coverage of \$750 million (excluding flood and earthquake). Flood coverage remained at \$50 million, including properties in 100-year flood zones. Earthquake limits, once again, remained at \$50 million for all zones except the New Madrid area, where limits were \$25 million. The state, however, was able to purchase excess earthquake in the amount of \$25 million, providing a total of \$50 million coverage for New Madrid zones. The state's annual aggregate deductibles were, once again, negotiated at \$5 million for property and \$5 million for earthquake and flood combined. As of July 1, 2010, total insured property values were \$17.7 billion.

The Builders' Risk Insurance Program provides coverage for building construction projects approved by the State Building Commission. The policy provides all-risk coverage for the state agency, general contractor and all subcontractors for the duration of the construction project. In fiscal year 2009-2010, 135 insurance certificates were issued for new construction projects approved by the State Building Commission. Certificates are renewed annually on July 1, for projects continuing from one fiscal year to the next, to ensure continuity of coverage. Coverage limits are \$25 million per location and \$30 million per occurrence. The contractor is responsible for providing builders' risk

coverage for projects exceeding these limits. Evidence of such coverage must be provided to the state prior to beginning the construction project.

Boiler and Machinery insurance is procured to protect the state's 2,400 boiler objects. This policy performs two major functions: (1) provides boiler breakdown coverage and (2) assumes the responsibility for jurisdictional inspections on all pressure vessels. Certified inspectors evaluate all boiler objects on a scheduled basis to ensure the safe operation of the objects which, in turn, will prevent loss to human life and property. This loss prevention program has proven very effective with results showing no major incidents within the past ten years.

To protect the state from financial loss due to employee dishonesty, a fidelity and crime policy is obtained. Coverage limits are provided in the amount of \$1 million per occurrence. A policy endorsement is added to extend coverage to treasurers and tax collectors.

At June 30, 2010, seven state agencies had 54 aircraft where hull insurance and liability insurance coverage quotes were obtained. The purchase of hull insurance is a business decision made by each agency for each aircraft. Liability insurance is purchased for every aircraft. The level of liability coverage varies for each aircraft and is generally based on type of aircraft, usage and size as measured by the number of seats.

In case of losses, Risk Management administers the claims process for all lines of coverage. The division coordinates the activities of the insurance carrier, independent adjusters, state facility managers and state agency contacts. For emergency situations, a restoration company is under state contract to provide immediate response to prevent costly damages. A detailed property inventory (schedule) provides the current insurable values for both buildings and contents. Agency deductibles vary according to the type of claim: (1) Property - \$25,000, (2) Builders' Risk - \$10,000, (3) Boiler - \$10,000, (4) Fine Arts - \$0 and (5) Fidelity and Crime - \$100,000. If a loss exceeds the agency deductible, loss costs are paid from the Risk Management Fund until the state's annual aggregate deductibles are satisfied. Any remaining costs are the responsibility of the insurance carriers up to their policy limits.

## RISK MANAGEMENT

<p>The prevention and control of losses are important in managing the state's risks. In FY 2009-2010, risk management staff conducted loss prevention surveys at 46 locations. A total of 150 buildings were inspected</p>	<p>for fire/life safety hazards. During these inspections, safety violations were recorded and corrective action reports were submitted to the agencies with recommendations for safety code compliance.</p>
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### STATE PROPERTY SUMMARY OF KEY POINTS FISCAL YEAR 2009-2010

Insurance Coverage Information:	
Insured Property Values	\$ 17,713,999,400
Primary Property Limits Per Occurrence	250,000,000
Excess Property Limits Per Occurrence	500,000,000
Annual Aggregate Deductibles:	
Property	\$ 5,000,000
Earthquake and Flood Combined	5,000,000
Builders' Risk	1,000,000
Financing of Estimated Property Losses:	
Cumulative Agency Deductibles (Agency Obligation)	\$ 300,000
Risk Management Fund Obligation	3,288,984
Insurance Carrier Obligation	15,000,000
FEMA Reimbursement	<u>5,850,000</u>
Total Property Losses	<u><u>\$ 24,438,984</u></u>

The amount of coverage, the level of the deductibles, the selection of the insurance companies to provide coverage and the amount of the insurance premium are reviewed and approved annually by the Board of Claims.

## SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM

### SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM

Chapter 830 of the Tennessee Public Acts of 2004 created within the Treasury Department the Small and Minority-Owned Business Assistance Program (SMOB). Chapter 830 required the Department by rule to develop an assistance program for small and minority-owned businesses, as defined in TCA 65-5-113, which will include loans, technical assistance, consulting and educational services. The legislative intent is for the Department to use the assistance provided by this program to support outreach to new, expanding and existing businesses in Tennessee that do not have reasonable access to capital markets and traditional commercial lending facilities.

The SMOB Program replaced the Small and Minority-Owned Telecommunications Business Assistance Program that was administered by the Department of Economic and Community Development. The Telecommunications Program provided loan guarantees to qualifying businesses. With all program obligations met, the program has been phased out. Whereas the Telecommunications Program focused on a specific facet of industry, the SMOB Program was designed to perpetuate growth on a less restrictive continuum.

In addition to the provision of loan proceeds and technical assistance, this program is inclusive of program services such as financial counseling, assistance with the packaging of loan proposals, developing strategies for improved cash flow management, implementing internal financial management systems, strategic planning and identifying procurement opportunities with state, federal and local government systems. Another component of the Program is the educational aspect whereby various workshops and seminars will be conducted throughout the state geared toward small and minority-owned businesses.

The principle function of the SMOB Program is to provide a significant statewide platform through a support structure that fosters the expansion of small and minority-owned businesses in Tennessee. SMOB consists of two components: loans (including lines of credit) and program services. The loans provided

must be for a specific project. Acceptable purposes for loan proceeds include:

- acquisition of machinery and equipment
- working capital
- supplies and materials
- inventory
- certain other business-related activity

There are certain types of businesses that are deemed ineligible to receive assistance from the SMOB Program. Ineligible businesses include:

- churches
- non-profit organizations
- insurance companies
- real estate contractors
- real estate developers
- night clubs and any similar entertainment-oriented business
- businesses that do not create or provide jobs
- businesses not incorporated or located in Tennessee.

The infrastructure of the SMOB Program consists of a program administrative team, lenders and a service provider network. In a capsule, the Program Administrator for SMOB is Southeast Tennessee Development District who handles the daily operation of the Program by overseeing activities of the lenders who make the loans and by overseeing the activities of the service provider network who give technical assistance to the businesses that qualify for participation in the program.

Lenders for the SMOB Program are:

- Chattanooga Neighborhood Enterprises
- East Tennessee Development District
- Nashville Minority Business Development Loan Fund
- Pathway Lending
- South Central Tennessee Development District
- Tri-State Bank of Memphis

The primary service provider of technical assistance for the SMOB Program is:

- Tennessee Small Business Development Center Network



## SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM

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The SMOB Program was officially launched in February 2008 with results depicted below as of June 2010:

<u>Race</u>	<u>Male</u>	<u>Female</u>	<u>Number of Loans</u>	<u>Total Loans By Race</u>
African-American	\$ 1,429,795	\$ 1,276,000	39	\$ 2,705,795
White	1,718,068	1,039,000	44	2,757,068
Other	500,000	125,000	5	625,000
Total Loans	<u>\$ 3,647,863</u>	<u>\$ 2,440,000</u>	<u>88</u>	<u>\$ 6,087,863</u>

Interested parties may utilize the SMOB Program's website, located at [www.tn.gov/treasury/smob](http://www.tn.gov/treasury/smob), to learn about the program.

## UNCLAIMED PROPERTY DIVISION

### UNCLAIMED PROPERTY DIVISION

The Treasury Department has administered the Uniform Disposition of Unclaimed Property Act since it was enacted in 1978. Administration 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 property that an organization or individual is holding for another person will be delivered to the Treasurer for custody if the holder of the property has had no contact with the owner for a period of time, normally five years, and if the holder cannot locate the owner. Once property is delivered, the Treasurer utilizes various techniques to locate the owners. There is no time limit on claiming this property.

During the period July 1, 2009 through June 30, 2010, \$50.2 million of cash property was turned over to the Treasurer. This includes \$6.0 million remitted by third party audit organizations from out-of-state non-reporting holders for Tennessee residents. An additional \$13.6 million in proceeds from stock sales was recognized as revenue.

Entities with property to report to Tennessee's Unclaimed Property Division obtain forms, instructions, free software, and other valuable data from the Internet web site. Many entities have expressed their appreciation for this easy access to reporting tools.

The Treasurer utilizes various methods to locate owners of unclaimed property. Initially notification to the last known address of each owner is sent. If no response is received, additional search efforts are made through Department of Labor and Workforce Development records, telephone directories, drivers' license records, external locate research tool, and other sources. Finally the names of owners and last known addresses are advertised in newspapers throughout the state.

In addition, a searchable database of the owners' names is available on the division's Internet site: [www.treasury.tn.gov/unclaim](http://www.treasury.tn.gov/unclaim). In addition the owners' names are available on the national website Missing Money at: [www.missingmoney.com](http://www.missingmoney.com). The records of unclaimed property owners are also available for viewing by the public in the Unclaimed Property office.

During the period July 1, 2009 through June 30, 2010, \$23.6 million of cash property was returned by the Unclaimed Property Division to the owners or their heirs, local governments and reciprocal states.

Any local government in Tennessee that turns over unclaimed property to the state may request that the property be returned to the local government for safekeeping after it has been held by the state for 18 months. This fiscal year, \$1.5 million was refunded to 27 local governments.

Tennessee has reciprocal agreements with other unclaimed property programs in other states to exchange property held by one state for owners with a last known address in the other state. Tennessee received \$750,000 for residents or former residents in exchange for \$2.7 million paid to other states' unclaimed property offices.

Since the program began operations in 1979, \$676.1 million in unclaimed property has been reported to the Treasurer and \$222.5 million has been returned to owners, heirs, local governments and reciprocal states.

After all location techniques are employed, the Unclaimed Property Division is able to return approximately 60% of property that is turned over with an owner's name.

***After all location techniques are employed, the Unclaimed Property Division is able to return approximately 59% of property that is turned over with an owner's name.***

## UNCLAIMED PROPERTY DIVISION

### METHODS USED TO RETURN PROPERTY FISCAL YEAR 2010

Location Method	Number of Accounts	Value of Claims	Average Claim Value
Website Inquiries	11,203	\$ 10,226,087	\$ 913
Staff or Other Outreach	886	3,156,188	3,562
Mailings to Last Known Address	3,359	2,154,380	641
Holder Referral or Reimbursement	554	1,879,756	3,393
Independent Locator	23	717,499	31,196
Advertisement and Television	1,398	700,778	501
Match with Dept. of Labor and Work Force Records	1,952	694,081	1,008
<b>Total Claim Payments</b>	<u>19,375</u>	<u>\$ 19,528,769</u>	<u>\$ 1,008</u>
Refunds to Local Governments	27	1,457,781	
Interstate Exchanges	44	2,662,087	
<b>Total Payments</b>	<u><b>19,446</b></u>	<u><b>\$ 23,648,637</b></u>	

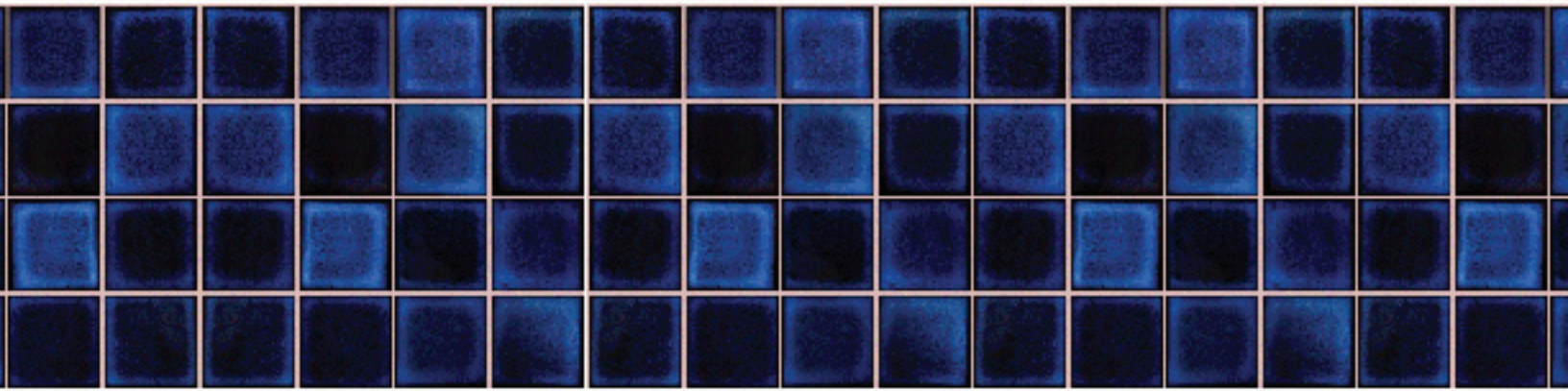
### SOURCES OF UNCLAIMED PROPERTY FISCAL YEARS 2006-2010

	2010	2009	2008	2007	2006
Corporations, Transportation, Colleges, Retailers	26%	27%	26%	22%	19%
Financial Institutions	23%	19%	24%	28%	29%
Insurance Companies	19%	25%	22%	20%	21%
Escheat and Other	8%	8%	7%	7%	6%
Cities and Counties	8%	5%	6%	4%	8%
Utilities	7%	5%	4%	5%	6%
Hospitals and Health Care	4%	4%	3%	6%	4%
Securities and Brokerage Firms	3%	4%	5%	5%	4%
Other States	2%	3%	3%	3%	3%
<b>Total</b>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### ACTIVITY FISCAL YEARS 2006-2010

	2010	2009	2008	2007	2006
Number of Holders Reporting	6,931	5,999	5,891	5,531	5,251
Number of Properties Received	543,412	319,466	371,527	223,703	290,254
Cash Received (not including shares sold)	\$ 50,158,392	\$ 50,998,037	\$ 52,314,382	\$ 45,016,106	\$ 40,233,068
Number of Shares Received	1,859,331	2,224,055	2,257,769	1,364,190	1,685,649
Value of Shares Sold	\$ 13,659,794	\$ 9,148,704	\$ 28,157,142	\$ 6,021,856	\$ 23,277,122
Number of Claims Paid	19,446	21,543	16,982	15,437	15,245
Cash Paid	\$ 23,648,637	\$ 23,252,511	\$ 22,428,974	\$ 17,496,766	\$ 20,727,999
Shares Paid	254,547	270,135	223,892	148,952	348,525

# 2010 Treasurer's Report



*Administration*

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**STATUTORY DUTIES OF THE STATE TREASURER**


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**BOARDS AND COMMISSIONS**

Access Improvement Project Committee	54-2-207
Advisory Board to Establish Compensation for Use of the Right-of-Way for Underground Fiber Optic Cable Facilities	54-16-112
Advisory Committee to the Trustees of the Fisk University Stieglitz Collection Art Endowment Fund	4-20-201
Advisory Council on Workers' Compensation	50-6-121
Appeals from Gift Tax Appraisals Board	67-8-116
Baccalaureate Education System Trust Board	49-7-804
Board of Claims	9-8-101
Catastrophic Injuries Fund Commission	29-20-408
Chairs of Excellence Endowment Trust	49-7-501
Collateral Pool Board	9-4-506
Commission on Crime Victims Assistance	Ex. Order 10 of 2003
Commission to Purchase Surplus Federal Property	12-1-103
Council on Pensions & Insurance	3-9-101
Industrial Finance Corporation Board	4-17-405
Local Education Insurance Committee	8-27-301
Local Government Insurance Committee	8-27-207
Public Records Commission	10-7-302
Sick Leave Bank Board	8-50-903
State Board of Equalization	4-3-5101
State Building Commission	4-15-101
State Capitol Commission	4-8-301
State Funding Board	9-9-101
State Insurance Committee	8-27-101
State Trust of Tennessee	9-4-806
Tennessee Consolidated Retirement System Board of Trustees	8-34-302
Tennessee Higher Education Commission	49-7-204
Tennessee Housing Development Agency	13-23-106
Tennessee Industrial Development Authority	13-16-301
Tennessee Local Development Authority	4-31-103
Tennessee Sports Hall of Fame	4-3-5403
Tennessee State School Bond Authority	49-3-1204
Tennessee Student Assistance Corporation	49-4-202
Tuition Guaranty Fund Board	49-7-2018
Workers Compensation Insurance Fund Board	50-6-604

**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
Council on Pensions and Insurance	3-9-101
Criminal Injury Compensation Fund	29-13-101, et seq.
Deferred Compensation	8-25-101, et seq.
Escheat	31-6-101, et seq.
Flexible Benefits Plan	8-25-501
Investment Advisory Council	8-37-108
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Pooled Investment Fund	9-4-704
Receipt and Disbursement of Public Funds	8-5-106—8-5-111; 9-4-301, et seq.
Small and Minority-Owned Business Assistance Program	65-5-113
State Cash Management	9-4-106—9-4-108; 9-4-401—9-4-409
State Treasurer's Office	8-5-101, et seq.
State Trust of Tennessee	9-4-801, et seq.
Tennessee Claims Commission	9-8-301, et seq.
Tennessee Consolidated Retirement System and Miscellaneous Systems	Title 8, Chptrs. 34, 35, 36, 37 & 39
Unclaimed Property	66-29-101, et seq.
Victims of Drunk Drivers Compensation Fund	40-24-107

## EXECUTIVE STAFF DIRECTORY

### Treasurer's Office

Treasurer	David H. Lillard, Jr.	615-741-2956
Chief of Staff	Janice H. Cunningham	615-741-2956
Public Policy Advisor	Joy Harris	615-532-9908
Staff Assistant to the Treasurer	Joshua Stites	615-532-9912
General Counsel	Mary Roberts-Krause, JD	615-253-3855
Director of Internal Audit	Britt Wood, CPA, CFE, CGFM, CISA	615-253-2018
Compliance Officer	Paul Robertson, JD	615-253-4111
Human Resource Director	Ann Taylor-Tharpe	615-532-3347
Director of Communications	Blake Fontenay	615-253-2668

### Investments and Deferred Compensation

Chief Investment Officer	Michael Brakebill, CFA	615-532-1157
Deputy CIO and Fixed Income Director	Andy Palmer, CFA	615-532-1183
Equity Director	Michael Keeler, CFA	615-532-1165
Senior Equity Portfolio Manager	Jim Robinson, CFA	615-532-1177
Senior Equity Portfolio Manager	Roy Wellington, CFA	615-532-1151
Senior Fixed Income Portfolio Manager	Terry Davis, CFA	615-253-5416
Real Estate Director	Peter Katseff	615-532-1160
Director of Short-Term Investments	Tim McClure, CCM	615-532-1166
Director of Private Equity	Lamar Villere, CFA	615-532-1154
Director of Deferred Compensation	Beth Chapman, CPA, CGFM	615-741-7063

### Retirement Administration and Program Services

Assistant Treasurer	Steve Curry, CPA-inactive, CEBS, CCM	615-532-8045
TCRS Director	Jill Bachus, CPA, CGFM	615-741-7063
TCRS Assistant Director	Jamie Wayman, CPA	615-741-7063
Director of Old Age and Survivors Insurance	Vernon Bush, JD	615-741-7902
Counseling Services Manager	Sandra Sewell	615-741-1971
Member Benefits Manager	Erica Nale	615-741-4868
Financial Services Manager	Keevia Battle, CPA	615-741-4913
Customer Services Manager	Jennifer Wooten	615-741-1971
Assistant Director of Concord	Fred Marshall, CPA	615-253-4871
Director of Risk Management	Steve Gregory	615-741-1009
Manager Small Minority Business Program	Jaye Chavis	615-253-2265
Manager BEST Program	LaKeshia Page	615-532-5888
Director of Unclaimed Property	John Gabriel	615-253-5354
Assistant Director Unclaimed Property	Kellie Williamson	615-253-5356
Director of Claims Administration	Anne Adams	615-741-9957
Criminal Injury Program Manager	Amy Dunlap	615-741-9962
East Tennessee Claims Commissioner	William O. Shults, JD	423-623-9270
Middle Tennessee Claims Commissioner	Stephanie Reeves, JD	615-253-1626
West Tennessee Claims Commissioner	Nancy Miller-Herron, JD	731-364-2440
Administrative Clerk, Claims Commission	Marsha Richeson	615-532-5385

### Support Services

Assistant Treasurer	Rick DuBray, CPA	615-253-5764
Director of Accounting	Kim Morrow, CPA	615-532-3840
Assistant Director of Accounting	Connie Gibson, CPA	615-532-8051
Director of Management Services	Kerry Hartley, CPA	615-532-8552
Assistant Director of Management Services	Mary Alexander	615-253-8771
Director of Information Systems	Gary Ridner CPA, CISSP, CISM	615-532-8035
Assistant Director of Information Systems	Tim Sundell	615-532-0734

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

## TREASURY STAFF

Adams, Anne <sup>30</sup>	Doss, Gail	Maddox, Teresa	Robertson, Paul
Alexander, Mary	DuBray, Rick	Maloney, Brandon	Robinson, Jim
Anderson, Sandra	Dunlap, Amy	Manson, Cathy	Robinson, Mia
Armistead, James	Edmundson, Ray	Marshall, Fred	Rochelle, Dawn
Arnett, Ron	Elder-Baynes, Stephanie	Martin, Alfredia	Sabin, Stephanie
Atkins, Janice	Esaka, Cassandra	Mason, Justin	Sanders, Sharon
Aymett, Ron	Faehr, Karen	McBee, Johnny	Sanders, Teresa
Bachus, Jill	Farmer, Sharon <sup>20</sup>	McClure, Tim	Sanford, Letha
Baker, Linda	Fisher, Peggy	McDade, Joshua	Scott, Tammie <sup>25</sup>
Baker, Sam	Fohl, Jamie	McGraw, Amanda	Sczepszczeni, Heather
Bandy, Gregory	Fontenay, Blake	Mercier, Brenda	Sewell, Sandra
Barrett, Billy	Fredin, Cort	Miller, Henry	Shults, William
Battle, Keevia	Fuqua, Monica	Miller-Herron, Nancy	Simpson, Ben
Bauer, David <sup>5</sup>	Gabriel, John	Moore, Crystal <sup>5</sup>	Singleton, David
Baumgartel, Karen	Gaines, Doug	Morgan, Prentice <sup>10</sup>	Smith, Anita
Binion, Ashley	Gibson, Connie	Morrow, Kim	Smith, Kimberly
Brakebill, Michael	Graves, Randy	Moses, Gail	Smith, Robert
Brown, Buffy	Gray, Tammy	Moulder, Mike	Smotherman, Suzanne
Burcham, Janet	Green, Carrie	Murphy, RJ	Staggs, Amanda
Burns, Bobby	Green, Janice	Myers, Barbara <sup>15</sup>	Stifes, Joshua
Bush, Vernon	Gregory, Steve	Myers, Rhonda	Sundell, Tim
Butler, Michelle	Griffin, Delores	Nale, Erica	Swadley, Breeanna
Butterfield, Keith	Gupta, Kushal	Nelson, Dana	Tahiraj, Tani
Campbell, Heath	Hadley, Chris	Newberry, Lori	Taylor-Tharpe, Ann
Carr, Brenda	Hall, NicoleMarie	Norment, Christy <sup>5</sup>	Thomas, Issac
Cavender, William <sup>25</sup>	Hall, Sherry <sup>5</sup>	O'Leary, Candy	Tucker, Anthonio <sup>5</sup>
Chandler, Joseph	Hargrove, Kathy	Oakley, Heather	Veach, Johnny
Chapman, Beth	Harris, Adrienne	Oliphant, Sarah	Villere, Lamar
Chatman, Shirley	Harris, Joy	Ott, Kimberly <sup>10</sup>	Wagner, Malinda
Chavis III, Jordan	Hartley, Kerry	Oyster, David	Wakefield, Gayle
Christensen, Mary	Hedges, Matthew	Page, LaKeshia <sup>10</sup>	Wakefield, Mark
Coleman, Kanika	Hoffer, Mandy	Palmer, Andy	Washington, Tracey <sup>10</sup>
Costa, Delcinia	Hudgins, Terry	Parlow, Yvonne	Wayman, Jamie <sup>15</sup>
Couch, Janie	Hunter, Deborah	Parton, Floyd	Wellington, Roy <sup>25</sup>
Crews, Daniel	Hurt, Sandra	Patton, Janice	Wilkins, Natasha <sup>5</sup>
Cron, Phillip	Hyder, Patti	Payne, Jana	Willeby, Michael
Culberson, Cavandrea	Ing, Jamie	Picunko, Jesse	Williams, Teresa
Cunningham, Janice	Ingle, Harry	Pierce, Roxanna <sup>5</sup>	Williamson, Kellie
Curry, Steve <sup>35</sup>	Jackson, Stacey	Pinson, Marian	Willocks, Dianne
Curtis, Karen	Jacobsen, Mark	Pirtle, Karen	Wilson, Martha
Curtis, Shawn	Javner, Donnie	Pritchett, Brad	Wilson, Shirley
Dagnan, Derrick	Jefferies, Brian	Rafn, Sonya	Wimmer, Genera
Daniel, Ted	Jennette, Angela	Redmond, William	Wolfenbarger, Lindsey
Daniels, Ruth	Jernigan, Carla	Reevers, Stephanie	Wood, Britt
Darrell, Pat	Johnson, Roxanne	Reynolds, Ian	Woodard, Vivian <sup>20</sup>
Davis, Amanda	Johnson, Tawana	Richeson, Marsha	Woodrum, Angela
Davis, Jason	Jones, Chris <sup>5</sup>	Ridner, Gary	Wooten, Jennifer
Davis, Melissa	Jorgensen, Chelsea	Rife, Faith	Wright, Casey
Davis, Terry	Katseff, Peter	Roberts-Krause, Mary	Younglove, Sigourney
Denney, Pam <sup>5</sup>	Keeler, Mike	Roberts, Rachel	Zientar, Doreen
Derrick, Brian	King, Jenny		
Dice, Darrell	Klar, Markus		
Dickens, Sarah	Ladd, George <sup>25</sup>		
Dills, Larissa	Lantz, Kaci		
Dineen, Amy	Li, Liren		
Dodson, Marcus	Lillard, David		
Dorse, Bridget	Mackey, Wanda		

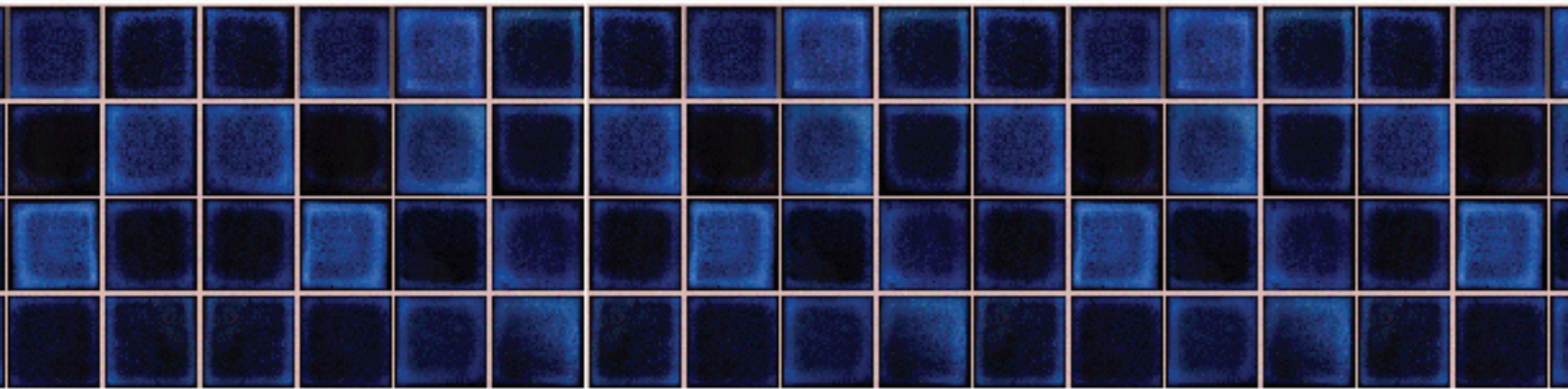
<sup>5</sup> Received 5-year service award in 2010  
<sup>10</sup> Received 10-year service award in 2010  
<sup>15</sup> Received 15-year service award in 2010  
<sup>20</sup> Received 20-year service award in 2010  
<sup>25</sup> Received 25-year service award in 2010  
<sup>30</sup> Received 30-year service award in 2010  
<sup>35</sup> Received 35-year service award in 2010

## TREASURY INTERNET SERVICES

<b>SERVICES TO THE PUBLIC</b>		
BEST	Program information, rate information, contracts, forms and newsletters	<a href="http://treasury.tn.gov/best">http://treasury.tn.gov/best</a>
Careers NOW	Program information, calendar, campus contacts, job descriptions and applications	<a href="http://treasury.tn.gov/now/index.html">http://treasury.tn.gov/now/index.html</a>
Claims Commission	Program information, contacts, rules and statutes	<a href="http://treasury.tn.gov/claims/index.html">http://treasury.tn.gov/claims/index.html</a>
Criminal Injury Compensation Program	Program information, forms, links to victims' programs nationwide and victims' organizations	<a href="http://treasury.tn.gov/injury/index.html">http://treasury.tn.gov/injury/index.html</a>
Small and Minority-Owned Business Program	Program information, rules and legislation	<a href="http://treasury.tn.gov/smob/index.html">http://treasury.tn.gov/smob/index.html</a>
Unclaimed Property	Search for unclaimed property, program information, links to other states' programs, holder reporting information, forms, instructions and free software	<a href="http://treasury.tn.gov/unclaim/index.html">http://treasury.tn.gov/unclaim/index.html</a>
<b>GOVERNMENT SERVICES</b>		
Bank Collateral Pool	Program information, forms and participants	<a href="http://treasury.tn.gov/bank/index.html">http://treasury.tn.gov/bank/index.html</a>
Local Government Investment Pool	Information, forms, operations manual, newsletters, past rates, portfolio and investment policy	<a href="http://treasury.tn.gov/lgip/index.html">http://treasury.tn.gov/lgip/index.html</a>
OASI/Social Security	Information, FICA rates, law and forms	<a href="http://treasury.tn.gov/oasi/index.html">http://treasury.tn.gov/oasi/index.html</a>
<b>PUBLIC EMPLOYEE BENEFIT PROGRAMS</b>		
Deferred Compensation	Account access, program information, benefit projection calculator and forms	<a href="http://treasury.tn.gov/dc/index.html">http://treasury.tn.gov/dc/index.html</a>
Flexible Benefits Plan	Program information and forms	<a href="http://treasury.tn.gov/flex/index.html">http://treasury.tn.gov/flex/index.html</a>
Optional Retirement Program	Program information, forms, company contacts and product information	<a href="http://treasury.tn.gov/orp/index.html">http://treasury.tn.gov/orp/index.html</a>
Risk Management	Program and claim process information, property insurance report search, safety check lists, loss control reports and employee safety	<a href="http://treasury.tn.gov/risk/index.html">http://treasury.tn.gov/risk/index.html</a>
Tennessee Consolidated Retirement System	Program information, benefits calculator, newsletters, forms, annual report, frequently asked questions and retirement planning information	<a href="http://treasury.tn.gov/tcrs/index.html">http://treasury.tn.gov/tcrs/index.html</a>
<b>WORKERS' COMPENSATION</b>		
Advisory Council on Workers' Compensation	Program information, reports, video minutes/meetings and public notices	<a href="http://treasury.tn.gov/claims/wcadvisory.html">http://treasury.tn.gov/claims/wcadvisory.html</a>
Workers' Compensation for State Employees Only	Program information, reporting accidents, filing claims, eligibility criteria and provider directory	<a href="http://treasury.tn.gov/wc/index.html">http://treasury.tn.gov/wc/index.html</a>
<b>OTHER</b>		
About the Treasurer	Statutory duties and biographical information	<a href="http://treasury.tn.gov/about.html">http://treasury.tn.gov/about.html</a>
Annual Report	Treasurer's Report on-line	<a href="http://treasury.tn.gov/TreasurersAnnualReport_2009.pdf">http://treasury.tn.gov/TreasurersAnnualReport_2009.pdf</a>
Tennessee Financial Literacy Commission	Program information and resolutions	<a href="http://treasury.tn.gov/FinLit/index.html">http://treasury.tn.gov/FinLit/index.html</a>



# 2010 Treasurer's Report



*Financial Statements*

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**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN  
INDEPENDENT AUDITOR'S REPORT**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT / DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897 / FAX (615) 532-2765

March 28, 2011

Members of the General Assembly,  
Members of the Board of Trustees  
Baccalaureate Education System Trust and  
The Honorable David H. Lillard, Jr., Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of fiduciary net assets of the Baccalaureate Education System Trust, Educational Services Plan, a private-purpose trust fund of the State of Tennessee, as of June 30, 2010, and June 30, 2009, and the related statements of changes in fiduciary net assets 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of the Baccalaureate Education System Trust. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Baccalaureate Education System Trust, Educational Services Plan.

As discussed in Note A.1., the financial statements referred to above present only the Baccalaureate Education System Trust, Educational Services Plan, a private-purpose trust fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Baccalaureate Education System Trust, Educational Services Plan, of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated March 28, 2011, on our consideration of the Baccalaureate Education System Trust, Educational Services Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA  
Director

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**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN  
STATEMENTS OF FIDUCIARY NET ASSETS  
JUNE 30, 2010 AND JUNE 30, 2009**


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	June 30, 2010	June 30, 2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,944,201	\$ 1,393,908
Receivables		
Contributions receivable	68,812	7,878
Investment income receivable	626,196	731,234
Investments, at fair value		
Investment in fixed income index fund	35,659,248	34,374,154
Investment in equity index fund	41,867,136	41,399,327
<b>TOTAL ASSETS</b>	<u>81,165,593</u>	<u>77,906,501</u>
<b>LIABILITIES</b>		
Investments purchased	626,139	731,226
Accounts payable	28,086	110,636
Other investment payable	9,087	8,600
<b>TOTAL LIABILITIES</b>	<u>663,312</u>	<u>850,462</u>
<b>NET ASSETS HELD IN TRUST FOR PLAN PARTICIPANTS</b>	<u>\$80,502,281</u>	<u>\$77,056,039</u>

See accompanying Notes to the Financial Statements.

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**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN  
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**


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	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009
<b>ADDITIONS</b>		
Contributions	\$ 3,410,544	\$ 4,424,484
Investment income		
Net increase (decrease) in fair value of investments	5,944,359	(13,520,540)
Interest and dividend income	2,358,698	2,906,698
Less: Investment expense	(36,423)	(34,012)
Net investment income	8,266,634	(10,647,854)
Administrative fees	259,246	264,186
<b>TOTAL ADDITIONS</b>	<u>11,936,424</u>	<u>(5,959,184)</u>
<b>DEDUCTIONS</b>		
Refunds	658,881	578,778
Payments	7,442,843	6,039,754
Administrative cost	388,458	421,194
<b>TOTAL DEDUCTIONS</b>	<u>8,490,182</u>	<u>7,039,726</u>
<b>CHANGE IN NET ASSETS</b>	3,446,242	(12,998,910)
<b>NET ASSETS HELD IN TRUST FOR PLAN PARTICIPANTS</b>		
<b>BEGINNING OF YEAR</b>	77,056,039	90,054,949
<b>END OF YEAR</b>	<u>\$80,502,281</u>	<u>\$77,056,039</u>

See accompanying Notes to the Financial Statements.

**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. **Reporting Entity** – The Tennessee Baccalaureate Education System Trust Fund (BEST), Educational Services Plan (ESEP) is included in the State of Tennessee Financial Reporting Entity. Because of the state’s fiduciary responsibility, the BEST has been included in the *Tennessee Comprehensive Annual Financial Report* as a private-purpose trust fund.
2. **Measurement Focus and Basis of Accounting** – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
3. **Cash and Cash Equivalents** – Cash and cash equivalents, by definition, include cash and short-term investments with a maturity date within three months of the acquisition date. The state’s accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the ESEP that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund administered by the State Treasurer or a short-term, open-end mutual fund, Northern Institutional Government Portfolio, under the contractual arrangements for master custody services.
4. **Method Used to Value Investments** – Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. The fair value of investments in open-end mutual funds is based on the share price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

**B. DEPOSITS AND INVESTMENTS**

In accordance with State statute, the ESEP assets may be invested in any instrument, obligation, security or property that constitutes a legal investment for assets of the Tennessee Consolidated Retirement System (TCRS). In addition, the assets of the ESEP may be pooled for investment purposes with the assets of the TCRS or any other assets under the custody of the State Treasurer. The authority for investing the assets of the ESEP is vested in its Board of Trustees and the responsibility for implementing the investment policy established by the Board is delegated to the State Treasurer. The ESEP does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers’ acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund (SPIF) 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 custodial agent upon simultaneous receipt of collateral securities. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 95-101 of this report.

**Credit Risk** – The ESEP does not currently own specific fixed income securities, but chooses to invest in an index fund that replicates the Barclays Aggregate Index. At June 30, 2010 and June 30, 2009, the ESEP had \$35,659,248 and \$34,374,154 respectively, invested in the SSGA US Aggregate Bond Index Fund.

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**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the ESEP's investments in fixed income securities as of June 30, 2010 and June 30, 2009 are not available since the SSgA US Aggregate Bond Index Fund is not traded on an exchange and is unrated; however the average rating is AA for the Barclays Aggregate securities which is the basis for the SSgA US Aggregate Index at June 30, 2010 and June 30, 2009. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency. The Northern Institutional Government Portfolio had a credit quality rating of AAA at June 30, 2010 and June 30, 2009.

The ESEP's investment policy states that the trust may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. In addition, the policy requires that only the highest quality short-term debt issues, including commercial paper with ratings of A1 or P1, may be purchased. The policy further states that index funds may be utilized as an alternative to selecting individual securities.

**Interest Rate Risk** – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The investment policy for the ESEP states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value. The effective duration for the SSgA US Aggregate Bond Index Fund that ESEP utilizes was 4.56 years at June 30, 2010 and 4.28 years at June 30, 2009. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price.

**C. DESCRIPTION OF THE EDUCATIONAL SERVICES PLAN**

The Tennessee Baccalaureate Education System Trust, Educational Services Plan, administered by the State Treasurer, was created under *Tennessee Code Annotated*, Title 49, Chapter 7, Part 8 for the purpose of improving higher education in the State of Tennessee by assisting students or their families to pay in advance, a portion of the tuition and other costs of attending colleges and universities. Under the program, a purchaser may enter into a contract with the BEST Board of Trustees to purchase tuition units on behalf of a beneficiary. Each tuition unit purchased entitles the beneficiary to an amount no greater than one percent of the weighted average tuition of Tennessee's four-year public universities during the academic term in which it is used; however, the tuition unit or equivalent funds may be used at any accredited public or private, in-state or out-of-state institution. The purchase price of the tuition unit is determined annually by the BEST Board of Trustees with the assistance of an actuary to maintain the plan's financial soundness. Refunds and tuition payments are guaranteed only to the extent that ESEP program funds are available and neither the State of Tennessee nor the BEST Board of Trustees is liable for any amount in excess of available program funds. The net assets held in trust for plan participants were \$10,091,423 less at June 30, 2010, and \$11,883,672 less at June 30, 2009, than the amounts needed to fund the outstanding tuition units at their weighted average tuition unit prices in effect at the respective dates.

**D. SUBSEQUENT EVENTS**

The BEST Board of Trustees voted to discontinue selling new prepaid units of tuition as of November 22, 2010 due to the rising cost of tuition. This action will have no effect on units purchased prior to this date.

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**CHAIRS OF EXCELLENCE  
INDEPENDENT AUDITOR'S REPORT**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT / DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897 / FAX (615) 532-2765

March 28, 2011

Members of the General Assembly,  
Members of the Board of Trustees  
Chairs of Excellence Trust and  
The Honorable David H. Lillard, Jr., Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying balance sheets of the Chairs of Excellence, a permanent fund of the State of Tennessee, as of June 30, 2010, and June 30, 2009, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of the Chairs of Excellence. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Chairs of Excellence.

As discussed in Note A.1., the financial statements referred to above present only the Chairs of Excellence, a permanent fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chairs of Excellence of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated March 28, 2011, on our consideration of the Chairs of Excellence's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA  
Director

**CHAIRS OF EXCELLENCE  
BALANCE SHEETS  
JUNE 30, 2010 AND JUNE 30, 2009**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	<u>\$ 10,057,548</u>	<u>\$ 5,231,759</u>
Investments, at fair value		
Government securities	75,208,612	67,236,425
Corporate securities	41,198,090	45,776,263
Investment in equity mutual fund	94,139,711	85,845,679
Total investments	<u>210,546,413</u>	<u>198,858,367</u>
Receivables		
Due from colleges and universities	500,000	763,000
Investment income receivable	<u>3,733,247</u>	<u>1,651,530</u>
Total receivables	<u>4,233,247</u>	<u>2,414,530</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 224,837,208</u></u>	<u><u>\$ 206,504,656</u></u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Due to colleges and universities	\$ 1,839,078	\$ 1,977,208
Due to the Academic Scholars Fund	4,071,340	3,684,250
Investments purchased	<u>3,261,161</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>9,171,579</u>	<u>5,661,458</u>
<b>FUND BALANCES</b>		
Reserved for non-expendable corpus	99,929,963	99,929,963
Unreserved	<u>115,735,666</u>	<u>100,913,235</u>
<b>TOTAL FUND BALANCES</b>	<u>215,665,629</u>	<u>200,843,198</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 224,837,208</u></u>	<u><u>\$ 206,504,656</u></u>

See accompanying Notes to the Financial Statements.

**CHAIRS OF EXCELLENCE**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	<b>For the Year Ended June 30, 2010</b>	<b>For the Year Ended June 30, 2009</b>
<b>REVENUES</b>		
Investment income (loss)	\$ 22,324,590	\$ (28,334,670)
<b>TOTAL REVENUES</b>	<u>22,324,590</u>	<u>(28,334,670)</u>
<b>EXPENDITURES</b>		
University of Tennessee	3,534,563	3,609,430
Tennessee Board of Regents	3,402,764	3,832,292
Academic Scholars Fund	387,090	168,251
Administrative cost	<u>177,742</u>	<u>166,989</u>
<b>TOTAL EXPENDITURES</b>	<u>7,502,159</u>	<u>7,776,962</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	14,822,431	(36,111,632)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>200,843,198</u>	<u>236,954,830</u>
<b>FUND BALANCES, END OF YEAR</b>	<u><u>\$215,665,629</u></u>	<u><u>\$200,843,198</u></u>

See accompanying Notes to the Financial Statements.



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**CHAIRS OF EXCELLENCE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. **Reporting Entity** – The Chairs of Excellence (COE) Trust forms an integral part of the primary government and has been included as a permanent fund in the *Tennessee Comprehensive Annual Financial Report*.
2. **Measurement Focus and Basis of Accounting** – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available, and expenditures are recognized when the related fund liability is incurred. Interest associated with the current fiscal year is considered to be available if received in six months.
3. **Cash and Cash Equivalents** – Cash and cash equivalents, by definition, include cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the COE Trust that cannot be immediately invested in securities, or that is needed for operations, is invested in either the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer or a short-term, open-end mutual fund, Northern Institutional Government Portfolio, under the contractual arrangement for master custody services.
4. **Method Used to Value Investments** – Investments are reported at fair value. For fair value reporting, securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of investments in open-end mutual funds is based on the share price. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Securities and securities transactions are recorded in the financial statements on trade-date basis.
5. **Fund Balances** – The reserve for non-expendable corpus includes funds provided by contributions from the state, colleges and universities and private sources.

**B. DEPOSITS AND INVESTMENTS**

State statute authorizes the funds of the COE Trust to be commingled for investment with other trust funds and other funds subject to investment by the State Treasurer. The COE Trust does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

State statute also authorizes the Board of Trustees of the COE Trust to adopt an investment policy for the trust in accordance with the laws, guidelines and policies that govern investments by the Tennessee Consolidated Retirement System. The State Treasurer is responsible for the investment of trust funds in accordance with the policy established by the trustees. The investment policy of the COE Trust requires that public funds, capital gains on public funds and all current income exceeding withdrawals be invested in fixed income securities. Private contributions may be invested in equity securities, including domestic and

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**CHAIRS OF EXCELLENCE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

foreign common stocks, preferred stocks and convertible bonds. Subsequent to the initial funding of a chair, funds may be transferred from the equity corpus to the fixed income corpus but not from the fixed income corpus to the equity corpus.

As of June 30, 2010 and June 30, 2009, the COE Trust had the following investments:

(Expressed in Thousands) Investment Type	Fair Value as of June 30, 2010	U.S. Treasury/ Agency (1)	Credit Quality Ratings						Not Rated
			AAA	AA	A	BBB	B	CCC	
<b>Debt Investments</b>									
U.S. Government Agencies	\$ 6,319	\$ 1,644	\$ 4,675						
U.S. Government TIPS	25,820	25,820							
U.S. Government Treasuries	16,077	16,077							
Government Asset Backed	437	437							
Government Mortgage Backed	26,555	4,310							\$22,245 (2)
Corporate Asset Backed	1,236		1,236						
Corporate Bonds	28,690		1,027	\$ 6,480	\$ 10,677	\$ 9,411	\$ 995		100
Corporate Mortgage Backed	11,272		9,390					\$ 1,882	
Total Debt Investments	\$ 116,406	\$ 48,288	\$ 16,328	\$ 6,480	\$ 10,677	\$ 9,411	\$ 995	\$ 1,882	\$ 22,345
<b>Other Investments</b>									
Commingled Funds			(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U. S. government and are not considered to have credit risk.						
U.S. Equity	\$ 29,146								
Non - U.S. Equity	64,994		(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.						
Money Market Funds	10,103								
Total Other Investments	\$ 104,243								
Total Investments	\$ 220,649								
Less: Investments Classified as Cash Equivalents on Balance Sheet (rated AAA)	(10,103)								
Total Investments as Shown on Balance Sheet	\$ 210,546								

(Expressed in Thousands) Investment Type	Fair Value as of June 30, 2009	U.S. Treasury/ Agency (1)	Credit Quality Ratings					Not Rated
			AAA	AA	A	BBB	CCC	
<b>Debt Investments</b>								
U.S. Government Agencies	\$ 4,488		\$ 3,027					\$ 1,461 (2)
U.S. Government TIPS	22,810	\$ 22,810						
U.S. Government Treasuries	10,019	10,019						
Government Mortgage Backed	29,920	5,512						24,408 (2)
Corporate Asset Backed	3,628		3,628					
Corporate Bonds	26,860		1,028	\$ 4,636	\$ 10,769	\$ 10,378		49
Corporate Mortgage Backed	15,288		13,718			86	\$ 1,484	
Total Debt Investments	\$ 113,013	\$ 38,341	\$ 21,401	\$ 4,636	\$ 10,769	\$ 10,464	\$ 1,484	\$ 25,918
<b>Other Investments</b>								
Commingled Funds			(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U. S. government and are not considered to have credit risk.					
U.S. Equity	\$ 60,268							
Non - U.S. Equity	25,577		(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.					
Money Market Funds	5,272							
Total Other Investments	\$ 91,117							
Total Investments	\$ 204,130							
Less: Investments Classified as Cash Equivalents on Balance Sheet (rated AAA)	(5,272)							
Total Investments as Shown on Balance Sheet	\$ 198,858							

(CONTINUED)

## CHAIRS OF EXCELLENCE

### NOTES TO THE FINANCIAL STATEMENTS

#### JUNE 30, 2010 AND JUNE 30, 2009

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the COE Trust's investments in fixed income securities as of June 30, 2010 and June 30, 2009 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency. The Northern Institutional Government Portfolio has a credit quality rating of AAA at June 30, 2010 and June 30, 2009.

The COE Trust's investment policy states that the majority of investments should be placed in high quality debt securities to produce adequate income with minimal risk. In addition, for short-term investments, the investment policy states that only the highest quality short-term debt issues should be purchased.

As noted above, the COE Trust does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash purposes. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 95-101 of this report.

**Concentration of Credit Risk** – A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The COE Trust had the following investment amounts and percentages of total investments, in organizations representing five percent or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government and investments in mutual funds, external investment pools and other pooled investments:

Issuer Organization	June 30, 2010		June 30, 2009	
	Fair Value	Percentage	Fair Value	Percentage
Federal National Mortgage Association	\$ 19,970,283	9.48%	\$ 21,643,866	10.88%

The COE Trust's investment policy does not specifically address limitations on investing in any one issuer.

**Interest Rate Risk** – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The investment policy for the COE Trust states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. The fixed income portfolio is benchmarked against the Barclays Aggregate Index and tends to have a duration within a tight range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The COE Trust had the following investments and effective duration at June 30, 2010 and June 30, 2009.

(CONTINUED)

**CHAIRS OF EXCELLENCE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

**Debt Investments**  
(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2010	Effective Duration (years)	Investment Type	Fair Value as of June 30, 2009	Effective Duration (years)
<b>Debt Investments</b>			<b>Debt Investments</b>		
U.S. Government Agencies	\$ 6,319	3.54	U.S. Government Agencies	\$ 4,488	4.27
U.S. Government TIPS	25,820	3.87	U.S. Government TIPS	22,810	5.41
U.S. Government Treasuries	16,077	8.51	U.S. Government Treasuries	10,019	10.54
Government Asset Backed	437	6.24	Government Mortgage Backed	29,920	3.19
Government Mortgage Backed	26,555	1.35	Corporate Asset Backed	3,628	4.71
Corporate Asset Backed	1,236	0.85	Corporate Bonds	26,860	4.97
Corporate Bonds	28,690	5.32	Corporate Mortgage Backed	15,288	2.02
Corporate Mortgage Backed	11,272	2.80			
<b>Total Debt Investments</b>	<b>\$ 116,406</b>	<b>4.15</b>	<b>Total Debt Investments</b>	<b>\$ 113,013</b>	<b>4.65</b>

**Asset Backed Securities** – The COE Trust invests in collateralized mortgage obligations (CMOs) which are mortgage backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The fair value of CMOs at June 30, 2010 was \$11,272,186 of which \$8,075,298 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2009 was \$15,287,405 of which \$8,929,085 were CMOs that are generally more sensitive to interest rate changes.

**C. OTHER ACCOUNTING DISCLOSURES**

- Chairs of Excellence Endowment Trust** – The COE Trust is authorized by the 94th General Assembly to further the cause of education in Tennessee. The COE Trust is administered by the State Treasurer. The Trust is set up into two general accounts which equally divide any state appropriations: one for the University of Tennessee and one for the Tennessee Board of Regents. As each Chair is designated, a portion of the appropriation is transferred to a subaccount for that Chair. The awarding college or university must provide matching contributions, of which at least 50 percent of the funds are from private contributions.

As of June 30, 2010, 99 Chairs have been established with matching contributions received totaling \$55,929,963. Total contributions to the COE Trust totaled \$99,929,963 as of June 30, 2010. This includes \$44,000,000 from the State, \$10,321,300 from Colleges and Universities and \$45,608,663 from private contributions.

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

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# CRIMINAL INJURIES COMPENSATION FUND INDEPENDENT AUDITOR'S REPORT

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT / DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897 / FAX (615) 532-2765

March 28, 2011

Members of the General Assembly and  
The Honorable David H. Lillard, Jr., Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying balance sheets of the Criminal Injuries Compensation Fund, a special revenue fund of the State of Tennessee, as of June 30, 2010, and June 30, 2009, and the related statements of revenues, expenditures, and changes in fund balances and revenues, expenditures, and changes in fund balances (budget and actual) 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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.

As discussed in Note A.1., the financial statements referred to above present only the Criminal Injuries Compensation Fund, a special revenue fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position and budgetary comparisons for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Criminal Injuries Compensation Fund of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position and budgetary comparisons for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated March 28, 2011, on our consideration of the Criminal Injuries Compensation Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA

**CRIMINAL INJURIES COMPENSATION FUND  
BALANCE SHEETS  
JUNE 30, 2010 AND JUNE 30, 2009**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>ASSETS</b>		
Cash	\$ 11,392,891	\$11,183,201
Accounts receivable	600,671	530,037
Due from federal government	<u>5,181,000</u>	<u>5,642,000</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 17,174,562</u></u>	<u><u>\$17,355,238</u></u>
 <b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 135,178	\$ 603,255
Claims liability	<u>6,342,467</u>	<u>7,077,334</u>
<b>TOTAL LIABILITIES</b>	<u>6,477,645</u>	<u>7,680,589</u>
<b>FUND BALANCES</b>		
Reserved for victims of drunk drivers (see Note B.2)	1,537,108	1,717,329
Unreserved	<u>9,159,809</u>	<u>7,957,320</u>
<b>TOTAL FUND BALANCES</b>	<u>10,696,917</u>	<u>9,674,649</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 17,174,562</u></u>	<u><u>\$17,355,238</u></u>

See accompanying Notes to the Financial Statements.

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**CRIMINAL INJURIES COMPENSATION FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**


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	<b>For the Year Ended June 30, 2010</b>	<b>For the Year Ended June 30, 2009</b>
<b>REVENUES</b>		
State		
Fines	\$ 6,539,643	\$ 6,649,241
Fees	2,589,475	2,976,080
Federal	5,181,000	7,114,799
Interest income	27,320	166,281
Other	739,512	701,461
	<u>15,076,950</u>	<u>17,607,862</u>
<b>EXPENDITURES</b>		
Claim payments	12,819,851	13,687,719
Victims' coalition grant	100,000	100,000
District Attorneys General grant	223,140	223,140
Administrative cost	911,691	901,074
	<u>14,054,682</u>	<u>14,911,933</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	1,022,268	2,695,929
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>9,674,649</u>	<u>6,978,720</u>
<b>FUND BALANCES, END OF YEAR</b>	<u><u>\$10,696,917</u></u>	<u><u>\$ 9,674,649</u></u>

See accompanying Notes to the Financial Statements.

**CRIMINAL INJURIES COMPENSATION FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	For the Year Ended June 30, 2010			For the Year Ended June 30, 2009		
	Original Budget	Final Budget	Actual (Budgetary Basis)	Original Budget	Final Budget	Actual (Budgetary Basis)
<b>SOURCES OF FINANCIAL RESOURCES</b>						
<b>FUND BALANCES, BEGINNING OF YEAR</b>						
	\$ 9,674,649	\$ 9,674,649	\$ 9,674,649	\$ 6,978,720	\$ 6,978,720	\$ 6,978,720
<b>REVENUES</b>						
Fines	4,710,000	4,710,000	6,539,643	4,710,000	4,710,000	6,649,241
Fees	2,967,000	2,967,000	2,589,475	2,967,000	2,967,000	2,976,080
Federal	5,025,000	5,025,000	5,181,000	5,595,000	7,067,800	7,114,799
Interest income	0	0	27,320	0	0	166,281
Other	550,000	550,000	739,512	553,000	553,000	701,461
<b>TOTAL SOURCES OF FINANCIAL RESOURCES</b>	<u>22,926,649</u>	<u>22,926,649</u>	<u>24,751,599</u>	<u>20,803,720</u>	<u>22,276,520</u>	<u>24,586,582</u>
<b>USES OF FINANCIAL RESOURCES</b>						
<b>EXPENDITURES</b>						
Claim payments	15,030,000	14,706,860	12,819,851	15,030,000	16,179,660	13,687,719
Victims' coalition grant	0	100,000	100,000	0	100,000	100,000
District Attorneys						
General grant	0	223,140	223,140	0	223,140	223,140
Administrative cost	850,000	850,000	911,691	825,000	825,000	901,074
<b>TOTAL USES OF FINANCIAL RESOURCES</b>	<u>15,880,000</u>	<u>15,880,000</u>	<u>14,054,682</u>	<u>15,855,000</u>	<u>17,327,800</u>	<u>14,911,933</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 7,046,649</u>	<u>\$ 7,046,649</u>	<u>\$ 10,696,917</u>	<u>\$ 4,948,720</u>	<u>\$ 4,948,720</u>	<u>\$ 9,674,649</u>

See accompanying Notes to the Financial Statements.



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**CRIMINAL INJURIES COMPENSATION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND JUNE 30, 2009**

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**A. Summary of Significant Accounting Policies**

1. **Reporting Entity** – The Criminal Injuries Compensation Fund (CICF) is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as a special revenue fund. The Criminal Injuries Compensation Program is funded through privilege and litigation taxes assessed in courts against certain criminal defendants upon conviction, fees levied against parolees, probationers and employed releasees, proceeds from sales of illegal contraband and bond forfeitures in felony cases, donations from individuals serving as jurors, interest income and a federal grant. Payments made under the CIC program are intended to defray the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either the victim of a crime or to the dependents of deceased victims.
2. **Measurement Focus and Basis of Accounting** – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) using the current financial resources measurement focus and 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. For revenue recognition purposes, fines and bond forfeitures are considered to be available if received in the first sixty days of the new fiscal year. Federal grants, departmental services, and interest associated with the current fiscal year are all considered to be available if received in six months. All other revenue items are considered to be measurable and available only when cash is received by the Criminal Injuries Compensation Fund.
3. **Cash** – The Criminal Injuries Compensation Fund does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The State Pooled Investment Fund is not rated by a nationally recognized statistical ratings agency. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 95-101 of this report.
4. **Budgetary Process** – Legislation requires that annual budgets be adopted for special revenue funds. The CICF budget is included in the budget presented by the Governor to the General Assembly at the beginning of each annual legislative session. The CICF annual budget is prepared on the modified accrual basis of accounting. Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or administrative intradepartmental transfers, may be affected with certain executive and legislative branch approval. Only the legislature may transfer appropriations between departments.

**B. Other Accounting Disclosures**

1. **Due from Federal Government** – The receivable shown on the Balance Sheets as due from federal government includes funds for a grant awarded to the CICF under the Victims of Crime Act Formula Grant Program by the Department of Justice, Office of Justice Programs.

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**CRIMINAL INJURIES COMPENSATION FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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2. **Reserves** – A reserve has been established for the Victims of Drunk Drivers Compensation Fund (VDDC) which is included in the Criminal Injuries Compensation Fund. A requirement of the CICF and VDDC combination is that a reserve be established annually for an amount equal to three times the awards paid for VDDC during the fiscal year. *Chapter 761 of the Public Acts of 1992* discusses the fund combination as well as the VDDC reserve requirement.

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## FLEXIBLE BENEFITS PLAN INDEPENDENT AUDITOR'S REPORT

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT / DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897 / FAX (615) 532-2765

March 28, 2011

Members of the General Assembly and  
The Honorable David H. Lillard, Jr., Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of fiduciary net assets of the Flexible Benefits Plan, an employee benefit trust fund of the State of Tennessee, as of June 30, 2010, and June 30, 2009, and the related statements of changes in fiduciary net assets 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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.

As discussed in Note A.1., the financial statements referred to above present only the Flexible Benefits Plan, an employee benefit trust fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Flexible Benefits Plan of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B.1., during the year ended June 30, 2009, the state changed its method of accounting for FICA savings, administrative costs, and other employee benefit program expenses.

In accordance with generally accepted government auditing standards, we have also issued our report dated March 28, 2011, on our consideration of the Flexible Benefits Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA  
Director

**FLEXIBLE BENEFITS PLAN  
STATEMENTS OF FIDUCIARY NET ASSETS  
JUNE 30, 2010 AND JUNE 30, 2009**

	June 30, 2010	June 30, 2009
<b>ASSETS</b>		
Cash	\$ 751,250	\$706,228
Contributions receivable	298,189	288,951
<b>TOTAL ASSETS</b>	<u>1,049,439</u>	<u>995,179</u>
<b>LIABILITIES</b>		
Accounts payable	842	11,354
<b>TOTAL LIABILITIES</b>	<u>842</u>	<u>11,354</u>
<b>NET ASSETS</b>		
Held in trust for employees' flexible benefits	<u>\$1,048,597</u>	<u>\$983,825</u>

See accompanying Notes to the Financial Statements.

**FLEXIBLE BENEFITS PLAN  
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	June 30, 2010	June 30, 2009
<b>ADDITIONS</b>		
Employee contributions	\$8,725,267	\$ 8,464,285
<b>TOTAL ADDITIONS</b>	<u>8,725,267</u>	<u>8,464,285</u>
<b>DEDUCTIONS</b>		
Employee reimbursements	8,516,979	8,340,379
Administrative cost	143,516	85,534
<b>TOTAL DEDUCTIONS</b>	<u>8,660,495</u>	<u>8,425,913</u>
<b>CHANGE IN NET ASSETS</b>	<u>64,772</u>	<u>38,372</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	983,825	1,489,652
Prior Period Adjustment (Note B.1)	0	(544,199)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>983,825</u>	<u>945,453</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$1,048,597</u>	<u>\$ 983,825</u>

See accompanying Notes to the Financial Statements.

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**FLEXIBLE BENEFITS PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. **Reporting Entity** – The Flexible Benefits Plan is made available to state employees as an employee benefit. This plan is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the Flexible Benefits Plan is included in the *Tennessee Comprehensive Annual Financial Report (CAFR)* as an employee benefit trust fund. 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. Participants may claim expenses incurred through March 15<sup>th</sup> following the end of the plan year. Any contributions to the plan not withdrawn are forfeited to the state and are used for defraying administrative costs. In calendar year 2009, the state added reimbursement accounts for transportation and parking expenses in accordance with *Internal Revenue Code Section 132*. These plans operate in much the same manner as the *Section 125* plans in that employees may elect to direct a portion of their salary tax-exempt to pay for transportation or parking expenses. However, there are no restrictions on time of enrollment or account changes and any contributions not used will be rolled forward to the following year instead of forfeited.
2. **Measurement Focus and Basis of Accounting** – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.
3. **Cash** – The Flexible Benefits Plan does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The State Pooled Investment Fund is not rated by a nationally recognized statistical ratings agency. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 95-101 of this report.
4. **Participant Contribution Forfeitures and Plan Administration** – Participant contributions not reimbursed to participants and forfeited to the plan for the latest closed plan year are transferred to the Treasury Department and applied toward funding a portion of the plan administrative cost. The remaining administrative costs for the plan are recovered directly from funds of the participating employer agencies. The amount forfeited is reflected on the Statement of Changes in Fiduciary Net Assets as administrative cost.

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**FLEXIBLE BENEFITS PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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**B. PRIOR PERIOD ADJUSTMENT**

1. **Prior Period Adjustment** – A prior period adjustment of \$544,199 was made to net assets as of the beginning of fiscal year 2009. Previously, the FICA savings generated from the Flexible Benefits Plan as well as the plan administrative costs and the expenses of other employee benefit programs funded from FICA savings had been reported within this fund's activity and net assets. A subsequent determination has been made that the Flexible Benefits Plan does not have fiduciary responsibility over the net assets and transactions relative to the FICA savings and other employee benefit programs and therefore, such net assets and activity should not be reported within the Flexible Benefits Plan financial statements. As a result of this determination and related adjustment, the remaining activity in this trust fund is solely based on the contributions and reimbursement requests of employees.

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**RISK MANAGEMENT FUND  
INDEPENDENT AUDITOR'S REPORT**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT / DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897 / FAX (615) 532-2765

March 28, 2011

Members of the General Assembly, and  
Members of the Board of Claims and  
The Honorable David H. Lillard, Jr., Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Risk Management Fund, an internal service fund of the State of Tennessee, as of June 30, 2010, and June 30, 2009, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the Board of Claims. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Risk Management Fund.

As discussed in Note A.1., the financial statements referred to above present only the Risk Management Fund, an internal service fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Risk Management Fund of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated March 28, 2011, on our consideration of the Risk Management Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA  
Director

**RISK MANAGEMENT FUND  
STATEMENTS OF NET ASSETS  
JUNE 30, 2010 AND JUNE 30, 2009**

	June 30, 2010	June 30, 2009
<b>ASSETS</b>		
Current assets		
Cash	\$ 114,501,418	\$ 127,016,873
Noncurrent assets		
Due from federal government	<u>8,998,081</u>	<u>3,148,081</u>
<b>TOTAL ASSETS</b>	<u>123,499,499</u>	<u>130,164,954</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	573,973	708,721
Deferred revenue	8,000	8,000
Claims liability	35,226,021	29,008,558
Total current liabilities	<u>35,807,994</u>	<u>29,725,279</u>
Noncurrent liabilities		
Claims liability	<u>71,403,765</u>	<u>64,147,282</u>
<b>TOTAL LIABILITIES</b>	<u>107,211,759</u>	<u>93,872,561</u>
<b>NET ASSETS - UNRESTRICTED</b>	<u>\$ 16,287,740</u>	<u>\$ 36,292,393</u>

See accompanying Notes to the Financial Statements.



**RISK MANAGEMENT FUND**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009
<b>OPERATING REVENUES</b>		
Casualty premiums	\$ 20,976,300	\$ 34,231,220
Property premiums	6,142,500	5,594,200
<b>TOTAL OPERATING REVENUES</b>	<u>27,118,800</u>	<u>39,825,420</u>
<b>OPERATING EXPENSES</b>		
Torts		
Death	1,341,010	2,194,167
Bodily injury	3,988,802	3,042,169
Property damage	834,951	993,253
Total Torts	<u>6,164,763</u>	<u>6,229,589</u>
Workers' Compensation		
Death	147,503	185,445
Medical	11,706,953	12,773,681
Temporary disability	3,123,938	2,889,359
Permanent disability	8,560,608	7,399,496
Total Workers' Compensation	<u>23,539,002</u>	<u>23,247,981</u>
Property Damage		
Employee property	29,080	24,687
State owned property	2,879,031	348,437
Total Property Damage	<u>2,908,111</u>	<u>373,124</u>
Property insurance premiums	3,370,810	3,220,254
Professional/Administrative	8,915,287	9,329,091
Addition to accrued liability	8,473,946	277,940
<b>TOTAL OPERATING EXPENSES</b>	<u>53,371,919</u>	<u>42,677,979</u>
<b>OPERATING LOSS</b>	<u>(26,253,119)</u>	<u>(2,852,559)</u>
<b>NON-OPERATING REVENUES/EXPENSES</b>		
Grant revenue	5,850,000	0
Interest income	396,266	2,000,530
Taxes	2,200	1,800
Other expenses	0	(90,450)
<b>TOTAL NON-OPERATING REVENUES</b>	<u>6,248,466</u>	<u>1,911,880</u>
<b>CHANGE IN NET ASSETS</b>	<u>(20,004,653)</u>	<u>(940,679)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>36,292,393</u>	<u>37,233,072</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 16,287,740</u>	<u>\$ 36,292,393</u>

See accompanying Notes to the Financial Statements.

**RISK MANAGEMENT FUND  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	<b>For the Year Ended June 30, 2010</b>	<b>For the Year Ended June 30, 2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from premiums	\$ 27,118,800	\$ 39,825,420
Receipts for insurance proceeds	7,861,142	200,000
Payments for claims	(35,601,367)	(29,903,061)
Payments for administrative expenses	(8,989,627)	(9,249,937)
Payments for insurance premiums	<u>(3,302,869)</u>	<u>(3,220,254)</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>(12,913,921)</u>	<u>(2,347,832)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Grant revenue received	0	3,396,219
Taxes received	<u>2,200</u>	<u>1,800</u>
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES</b>	<u>2,200</u>	<u>3,398,019</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>396,266</u>	<u>2,000,530</u>
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<u>396,266</u>	<u>2,000,530</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(12,515,455)	3,050,717
<b>CASH, BEGINNING OF YEAR</b>	<u>127,016,873</u>	<u>123,966,156</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 114,501,418</u></u>	<u><u>\$ 127,016,873</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES</b>		
<b>OPERATING LOSS</b>	\$ (26,253,119)	\$ (2,852,559)
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Changes in assets and liabilities		
Increase (decrease) in accounts payable	(134,748)	225,787
Increase in deferred revenue	0	1,000
Increase in claims liability	<u>13,473,946</u>	<u>277,940</u>
<b>TOTAL ADJUSTMENTS</b>	13,339,198	504,727
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u><u>\$ (12,913,921)</u></u>	<u><u>\$ (2,347,832)</u></u>

See accompanying Notes to the Financial Statements.

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**RISK MANAGEMENT FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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**A. Summary of Significant Accounting Policies**

1. **Reporting Entity** – The Risk Management Fund (RMF) is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an internal service fund.
2. **Measurement Focus and Basis of Accounting** – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The RMF generally follows private sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The RMF distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the services provided by the RMF. The principal operating revenue of the RMF consists of charges to its customers for insurance premiums. Operating expenses include claims expenses, insurance premiums, administrative expenses and the current charge to the accrued liability. Revenues and expenses not resulting from the services provided by the RMF are reported as nonoperating revenues and expenses.
3. **Cash** – The Risk Management Fund does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The State Pooled Investment Fund is not rated by a nationally recognized ratings agency. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 95-101 of this report.

**B. Other Accounting Disclosures**

1. **Risk Management** – It is the policy of the state not to purchase commercial insurance for the risks of casualty losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the RMF. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The RMF is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence, depending on the type of coverage, to an aggregate of \$5 million. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. All agencies and authorities of the state participate in the RMF, except for the Dairy Promotion Board and the Certified Cotton Growers' Organization. The Tennessee Education Lottery Corporation participates in the RMF for general liability purposes but is responsible for its own worker's compensation coverage.

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does

(CONTINUED)

**RISK MANAGEMENT FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND JUNE 30, 2009**

not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was \$84,577,236 (discounted at 2.50%) at June 30, 2010 and \$82,831,368 (discounted at 3.0%) at June 30, 2009. The accrued liability for incurred property losses was \$22,052,550 at June 30, 2010 and \$10,324,472 at June 30, 2009. The changes in the balances of the claims liabilities during fiscal years 2009 and 2010 were as follows:

<u>Fiscal Year</u>	<u>Beginning Claims Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Advance of Insurance Proceeds</u>	<u>Ending Claims Liability</u>
2010	\$93,155,840	\$41,085,822	(\$32,611,876)	\$5,000,000	\$106,629,786
2009	92,877,900	30,128,635	(29,850,695)	0	\$93,155,840

The RMF held \$114.5 million in cash at June 30, 2010 and \$127.0 million in cash at June 30, 2009 that is designated for payment of these claims.

The RMF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole.

2. **Receivable** – The receivables shown on the Statement of Net Assets as due from federal government includes funds to be received from the Federal Emergency Management Agency for property losses that were classified as a disaster.
3. **Insurance Proceeds** – The State suffered a large loss as the result of a flood in May 2010. The state's insurance company provided an advance payment of \$5 million to assist the State in its recovery efforts. The flood losses are estimated to be approximately \$20 million and the insurance company is responsible for the flood losses exceeding the deductible. These proceeds will be passed on to state agencies as costs related to these losses are incurred.
4. **Reclassification** – Insurance proceeds of \$200,000 have been reclassified on the Statement of Cash Flows for the year ended June 30, 2009. The proceeds are shown on a separate line instead of being netted against payments for claims.

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## SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM FUND INDEPENDENT AUDITOR'S REPORT

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT / DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897 / FAX (615) 532-2765

March 28, 2011

Members of the General Assembly and  
The Honorable David H. Lillard, Jr., Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying balance sheets of the Small and Minority-Owned Business Assistance Program, a special revenue fund of the State of Tennessee, as of June 30, 2010, and June 30, 2009, and the related statements of revenues, expenditures, and changes in fund balances and revenues, expenditures, and changes in fund balances (budget and actual) 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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.

As discussed in Note A.1., the financial statements referred to above present only the Small and Minority-Owned Business Assistance Program, a special revenue fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position and budgetary comparisons for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Small and Minority-Owned Business Assistance Program of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position and budgetary comparisons for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated March 28, 2011, on our consideration of the Small and Minority-Owned Business Assistance Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

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

Arthur A. Hayes, Jr., CPA  
Director

**SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM FUND  
BALANCE SHEETS  
JUNE 30, 2010 AND JUNE 30, 2009**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>ASSETS</b>		
Cash	\$ 6,583,485	\$ 7,785,271
Long-term loan receivables (net) (See Note B.2)	<u>3,718,511</u>	<u>3,018,511</u>
<b>TOTAL ASSETS</b>	<u><u>\$10,301,996</u></u>	<u><u>\$10,803,782</u></u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 4,000	\$ 97,904
<b>TOTAL LIABILITIES</b>	<u>4,000</u>	<u>97,904</u>
<b>FUND BALANCES</b>		
Reserved for loans	3,718,511	3,018,511
Unreserved	<u>6,579,485</u>	<u>7,687,367</u>
<b>TOTAL FUND BALANCES</b>	<u>10,297,996</u>	<u>10,705,878</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$10,301,996</u></u>	<u><u>\$10,803,782</u></u>

See accompanying Notes to the Financial Statements.

**SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM FUND  
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	<b>For the Year Ended June 30, 2010</b>	<b>For the Year Ended June 30, 2009</b>
<b>REVENUES</b>		
Interest income	\$ 25,737	\$ 149,513
<b>TOTAL REVENUES</b>	<u>25,737</u>	<u>149,513</u>
<b>EXPENDITURES</b>		
Disparity study	55,680	408,320
Administrative cost	377,939	390,324
Bad Debt Expense	<u>0</u>	<u>331,489</u>
<b>TOTAL EXPENDITURES</b>	<u>433,619</u>	<u>1,130,133</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	(407,882)	(980,620)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>10,705,878</u>	<u>11,686,498</u>
<b>FUND BALANCES, END OF YEAR</b>	<u><u>\$10,297,996</u></u>	<u><u>\$10,705,878</u></u>

See accompanying Notes to the Financial Statements.

**SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM FUND  
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (BUDGETARY BASIS) FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	For the year ended June 30, 2010			For the year ended June 30, 2009		
	Original Budget	Final Budget	Actual (Budgetary Basis)	Original Budget	Final Budget	Actual (Budgetary Basis)
<b>SOURCES OF FINANCIAL RESOURCES</b>						
<b>FUND BALANCES, BEGINNING OF YEAR</b>	\$ 10,705,878	\$ 10,705,878	\$ 10,705,878	\$ 11,686,498	\$ 11,686,498	\$ 11,686,498
<b>REVENUES</b>						
Interest income	0	0	25,737	0	0	149,513
<b>TOTAL SOURCES OF FINANCIAL RESOURCES</b>	<u>10,705,878</u>	<u>10,705,878</u>	<u>10,731,615</u>	<u>11,686,498</u>	<u>11,686,498</u>	<u>11,836,011</u>
<b>USES OF FINANCIAL RESOURCES</b>						
<b>EXPENDITURES</b>						
Disparity study	55,700	55,700	55,680	1,672,300	1,672,300	408,320
Administrative cost	615,000	615,000	377,939	251,800	500,000	390,324
Bad Debt Expense	0	0	0	0	0	331,489
<b>TOTAL USES OF FINANCIAL RESOURCES</b>	<u>670,700</u>	<u>670,700</u>	<u>433,619</u>	<u>1,924,100</u>	<u>2,172,300</u>	<u>1,130,133</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 10,035,178</u>	<u>\$ 10,035,178</u>	<u>\$ 10,297,996</u>	<u>\$ 9,762,398</u>	<u>\$ 9,514,198</u>	<u>\$ 10,705,878</u>

See accompanying Notes to the Financial Statements

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**SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. **Reporting Entity** – The Small and Minority-owned Business Assistance Program Fund (the Fund) is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as a special revenue fund.
2. **Measurement Focus and Basis of Accounting** – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) using the current financial resources measurement focus and 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. For revenue recognition purposes, interest income associated with the current fiscal year is considered to be available if received in six months.
3. **Cash** – The Small and Minority-owned Business Assistance Program does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The State Pooled Investment Fund is not rated by a nationally recognized ratings agency. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 95-101 of this report.
4. **Budgetary Process** – Legislation requires that annual budgets be adopted for special revenue funds. The Small and Minority-owned Business Assistance Program Fund's budget is included in the budget presented by the Governor to the General Assembly at the beginning of each annual legislative session. The Fund's annual budget is prepared on the modified accrual basis of accounting. Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or administrative intradepartmental transfers, may be affected with certain executive and legislative branch approval. Only the legislature may transfer appropriations between departments.

**B. OTHER ACCOUNTING DISCLOSURES**

1. **Small and Minority-owned Business Assistance Program** – The Small and Minority-owned Business Assistance Program, administered by the State Treasurer, was established by *Chapter 830 of the Public Acts of 2004* to support the outreach to new, expanding, and existing businesses in Tennessee that do not have reasonable access to capital markets and traditional commercial lending facilities. The Fund is supported from funds remaining in the former Small and Minority-owned Telecommunications Business Assistance Program Fund, and interest income earned on the Fund. Payments are made in support of the assistance program for small and minority-owned businesses, and may include loans and loan guarantees, technical assistance and services, and consulting and educational services.

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**SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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2. **Receivables** – The long-term loan receivables on the Balance Sheets represent outstanding loans made to qualified organizations under the provisions of the Small and Minority-owned Business Assistance Program. The amount of receivables is shown net of allowance for doubtful accounts of \$302,697 at June 30, 2010 and \$331,489 at June 30, 2009. This allowance is comprised of loan balances that have been deemed uncollectible by the administrator of the program.
  
3. **Reserves** – The reserve for loans includes funds on loan to qualified organizations under the provisions of the program.

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**STATE POOLED INVESTMENT FUND  
INDEPENDENT AUDITOR'S REPORT**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT / DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897 / FAX (615) 532-2765

March 28, 2011

Members of the General Assembly,  
Members of the State Funding Board and  
The Honorable David H. Lillard, Jr., Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of fiduciary net assets of the State Pooled Investment Fund as of June 30, 2010, and June 30, 2009, and the related statements of changes in fiduciary net assets 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the State Funding Board. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the State Pooled Investment Fund.

As discussed in Note A.1., the financial statements referred to above present only the State Pooled Investment Fund of the State of Tennessee and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State Pooled Investment Fund of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated March 28, 2011, on our consideration of the State Pooled Investment Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

**STATE POOLED INVESTMENT FUND  
STATEMENTS OF FIDUCIARY NET ASSETS  
JUNE 30, 2010 AND JUNE 30, 2009**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$3,866,080,256	\$ 2,610,586,955
Short-term investments, at amortized cost	3,037,073,936	4,868,091,306
Accrued income receivable	2,811,909	7,786,502
<b>TOTAL ASSETS</b>	<u>6,905,966,101</u>	<u>7,486,464,763</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS</b>	<u>\$ 6,905,966,101</u>	<u>\$ 7,486,464,763</u>

See accompanying Notes to the Financial Statements.

**STATE POOLED INVESTMENT FUND  
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	<u>For the Year Ended June 30, 2010</u>	<u>For the Year Ended June 30, 2009</u>
<b>OPERATIONS</b>		
Investment income	\$ 26,965,391	\$ 119,870,570
Expenses		
Administrative fee	3,386,571	3,627,813
Custodian and banking services fees	256,744	219,916
Total expenses	<u>3,643,315</u>	<u>3,847,729</u>
<b>NET INVESTMENT INCOME</b>	<u>23,322,076</u>	<u>116,022,841</u>
<b>CAPITAL SHARE TRANSACTIONS (DOLLAR AMOUNTS AND NUMBER OF SHARES ARE THE SAME)</b>		
Shares sold	35,065,352,181	35,895,520,509
Less shares redeemed	<u>35,669,172,919</u>	<u>37,121,892,525</u>
<b>INCREASE (DECREASE) FROM CAPITAL SHARE TRANSACTIONS</b>	<u>(603,820,738)</u>	<u>(1,226,372,016)</u>
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	<u>(580,498,662)</u>	<u>(1,110,349,175)</u>
<b>NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS</b>		
<b>BEGINNING OF YEAR</b>	<u>7,486,464,763</u>	<u>8,596,813,938</u>
<b>END OF YEAR</b>	<u>\$ 6,905,966,101</u>	<u>\$ 7,486,464,763</u>

See accompanying Notes to the Financial Statements.

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**STATE POOLED INVESTMENT FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. **Reporting Entity** – The State Pooled Investment Fund (SPIF) is an external investment pool sponsored by the State of Tennessee. The external portion of the State Pooled Investment Fund, consisting of funds belonging to entities outside of the State of Tennessee Financial Reporting Entity, has been included as a separate investment trust fund in the *Tennessee Comprehensive Annual Financial Report*. The internal portion, consisting of funds belonging to the State and its component units, has been included in the various participating funds and component units in the *Tennessee Comprehensive Annual Financial Report*.
2. **Measurement Focus and Basis of Accounting** – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
3. **Cash and Cash Equivalents** – This classification includes deposits in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by the State.
4. **Method Used to Report Investments and Participant Shares** – The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board of the State of Tennessee (Funding Board), operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal years ended June 30, 2010 and June 30, 2009, the State had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

**B. DEPOSITS AND INVESTMENTS**

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and securities lending agreements whereby securities may be loaned for a fee. Investments in derivative type securities and investments of high risk are prohibited.

At June 30, 2010 and June 30, 2009, the principal amount of certificates of deposit in state depositories was \$992,950,000 and \$2,536,800,000 respectively. Interest rates on certificates of deposit held at June 30, 2010 ranged from 0.30% to 0.50% and at June 30, 2009 ranged from 0.25% to 1.70%. The days to maturity on certificates of deposit ranged from 7 to 275 days at June 30, 2010 and 7 to 300 days at June 30, 2009.

As of June 30, 2010 and June 30, 2009, the SPIF had the following investments:

(CONTINUED)

**STATE POOLED INVESTMENT FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

June 30, 2010								
Investment Type	Carrying Amount	Fair Value	Par Value	Interest Rate Range	Days to Maturity	Carrying Amount Credit Quality Ratings		
						AAA	A1 (1)	Not Rated (2)
Cash Equivalents and Short-term Investments:								
U.S. Government Agencies	\$3,899,062,238	\$3,900,216,109	\$3,899,314,079	0.00% - 1.75%	7 to 397	\$1,233,666,647		\$2,665,395,591
Commercial Paper	1,025,637,933	1,025,637,933	1,025,700,000	0.01% - 0.33%	1 - 43		\$1,025,637,933	
Total Cash Equivalents and Short-term Investments	4,924,700,171	\$4,925,854,042	\$4,925,014,079			\$1,233,666,647	\$1,025,637,933	\$2,665,395,591
Less: short-term investments classified as cash equivalents on Statement of Fiduciary Net Assets	(2,408,076,235)	(1) A1 is the highest rating category for commercial paper.						
Add: certificates of deposit classified as short-term investments on Statement of Fiduciary Net Assets	520,450,000	(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.						
Short-term investments as shown on Statement of Fiduciary Net Assets	\$3,037,073,936							

June 30, 2009								
Investment Type	Carrying Amount	Fair Value	Par Value	Interest Rate Range	Days to Maturity	Carrying Amount Credit Quality Ratings		
						AAA	A1 (1)	Not Rated (2)
Cash Equivalents and Short-term Investments:								
U.S. Government Agencies	\$3,049,642,741	\$3,052,552,597	\$3,053,195,000	0.00% - 4.25%	27 - 391	\$1,186,123,919		\$1,863,518,822
Commercial Paper	1,797,928,937	1,797,928,937	1,798,000,000	0.10% - 0.55%	1 - 45		\$1,797,928,937	
Total Cash Equivalents and Short-term Investments	\$4,847,571,678	\$4,850,481,534	\$4,851,195,000			\$1,186,123,919	\$1,797,928,937	\$1,863,518,822
Less: short-term investments classified as cash equivalents on Statement of Fiduciary Net Assets	(1,965,280,372)	(1) A1 is the highest rating category for commercial paper.						
Add: certificates of deposit classified as short-term investments on Statement of Fiduciary Net Assets	1,985,800,000	(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.						
Short-term investments as shown on Statement of Fiduciary Net Assets	\$4,868,091,306							

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the SPIF's investments in debt securities as of June 30, 2010 and June 30, 2009 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The SPIF's investment policy requires a AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States

(CONTINUED)

**STATE POOLED INVESTMENT FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

**Concentration of Credit Risk** – A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. An objective stated in the SPIF's investment policy is that the investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Acquisitions are monitored by policy to assure that no more than twenty percent (20%) of the book value of the pool, at the date of acquisition, is invested in a single United States government agency security and that such acquisition does not cause the SPIF's aggregate United States government agency holdings to exceed fifty percent (50%) of the total book value of the pool on such date. The limit for this investment type was forty percent (40%) until an investment policy change on March 24, 2009. In addition, the SPIF's investment policy limits the book value of prime banker's acceptances to five percent (5%) of the total book value of the pool and limits such investments in any one commercial bank to the lesser of five percent (5%) of the portfolio's book value or \$25 million. Prime commercial paper investments are limited to five percent (5%) of the total portfolio book value invested in any one single issuing corporation and the total holdings of an issuer's paper should not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper, with the maximum amount of a specific corporation's commercial paper limited to \$100 million, not including commercial paper maturing on the next business day. Prime commercial paper shall not exceed forty percent (40%) of the total pool's book value. The SPIF had the following investment amounts and percentages of total investments, in organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

<b>June 30, 2010</b>		
<b>Issuer Organization</b>	<b>Carrying Amount</b>	<b>Percentage of Total Investments</b>
Federal Home Loan Banks	\$ 1,113,578,846	22.61%
Federal National Mortgage Association	878,799,804	17.84%
Federal Farmers Credit Banks	700,023,477	14.21%
Federal Home Loan Mortgage Corporation	486,678,428	9.88%
BNP	349,999,708	7.11%
General Electric	299,987,056	6.09%

<b>June 30, 2009</b>		
<b>Issuer Organization</b>	<b>Carrying Amount</b>	<b>Percentage of Total Investments</b>
Federal Home Loan Banks	\$ 993,384,751	20.49%
Federal National Mortgage Association	889,114,687	18.34%
Federal Home Loan Mortgage Corporation	770,691,570	15.90%
Federal Farmers Credit Banks	396,451,733	8.18%
Toyota	374,992,875	7.74%
Citigroup	374,989,951	7.74%
HSBC	374,983,563	7.74%
General Electric	299,988,847	6.19%

(CONTINUED)

**STATE POOLED INVESTMENT FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

**Interest Rate Risk** – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the dollar weighted average maturity of the pool shall not exceed ninety (90) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety seven (397) calendar days. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than one-half percent (0.5%) from amortized cost. If it does, actions may include, but not be limited to, selling securities whose market value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Agency variable rate notes are permitted by investment policy provided they are indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates. Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days.

As of June 30, 2010 and June 30, 2009, the SPIF portfolio had the following weighted average maturities on debt investments:

June 30, 2010		
Investment Type	Carrying Amount	Weighted Average Maturity (Months)
U.S. Government Agencies	\$3,899,062,238	4.27
Commercial Paper	1,025,637,933	0.17
Aggregate Portfolio	\$4,924,700,171	3.42

June 30, 2009		
Investment Type	Carrying Amount	Weighted Average Maturity (Months)
U.S. Government Agencies	\$3,049,642,741	4.73
Commercial Paper	1,797,928,937	0.20
Aggregate Portfolio	\$4,847,571,678	3.05

**C. OTHER ACCOUNTING DISCLOSURES**

**Description of the State Pooled Investment Fund** – The State Pooled Investment Fund is established by *Tennessee Code Annotated, Section 9-4-603* "for the purpose of receiving and investing any money in the custody of any officer or officers of the state unless prohibited by statute to be invested." Participants in the SPIF include the general fund of the State and any department or agency of the State which is required by court order, contract, state or federal law or federal regulation to receive interest on invested funds and which are authorized by the State Treasurer to participate in the SPIF. In addition, funds in the State of Tennessee Local Government Investment Pool (LGIP) are consolidated with the SPIF for investment purposes only. The SPIF, as noted in A.4 above, is not registered as an investment company with the SEC. The primary oversight responsibility for the investment and operations of the SPIF rests with the Funding Board.

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**STATE POOLED INVESTMENT FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009**

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Investment in the SPIF by local governments and certain state agencies is optional and participants may invest any amount for any length of time in the SPIF. However, some deposits made to the LGIP are contractually required and committed to the State Department of Transportation (DOT). The only withdrawals allowed from these accounts are to pay the DOT in accordance with progress billings for construction projects contracted between the entity and the DOT.

An average rate of return is calculated on the investments made each month in the SPIF and is used to credit earnings to LGIP participants and the State departments and agencies required to earn interest. The State's general fund is credited with the residual earnings. Accordingly, participants' shares are sold and redeemed at a value equal to the amount of the principal plus accrued earnings while investments are reported at amortized cost. For the fiscal years ending June 30, 2010 and June 30, 2009, an administrative fee of .05 percent was charged against each participant's average daily balance to provide funding for administrative expenses to operate the SPIF.



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# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM INDEPENDENT AUDITOR'S REPORT

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT / DIVISION OF STATE AUDIT  
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897 / FAX (615) 532-2765

December 22, 2010

Members of the General Assembly,  
Members of the Board of Trustees  
Tennessee Consolidated Retirement System and  
The Honorable David H. Lillard, Jr., Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2010, and June 30, 2009, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Tennessee Consolidated Retirement 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 the 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Consolidated Retirement System.

As discussed in Note A.1., the financial statements present only the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2010, and June 30, 2009, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A.5., during the year ended June 30, 2010, the Tennessee Consolidated Retirement System implemented Governmental Accounting Standards Board Statement 53, Accounting and Financial Reporting for Derivative Instruments.

The management's discussion and analysis and the schedules of funding progress and employer contributions on pages 104 through 109 and 126 through 127 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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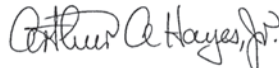
December 22, 2010

Page Two

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The actuarial balance sheet on page 128 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 22, 2010, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA  
Director

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## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009

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The Management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal years ended June 30, 2010 and June 30, 2009. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

### FINANCIAL HIGHLIGHTS

- The plan net assets (total assets minus total liabilities) of the TCRS at June 30, 2010 were \$28.6 billion, increasing nearly \$2.2 billion (8.4 percent) from the plan net assets at June 30, 2009. The net assets are held in trust to meet future benefit obligations.
- The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2009, the date of the latest actuarial valuation, the TCRS' funded ratio was 90.6 percent for the SETHEEPP group and 86.3 percent for the PSPP group.
- Contribution revenue for fiscal year 2010 totaled \$1,091,776,287 an increase of .1 percent compared to fiscal year 2009.
- Net investment income for fiscal year 2010 was \$2,692,345,919. During fiscal year 2010, the TCRS received an investment return on its portfolio of 10.24 percent, compared to (15.27) percent for fiscal year 2009.
- Total benefits and refunds paid for fiscal year 2010 were \$1,571,610,009 - an increase of 5.5 percent over fiscal year 2009 total benefits and refunds paid of \$1,489,685,109.
- Total administrative expenses for fiscal year 2010 were \$7,542,822 - a 4.7 percent increase over fiscal year 2009 administrative expenses of \$7,202,572.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the Statement of Plan Net Assets (on pages 110 through 111), the Statement of Changes in Plan Net Assets (on pages 112 through 113), and the Notes to the Financial Statements (on pages 114 through 125). In addition, Required Supplementary Information is presented, which includes this Management's Discussion and Analysis, as well as the schedules on pages 126 through 127.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about the plan net assets (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in those plan net assets during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the Statement of Plan Net Assets, or net assets held in trust for pension benefits, provides a measurement of the financial position of the TCRS as of the end of the fiscal year. The Statement of Changes in Plan Net Assets provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the plan net assets of the TCRS are one indicator of whether the system's financial health is improving or deteriorating.

In addition to the two basic financial statements, the reader should also review the Schedules of Funding Progress and the Schedules of Employer Contributions to gain an understanding of the funded status of the TCRS over time. This information provides an indication of the TCRS' ability to meet both current and future benefit payment

(CONTINUED)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

obligations. The Notes to the Financial Statements are also essential to the reader's understanding of the financial statements and provide additional information regarding the TCRS, such as descriptions of the plans administered by the TCRS, including contribution and benefit provisions, and information about the accounting policies and investment activities.

**ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET ASSETS**

At June 30, 2010, the TCRS had plan net assets (total assets in excess of total liabilities) of \$28.6 billion, an increase of nearly \$2.2 billion (8.4 percent) from \$26.4 billion at June 30, 2009, following the fiscal year 2009 decrease of over \$5.3 billion (16.6 percent) from the \$31.6 billion of plan net assets as of June 30, 2008. The assets of the TCRS consist primarily of investments. The increase in plan assets is primarily the result of strong investment returns in equity and fixed income markets. Condensed financial information comparing the TCRS' plan net assets for the past three fiscal years follows.

**PLAN NET ASSETS**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>FY10 - FY09 Percentage Change</b>	<b>June 30, 2008</b>	<b>FY09 - FY08 Percentage Change</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 438,269,286	\$ 1,267,296,450	(65.4) %	\$ 358,321,692	253.7 %
Member and employer receivables	89,310,527	74,112,021	20.5 %	86,041,851	(13.9) %
Investment receivables	2,000,061,173	1,373,061,675	45.7 %	376,428,540	264.8 %
Short-term securities	0	391,283,896	(100.0) %	49,997,750	682.6 %
Long-term investments	<u>27,911,282,071</u>	<u>24,664,493,110</u>	13.2 %	<u>31,015,208,805</u>	(20.5) %
<b>TOTAL ASSETS</b>	<u><u>30,438,923,057</u></u>	<u><u>27,770,247,152</u></u>	9.6 %	<u><u>31,885,998,638</u></u>	(12.9) %
<b>LIABILITIES</b>					
Death benefits, refunds and other payables	8,205,512	7,364,733	11.4 %	1,591,252	362.8 %
Investment payables	<u>1,856,522,455</u>	<u>1,393,656,704</u>	33.2 %	<u>250,277,904</u>	456.8 %
<b>TOTAL LIABILITIES</b>	<u><u>1,864,727,967</u></u>	<u><u>1,401,021,437</u></u>	33.1 %	<u><u>251,869,156</u></u>	456.2 %
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u><u>\$ 28,574,195,090</u></u>	<u><u>\$ 26,369,225,715</u></u>	8.4 %	<u><u>\$ 31,634,129,482</u></u>	(16.6) %

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

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**ANALYSIS OF REVENUES AND EXPENSES**

While contributions to TCRS had a slight increase of \$1.3 million (.1 percent) over contributions for fiscal year 2009, a significant increase of \$7.6 billion (155.4 percent) in investment income resulted in the overall increase in revenues for 2010 of 200.4 percent compared to revenues for fiscal year 2009. Employer contribution rates did not change in fiscal year 2010; therefore, the small increase in contributions can be attributed to increased salaries. Employer contribution rates for the TCRS changed during fiscal year 2009 leading to an increase in contributions of \$6.4 million (.6 percent) over contributions for fiscal year 2008.

Investment expenses for fiscal year 2010 increased \$7,522,165 (35.3 percent) due to the market appreciation in the externally-managed assets in 2010 and their partial recovery from the decrease of \$3,254,164 in fiscal year 2009. Improved market conditions in fiscal year 2010 resulted in an overall gain to the TCRS investment portfolio of 10.24 percent and net investment income of \$2.7 billion from fiscal year 2009. Net investment loss for fiscal year 2009 was \$4.8 billion due to the unfavorable market conditions which resulted in an overall decline in revenues for 2009 of over 676 percent compared to revenues for fiscal year 2008 and resulted in an overall loss to the TCRS investment portfolio of 15.27 percent for fiscal year 2009, compared to a loss of 1.2 percent and negative investment income of \$430.1 million for fiscal year 2008.

Total benefits and refunds paid during the year ended June 30, 2010 were \$1,571,610,009, an increase of 5.5 percent over fiscal year 2009 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2009 were \$1,489,685,109, an increase of 8.0 percent over fiscal year 2008 total benefits and refunds paid. The increase in benefit expenses for fiscal year 2010 is attributed to more retirees being added to payroll than removed during this fiscal year. The increase in benefit and refund expenses in fiscal year 2009 can be attributed to 3.0 percent in cost of living adjustments awarded to retirees on July 1, 2008, as well as, more retirees being added to payroll than removed during this fiscal year. Total refunds paid increased \$4.4 million (13.7 percent) in fiscal year 2010 over fiscal year 2009 and can be attributed to the weak economy where more terminated members are choosing to withdraw from the system instead of leaving the funds invested. The large 30.4 percent decrease of \$13.9 million in refunds paid in fiscal year 2009 over fiscal year 2008 is attributed to a large employer withdrawing from the plan in fiscal year 2008 and taking a refund of their assets.

In addition, administrative expenses for the year ended June 30, 2010 were \$7,542,822, an increase of 4.7 percent over fiscal year 2009 administrative expenses. This increase was primarily due to the additional expense of the biennial actuarial study performed in fiscal year 2010. Administrative expenses for the year ended June 30, 2009 were \$7,202,572, an increase of less than one percent over fiscal year 2008 administrative expenses.

Condensed financial information comparing the TCRS' revenues and expenses for the past three fiscal years follows.

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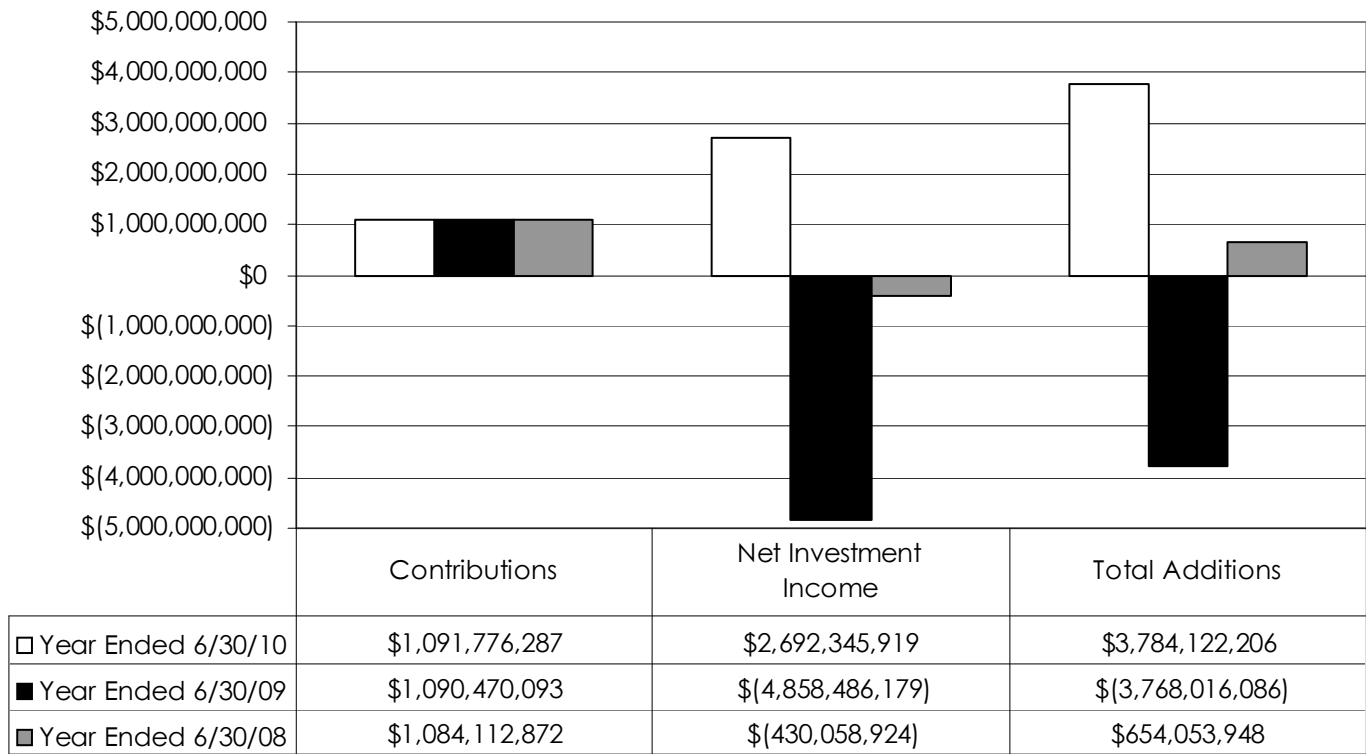
**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

**CHANGES IN PLAN NET ASSETS**

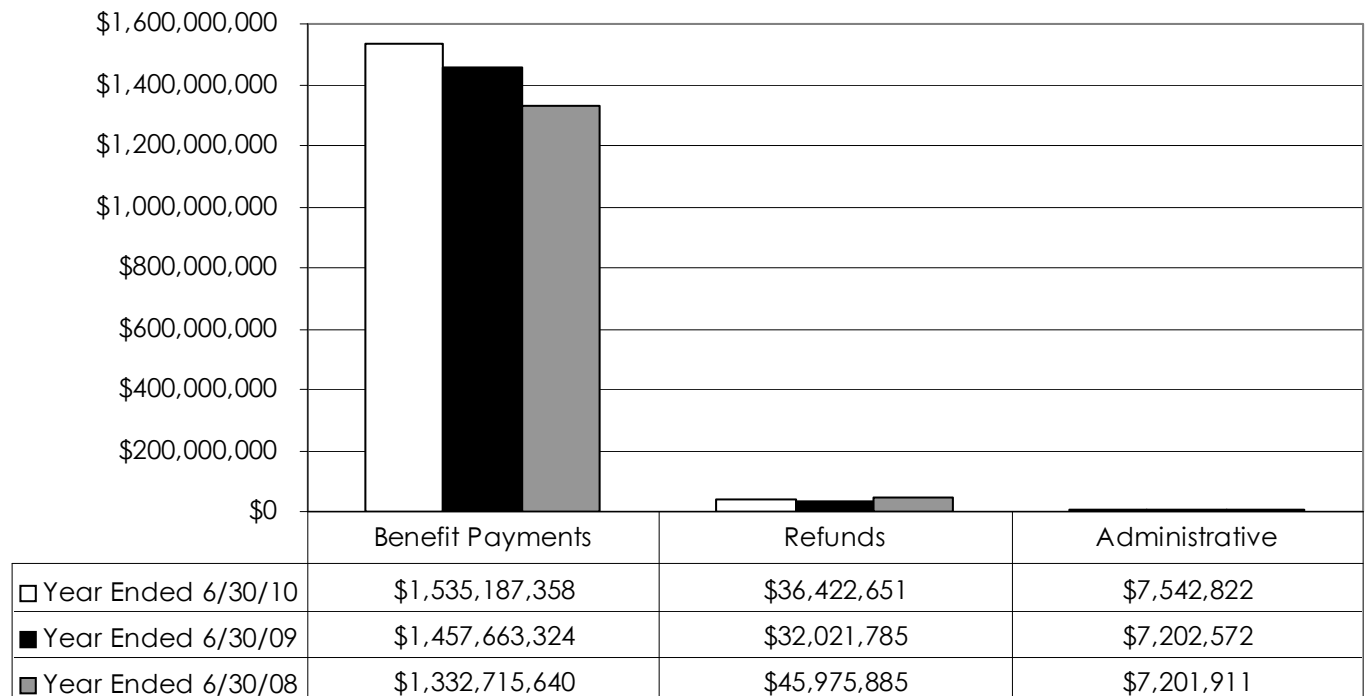
	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009	FY10 - FY09 Percentage Change	For the Year Ended June 30, 2008	FY09 - FY08 Percentage Change
<b>ADDITIONS</b>					
Contributions	\$ 1,091,776,287	\$ 1,090,470,093	0.1 %	\$ 1,084,112,872	0.6 %
Investment income					
Net appreciation (depreciation) in fair value of investments	1,802,314,559	(5,855,240,629)	130.8 %	(1,574,090,230)	(272.0) %
Interest, dividends and other investment income	918,842,338	1,018,043,263	(9.7) %	1,168,574,283	(12.9) %
Less: Investment expense	(28,810,978)	(21,288,813)	35.3 %	(24,542,977)	(13.3) %
Net investment income	2,692,345,919	(4,858,486,179)	155.4 %	(430,058,924)	(1,029.7) %
<b>TOTAL ADDITIONS</b>	<b>3,784,122,206</b>	<b>(3,768,016,086)</b>	<b>200.4 %</b>	<b>654,053,948</b>	<b>(676.1) %</b>
<b>DEDUCTIONS</b>					
Annuity benefits					
Retirement benefits	1,164,713,725	1,083,753,159	7.5 %	993,293,429	9.1 %
Survivor benefits	71,380,041	66,732,833	7.0 %	62,811,272	6.2 %
Disability benefits	30,500,247	29,607,231	3.0 %	28,128,249	5.3 %
Cost of living	261,479,337	271,845,658	(3.8) %	243,575,211	11.6 %
Death benefits	7,114,008	5,724,443	24.3 %	4,907,479	16.6 %
Refunds	36,422,651	32,021,785	13.7 %	45,975,885	(30.4) %
Administrative expenses	7,542,822	7,202,572	4.7 %	7,201,911	0.0 %
<b>TOTAL DEDUCTIONS</b>	<b>1,579,152,831</b>	<b>1,496,887,681</b>	<b>5.5 %</b>	<b>1,385,893,436</b>	<b>8.0 %</b>
<b>NET INCREASE (DECREASE)</b>	<b>2,204,969,375</b>	<b>(5,264,903,767)</b>	<b>141.9 %</b>	<b>(731,839,488)</b>	<b>(619.4) %</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>					
<b>BEGINNING OF YEAR</b>	<b>26,369,225,715</b>	<b>31,634,129,482</b>	<b>(16.6) %</b>	<b>32,365,968,970</b>	<b>(2.3) %</b>
<b>END OF YEAR</b>	<b>\$ 28,574,195,090</b>	<b>\$ 26,369,225,715</b>	<b>8.4 %</b>	<b>\$ 31,634,129,482</b>	<b>(16.6) %</b>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

**REVENUES BY TYPE**



**EXPENSES BY TYPE**



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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

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**ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK**

For the year ended June 30, 2010, the portfolio enjoyed strong performance from all major asset classes. The domestic equity portfolio generated 13.73 percent rebounding from a loss of 27.11 percent in the prior year. The S&P 1500 index, TCRS' domestic equity benchmark, reported a gain of 15.56 percent following a loss of 26.34 percent for the fiscal year ended June 30, 2009. Likewise, the international stock portfolio gained 9.73 percent for the year following a loss of 30.63 percent for the year ended June 30, 2009. The international equity market, as represented by the EAFE IMI index, reported a loss of 30.71 percent in the fiscal year ended June 30, 2009 followed by a gain of 6.63 percent in the fiscal year ended June 30, 2010. The domestic bond market, as measured by the Citigroup Broad Investment Grade Index had a positive return of 7.04 percent for the year ended June 30, 2009 followed by a gain of 9.03 percent in the year ended June 30, 2010. The domestic fixed income portfolio earned 2.07 percent for fiscal year 2009 followed by a gain of 13.89 percent for fiscal 2010. Fixed income performance enjoyed a solid relative gain driven by the rebound in relatively risky fixed income securities. The real estate portfolio suffered a loss of 16.33 percent for the 2010 fiscal year which followed a loss of 10.74 percent in fiscal year 2009. The real estate portfolio lost 5.64 percent for the three years ending fiscal year 2010 compared with a loss of 4.32 percent for the NCREIF index return.

Equity and fixed income markets rebounded strongly in fiscal year 2010 which was a continuation of the overall improvement that occurred after March 2009. Overall the environment is characterized by significant signs of cyclical economic improvement somewhat offset by continuing deflationary pressures resulting from declining levels of private sector debt levels. While the overall economic and market outlook has improved, significant questions remain about the vitality and durability of the current rebound.

An actuarial valuation was performed as of July 1, 2009. The employer contribution rates determined in this valuation were effective July 1, 2010. The required contributions to the plan increased primarily due to investment returns and mortality improvements.

**CONTACTING THE TCRS**

This report is designed to provide a financial overview of the TCRS to state legislators, members of the Board of Trustees of the TCRS, state officials, participating employers and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Treasury Department, Consolidated Retirement System, 502 Deaderick Street, Nashville, TN 37243-0201.



**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET ASSETS**  
**JUNE 30, 2010 AND JUNE 30, 2009**

*Expressed in Thousands*

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 362,240	\$ 76,029
Receivables		
Member receivable	22,006	4,957
Employer receivable	43,752	18,596
Accrued interest receivable	88,666	18,610
Accrued dividends receivable	25,731	5,400
Real estate income receivable	75	16
Derivative instruments receivable	557,809	117,075
Investments sold	980,820	205,859
Total receivables	<u>1,718,859</u>	<u>370,513</u>
Investments, at fair value		
Short-term securities	0	0
Government securities	7,142,965	1,499,198
Corporate securities	4,406,274	924,808
Corporate stocks	10,690,206	2,243,709
Derivative instruments	3,524	740
Private equities	21,996	4,617
Real estate	804,412	168,833
Total investments	<u>23,069,377</u>	<u>4,841,905</u>
<b>TOTAL ASSETS</b>	<u>25,150,476</u>	<u>5,288,447</u>
<b>LIABILITIES</b>		
Accounts payable		
Death benefits and refunds payable	1,000	792
Retiree insurance premium payable	5,137	1,078
Other	198	0
Investments purchased	969,207	203,422
Derivative instruments payable	560,589	117,659
Other investment payables	<u>4,667</u>	<u>979</u>
<b>TOTAL LIABILITIES</b>	<u>1,540,798</u>	<u>323,930</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$23,609,678</u>	<u>\$4,964,517</u>

See accompanying Notes to the Financial Statements.

(CONTINUED)

June 30, 2010 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2009 Total
<u>\$ 438,269</u>	<u>\$ 1,055,329</u>	<u>\$ 211,967</u>	<u>\$ 1,267,296</u>
26,963	19,308	4,544	23,852
62,348	32,444	17,816	50,260
107,276	92,607	18,601	111,208
31,131	24,654	4,952	29,606
91	223	45	268
674,884	836,535	168,022	1,004,557
<u>1,186,679</u>	<u>189,385</u>	<u>38,038</u>	<u>227,423</u>
<u>2,089,372</u>	<u>1,195,156</u>	<u>252,018</u>	<u>1,447,174</u>
0	325,838	65,446	391,284
8,642,163	6,287,715	1,262,913	7,550,628
5,331,082	4,624,271	928,804	5,553,075
12,933,915	8,629,509	1,733,273	10,362,782
4,264	0	0	0
26,613	0	0	0
973,245	997,630	200,378	1,198,008
<u>27,911,282</u>	<u>20,864,963</u>	<u>4,190,814</u>	<u>25,055,777</u>
<u>30,438,923</u>	<u>23,115,448</u>	<u>4,654,799</u>	<u>27,770,247</u>
1,792	1,293	281	1,574
6,215	4,598	923	5,521
198	270	0	270
1,172,629	257,079	51,636	308,715
678,248	899,421	180,652	1,080,073
<u>5,646</u>	<u>4,054</u>	<u>814</u>	<u>4,868</u>
<u>1,864,728</u>	<u>1,166,715</u>	<u>234,306</u>	<u>1,401,021</u>
<u>\$ 28,574,195</u>	<u>\$ 21,948,733</u>	<u>\$ 4,420,493</u>	<u>\$ 26,369,226</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
STATEMENTS OF CHANGES IN PLAN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

*Expressed in Thousands*

	<b>State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)</b>	<b>Political Subdivisions Pension Plan (PSPP)</b>
<b>ADDITIONS</b>		
Contributions		
Member contributions	\$ 190,635	\$ 64,414
Employer contributions	578,403	258,324
Total contributions	<u>769,038</u>	<u>322,738</u>
Investment income		
Net appreciation (depreciation) in fair value of investments	1,494,405	307,909
Interest	482,315	99,369
Dividends	226,610	46,687
Real estate income, net of operating expenses	52,952	10,910
Total investment income	<u>2,256,282</u>	<u>464,875</u>
Less: Investment expense	<u>(23,877)</u>	<u>(4,934)</u>
Net investment income	<u>2,232,405</u>	<u>459,941</u>
<b>TOTAL ADDITIONS</b>	<u>3,001,443</u>	<u>782,679</u>
<b>DEDUCTIONS</b>		
Annuity benefits		
Retirement benefits	994,439	170,275
Survivor benefits	60,945	10,435
Disability benefits	26,041	4,459
Cost of living	231,084	30,395
Death benefits	4,694	2,420
Refunds	19,371	17,052
Administrative expense	3,924	3,619
<b>TOTAL DEDUCTIONS</b>	<u>1,340,498</u>	<u>238,655</u>
<b>NET INCREASE (DECREASE)</b>	1,660,945	544,024
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
BEGINNING OF YEAR	<u>21,948,733</u>	<u>4,420,493</u>
END OF YEAR	<u>\$23,609,678</u>	<u>\$4,964,517</u>

See accompanying Notes to the Financial Statements.

(CONTINUED)

For the Year Ended June 30, 2010 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2009 Total
\$ 255,049	\$ 185,729	\$ 67,830	\$ 253,559
836,727	583,985	252,926	836,911
<u>1,091,776</u>	<u>769,714</u>	<u>320,756</u>	<u>1,090,470</u>
1,802,314	(4,892,001)	(963,239)	(5,855,240)
581,684	530,229	104,403	634,632
273,297	263,105	51,806	314,911
63,862	57,232	11,268	68,500
<u>2,721,157</u>	<u>(4,041,435)</u>	<u>(795,762)</u>	<u>(4,837,197)</u>
(28,811)	(17,787)	(3,502)	(21,289)
<u>2,692,346</u>	<u>(4,059,222)</u>	<u>(799,264)</u>	<u>(4,858,486)</u>
<u>3,784,122</u>	<u>(3,289,508)</u>	<u>(478,508)</u>	<u>(3,768,016)</u>
1,164,714	927,977	155,776	1,083,753
71,380	57,141	9,592	66,733
30,500	25,351	4,256	29,607
261,479	240,293	31,553	271,846
7,114	4,062	1,662	5,724
36,423	16,503	15,519	32,022
7,543	3,616	3,586	7,202
<u>1,579,153</u>	<u>1,274,943</u>	<u>221,944</u>	<u>1,496,887</u>
2,204,969	(4,564,451)	(700,452)	(5,264,903)
26,369,226	26,513,184	5,120,945	31,634,129
<u>\$ 28,574,195</u>	<u>\$ 21,948,733</u>	<u>\$ 4,420,493</u>	<u>\$ 26,369,226</u>

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND JUNE 30, 2009**

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The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEPP) and Political Subdivisions Pension Plan (PSPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan, in accordance with the terms of the plan.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- 1. Reporting Entity** – The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.
- 2. Measurement Focus and Basis of Accounting** – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

- 3. Cash and Cash Equivalents** – Cash and cash equivalents, by definition, include cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
- 4. Method Used to Value Investments** – Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of private equity investments is determined by the fund managers using various methodologies as applicable under Generally Accepted Accounting Principles. In many cases, these valuations are additionally reviewed by advisory boards comprised of a subgroup of the fund's investors. These valuations are audited on an annual basis by independent accounting firms engaged by the private equity fund managers. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.
- 5. Reclassification** – Foreign currency receivable of \$1,004,557,401 and foreign currency payable of \$1,080,072,824 have been reclassified as derivative instruments receivable and derivative instruments payable on the June 30, 2009 statement of plan net assets. In addition, \$24,884,347.64 total (\$20,722,206.50 - SETHEPP and \$4,162,141.14 - PSPP) has been moved from foreign currency receivable and foreign currency payable to investments sold and investments purchased in accordance with the implementation of GASB 53 - Accounting and Financial Reporting for Derivative Instruments. This amount

(CONTINUED)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

is the notional value of spot currency exchange contracts that were outstanding at June 30, 2009 which do not meet the definition of a derivative.

**B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION**

At July 1, 2009, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	76,955	30,920
Terminated members entitled to but not receiving benefits	21,577	8,823
Current active members	<u>136,147</u>	<u>78,803</u>
Total	234,679	118,546
Number of participating employers	140	482

**State Employees, Teachers and Higher Education Employees Pension Plan**

*Plan Description* – SETHEEPP is a cost-sharing, multiple employer defined benefit pension plan that covers the employees of the state, teachers with Local Education Agencies (LEA's) and higher education employees. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Compounded cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year except that (a) no COLA is granted if the CPI is less than one-half percent; (b) a COLA of 1 percent will be granted if the CPI increases between one-half percent and one percent; and (c) the maximum annual COLA is capped at three percent. Benefit provisions are established by state statute found in Title Eight, Chapters 34 through 37 of the Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Ad hoc increases may only be authorized by the General Assembly. Public safety officers receive an additional supplemental benefit that is paid from age 60 to age 62.

*Superseded Systems and Certain Employment Classifications* – Members of superseded systems that became members of the TCRS at consolidation in 1972, have their rights preserved to the benefits of the superseded system, if the benefit from the superseded plan exceeds that provided by the Group 1 (teachers and general employees) TCRS formula. Likewise, public safety employees and officials of TCRS Groups 2, 3 and 4 are entitled to the benefits of those formulas, if better than the Group 1 benefits.

*Contributions and Reserves* – Effective July 1, 1981, the plan became noncontributory for most state and higher education employees. The contribution rate for teachers is five percent of gross salary. The employers contribute a set percentage of their payrolls, determined by an actuarial valuation. Tennessee Code Annotated Title Eight, Chapter 37 provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state of Tennessee's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

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The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2010, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.62 billion and \$19.98 billion, respectively. At June 30, 2009, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.56 billion and \$18.39 billion, respectively.

**Political Subdivisions Pension Plan**

*Plan Description* – PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the state of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SETHEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEPP. Benefit provisions are established and amended by state statute. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

*Contributions and Reserves* – Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate for contributory employees of political subdivisions is five percent of gross salary. The employers contribute a set percentage of their payrolls, equal to at least, the percentage determined by an actuarial valuation. State statute provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2010, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.05 billion and \$3.91 billion, respectively. At June 30, 2009, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.01 billion and \$3.40 billion, respectively.

**C. DEPOSITS AND INVESTMENTS**

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies that are qualified as state depositories. The TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for the initial deposit of funds and for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

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by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

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

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed five percent (5 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic equity index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed five percent (5 percent) of the market value of total assets. Gross exposure to approved fixed income financial instruments will be limited to 10% of the market value of the System's total assets for risk mitigating positions and 10% for risk positions. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.

Changes were made to the statute relative to the investment guidelines for the TCRS during the 2008 legislative session and approved by the board of Trustees on September 30, 2008. Prior to these changes, the allowable real estate allocation was five percent (5 percent) and investment in private equities was not permitted. The authorization for derivative instruments was also expanded with allowable notional exposures of ten percent (10 percent) of the value of the fund for fixed income instruments and 10% for equity futures.

Title to real property invested in by the TCRS is held by real estate investment holding companies.

As of June 30, 2010 and June 30, 2009, the TCRS had the following investments:

(CONTINUED)



**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

**Investments  
(Expressed in Thousands)**

Investment Type	Fair Value As of June 30, 2010	U. S. Treasury/ Agency (1)	Credit Quality Ratings									
			AAA	AA	A	BBB	BB	B	CCC	CC	A1 (3)	Not Rated
<b>Debt Investments</b>												
U.S. Govt. Agencies	\$ 449,980											\$ 449,980 (2)
U.S. Govt. Inflation Indexed	2,331,362	\$ 2,331,362										
U.S. Govt. Treasuries, Notes, Bonds	1,280,095	1,270,056	\$ 10,039									
U. S. Govt. Asset Backed	141,172	141,172										
Municipal Bonds	104,066			\$ 42,709	\$ 61,357							
Govt. Mortgage Backed	3,227,126	511,824										2,715,302 (2)
Commercial Mortgage Backed	454,043		383,543	51,718	18,782							
Corporate CMO's	410,479		63,468				\$ 18,065	\$ 90,299	\$ 217,956	\$ 11,783		8,908
Corporate Bonds	3,480,681		103,873	403,578	1,057,367	\$ 1,717,864	142,240	33,999		414		21,346
Corporate Asset Backed	959,443		656,144	142,133	43,677	65,621			15,580			36,288
Non-U.S. Govt./Sovereign	1,108,361		441,896	595,060								71,405
Short-Term Commercial Paper	251,101										\$ 251,101	
Short-Term Agencies	160,997											160,997
<b>Total Debt Investments</b>	<b>\$ 14,358,906</b>	<b>\$ 4,254,414</b>	<b>\$ 1,658,963</b>	<b>\$ 1,235,198</b>	<b>\$ 1,181,183</b>	<b>\$ 1,783,485</b>	<b>\$ 160,305</b>	<b>\$ 124,298</b>	<b>\$ 233,536</b>	<b>\$ 12,197</b>	<b>\$ 251,101</b>	<b>\$ 3,464,226</b>
<b>Other Investments</b>												
U.S. Equity	\$ 8,780,486		(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.									
Non-U.S. Equity	4,179,865		(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.									
Derivatives	4,264		(3) A1 is the highest rating category for commercial paper.									
Real Estate	973,245											
Private Equities	26,613											
Commingled Money Market Funds	(204)											
<b>Total Other Investments</b>	<b>\$ 13,964,269</b>											
<b>Total Investments</b>	<b>\$ 28,323,175</b>											
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(411,893)											
<b>Total Investments as Shown on Statements of Plan Net Assets</b>	<b>\$ 27,911,282</b>											

Investment Type	Fair Value As of June 30, 2009	U. S. Treasury/ Agency (1)	Credit Quality Ratings									
			AAA	AA	A	BBB	BB	B	CCC	CC	A1 (3)	Not Rated
<b>Debt Investments</b>												
U.S. Govt. Agencies	\$ 530,395	\$ 13,525	\$ 431,244									\$ 85,626
U.S. Govt. Inflation Indexed	2,073,076	2,073,076										
U.S. Govt. Treasuries, Notes, Bonds	1,202,822	1,202,822										
Govt. Mortgage Backed	2,921,531	454,436										2,467,095 (2)
Commercial Mortgage Backed	792,148		762,591	\$ 29,557								
Corporate CMO's	462,296		53,299	9,312	\$ 22,978	\$ 50,310	\$ 38,440	\$ 117,731	\$ 140,579			29,647
Corporate Bonds	3,093,094		93,218	197,419	943,540	1,659,344	131,428	12,145	7,945			48,055
Corporate Asset Backed	1,172,806		984,998	92,868		63,954			10,867			20,119
Non-U.S. Govt./Sovereign	822,804		403,642	419,162								
Short-Term Commercial Paper	636,343										\$ 636,343	
Short-Term Agencies	995,296		200,792									794,504
<b>Total Debt Investments</b>	<b>\$ 14,702,611</b>	<b>\$ 3,743,859</b>	<b>\$ 2,929,784</b>	<b>\$ 748,318</b>	<b>\$ 966,518</b>	<b>\$ 1,773,608</b>	<b>\$ 169,868</b>	<b>\$ 129,876</b>	<b>\$ 159,391</b>	<b>\$ 0</b>	<b>\$ 636,343</b>	<b>\$ 3,445,046</b>
<b>Other Investments</b>												
U.S. Equity	\$ 7,342,606		(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.									
Non-U.S. Equity	3,052,908		(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.									
Real Estate	1,198,008		(3) A1 is the highest rating category for commercial paper.									
Commingled Money Market Funds	205											
<b>Total Other Investments</b>	<b>\$ 11,593,727</b>											
<b>Total Investments</b>	<b>\$ 26,296,338</b>											
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(1,240,561)											
<b>Total Investments as Shown on Statements of Plan Net Assets</b>	<b>\$ 25,055,777</b>											

(CONTINUED)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2010 and June 30, 2009 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted above, the TCRS does not utilize its own bank accounts, but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at <http://www.tn.gov/treasury/> or by calling (615) 741-2956.

**Concentration of Credit Risk** – AA concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TCRS had the following investment amounts and percentages of plan net assets, in organizations representing five percent or more of plan net assets, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

Issuer Organization	June 30, 2010		June 30, 2009	
	Fair Value	Percentage	Fair Value	Percentage
Federal National Mortgage Association	\$1,989,031,439	6.96%	\$1,933,810,560	7.33%

The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no specific investment policies that limit investment in any one issuer.

**Interest Rate Risk** – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2010 and June 30, 2009.

(CONTINUED)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

**Debt Investments**  
*(Expressed in Thousands)*

Investment Type	Fair Value As of June 30, 2010	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 526,862	5.29
Government Bonds	2,287,577	7.03
Government Inflation Indexed	2,331,362	4.13
Government Mortgage-Backed	3,227,126	1.93
Government Asset-Backed	141,172	5.75
Municipal Bonds	118,024	9.00
Collateralized Mortgage Obligations (CMO)	410,479	3.44
Commercial Mortgage-Backed	454,043	2.31
Corporate Asset-Backed Securities	959,443	0.55
Corporate Bonds	3,480,681	5.32
Guaranteed Fixed Income	10,039	0.25
Short-Term Commercial Paper	251,101	0.02
Short-Term Agencies	160,997	0.02
Total Debt Investments	\$ 14,358,906	4.05

Investment Type	Fair Value As of June 30, 2009	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 765,734	5.81
Government Bonds	1,790,287	7.90
Government Inflation Indexed	2,073,076	5.62
Government Mortgage-Backed	2,921,531	3.28
Corporate Collateralized Mortgage Obligations (CMO)	462,296	0.50
Corporate Commercial Mortgage-Backed	792,148	2.98
Corporate Asset-Backed Securities	1,172,806	2.27
Corporate Bonds	3,093,094	5.76
Short-Term Commercial Paper	636,343	0.00
Short-Term Agencies	995,296	0.17
Total Debt Investments	\$ 14,702,611	4.29

**Asset-Backed Securities** – The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2010 was \$864,521,465 of which \$510,179,228 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2009 was \$1,254,443,668 of which \$645,384,527 were CMOs that are generally more sensitive to interest rate changes.

(CONTINUED)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

**Foreign Currency Risk** – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS’ investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS’ exposure to foreign currency risk at June 30, 2010 and June 30, 2009 was as follows:

**Foreign Currency-Denominated Investments**  
(Expressed in Thousands)

Currency	Total Fair Value June 30, 2010	Fixed Income	Equity	Cash
Australian Dollar	\$ 211,803	\$ 13,958	\$ 195,247	\$ 2,598
British Pound Sterling	854,109	105,779	746,819	1,511
Canadian Dollar	377,014	118,842	257,339	833
Danish Krone	57,646	0	57,479	167
Euro Currency	1,144,340	263,623	853,859	26,858
Hong Kong Dollar	116,389	0	115,557	832
Japanese Yen	1,445,642	595,061	851,743	(1,162)
New Zealand Dollar	5,809	0	5,809	0
Norwegian Krone	56,697	11,098	45,273	326
Singapore Dollar	58,583	0	57,470	1,113
Swedish Krona	67,405	0	67,393	12
Swiss Franc	241,077	0	240,991	86
<b>Total</b>	<b>\$ 4,636,514</b>	<b>\$ 1,108,361</b>	<b>\$ 3,494,979</b>	<b>\$ 33,174</b>

Currency	Total Fair Value June 30, 2009	Fixed Income	Equity	Cash
Australian Dollar	\$ 150,953	\$ 0	\$ 149,334	\$ 1,619
British Pound Sterling	694,406	96,355	595,414	2,637
Canadian Dollar	30,217	0	30,208	9
Danish Krone	32,296	0	32,282	14
Euro Currency	999,083	227,493	762,476	9,114
Hong Kong Dollar	88,179	0	88,017	162
Japanese Yen	1,168,096	432,965	729,820	5,311
New Zealand Dollar	6,536	0	6,536	0
Norwegian Krone	40,241	5,841	33,816	584
Singapore Dollar	35,648	0	34,649	999
Swedish Krona	53,054	0	53,040	14
Swiss Franc	237,098	0	237,073	25
<b>Total</b>	<b>\$ 3,535,807</b>	<b>\$ 762,654</b>	<b>\$ 2,752,665</b>	<b>\$ 20,488</b>

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

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**Derivatives** – The TCRS may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. At June 30, 2010, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value. As of June 30, 2009, the TCRS was not under any futures contracts.

The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. Forward currency forward contracts expose the TCRS to foreign currency risk as they are denominated in foreign currency. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into agreements to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for the mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in these derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included as investment income on the statement. The TCRS did have option contract activity during the year ending June 30, 2010; however, there were no option contracts outstanding at June 30, 2010 or June 30, 2009.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010 and June 30, 2009, classified by type, and the changes in fair value of such derivative instruments for the year ended as reported in the financial statements are as follows:

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

**Derivative Summary**  
(Expressed in Thousands)

	Changes in Fair Value		Fair Value at June 30, 2010			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts		\$ 2,575		\$ 2,575	99,000	CAD
		185		185	19,030	EUR
		73		73	8,270	GBP
		<u>(536)</u>		<u>(536)</u>	6,287,850	JPY
Investment Income		<u>\$ 2,297</u>	Derivative Instruments	<u>\$ 2,297</u>		
Futures Contracts	Investment Income	\$ (23,484)	Derivative Instruments Payable	\$ (3,364)	\$105,747	
TBA Mortgage Backed Securities	Investment Income	\$ 1,967	Derivative Instruments	\$ 1,967	\$474,634	

	Changes in Fair Value		Fair Value at June 30, 2009			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts		\$ (35,869)		\$ (35,869)	275,000	EUR
		(33,541)		(33,541)	157,180	GBP
		<u>(6,105)</u>		<u>(6,105)</u>	42,000,000	JPY
Investment Income		<u>\$ (75,515)</u>	Derivative Instruments Payable	<u>\$ (75,515)</u>		

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures contracts and TBA mortgage backed securities are exchange traded and their price is based on quoted market prices at year end. It is the TCRS policy to conduct derivative transactions through the custodian bank and high quality money center banks or brokerage firms. The credit risk of foreign currency contracts is managed by limiting the term of the forward contracts and restricting the trading to high quality banks. The credit risk of futures contracts is managed by maintaining a daily variation margin.

**D. COMMITMENTS**

**Standby Commercial Paper Purchase Agreement** – The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 75 basis points on the \$350 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, 80 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 95 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

**Pending Real Estate Items** – At June 30, 2010 the TCRS had unfunded commitments of \$28,500,000 for pending real estate purchases. At June 30, 2009 the TCRS did not have any commitments for pending real estate purchases.

**E. FUNDED STATUS AND FUNDING PROGRESS**

The funded status of each plan as of July 1, 2009, the most recent actuarial valuation date, is as follows:

<b>SCHEDULES OF FUNDING PROGRESS</b>						
<i>(Expressed in Thousands)</i>						
	<b>Actuarial Value of Plan Assets</b>	<b>Actuarial Accrued Liability (AAL) Frozen Entry Age</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
	<b>(a)</b>	<b>(b)</b>				
<b>SETHEEPP</b>	\$26,335,199	\$29,054,966	\$2,719,767	90.64%	\$6,054,528	44.92%
<b>PSPP</b>	\$5,304,455	\$6,143,775	\$839,320	86.34%	\$2,282,082	36.78%

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2009, the TCRS reestablished unfunded accrued liabilities for all groups.

The required schedule of funding progress immediately following the notes to the financial statements is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(CONTINUED)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

Additional information as of the latest actuarial valuation follows:

	<u>SETHEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 2009	July 1, 2009
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	20 years closed period	(1) closed period
Asset valuation method	5-year moving market average for FYE on or before June 30, 2007	5-year moving market average for FYE on or before June 30, 2007
	10-year moving market average for FYE after June 30, 2007	10-year moving market average for FYE after June 30, 2007
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	2.50%	2.50%
Increase in Social Security wage base	3.50%	3.50%
(1) The length of the amortization period varies by political subdivision, not to exceed 30 years.		
(2) Uniform rate that approximates the effect of a graded salary scale.		



**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS**

**SCHEDULES OF FUNDING PROGRESS**

*Expressed in Thousands*

	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Frozen Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
<b>SETHEPP</b>	7/1/2009	\$26,335,199	\$29,054,966	\$2,719,767	90.64%	\$6,054,528	44.92%
	7/1/2007	\$26,214,995	\$27,240,151	\$1,025,156	96.24%	\$5,742,866	17.85%
	7/1/2005	\$23,627,161	\$23,666,967	\$39,806	99.83%	\$5,245,989	0.76%
<b>PSPP</b>	7/1/2009	\$5,304,455	\$6,143,775	\$839,320	86.34%	\$2,282,082	36.78%
	7/1/2007	\$4,897,974	\$5,475,620	\$577,646	89.45%	\$2,081,964	27.75%
	7/1/2005	\$4,124,013	\$4,450,127	\$326,114	92.67%	\$1,890,968	17.25%

The schedule of funding progress is intended to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF EMPLOYER CONTRIBUTIONS**

**SCHEDULES OF EMPLOYER CONTRIBUTIONS***Expressed in Thousands*

Year Ended June 30	SETHEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2010	\$578,403	100.00%	\$258,324	100.00%
2009	583,985	100.00%	252,926	100.00%
2008	593,412	100.00%	244,847	100.00%
2007	562,729	100.00%	231,699	100.00%
2006	474,879	100.00%	191,000	100.00%
2005	448,154	100.00%	181,096	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2011.

## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM ACTUARIAL BALANCE SHEET

### ACTUARIAL BALANCE SHEET as of July 1, 2009

	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEEPP)	Political Subdivision Pension Plan (PSPP)	Total
<b>ASSETS</b>			
Present assets creditable to			
Employer accumulation fund	\$22,775,436,290	\$ 4,293,104,552	\$ 27,068,540,842
Members' accumulation fund	3,559,762,929	1,011,350,909	4,571,113,838
Total present assets	<u>26,335,199,219</u>	<u>5,304,455,461</u>	<u>31,639,654,680</u>
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	3,975,132,757	1,312,768,669	5,287,901,426
Accrued liability	2,719,767,478	839,320,076	3,559,087,554
Total employer accumulation	<u>6,694,900,235</u>	<u>2,152,088,745</u>	<u>8,846,988,980</u>
Member's accumulation fund	<u>1,754,226,527</u>	<u>569,888,332</u>	<u>2,324,114,859</u>
Total prospective contributions	<u>8,449,126,762</u>	<u>2,721,977,077</u>	<u>11,171,103,839</u>
<b>TOTAL ASSETS</b>	<u><u>\$34,784,325,981</u></u>	<u><u>\$ 8,026,432,538</u></u>	<u><u>\$ 42,810,758,519</u></u>
<b>LIABILITIES</b>			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	\$14,122,766,225	\$ 2,190,077,255	\$ 16,312,843,480
Present active members	20,002,441,459	5,624,931,055	25,627,372,514
Former members	<u>659,118,297</u>	<u>211,424,228</u>	<u>870,542,525</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$34,784,325,981</u></u>	<u><u>\$ 8,026,432,538</u></u>	<u><u>\$ 42,810,758,519</u></u>