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State of Tennessee Treasurer's Report Fiscal Year Ended June 30, 2009

Tennessee. Department of Treasury.

State of Tennessee Treasurer's Report

David H. Lillard, Jr., State Treasurer

Fiscal Year Ended June 30, 2009

2009
Treasurer's Report

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

Prepared by:

State of Tennessee
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THE STATE CAPITOL

In 1843, Governor James (Lean Jimmy) Jones charged the legislature with the responsibility of selecting a permanent capitol city for Tennessee. After nearly 50 years of statehood, Tennessee still did not have a capitol city and the governor believed that it was time to select one. After a number of towns had made bids to become the capitol, Nashville was selected as it was the largest town in the middle of the state, it was located upon a navigable river and the city of Nashville had purchased Campbell's Hill and offered it to the state — if a capitol building were placed upon it. All of these things worked to Nashville's advantage and the legislature chose it to be the capitol of Tennessee.

A Capitol Commission was then created and they conducted a search for an architect to design the building and to oversee its construction. The premiere architect working in the Greek Revival style at that period was William Strickland. He had been a founder of the American Institute of Architects, one of the first professional societies in America, and had numerous public commissions in Philadelphia, as well as elsewhere. He was chosen to design Tennessee's first, and only, capitol building. The structure is based upon a Greek temple. Its front faces the east, or the Cumberland River, with the pedimented ends being the two side elevations. Rising out of the roof is an adaptation of the Choragic Monument to Lysicrates. This ancient monument in Athens was actually a choir trophy. Lysicrates was a choir master in ancient Athens and his choral group won a singing contest. They erected the Choragic Monument in tribute to the gods for their honor and on top of it was a symbolic tripod for offerings to the gods. On the top of the tower on our Capitol is a cast iron tripod.

The Tennessee State Capitol building is made out of solid limestone blocks weighing between six and ten tons. Slaves and convicts quarried the stone within one mile of the building and, like the pharaoh's slaves, hauled the blocks to Capitol Hill. There, professional stonemasons dressed out the blocks and they were hoisted into place. As this was in the days before steam lifts and cranes, it was all back-breaking, manual labor and it took 14 years to finish the building. In that period, there were three architects. William Strickland worked upon the structure from 1845 until his death in 1854. He was succeeded by his son, Francis, until 1857. Then, the Commission fired Francis as a cost-saving measure. For one year, there was no supervising architect, but in 1858-59, they employed Harvey Akeroyd, an Englishman working in Nashville, to design the State Library room in the building. With the completion of that room and the lower terrace on the exterior in 1859, the building was essentially finished. In truth, the building was never completed. The stair and the east lobby on the legislative floor had ceiling medallions installed to have gasoliers hung from them to light these two areas. However, the Civil War broke out, the lights were never ordered and the spaces remain empty.

Two of the most significant events to take place in the Capitol have been the ratifications of the fourteenth and nineteenth amendments to the United States Constitution. The first one gave African-Americans the right to vote and the second one gave women the right to vote.

James A. Hoobler
Curator of Art and Architecture
Tennessee State Museum

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Photos featured throughout this report
display the beautiful architectural structure of the State Capitol.

Photos courtesy of Mr. Edward Crim.
A professional photographer living in St. Louis, Missouri,
Mr. Crim photographed the State Capitol in October 2008
as part of his "State Capitols Project". He continues to travel across
the country to document all fifty Capitol buildings. Learn more about
his project and his photography at www.edwardcrim.com.

LETTER OF TRANSMITTAL

STATE OF TENNESSEE

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

September 30, 2010

The Honorable Phil Bredesen, Governor
The Honorable Ron Ramsey, Lieutenant Governor and Speaker of the Senate
The Honorable Kent Williams, Speaker of the House of Representatives
Members of the General Assembly
Citizens of the State of Tennessee

My Fellow Tennesseans:

I am honored to present the annual report of the Treasurer's Office for the fiscal year ended June 30, 2009, pursuant to the requirements of Tennessee Code Annotated, Section 4-4-114. While our state, along with the rest of the country, faced unprecedented economic times, the professionalism and expertise of staff in the Treasury Department enabled our programs to out-perform many of our peers in other states. Circumstances beyond our control have caused the publication of this report to be postponed due to delayed implementation and conversion to the new, state-wide accounting system.

As a result of your continued support and commitment to the Treasury Department, our achievements, this year, have exceeded expectations. In the Investment Division, we welcomed a new member to the team to create and manage a new investment asset class, private equity. In order to better serve current and future recipients of the State pension systems, we are in the initial stage of a multi-year project to replace the multiple information systems which support the Tennessee Consolidated Retirement System. The Division of Risk Management was awarded the inaugural Treasury Department Award for Excellence in Innovation for the creation and distribution of the widely-viewed Risk Management safety videos. Among other important initiatives of the Treasury Department is updating and revitalizing our website to better serve you and our constituents. More information on the Treasurer's Office and the activities and accomplishments of Treasury Programs are found on the following pages.

As we begin a new fiscal year, we are certain to face many new challenges. I look forward to diligently working side by side with you to meet these challenges to ensure that Tennessee remains a great place to live. For your convenience, the Treasurer's Report, other publications and press releases are located on our website at www.tn.gov/treasury. Again, thank you for your continued support of the Treasury Department and your service to our State and her people.

Sincerely,

David H. Lillard, Jr.

MISSION OF THE TREASURY DEPARTMENT

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.

EXECUTIVE SUMMARY

Introduction

The 2009 Treasurer's Report contains reports on various programs administered by the Treasury Department, including the Baccalaureate Education System Trust, the Careers Now Program, the Chairs of Excellence Program, Claims Administration, the Tennessee Claims Commission, the Deferred Compensation Program, the Flexible Benefits Plan, Investments, Risk Management, the Small and Minority-Owned Business Assistance Program, the Tennessee Consolidated Retirement System and the Unclaimed Property Program. 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 2009 fiscal year.

Baccalaureate Education System Trust (BEST)

The Baccalaureate Education System Trust, BEST, is a Section 529 qualified tuition program that allows anyone to pay for higher education costs in advance on behalf of a beneficiary. BEST provides two tax-favored savings vehicles: the Prepaid College Tuition Plan and the Savings Plan. The Prepaid College Tuition Plan (Educational Services Plan), introduced in 1997, is based on the weighted average tuition inflation increases at Tennessee's four-year public universities. Tennesseans can pay for future tuition cost at a price based on today's cost of tuition and mandatory fees at Tennessee's four-year public universities. The BEST Prepaid Plan helps to ease their concerns about whether they will have enough funds to pay for their children's higher education. At June 30, 2009, BEST held 9,040 active contracts with net assets totaling $77.1 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 fees ranging from 49-65 basis points.

Careers NOW Program

The Careers NOW Program provides Tennessee college students the opportunity to learn more about the operations of state government and career opportunities by working in one of the three constitutional offices for a semester. Since the inception of the program in 1996, over 275 students have participated in the 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 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.

Chairs of Excellence

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 $200.8 million at June 30, 2009.

Claims Administration

The Division of Claims Administration is responsible for investigating and making determinations on claims made against the state for workers' compensation by state employees, employee property damage, tort liability and criminal injury compensation. Staff support from the Division of Claims Administration also assists the Board of Claims. The Division of Claims Administration received 4,837 claims for tort, employee property damage and workers' compensation. Payments made during the year for workers' compensation, tort and employee property damage claims totaled $29.5 million. The division received 6,248 criminal injury, drunk driver and sexual assault

EXECUTIVE SUMMARY

forensic exam claims. Payments made totaled $13.3 million. Since the first payments were issued in 1982, more than $202 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, 2009, the commission had 593 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, 2009, a total of 81,512 state and higher education employee accounts were held in the program. The market value of accumulated account balances totaled $1.1 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, 2009, state employees utilized the plan in the following manner: 41,019 paid group medical premiums, 26,425 paid group dental premiums, 4,916 used the medical expense reimbursement account and 429 used the dependent care reimbursement account. In addition, 181 and 116 state employees utilized the parking and transportation reimbursement accounts, respectively. Estimated F.I.C.A. savings generated by the plan for the state exceeded $7.0 million during the 2009 fiscal year. Employees realized similar savings. The state's F.I.C.A. savings are used to fund the state wellness program and to help fund a portion of the 401(k) match for state employees.

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 2009, investments averaged $7.3 billion, producing $119.8 million in income for an average rate of return of 1.66%.

Pension Fund Investments - This division manages the investments of the Tennessee Consolidated Retirement System (TCRS) which, at June 30, 2009, totaled $26.4 billion at fair market value. For the year, investment losses of ($4.86) billion were recognized, for a rate of return of (15.27%) 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, 2009, had market values of $200.8 million and $77.1 million, respectively.

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

EXECUTIVE SUMMARY

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, 2009, the state's total insured property values were $16.9 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 activities. 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, state-wide 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, 2009, there were 213,276 active TCRS members: 44,919 state employees, 72,985 K-12 teachers, 78,336 political subdivision employees and 17,036 higher education employees. As of June 30, 2009, there were 107,702 retirees. TCRS paid $1.45 billion in benefits during fiscal year 2009. 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, $60.1 million of unclaimed property was collected, which consisted of $51.0 million that was remitted to Treasury and $9.1 million in the sale of securities. In addition, $23.3 million was returned to owners or their heirs, local governments and other states. Since the program's inception in 1979, $612.3 million in unclaimed property has been reported to the Treasury and $198.9 million of that property has been returned to claimants.

TREASURY NUMBERS AT A GLANCE FISCAL YEAR 2009

ADMINISTRATIVE	Number of Filled Positions		217
	Payroll Expenditures	$	15,220,400
	Other Expenditures	$	5,243,100
	Total Operating Expenditures	$	20,463,500
CASH MANAGEMENT PROGRAM	General Fund Earnings	$	38,641,292
	LGIP Earnings	$	50,987,515
	Restricted Fund Earnings	$	30,241,762
	Total Cash Management Earnings	$	119,870,569
RETIREMENT PROGRAM	Retirement Benefits	$	1,457,663,324
	Number of Retirees		107,702
	Number of Active Members		213,276
	Retirement Contributions	$	1,090,470,093
	Retirement Net Investment Loss	$	(4,858,486,179)
CLAIMS ADMINISTRATION PROGRAM	Workers' Compensation Payments	$	23,247,981
	Workers' Compensation Claims Filed		3,431
	Employee Property Damage Payments	$	24,688
	Employee Property Damage Claims Filed		117
	Tort Payments	$	6,229,588
	Tort Claims Filed		1,289
	Criminal Injury Fund Payments	$	13,304,691
	Criminal Injury Fund Claims Filed		6,248
RISK MANAGEMENT PROGRAM	Estimated Gross Property Losses Incurred	$	3,024,100
	Total Property Values Insured	$	16,900,000,000
CHAIRS OF EXCELLENCE PROGRAM	Chairs of Excellence Investment Loss	$	(28,334,670)
	Chairs of Excellence Expenditures	$	7,776,962
	Number of Chairs of Excellence		99
OTHER PROGRAMS	Deferred Compensation Contributions	$	142,586,737
	Deferred Compensation Accounts		81,512
	Flexible Benefits Plan Payments	$	8,340,379
	Unclaimed Property Revenues	$	60,146,741
	Unclaimed Property Payments	$	23,252,511
	BEST Prepaid Accounts		9,040
	BEST Prepaid Contributions (net of fees)	$	4,424,484
FAIR VALUE OF ASSETS UNDER MANAGEMENT AT JUNE 30, 2009	Retirement Trust Fund	$	26,369,225,715
	Chairs of Excellence Trust Fund	$	200,843,198
	State Pooled Investment Fund	$	7,673,193,164
	Deferred Compensation (outside managers)	$	1,067,244,116
	BEST Educational Services Plan	$	77,056,039
	Total Assets Under Management	$	35,387,562,232

EMPLOYEE BENEFITS

State Library with Original Spiral Staircase

Photo by Edward Crim

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

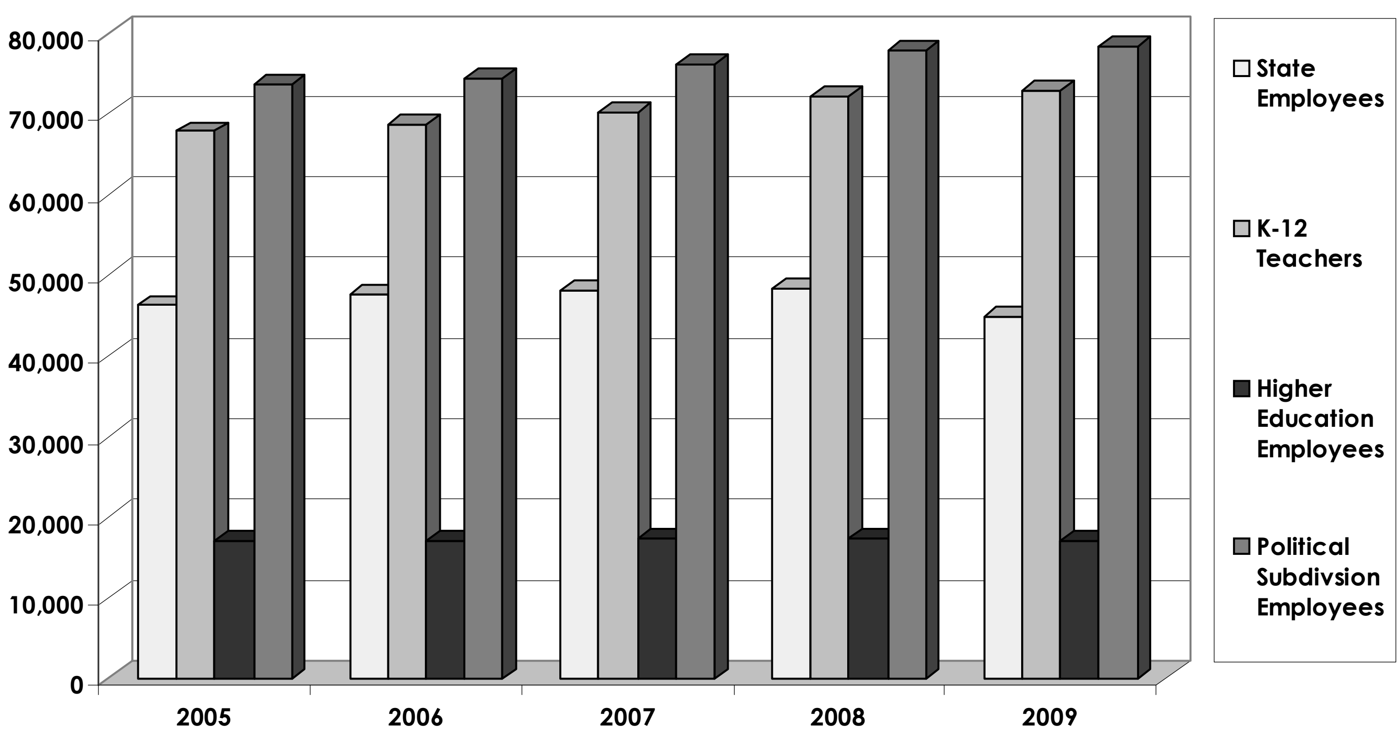
Membership in the retirement system is a condition of employment for full-time state employees, teachers, general employees in higher education and the employees of local governments that participate in TCRS. Membership is optional for certain part-time employees. Faculty employees in higher education 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, 2009, there were 213,276 active members of TCRS and 13,469 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 2005-2009



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 2009 fiscal year, 3,896 refunds totaling $32.0 million were issued.

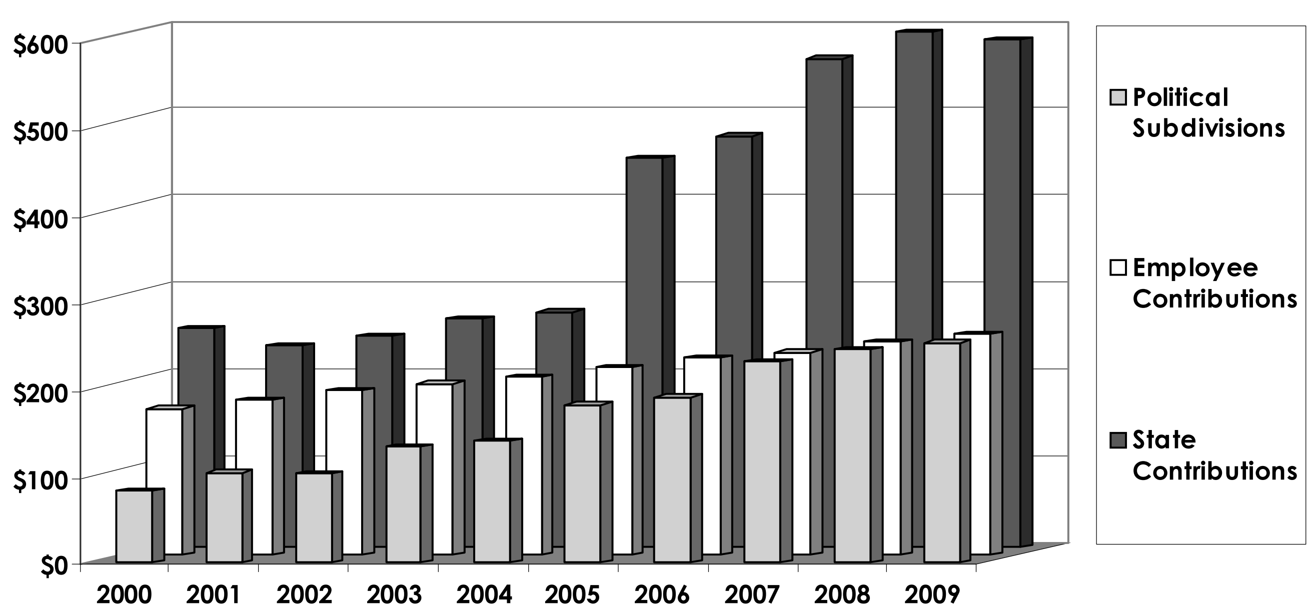
The contribution rate for the employers participating in the retirement system is determined by a biennial actuarial valuation performed by an independent actuarial firm. The contribution rates include funding for the basic benefit, the cost-of-living increase provisions and amortization of the accrued liability over a 40-year period which began in July of 1975. The employer contribution rates for the year ending June 30, 2009 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 2000-2009
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, 2009, 107,702 retirees were receiving monthly benefit payments. This represents a 5% 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.

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.

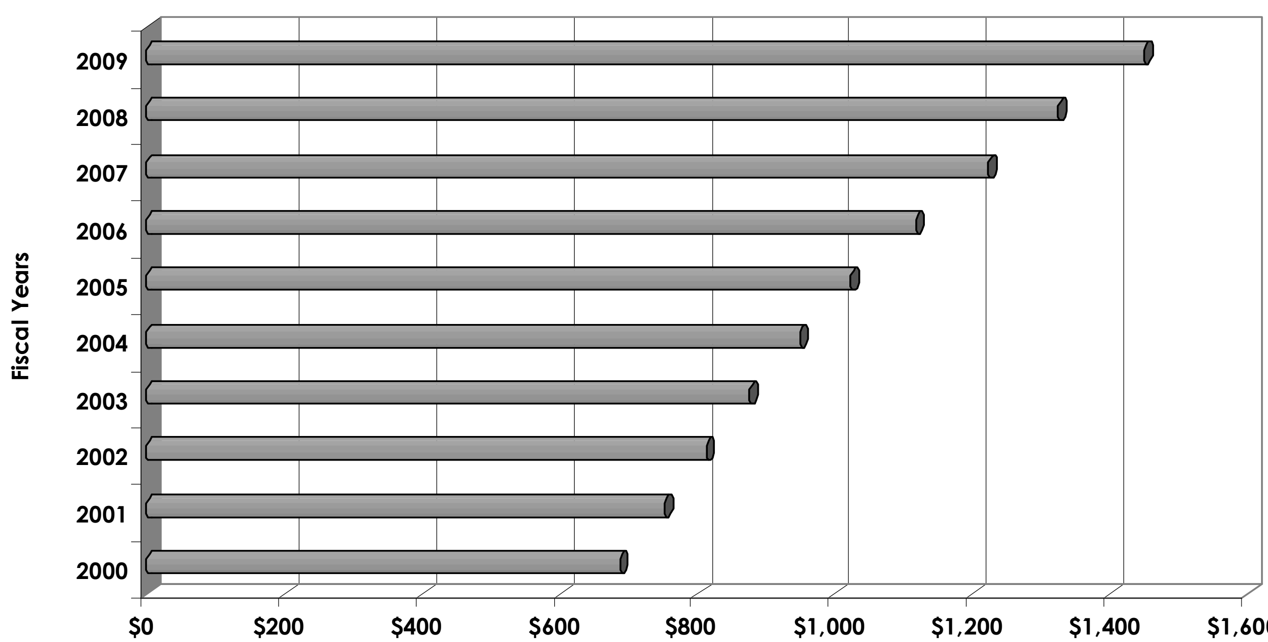
Cost-of-living adjustments after retirement are based on the Consumer Price Index (CPI). If there is an increase in the CPI of as much as .5% in any calendar year, the retired member's benefit will be adjusted by an amount equal to the increase in the CPI, not to exceed 3% nor be less than 1%.

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 2009 totaled $1.45 billion, an increase of $124 million over 2008 benefit payments.

Annual Benefit Payments

Fiscal Years 2000-2009
Expressed in Millions



TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS
for Calendar Year 2009

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	9,048		9,048		9,048		9,048		9,048	
	Total	$ 12,592	83.9%	$ 13,773	91.8%	$ 14,954	99.7%	$ 16,136	107.6%	$ 17,317	115.4%
$20,000	TCRS	$ 4,725		$ 6,300		$ 7,875		$ 9,450		$ 11,025	
	Social Security	10,572		10,572		10,572		10,572		10,572	
	Total	$ 15,297	76.5%	$ 16,872	84.4%	$ 18,447	92.2%	$ 20,022	100.1%	$ 21,597	108.0%
$25,000	TCRS	$ 5,906		$ 7,875		$ 9,844		$ 11,813		$ 13,781	
	Social Security	12,096		12,096		12,096		12,096		12,096	
	Total	$ 18,002	72.0%	$ 19,971	79.9%	$ 21,940	87.8%	$ 23,909	95.6%	$ 25,877	103.5%
$30,000	TCRS	$ 7,088		$ 9,450		$ 11,813		$ 14,175		$ 16,538	
	Social Security	13,632		13,632		13,632		13,632		13,632	
	Total	$ 20,720	69.1%	$ 23,082	76.9%	$ 25,445	84.8%	$ 27,807	92.7%	$ 30,170	100.6%
$35,000	TCRS	$ 8,269		$ 11,025		$ 13,781		$ 16,538		$ 19,294	
	Social Security	15,156		15,156		15,156		15,156		15,156	
	Total	$ 23,425	66.9%	$ 26,181	74.8%	$ 28,937	82.7%	$ 31,694	90.6%	$ 34,450	98.4%
$40,000	TCRS	$ 9,450		$ 12,600		$ 15,750		$ 18,900		$ 22,050	
	Social Security	16,680		16,680		16,680		16,680		16,680	
	Total	$ 26,130	65.3%	$ 29,280	73.2%	$ 32,430	81.1%	$ 35,580	89.0%	$ 38,730	96.8%
$45,000	TCRS	$ 10,631		$ 14,175		$ 17,719		$ 21,263		$ 24,806	
	Social Security	18,204		18,204		18,204		18,204		18,204	
	Total	$ 28,835	64.1%	$ 32,379	72.0%	$ 35,923	79.8%	$ 39,467	87.7%	$ 43,010	95.6%
$50,000	TCRS	$ 11,813		$ 15,750		$ 19,688		$ 23,625		$ 27,563	
	Social Security	19,536		19,536		19,536		19,536		19,536	
	Total	$ 31,349	62.7%	$ 35,286	70.6%	$ 39,224	78.4%	$ 43,161	86.3%	$ 47,099	94.2%
$55,000	TCRS	$ 13,010		$ 17,346		$ 21,683		$ 26,019		$ 30,356	
	Social Security	20,244		20,244		20,244		20,244		20,244	
	Total	$ 33,254	60.5%	$ 37,590	68.3%	$ 41,927	76.2%	$ 46,263	84.1%	$ 50,600	92.0%
$60,000	TCRS	$ 14,388		$ 19,184		$ 23,979		$ 28,775		$ 33,571	
	Social Security	20,940		20,940		20,940		20,940		20,940	
	Total	$ 35,328	58.9%	$ 40,124	66.9%	$ 44,919	74.9%	$ 49,715	82.9%	$ 54,511	90.9%
$65,000	TCRS	$ 15,766		$ 21,021		$ 26,276		$ 31,532		$ 36,787	
	Social Security	21,564		21,564		21,564		21,564		21,564	
	Total	$ 37,330	57.4%	$ 42,585	65.5%	$ 47,840	73.6%	$ 53,096	81.7%	$ 58,351	89.8%
$70,000	TCRS	$ 17,144		$ 22,859		$ 28,573		$ 34,288		$ 40,002	
	Social Security	22,164		22,164		22,164		22,164		22,164	
	Total	$ 39,308	56.2%	$ 45,023	64.3%	$ 50,737	72.5%	$ 56,452	80.6%	$ 62,166	88.8%

This chart is based on a date of retirement in 2009. 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 2009;
(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

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, 2007 to establish the employer contribution rates effective July 1, 2008. The system's accrued liability at July 1, 2007 was $1.6 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, 2007 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, 2009:

Cities	177
Counties	89
Utility Districts	65
Special School Districts	19
Joint Ventures	23
Housing Authorities	11
911 Emergency Communication Districts	42
Miscellaneous Authorities	56
Total	482

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Major Legislative Improvements

1972 Benefit formula improved from 1.12% of salary up to the SSIL to 1.5% of salary up to the SSIL.

1973 Annual cost-of-living increase based on the CPI with a cap of 1.5% 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%.

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% 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%, 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% indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6% 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% 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%.

Mandatory retirement established with supplemental bridge benefit for all state public safety officers.

1999 Group 1 benefit maximum increased to 90%.

2000 Group 2 benefit maximum increased to 80%.

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

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
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
2000	7.65%	7.65%	76,200	No Limit

DEFERRED COMPENSATION PROGRAM

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, 2009, accounts were held by 74,872 individuals in the 401(k) plan and 5,724 individuals in the 457 plan. At fiscal year end, 32,407 state employees, 9,745 University of Tennessee employees and 11,587 Tennessee Board of Regents employees were actively contributing to the 401(k) plan and 2,284 state employees, 536 University of Tennessee employees and 393 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 50 and earn below $36,000 per year.

IRS regulations for 2009 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 2009 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 $30.7 million. Employees contributed $111.9 million.

Participants in the program at June 30, 2009 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, 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

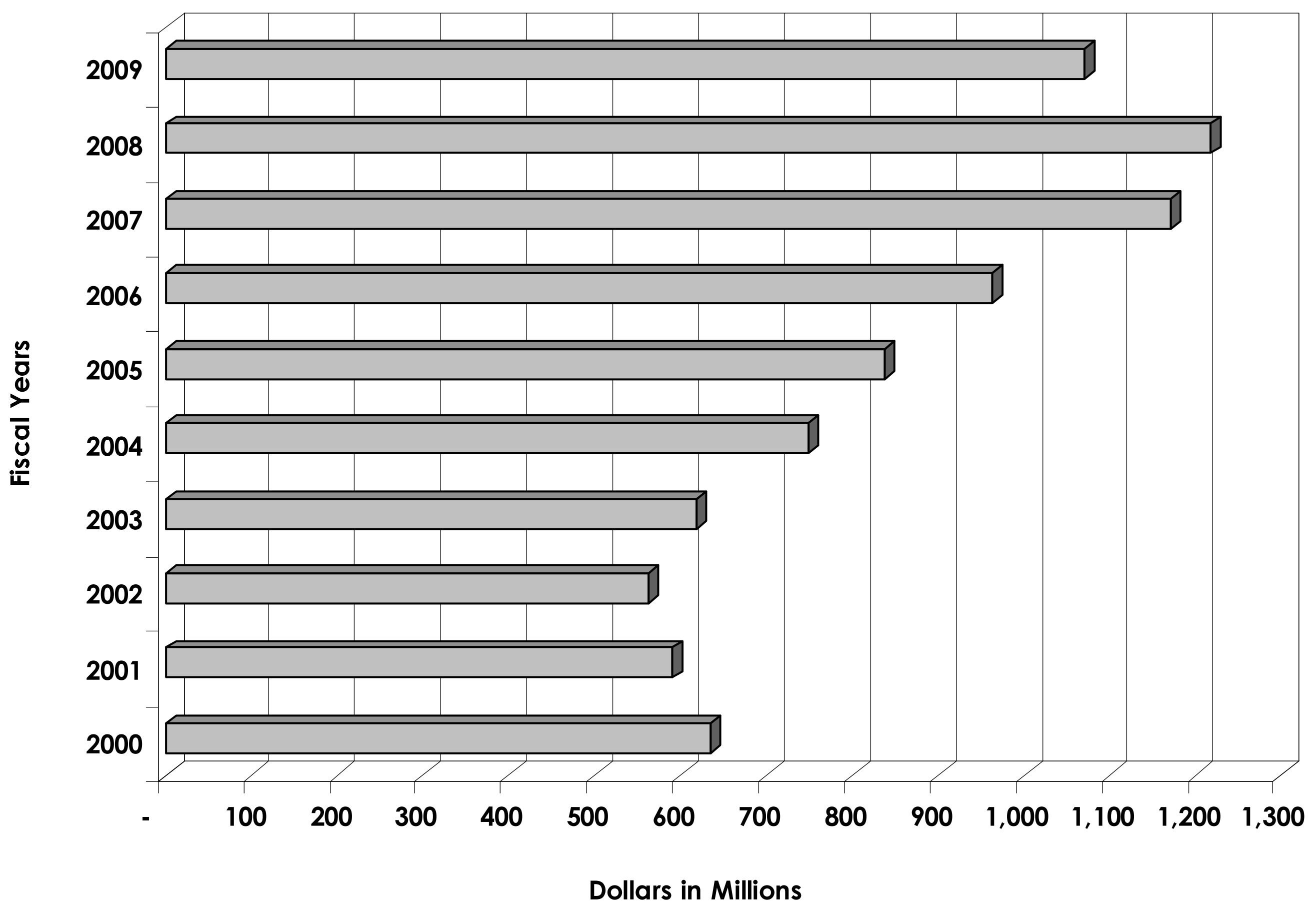
an interactive benefit calculator, complete information for participants who may be approaching retirement age or considering withdrawing funds from the program, an e-mail address for participants to request additional personalized information and full account activity access.

For the year ending June 30, 2009, contributions to the program totaled $142.6 million. Contributions are wired for immediate crediting. At June 30, 2009, accumulated account balances totaled $1.07 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, 2009, there were 4,419 loans outstanding from the 401(k) plan. Outstanding loan balances totaled $14.6 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, 2009, there were 1,499 periodic payments made from the program. In addition, 4,054 lump sum distributions and 3,569 partial lump sum distributions were issued during fiscal year 2009.

DEFERRED COMPENSATION PROGRAM ASSETS
Expressed in Millions
Fiscal Years 2000-2009



DEFERRED COMPENSATION PROGRAM

Deferred Compensation Contributions and Market Value

Fiscal Year 2009

	Contributions FY 2008-2009	Market Value June 30, 2009
Plan I (457)		
ING	$ 2,513,267	$ 35,915,569
American General	13,063	585,465
Calvert	958,815	6,431,135
Fidelity	9,890,590	80,561,563
State Street	1,087,302	5,103,024
Regions	1,425,445	17,384,122
Vanguard	1,076,439	3,425,974
Dimenensional	118,248	472,536
	$ 17,083,169	$ 149,879,388
Plan II (401K)		
ING	$ 18,492,688	$ 162,123,758
Calvert	4,735,383	33,687,664
Fidelity	80,632,706	580,857,800
State Street	5,673,984	29,179,106
Regions	12,141,016	92,555,407
Vanguard	3,470,147	16,611,400
Dimensional	357,645	2,349,593
	$ 125,503,568	$ 917,364,728
Total for both plans	**$ 142,586,737**	**$ 1,067,244,116**

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.

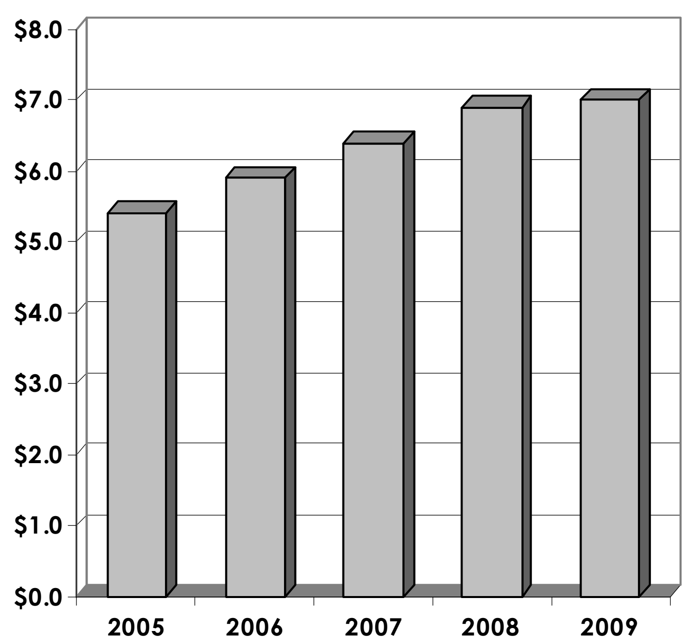
At June 30, 2009, over 41,000 state employees were enrolled in one or more of the plan's four Section 125 options: 41,019 employees used the plan to pay medical insurance premiums, 26,425 paid dental insurance premiums, 4,916 used the medical expense reimbursement account and 429 used the dependent care reimbursement account. In addition, 181 and 116 state employees participated in the parking and transportation reimbursement accounts, respectively.

Since contributions to the plan are exempt from both employee and employer F.I.C.A. (Social Security) tax, employees' use of the plan creates F.I.C.A. savings for the state. In fiscal year 2009, the state's estimated F.I.C.A. savings exceeded $7.0 million. Employees realize similar savings.

Savings exceeding the costs of administering the plan have been designated for offsetting costs of the state's wellness program, providing assistance for day care programs, funding for employee sick leave bank administration and funding matching contributions to the 401(k) plan.

F.I.C.A. Savings to State

Fiscal Years 2005-2009
Expressed in Millions



INVESTMENTS

Old Supreme
Court Chambers

Photo by Edward Crim

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 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 4 basis points (.04%) of assets. The Wall Street Journal reported on August 27, 2001 that the average mutual fund fee was 56 basis points and that the average fee for large public pension funds was 28 basis points. The cost of 4 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.

Performance Measurement

An independent external investment consultant, Strategic Investment Solutions, Inc., provides performance measurement for TCRS. During the 2009 fiscal year, TCRS had a total return of (15.27%). Domestic stocks lost 27.11%, while the S&P 1500 Index lost 26.34%. Domestic Bonds earned 2.04% versus the bond index of 7.04%. International stocks lost 30.63% versus 26.33% for the EAFE Index. Real estate lost 10.74% versus a loss of 14.68% for the NCREIF index.

TCRS INVESTMENTS

INVESTMENT SUMMARY
as of June 30, 2009

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	$ 6,901,829,103	26.25%	$ 587,465,199	2.23%	$ 7,489,294,302	28.48%
Corporate Bonds	5,581,676,593	21.23%	0	0.00%	5,581,676,593	21.23%
Total Bonds	12,483,505,696	47.48%	587,465,199	2.23%	13,070,970,895	49.71%
Preferred Stock	13,206,492	0.05%	19,525,501	0.07%	32,731,993	0.12%
Total Fixed Income	12,496,712,188	47.53%	606,990,700	2.30%	13,103,702,888	49.83%
Common Stock						
Consumer Discretionary	656,403,165	2.50%	289,316,264	1.10%	945,719,429	3.60%
Consumer Staples	832,420,304	3.16%	285,481,845	1.09%	1,117,902,149	4.25%
Energy	872,063,644	3.32%	223,051,888	0.85%	1,095,115,532	4.17%
Financials	976,261,440	3.71%	570,225,442	2.17%	1,546,486,882	5.88%
Healthcare	1,030,760,208	3.91%	245,683,008	0.93%	1,276,443,216	4.84%
Industrials	748,268,629	2.85%	473,141,306	1.80%	1,221,409,935	4.65%
Information Technology	1,394,745,175	5.30%	161,903,031	0.62%	1,556,648,206	5.92%
Materials	573,744	0.00%	251,338,164	0.96%	251,911,908	0.96%
Misc/Unclassified	0	0.00%	330,208,954	1.26%	330,208,954	1.26%
Rights/Warrants	242,335,105	0.92%	2,613,989	0.01%	244,949,094	0.93%
Telecommunication Services	241,366,026	0.92%	123,019,217	0.47%	364,385,243	1.39%
Utilities	294,951,574	1.12%	116,649,720	0.44%	411,601,294	1.56%
Total Common Stock	7,290,149,014	27.71%	3,072,632,828	11.70%	10,362,781,842	39.41%
Short-Term Investments						
Commercial Paper	636,343,265	2.42%	0	0.00%	636,343,265	2.42%
Pooled Funds and Mutual Funds	205,146	0.00%	0	0.00%	205,146	0.00%
U.S. Government Securities	995,296,396	3.78%	0	0.00%	995,296,396	3.78%
Total Short-Term Investments	1,631,844,807	6.20%	0	0.00%	1,631,844,807	6.20%
Real Estate	1,198,008,380	4.56%	0	0.00%	1,198,008,380	4.56%
Total Investments	22,616,714,389	86.00%	3,679,623,528	14.00%	26,296,337,917	100.00%
Short-Term Investments Classified as Cash Equivalents	(1,240,560,911)		0		(1,240,560,911)	
Total Investments as Shown on the Statement of Plan Net Assets	$ 21,376,153,478		$ 3,679,623,528		$ 25,055,777,006	

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

Fiscal Year	(1) Public Fund Index Median Total Return	(2) TCRS Total Return
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)%
2000	9.5 %	7.9 %

(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 2005-2009

Fiscal Year	TCRS Portfolio Earnings
2009	$ (4,858,486,179)
2008	(430,058,924)
2007	3,791,403,651
2006	1,877,298,490
2005	1,850,367,215

STATE CASH MANAGEMENT

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 2009 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was $7,310,944,900 per month and interest income of $119,870,570 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, 2009, investments had an average maturity of 86 days and an average weighted yield of .65%. The total balance in the State Pooled Investment Fund at June 30, 2009, $7,673,193,164 fair value, was allocated as follows: U.S. Treasury government and agency securities, 39.71%; overnight deposits, 3.80%; collateralized certificates of deposit, 33.06% and commercial paper, 23.43%.

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 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

STATE CASH MANAGEMENT

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

STATE CASH MANAGEMENT

Currently, the Collateral Pool has 94 participant institutions collateralizing public funds in excess of $7.0 billion.

8-5-110 Collateral

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

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

State Cash Management Comparative Returns

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

Fiscal Year	(1) Total Pool Funds	(2) Merrill Lynch Institutional Fund	(3) Standard & Poor's 7-Day LGIP Yield Index	(4) 90-Day Treasury (CD Equivalent Yield)
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%
2005	2.12%	2.00%	1.89%	5.00%

(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.

STATE CASH MANAGEMENT

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
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%
2005	1,888,126,667	38,198,848	2.00%

Repurchase Agreements and Overnight Deposit Accounts

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
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%
2005	493,189,109	9,740,888	2.37%

Commercial Paper

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
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%
2005	795,684,167	18,853,258	2.37%

U.S. Government Securities

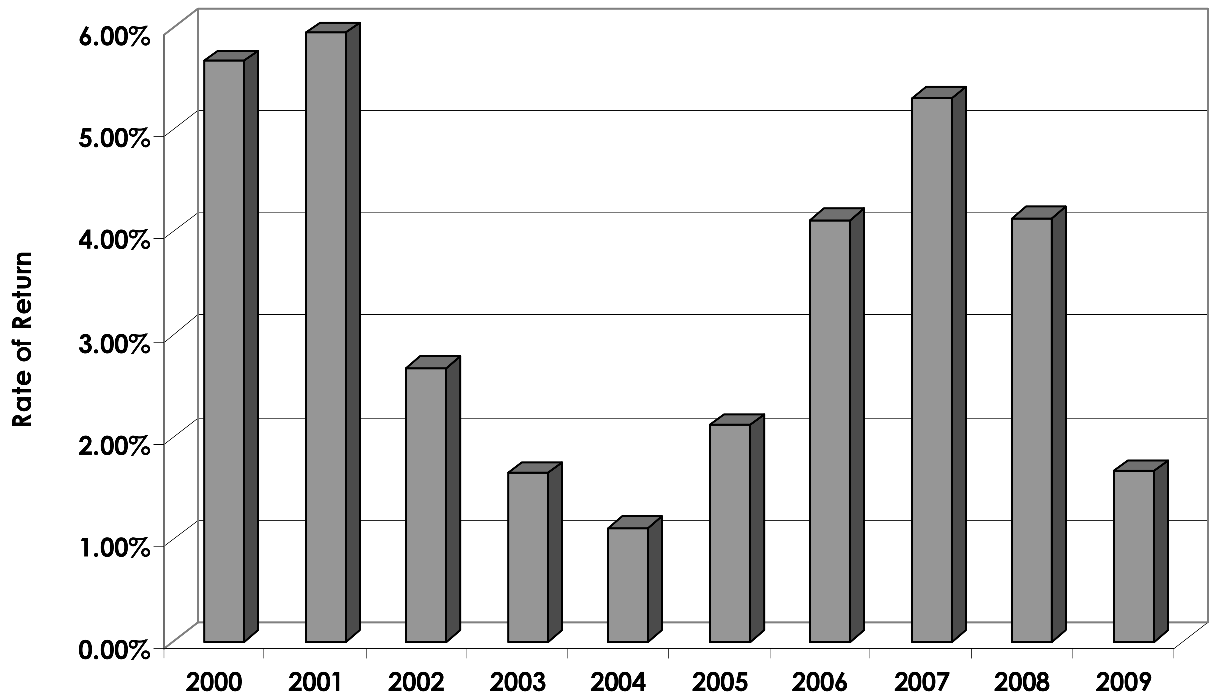
Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2009	$ 2,847,377,750	$ 52,443,415	1.89%
2008	2,774,037,333	112,693,789	4.22%
2007	2,210,772,500	115,043,989	5.26%
2006	1,747,103,333	69,817,959	3.99%
2005	1,254,517,917	25,938,244	2.07%

Total Funds

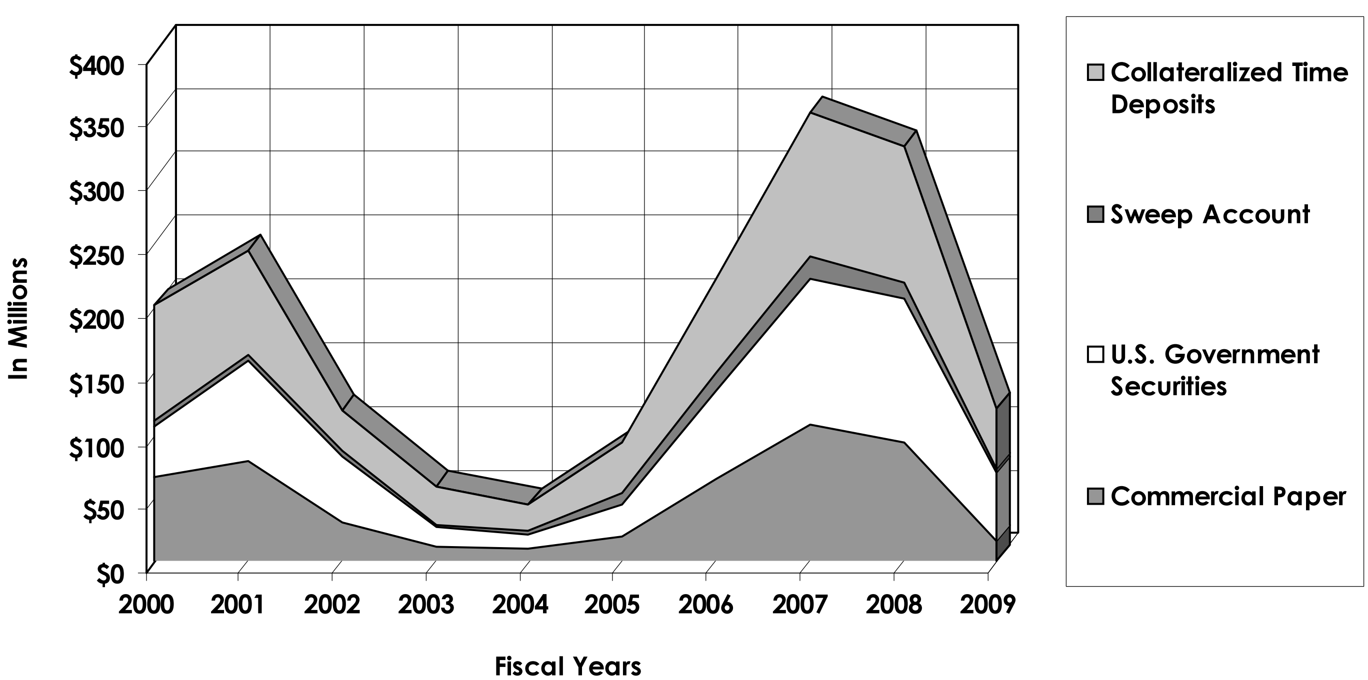
Fiscal Year	Average Total	Cash	Composite
2009	$ 7,310,944,900	$ 119,870,570	1.66%
2008	8,098,482,824	326,177,632	4.13%
2007	6,736,021,528	351,903,181	5.30%
2006	5,396,768,493	221,242,015	4.11%
2005	4,431,517,860	92,731,238	2.12%

STATE CASH MANAGEMENT

Cash Management Investments Composite Weighted Average Rate of Return
Fiscal Years 2000-2009



Analysis of State Cash Earnings
Fiscal Years 2000-2009



STATE CASH MANAGEMENT

CASH MANAGEMENT PORTFOLIO ANALYSIS
Fiscal Year Ended June 30, 2009

				Portfolio Composition			
Date	Current Investment Yield	Total Portfolio Yield	Average Days to Maturity	Certificates of Deposit	Sweep	U.S. Agency	Commercial Paper
July, 2008	2.11%	2.27%	89	30.88%	3.68%	37.12%	28.32%
August, 2008	2.08%	2.31%	83	34.00%	3.70%	38.74%	23.56%
September, 2008	2.22%	2.37%	79	35.50%	3.68%	39.08%	21.74%
October, 2008	1.44%	2.40%	86	39.17%	4.47%	41.58%	14.78%
November, 2008	0.44%	2.19%	87	43.94%	4.59%	37.19%	14.28%
December, 2008	0.14%	1.84%	81	39.79%	4.22%	36.65%	19.34%
January, 2009	0.16%	1.47%	80	38.65%	4.59%	40.02%	16.74%
February, 2009	0.28%	1.33%	81	38.96%	4.38%	38.84%	17.82%
March, 2009	0.22%	1.18%	84	35.39%	3.98%	40.75%	19.89%
April, 2009	0.14%	0.98%	93	32.85%	3.44%	41.37%	22.34%
May, 2009	0.18%	0.82%	86	32.09%	3.36%	43.93%	20.62%
June, 2009	0.21%	0.72%	85	33.06%	3.80%	39.71%	23.43%
Average	**0.80%**	**1.66%**	**85**	**36.19%**	**3.99%**	**39.58%**	**20.24%**

Month	General Fund		LGIP		Other State Cash		Total Average
	Average	Percent	Average	Percent	Average	Percent	Invested
July, 2008	$3,221,497,790	39.17%	$3,134,004,501	38.10%	$1,869,543,092	22.73%	$8,225,045,383
August, 2008	3,196,498,619	40.55%	2,774,144,014	35.19%	1,911,975,909	24.26%	7,882,618,542
September, 2008	2,897,449,707	38.18%	2,793,818,053	36.82%	1,897,215,595	25.00%	7,588,483,355
October, 2008	2,514,715,298	35.81%	2,632,349,248	37.48%	1,875,420,261	26.71%	7,022,484,807
November, 2008	2,107,945,993	32.12%	2,590,817,528	39.48%	1,864,226,639	28.41%	6,562,990,160
December, 2008	1,885,677,106	28.85%	2,800,453,610	42.84%	1,850,989,479	28.31%	6,537,120,195
January, 2009	1,302,951,439	19.15%	3,632,413,873	53.38%	1,869,439,639	27.47%	6,804,804,951
February, 2009	1,548,091,362	22.88%	3,415,234,907	50.46%	1,803,832,802	26.66%	6,767,159,071
March, 2009	1,315,457,616	17.96%	4,161,258,116	56.83%	1,846,003,455	25.21%	7,322,719,187
April, 2009	1,569,106,498	21.08%	3,986,909,430	53.59%	1,884,258,966	25.33%	7,440,274,894
May, 2009	2,186,133,548	27.82%	3,771,160,563	47.99%	1,900,943,724	24.19%	7,858,237,835
June, 2009	1,692,584,664	21.93%	4,146,096,400	53.71%	1,880,719,360	24.36%	7,719,400,424
Average	**$2,119,842,470**	**29.00%**	**$3,319,888,353**	**45.41%**	**$1,871,214,077**	**25.59%**	**$7,310,944,900**

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 2009 fiscal year, the average rate participants earned on their deposits after the fee reduction was 1.61%. 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, 2009

	Account Balance 7/1/2008	Net Deposits/(Withdrawals) FY 2008-2009	Interest Credited FY 2008-2009	Account Balance 6/30/2009
Cities	$ 1,024,772,107	$ (94,342,580)	$ 15,111,244	$ 945,540,771
Counties	940,689,219	(35,575,377)	12,309,689	917,423,531
Commitments to D.O.T.	38,027,056	2,765,414	610,100	41,402,570
Educational Institutions	814,655,909	91,921,997	14,247,847	920,825,753
Community Health Agencies	1,953,573	(1,621,509)	19,033	351,097
Other	423,897,137	116,141,981	8,689,609	548,728,727
Total	**$ 3,243,995,001**	**$ 79,289,926**	**$ 50,987,522**	**$ 3,374,272,449**

STATE CASH MANAGEMENT

STATE TRUST OF TENNESSEE

The State Trust of Tennessee, a not-for-profit corporation chartered in the State of Tennessee in 1979, has for many years enabled the Treasury Department to hold limited membership in the Federal Reserve Bank System. Being a limited member of the Federal Reserve gave the Treasury Department access to the Federal Wire System, which was used to send, receive, transfer and control funds movement expediently under the Treasurer's management. In addition, this membership enabled the State to settle and hold Federal book-entry securities.

Due to subsequent policy restrictions imposed upon state-owned trust companies by the Federal Reserve Board, the State Trust of Tennessee was limited in the number of daily outgoing wires it could execute and was prohibited from settling ACH transactions through its account at the Federal Reserve.

In addition, changes to settlement timeframes for certain book-entry securities eventually led the State Trust of Tennessee to move its book-entry transactions to a third-party vendor. The Federal Reserve Board later determined that since the State Trust no longer utilized its account for investing activities, the account should be closed. The State Trust appealed to the Federal Reserve Bank of Atlanta to allow the reserve account to remain open, but the request was not granted.

Consequently, the reserve account was closed on September 30, 2008. While the account is now closed and the State Trust no longer has funds transfer privileges, the Federal Reserve Bank does continue to provide check clearing cash letter services to the State Trust, which provided an estimated savings of over $700,000 during fiscal year 2009.

STATE TRUST OF TENNESSEE FEDERAL RESERVE BANK TRANSACTIONS

FISCAL YEAR 2009

Transaction Type	Number	Amount
(1) Wire Disbursements	125	$ 631,958,116
(2) Wire Receipts	1,342	3,078,162,714
(3) Check Redemptions	6,968,890	5,054,302,836
Total	**6,970,357**	**$ 8,764,423,666**

Explanation of Transaction Types:

(1) Disbursements of cash for the purpose of non-Fed eligible securities, settlement wires to agent bank and other nonrecurring wires for the period of July 1, 2008 through September 30, 2008 when the reserve account was closed.

(2) Receipt of cash for payment of interest and principal for non-Fed eligible securities, concentration of cash deposited in local banks, drawdown of Federal funds and Local Government Investment Pool (LGIP) deposits for the period of July 1, 2008 through September 30, 2008 when the reserve account was closed.

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

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
LARGEST HOLDINGS

LARGEST STOCK HOLDINGS
as of June 30, 2009
by Fair Value

Shares	Security Name	Fair Value
3,966,994	Exxon Mobil Corporation	$ 277,332,551
7,003,500	Microsoft Corporation	166,473,195
1,367,300	International Business Machines Corporation	142,773,466
2,654,500	Procter & Gamble Company	135,644,950
2,308,700	Johnson & Johnson Company	131,134,160
4,834,945	AT&T Incorporated	120,100,034
820,699	Apple Incorporated	116,892,159
1,700,630	Chevron Corporation	112,666,738
3,212,775	JP Morgan Chase & Company	109,587,755
2,086,700	Walmart Stores, Incorporated	101,079,748

LARGEST BOND HOLDINGS
as of June 30, 2009
by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
$ 335,900,000	United States Treasury Infl Index Note	(2.09)%	01/15/16	Aaa	$ 366,266,821
224,100,000	United States Treasury Infl Index Bond	(0.67)%	01/15/26	Aaa	235,707,598
165,000,000	United States Treasury Infl Index Note	(3.08)%	04/15/11	Aaa	182,511,785
116,156,689	FNMA Pool #725424	3.87 %	04/01/34	Aaa	120,529,523
127,500,000	United States Treasury Note	3.32 %	02/15/19	Aaa	119,411,400
110,000,000	United States Treasury Infl Index Note	(3.08)%	04/15/12	Aaa	118,870,566
116,067,313	FNMA Pool #888344	3.68 %	10/01/35	Aaa	118,583,653
113,958,613	GNMA Pool #782222	2.81 %	11/15/32	Aaa	117,816,112
122,000,000	United States Treasury Infl Index Note	(0.59)%	07/15/18	Aaa	116,938,013
100,000,000	United States Treasury Infl Index Bond	(1.12)%	01/15/25	Aaa	116,263,010

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 securtities. 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, 2009

Description	Maturity	Yield to Maturity	Par Value	Fair Value
U.S. TREASURY AND AGENCY OBLIGATIONS				
FHLMC Note	07/31/09	0.26%	$ 29,576,000	$ 29,552,931
FHLMC Note	07/15/09	0.26%	37,792,000	37,779,151
FHLMC Note 4.125	09/01/09	2.95%	1,000,000	1,006,130
FHLMC Note 1.050	02/24/10	1.05%	50,000,000	50,051,000
Federal Home Loan Bank	06/18/10	0.62%	25,000,000	25,015,750
FFCB Discount Notes	12/30/09	1.00%	82,750,000	83,004,043
FFCB Discount Notes	02/05/10	1.00%	100,000,000	100,061,000
FFCB Discount Notes	04/01/10	1.30%	115,000,000	115,258,750
FFCB Discount Notes	04/14/10	1.00%	3,855,000	3,870,728
FFCB Discount Notes	05/14/10	0.85%	40,000,000	40,121,600
FHLMC Note 0.620	09/15/09	0.62%	25,000,000	24,992,500
FHLMC Note 0.530	09/15/09	0.53%	10,000,000	9,997,000
FNMA Discount Notes	07/15/09	0.40%	35,000,000	35,000,000
FNMA Discount Notes	07/15/09	0.42%	50,000,000	50,000,000
FNMA Discount Notes	08/14/09	0.51%	25,000,000	24,997,500
FNMA Discount Notes	08/14/09	0.20%	100,000,000	99,990,000
FNMA Discount Notes	09/15/09	0.48%	10,000,000	9,997,000
FNMA Discount Notes	09/15/09	0.59%	10,000,000	9,997,000
FNMA Discount Notes	10/01/09	0.50%	40,549,000	40,497,187
FNMA Discount Notes	10/15/09	0.52%	50,000,000	49,975,000
FNMA Discount Notes	10/15/09	0.61%	100,000,000	99,950,000
FNMA Discount Notes	11/13/09	0.49%	15,000,000	14,986,500
FNMA Discount Notes	11/13/09	0.39%	100,000,000	99,910,000
FNMA Discount Notes	12/15/09	0.56%	50,000,000	49,935,000
FNMA Discount Notes	12/15/09	0.67%	40,000,000	39,948,000
FNMA Discount Notes	12/15/09	0.74%	40,000,000	39,948,000
FNMA Discount Notes	12/15/09	0.35%	75,000,000	74,902,500
FNMA Discount Notes	01/15/10	0.49%	100,000,000	99,820,000
FNMA Discount Notes	01/15/10	0.36%	25,000,000	24,955,000
FNMA Discount Notes	01/15/10	0.32%	25,000,000	24,955,000
FHLB Discount Note	07/15/09	0.54%	50,000,000	50,000,000
FHLB Discount Note	07/15/09	0.18%	25,000,000	25,000,000
FHLB Discount Note	07/27/09	0.09%	75,000,000	74,992,500
FHLB Discount Note	08/14/09	0.21%	25,000,000	24,997,500
FHLB Discount Note	08/14/09	0.19%	50,000,000	49,995,000
FHLB Discount Note	08/18/09	3.01%	100,000,000	99,990,000
FHLB Discount Note	09/14/09	0.62%	25,000,000	24,992,500

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2009

Description	Maturity	Yield to Maturity	Par Value	Fair Value
FHLB Discount Note	10/15/09	0.27%	$ 12,000,000	$ 11,994,000
FHLB Discount Note	11/12/09	0.31%	50,000,000	49,955,000
FHLB Discount Note	11/13/09	0.29%	25,000,000	24,977,500
FHLB Discount Note	11/13/09	0.28%	100,000,000	99,910,000
FHLB Discount Note	11/13/09	0.28%	65,000,000	64,941,500
FHLB Discount Note	11/18/09	0.30%	75,000,000	74,932,500
FHLB Discount Note	12/04/09	0.37%	50,000,000	49,940,000
FHLB Discount Note	12/14/09	0.78%	15,000,000	14,982,000
FHLB Discount Note	01/11/10	0.68%	50,000,000	49,910,000
FHLMC Discount Note	06/11/10	0.60%	28,300,000	28,178,310
FHLMC Note 0.500	08/14/09	0.50%	100,000,000	99,990,000
FHLMC Note 0.430	09/15/09	0.43%	100,000,000	99,970,000
FHLMC Note 0.210	09/15/09	0.21%	50,000,000	49,985,000
FHLMC Note 0.190	09/15/09	0.19%	25,000,000	24,992,500
FHLMC Note 0.250	10/15/09	0.25%	25,000,000	24,987,500
FHLMC Note 0.480	11/05/09	0.48%	50,000,000	49,960,000
FHLMC Note 0.750	11/09/09	0.75%	9,893,000	9,885,086
FHLMC Note 0.290	11/30/09	0.29%	25,000,000	24,975,000
FHLMC Note 0.330	12/14/09	0.33%	95,000,000	94,886,000
FHLMC Note 0.500	01/06/10	0.50%	50,000,000	49,915,000
FHLMC Note 0.400	01/06/10	0.40%	25,000,000	24,957,500
FHLMC Note 4.250	07/15/09	2.86%	35,000,000	35,054,600
FFCB	05/18/10	0.65%	25,000,000	25,007,750
FAMC	01/26/10	0.89%	30,000,000	29,943,000
Federal Home Loan Bank	12/11/09	0.64%	25,000,000	25,109,500
Federal Home Loan Bank	06/29/10	0.65%	102,480,000	102,576,331
Federal Home Loan Bank	03/02/10	1.03%	25,000,000	25,093,750
Federal Home Loan Bank	03/02/10	1.08%	25,000,000	25,101,500
TOTAL U.S. TREASURY AND AGENCY OBLIGATIONS			**$ 3,053,195,000**	**$ 3,052,552,597**
CERTIFICATES OF DEPOSIT				
Community Bank & Trust, Ashland City	07/24/09	1.45%	$ 2,000,000	$ 2,000,000
Community Bank & Trust, Ashland City	10/09/09	0.60%	2,000,000	2,000,000
Community Bank & Trust, Ashland City	10/16/09	1.10%	1,000,000	1,000,000
Community Bank & Trust, Ashland City	10/16/09	1.10%	1,000,000	1,000,000
Bank of Crockett, Bells	07/20/09	0.50%	1,000,000	1,000,000
Bank of Crockett, Bells	10/09/09	0.60%	1,000,000	1,000,000
Carroll Bank & Trust, Bradford	11/06/09	1.10%	90,000	90,000

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2009

Description	Maturity	Yield to Maturity	Par Value	Fair Value
People's Bank & Trust Company, Byrdstown	07/14/09	1.45%	$ 100,000	$ 100,000
People's Bank & Trust Company, Byrdstown	09/22/09	1.35%	200,000	200,000
People's Bank & Trust Company, Byrdstown	11/20/09	0.85%	100,000	100,000
Bank of Camden	07/24/09	1.45%	1,300,000	1,300,000
Bank of Camden	08/26/09	0.75%	1,300,000	1,300,000
Bank of Camden	09/24/09	0.60%	1,400,000	1,400,000
Citizens Bank, Carthage	07/21/09	1.45%	4,000,000	4,000,000
First State Bank, Chapel Hill	07/21/09	1.45%	200,000	200,000
CapitalMark Bank & Trust, Chattanooga	07/10/09	1.00%	3,000,000	3,000,000
CapitalMark Bank & Trust, Chattanooga	07/31/09	0.40%	5,000,000	5,000,000
CapitalMark Bank & Trust, Chattanooga	08/04/09	1.45%	4,000,000	4,000,000
CapitalMark Bank & Trust, Chattanooga	08/28/09	1.45%	2,000,000	2,000,000
CapitalMark Bank & Trust, Chattanooga	09/04/09	1.45%	2,000,000	2,000,000
CapitalMark Bank & Trust, Chattanooga	10/27/09	1.10%	4,000,000	4,000,000
CapitalMark Bank & Trust, Chattanooga	10/30/09	1.10%	4,000,000	4,000,000
CapitalMark Bank & Trust, Chattanooga	11/03/09	1.10%	2,000,000	2,000,000
Cumberland Bank & Trust, Clarksville	07/28/09	0.40%	1,000,000	1,000,000
Cumberland Bank & Trust, Clarksville	08/03/09	0.40%	1,000,000	1,000,000
Cumberland Bank & Trust, Clarksville	08/07/09	0.40%	500,000	500,000
Cumberland Bank & Trust, Clarksville	09/08/09	1.44%	1,000,000	1,000,000
Community First Bank & Trust, Columbia	08/14/09	1.45%	2,000,000	2,000,000
Community First Bank & Trust, Columbia	08/14/09	1.45%	1,000,000	1,000,000
Community First Bank & Trust, Columbia	08/28/09	1.44%	2,000,000	2,000,000
Community First Bank & Trust, Columbia	11/25/09	0.85%	3,000,000	3,000,000
Community National Bank, Dayton	11/03/09	1.10%	2,000,000	2,000,000
Community National Bank, Dayton	12/04/09	0.85%	1,000,000	1,000,000
Community National Bank, Dayton	12/11/09	0.85%	1,000,000	1,000,000
The Farmers & Merchants Bank, Dyer	08/07/09	0.40%	2,000,000	2,000,000
First Citizens National Bank, Dyersburg	09/03/09	0.75%	3,000,000	3,000,000
First Citizens National Bank, Dyersburg	09/03/09	0.75%	20,000,000	20,000,000
Security Bank, Dyersburg	07/27/09	0.40%	1,000,000	1,000,000
Tennessee Commerce Bank, Franklin	07/06/09	0.40%	2,000,000	2,000,000
Tennessee Commerce Bank, Franklin	07/10/09	1.45%	3,500,000	3,500,000
Tennessee Commerce Bank, Franklin	07/10/09	1.45%	2,500,000	2,500,000
Tennessee Commerce Bank, Franklin	07/10/09	1.45%	2,000,000	2,000,000
Tennessee Commerce Bank, Franklin	07/13/09	0.40%	3,500,000	3,500,000
Tennessee Commerce Bank, Franklin	07/19/09	0.40%	3,000,000	3,000,000
Tennessee Commerce Bank, Franklin	07/27/09	0.60%	2,500,000	2,500,000

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2009

Description	Maturity	Yield to Maturity	Par Value	Fair Value
Tennessee Commerce Bank, Franklin	08/03/09	0.60%	$ 2,500,000	$ 2,500,000
Tennessee Commerce Bank, Franklin	08/10/09	0.60%	2,500,000	2,500,000
Tennessee Commerce Bank, Franklin	08/17/09	0.60%	2,500,000	2,500,000
Tennessee Commerce Bank, Franklin	08/24/09	0.60%	2,500,000	2,500,000
Tennessee Commerce Bank, Franklin	08/31/09	0.60%	1,500,000	1,500,000
Tennessee Commerce Bank, Franklin	08/31/09	0.60%	2,500,000	2,500,000
Tennessee Commerce Bank, Franklin	09/08/09	0.60%	2,500,000	2,500,000
Tennessee Commerce Bank, Franklin	09/14/09	0.60%	5,000,000	5,000,000
Tennessee Commerce Bank, Franklin	09/21/09	0.60%	4,000,000	4,000,000
Tennessee Commerce Bank, Franklin	09/28/09	0.60%	5,000,000	5,000,000
Tennessee Commerce Bank, Franklin	10/05/09	0.60%	500,000	500,000
Friendship Bank	11/20/09	0.85%	50,000	50,000
Friendship Bank	11/20/09	0.85%	525,000	525,000
Friendship Bank	11/20/09	0.85%	1,550,000	1,550,000
Gates Banking & Trust Company	07/02/09	0.50%	1,300,000	1,300,000
Gates Banking & Trust Company	07/03/09	0.50%	1,200,000	1,200,000
Gates Banking & Trust Company	07/13/09	0.50%	500,000	500,000
Gates Banking & Trust Company	07/13/09	0.50%	500,000	500,000
Gates Banking & Trust Company	07/13/09	0.40%	350,000	350,000
Gates Banking & Trust Company	07/16/09	0.50%	1,000,000	1,000,000
Gates Banking & Trust Company	07/30/09	0.40%	500,000	500,000
Gates Banking & Trust Company	07/30/09	0.40%	450,000	450,000
Gates Banking & Trust Company	08/07/09	0.40%	500,000	500,000
Gates Banking & Trust Company	08/17/09	0.40%	500,000	500,000
Gates Banking & Trust Company	08/21/09	0.40%	1,000,000	1,000,000
Tennessee State Bank, Gatlinburg	07/17/09	0.50%	20,000,000	20,000,000
Trust One Bank, Germantown	07/01/09	0.50%	6,000,000	6,000,000
Trust One Bank, Germantown	08/07/09	1.45%	2,000,000	2,000,000
Trust One Bank, Germantown	08/07/09	1.45%	2,000,000	2,000,000
Trust One Bank, Germantown	08/07/09	1.45%	2,000,000	2,000,000
Trust One Bank, Germantown	08/07/09	1.45%	1,000,000	1,000,000
Trust One Bank, Germantown	10/06/09	0.60%	3,000,000	3,000,000
Trust One Bank, Germantown	10/06/09	0.60%	1,000,000	1,000,000
Trust One Bank, Germantown	10/06/09	0.60%	1,000,000	1,000,000
Trust One Bank, Germantown	10/06/09	0.60%	3,000,000	3,000,000
Bank of Gleason	07/17/09	1.45%	1,000,000	1,000,000
Bank of Gleason	07/17/09	1.45%	1,000,000	1,000,000
Bank of Gleason	09/01/09	1.44%	300,000	300,000

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2009

Description	Maturity	Yield to Maturity	Par Value	Fair Value
Bank of Gleason	11/10/09	5.25%	$ 750,000	$ 750,000
Bank of Gleason	11/20/09	0.85%	350,000	350,000
Bank of Halls	07/31/09	0.40%	1,000,000	1,000,000
Bank of Halls	07/31/09	0.40%	1,000,000	1,000,000
Bank of Halls	07/31/09	0.40%	200,000	200,000
Bank of Halls	07/31/09	0.40%	400,000	400,000
Bank of Halls	08/07/09	0.40%	700,000	700,000
Bank of Halls	08/10/09	0.40%	200,000	200,000
Bank of Halls	08/14/09	0.40%	300,000	300,000
Bank of Halls	08/24/09	0.40%	500,000	500,000
Clayton Bank & Trust, Henderson	09/25/09	1.35%	5,000,000	5,000,000
American Security Bank & Trust Company, Hendersonville	07/10/09	1.00%	2,000,000	2,000,000
American Security Bank & Trust Company, Hendersonville	08/04/09	0.75%	500,000	500,000
American Security Bank & Trust Company, Hendersonville	08/04/09	0.75%	200,000	200,000
American Security Bank & Trust Company, Hendersonville	08/04/09	0.75%	200,000	200,000
American Security Bank & Trust Company, Hendersonville	08/17/09	0.75%	2,500,000	2,500,000
American Security Bank & Trust Company, Hendersonville	08/28/09	0.75%	500,000	500,000
The Bank of Jackson	07/09/09	0.50%	1,000,000	1,000,000
The Bank of Jackson	07/09/09	0.50%	1,000,000	1,000,000
The Bank of Jackson	07/09/09	0.50%	500,000	500,000
The Bank of Jackson	08/27/09	4.00%	1,000,000	1,000,000
First Volunteer Bank of Tennessee, Jamestown	10/05/09	0.60%	500,000	500,000
First Volunteer Bank of Tennessee, Jamestown	10/05/09	0.60%	500,000	500,000
First Volunteer Bank of Tennessee, Jamestown	10/05/09	0.60%	300,000	300,000
First Volunteer Bank of Tennessee, Jamestown	10/05/09	0.60%	200,000	200,000
First Volunteer Bank of Tennessee, Jamestown	10/05/09	0.60%	500,000	500,000
First Volunteer Bank of Tennessee, Jamestown	10/05/09	0.60%	450,000	450,000
Citizens State Bank, Jasper	07/24/09	1.45%	200,000	200,000
Citizens State Bank, Jasper	08/10/09	1.45%	200,000	200,000
Citizens State Bank, Jasper	08/10/09	1.45%	100,000	100,000
BB& T, Knoxville	07/31/09	1.45%	20,000,000	20,000,000
BB& T, Knoxville	09/04/09	1.45%	75,000,000	75,000,000
BB& T, Knoxville	09/25/09	1.10%	100,000,000	100,000,000
BB& T, Knoxville	10/23/09	1.03%	40,000,000	40,000,000
BB& T, Knoxville	11/25/09	0.85%	100,000,000	100,000,000
BB& T, Knoxville	12/15/09	0.80%	100,000,000	100,000,000
Citizens Bank of Lafayette	07/07/09	1.45%	250,000	250,000
Citizens Bank of Lafayette	12/11/09	0.85%	100,000	100,000

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2009

Description	Maturity	Yield to Maturity	Par Value	Fair Value
The Coffee County Bank, Manchester	09/15/09	1.34%	$ 95,000	$ 95,000
The Bank of Mason	07/07/09	0.40%	100,000	100,000
The Bank of Mason	07/07/09	0.40%	900,000	900,000
The Peoples Bank, Maury City	10/20/09	1.10%	200,000	200,000
The First National Bank of McMinnville	08/21/09	0.40%	9,000,000	9,000,000
Cadence Bank, NA, Memphis	08/25/09	1.45%	5,000,000	5,000,000
Cadence Bank, NA, Memphis	09/04/09	1.45%	5,000,000	5,000,000
Cadence Bank, NA, Memphis	09/04/09	1.45%	5,000,000	5,000,000
Cadence Bank, NA, Memphis	09/04/09	1.45%	5,000,000	5,000,000
Cadence Bank, NA, Memphis	09/04/09	1.45%	5,000,000	5,000,000
Independent Bank, Memphis	07/16/09	0.40%	10,000,000	10,000,000
Independent Bank, Memphis	07/17/09	0.40%	5,000,000	5,000,000
Independent Bank, Memphis	07/17/09	0.40%	300,000	300,000
Independent Bank, Memphis	07/17/09	0.40%	700,000	700,000
Landmark Community Bank, Memphis	10/20/09	1.10%	2,000,000	2,000,000
Paragon National Bank, Memphis	11/17/09	1.10%	3,000,000	3,000,000
Paragon National Bank, Memphis	11/24/09	0.85%	1,000,000	1,000,000
Renasant Bank, Memphis	07/07/09	0.40%	1,000,000	1,000,000
Renasant Bank, Memphis	07/07/09	0.40%	3,000,000	3,000,000
Renasant Bank, Memphis	07/07/09	0.40%	3,000,000	3,000,000
Renasant Bank, Memphis	07/08/09	1.00%	2,500,000	2,500,000
Renasant Bank, Memphis	07/10/09	1.00%	3,000,000	3,000,000
Renasant Bank, Memphis	07/16/09	0.50%	2,000,000	2,000,000
Renasant Bank, Memphis	07/16/09	0.50%	5,000,000	5,000,000
Renasant Bank, Memphis	07/16/09	0.50%	1,000,000	1,000,000
Renasant Bank, Memphis	07/22/09	0.90%	3,500,000	3,500,000
Renasant Bank, Memphis	08/14/09	0.40%	4,000,000	4,000,000
Renasant Bank, Memphis	10/09/09	0.60%	4,000,000	4,000,000
Renasant Bank, Memphis	10/09/09	0.60%	5,000,000	5,000,000
Patriot Bank, Millington	07/10/09	1.45%	2,000,000	2,000,000
Patriot Bank, Millington	08/13/09	0.40%	1,000,000	1,000,000
Patriot Bank, Millington	08/17/09	0.40%	1,000,000	1,000,000
Patriot Bank, Millington	08/20/09	0.40%	1,000,000	1,000,000
Bank of America, NA, Nashville	07/01/09	0.40%	100,000,000	100,000,000
Bank of Nashville	08/25/09	0.75%	5,000,000	5,000,000
Bank of Nashville	08/25/09	0.75%	20,000,000	20,000,000
Bank of Nashville	12/21/09	0.85%	5,000,000	5,000,000
Civic Bank & Trust, Nashville	10/16/09	1.10%	1,000,000	1,000,000

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2009

Description	Maturity	Yield to Maturity	Par Value	Fair Value
Fifth Third Bank, NA, Nashville	08/21/09	1.45%	$ 100,000,000	$ 100,000,000
Fifth Third Bank, NA, Nashville	10/02/09	1.10%	25,000,000	25,000,000
Fifth Third Bank, NA, Nashville	10/02/09	1.10%	30,000,000	30,000,000
Fifth Third Bank, NA, Nashville	10/23/09	1.10%	25,000,000	25,000,000
Fifth Third Bank, NA, Nashville	10/30/09	1.10%	25,000,000	25,000,000
Fifth Third Bank, NA, Nashville	10/30/09	1.10%	25,000,000	25,000,000
Fifth Third Bank, NA, Nashville	10/30/09	1.10%	25,000,000	25,000,000
Fifth Third Bank, NA, Nashville	12/04/09	0.85%	50,000,000	50,000,000
Fifth Third Bank, NA, Nashville	12/04/09	0.85%	50,000,000	50,000,000
Pinnacle National Bank, Nashville	07/13/09	0.40%	20,000,000	20,000,000
Pinnacle National Bank, Nashville	07/13/09	0.40%	20,000,000	20,000,000
Pinnacle National Bank, Nashville	07/13/09	0.40%	5,000,000	5,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	5,000,000	5,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	25,000,000	25,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	5,000,000	5,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	15,000,000	15,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	20,000,000	20,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	40,000,000	40,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	5,000,000	5,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	5,000,000	5,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	25,000,000	25,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	30,000,000	30,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	25,000,000	25,000,000
Pinnacle National Bank, Nashville	07/20/09	0.40%	10,000,000	10,000,000
Regions Bank, Nashville	07/02/09	1.00%	50,000,000	50,000,000
Regions Bank, Nashville	07/02/09	1.00%	100,000,000	100,000,000
Regions Bank, Nashville	07/02/09	1.00%	50,000,000	50,000,000
Regions Bank, Nashville	07/02/09	1.00%	100,000,000	100,000,000
Regions Bank, Nashville	11/24/09	0.85%	100,000,000	100,000,000
Regions Bank, Nashville	11/24/09	0.85%	50,000,000	50,000,000
US Bank, Nashville	07/07/09	0.25%	50,000,000	50,000,000
US Bank, Nashville	10/20/09	1.23%	150,000,000	150,000,000
US Bank, Nashville	12/14/09	1.64%	150,000,000	150,000,000
US Bank, Nashville	01/11/10	1.70%	200,000,000	200,000,000
Newport Federal Bank	07/07/09	1.45%	500,000	500,000
Newport Federal Bank	07/07/09	1.45%	500,000	500,000
Newport Federal Bank	09/14/09	1.35%	95,000	95,000
Newport Federal Bank	09/14/09	1.35%	300,000	300,000

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2009

Description	Maturity	Yield to Maturity	Par Value	Fair Value
Community Trust & Banking Company, Ooltewah	07/03/09	1.45%	$ 500,000	$ 500,000
Community Trust & Banking Company, Ooltewah	09/18/09	1.35%	500,000	500,000
Community Trust & Banking Company, Ooltewah	12/04/09	0.85%	500,000	500,000
First National Bank of Pulaski	08/14/09	0.40%	2,000,000	2,000,000
First National Bank of Pulaski	08/17/09	0.40%	3,000,000	3,000,000
First National Bank of Pulaski	09/08/09	0.75%	2,000,000	2,000,000
First National Bank of Pulaski	09/11/09	0.75%	300,000	300,000
First National Bank of Pulaski	09/11/09	0.75%	700,000	700,000
First National Bank of Pulaski	09/11/09	0.75%	500,000	500,000
First National Bank of Pulaski	09/15/09	0.75%	500,000	500,000
First National Bank of Pulaski	09/15/09	0.75%	300,000	300,000
First National Bank of Pulaski	09/18/09	0.75%	1,000,000	1,000,000
First National Bank of Pulaski	09/18/09	0.75%	1,000,000	1,000,000
First National Bank of Pulaski	09/18/09	0.75%	300,000	300,000
First National Bank of Pulaski	09/18/09	0.75%	1,000,000	1,000,000
First National Bank of Pulaski	10/16/09	0.60%	4,000,000	4,000,000
First National Bank of Pulaski	11/25/09	0.85%	2,000,000	2,000,000
First National Bank of Pulaski	12/11/09	0.85%	2,000,000	2,000,000
First National Bank of Pulaski	12/11/09	0.85%	2,000,000	2,000,000
First National Bank of Pulaski	12/15/09	0.85%	3,000,000	3,000,000
Bank of Ripley	07/10/09	0.50%	2,000,000	2,000,000
The Peoples Bank, Sardis	11/17/09	1.10%	2,000,000	2,000,000
The Hardin County Bank, Savannah	07/07/09	1.45%	1,000,000	1,000,000
Citizens City & County Bank, Trenton	09/17/09	1.35%	95,000	95,000
Farmers & Merchants Bank, Trezevant	07/06/09	0.50%	500,000	500,000
Farmers & Merchants Bank, Trezevant	07/06/09	0.50%	500,000	500,000
First State Bank, Union City	07/09/09	0.50%	4,000,000	4,000,000
First State Bank, Union City	07/27/09	0.40%	3,000,000	3,000,000
First State Bank, Union City	08/24/09	0.40%	3,000,000	3,000,000
First State Bank, Union City	09/24/09	0.60%	5,000,000	5,000,000
Wayne County Bank, Waynesboro	07/06/09	0.50%	900,000	900,000
Wayne County Bank, Waynesboro	10/02/09	1.10%	500,000	500,000
TOTAL CERTIFICATES OF DEPOSIT			**$ 2,536,800,000**	**$ 2,536,800,000**
OVERNIGHT DEPOSIT ACCOUNTS				
Regions Bank - Overnight Deposit Account:	07/01/09	0.38%	$ 291,331,428	$ 291,331,428
TOTAL OVERNIGHT DEPOSIT ACCOUNTS			**$ 291,331,428**	**$ 291,331,428**

(continued)

STATE CASH PORTFOLIO AS OF JUNE 30, 2009

Description	Rating	Maturity	Par Value	Fair Value
COMMERCIAL PAPER				
A D P	A1	07/01/09	$ 150,000,000	$ 150,000,000
Cargill Inc	A1	07/06/09	35,000,000	34,999,174
Cargill, Inc	A1	07/10/09	20,000,000	19,999,000
Cargill, Inc	A1	07/10/09	30,000,000	29,998,500
Cargill, Inc	A1	07/15/09	15,000,000	14,998,833
Citigroup	A1	07/01/09	275,000,000	275,000,000
Citigroup	A1	07/07/09	50,000,000	49,997,083
Citigroup	A1	07/13/09	50,000,000	49,994,167
General Electric	A1	07/01/09	200,000,000	200,000,000
General Electric	A1	07/22/09	50,000,000	49,993,292
General Electric	A1	07/15/09	50,000,000	49,996,111
H S B C	A1	07/01/09	275,000,000	275,000,000
H S B C	A1	07/09/09	50,000,000	49,993,889
H S B C	A1	07/16/09	25,000,000	24,997,083
H S B C	A1	07/17/09	25,000,000	24,993,889
Koch	A1	07/20/09	25,000,000	24,997,097
Metlife	A1	07/08/09	18,000,000	17,999,055
Metlife	A1	07/27/09	80,000,000	79,982,667
Toyota	A1	07/01/09	275,000,000	275,000,000
Toyota	A1	07/02/09	25,000,000	24,999,826
Toyota	A1	07/06/09	25,000,000	24,999,132
Toyota Motor Credit	A1	07/15/09	50,000,000	49,995,139
TOTAL COMMERCIAL PAPER			**$ 1,798,000,000**	**$ 1,797,933,937**
TOTAL STATE CASH PORTFOLIO			**$ 7,679,326,428**	**$ 7,678,617,961**

BACCALAUREATE EDUCATION SYSTEM TRUST PORTFOLIO

BACCALAUREATE EDUCATION SYSTEM TRUST
as of June 30, 2009

Fixed Mutual Funds	**Units**	**Fair Value**
State Street US Aggregate Bond Index	2,745,539	$ 34,374,154
Total Fixed Mutual Funds		**$ 34,374,154**

Equity Mutual Funds	**Units**	**Fair Value**
State Street S&P 500 Index Fund	675,215	$ 26,849,911
State Street MSCI EAFE Index Fund	1,291,330	14,549,416
Northern Institutional Fund	1,509,196	1,509,197
Total Equity Mutual Funds		**$ 42,908,524**
Total Portfolio		**$ 77,282,678**

CHAIRS OF EXCELLENCE LARGEST HOLDINGS

Largest Bond Holdings
as of June 30,2009
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	(2.09)%	01/15/16	Aaa	$ 5,157,613
3,500,000	US Treasury Bonds DTD	4.03 %	05/15/30	Aaa	4,437,342
3,500,000	PPN CMO GS MTG SECS CORP II COML MTG	1.88 %	05/03/18	Aaa	3,788,782
3,395,219	FNMA Pool #867662	2.14 %	05/01/36	NR	3,621,816
3,370,000	US Treasury Bonds Inflation Index	(0.67)%	01/15/26	Aaa	3,544,554
3,217,741	FNMA Pool #745250	2.51 %	01/01/21	NR	3,352,274
2,500,000	US Treasury Notes Inflation Indexed	(3.08)%	01/15/12	Aaa	3,190,615
3,000,000	FHLMC Bonds	1.36 %	03/23/12	Aaa	3,027,126
2,915,490	FNMA Pool #839272	3.41 %	09/01/35	NR	3,020,681
3,000,000	US Treasury Notes Inflation Indexed	(0.59)%	07/15/18	Aaa	2,875,525

A complete portfolio listing is available upon request

Mutual Funds	**Units**	**Fair Value**
State Street S&P 500 Index Fund	1,515,601	$ 60,267,870
State Street MCSI EAFE Index Fund	2,270,152	25,577,808
Northern Institutional Fund	5,271,513	5,271,513
Total Mutual Funds		$ 91,117,191

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*

PROGRAMS

North View of First Floor

Photo by Edward Crim

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.

The person who opens the account or the child must be a resident of Tennessee when the tuition account is opened, and enrollment is open to anyone who meets the residency requirement. There is no age limit for enrollment; however, the beneficiary must be born, and tuition units must be on account with BEST for at least two years prior to use. The purchase of one unit is required at the time of enrollment; however, flexibility is a key component of the program by allowing participants to determine when and how much to save. Participants have several payment options including cash, check, payroll deduction and automatic bank withdrawal.

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.

Interested parties and participants may utilize BEST's website for program information, located at www.tn.gov/treasury/best, to learn about the program. The site features the contract application, which can be downloaded, completed, and mailed to the BEST office. Questions or comments to BEST staff can be emailed through this site.

The Baccalaureate Education System Trust prepaid program began accepting contracts and contributions in June 1997. At June 30, 2009, BEST had 9,040 active contracts with net assets totaling $77.3 million. The unit price was $67.71 per unit for the January 1, 2009 – July 31, 2009 enrollment period. The unit price increased to $70.32 for the August 1, 2009 – December 31, 2009 enrollment period. The BEST Board annually adjusts the unit purchase price and unit payout price to reflect the current weighted average tuition of Tennessee's public colleges and universities.

From the first payout in Fall 1999, the BEST Prepaid program has issued $16.5 million in payments to colleges and universities.

BACCALAUREATE EDUCATION SYSTEM TRUST

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.

The Path2College 529 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 range from 49-65 basis points.

Prepaid Tuition Plan

History of Per Unit Payout, Prices and Fee

Enrollment Fiscal Year	Unit Payout	Administrative Fee	Actuarial Soundness	Unit Price (Aug. 1-Dec. 31)	Adjustment for Purchases after December 31*	Unit Price (Jan. 1-July 31)
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

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

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.

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 2008-09 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:

Officer	Number Receiving Payment
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	55
Total	312

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

Fiscal Year Ended June 30	Recipients
2009	312
2008	287
2007	282
2006	288
2005	274

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	15
Number of counties that did not provide an incentive	59
Number of counties that did not provide information	21
Total	95
Total amount of incentives paid	$172,977
Total number of recipients	131
Average amount of incentive that was paid	$ 1,320

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 three-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 2005-2009

Fiscal Year	Investment Income/(Loss)	Total Spending of the Chairs	Asset Balance
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
2005	11,749,363	6,032,346	220,507,071

Annualized Investment Return

	1 Year	5 Years	10 Years
Domestic Equity	(26.16)%	2.21%	2.36%
International Equity	(31.34)%	-	-
Fixed Income	4.72 %	4.61%	5.63%
Short-Term	2.33 %	3.76%	3.57%
Total Portfolio	(11.68)%	1.79%	1.93%

CHAIRS OF EXCELLENCE TRUST

AUTHORIZED CHAIRS OF EXCELLENCE

The University of Tennessee

Chattanooga

- Cline COE in Rehabilitation Technology
- COE in Judaic Studies
- Frierson COE in Business Leadership
- Harris COE in Business
- Lyndhurst COE in Arts Education
- McKee COE in Learning
- Miller COE in Management and Technology
- Provident Life and Accident Ins. Co. COE in Applied Math
- Sun Trust Bank COE in the Humanities
- West COE in Communications and Public Affairs

Knoxville

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

Martin

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

Memphis

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

Space Institute

- Boling COE in Space Propulsion
- H. H. Arnold COE in Computational Mechanics

CHAIRS OF EXCELLENCE TRUST

Authorized Chairs of Excellence

Tennessee Board of Regents

Austin Peay State University

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

East Tennessee State University

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

Middle Tennessee State University

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

Tennessee State University

COE in Banking and Finance
Frist COE in Business Administration

Tennessee Technological University

Mayberry Chair of Business Administration
Owen Chair of Business Administration

University of Memphis

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

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 49% 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 2009, the Division of Claims Administration received 4,837 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 2009 fiscal year, the Board took action on a total of two 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.

CLAIMS AGAINST THE STATE

Claims and Payment Activity
Fiscal Year 2009

Claims Activity	Payments Made
Worker's Compensation Claims	
Death Payments	$ 185,445
Medical Payments	12,773,681
Temporary Disability	2,889,359
Permanent Disability	7,399,496
Subtotal	23,247,981
Employee Property Damage	24,688
Tort Claims	
Death Payments	2,194,166
Bodily Injury Payments	3,042,169
Property Damage Payments	993,253
Subtotal	6,229,588
Total Claims Against the State	**$ 29,502,257**

Five-Year Claims History
Fiscal Years 2005-2009

Fiscal Year	Amount of Claims Paid
2009	$ 29,502,257
2008	27,480,776
2007	25,997,535
2006	24,420,318
2005	28,975,152

Claims Filed By Program
Fiscal Years 2005-2009

Fiscal Year	Workers' Compensation	Employee Property Damage	Tort	Total
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
2005	3,722	166	1,521	5,409

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 2009 fiscal year, 2,842 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 2009 fiscal year, the Division of Claims Administration made payments to victims of crime totaling $13.6 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 $202 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 2009 fiscal year, 3,406 forensic claims were filed. On average, the division renders a decision within 13 days.

CRIMINAL INJURIES COMPENSATION FUND

Sources of Funds
Fiscal Years 2007-2009

	2009		2008		2007	
Source	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Fines	$ 6,649,241	38%	$ 7,038,358	44%	$ 4,718,062	39%
Federal Funds	5,642,000	32%	5,253,000	32%	3,411,000	28%
ARRA Stimulus Funds	1,472,799	8%	0	0%	0	0%
Probation and Parole Fees	2,976,080	17%	3,178,573	20%	3,017,314	25%
Bond Forfeitures	698,424	4%	397,807	2%	536,720	5%
Other	169,318	1%	272,009	2%	333,891	3%
Total	**$17,607,862**	**100%**	**$16,139,747**	**100%**	**$12,016,987**	**100%**

Claims Paid by Crime or Claim Type
Fiscal Year 2009

Crime or Claim Type	Number Paid	Percentage of Total Claims	Amount Paid	Percentage of Total Paid
Assault	902	18.9%	$ 5,769,303	43.4%
Homicide	293	6.2%	2,411,013	18.1%
Robbery by Force	208	4.4%	1,275,587	9.6%
Child Sexual Abuse	331	7.0%	778,444	5.9%
DUI	63	1.3%	572,521	4.3%
Adult Sexual Assault	153	3.2%	445,477	3.3%
Vehicular (non-DUI)	16	0.3%	191,733	1.4%
Hit and Run	5	0.1%	54,315	0.4%
Child Physical Abuse	5	0.1%	1,838	0.0%
Subtotal	1,976	41.5%	$11,500,231	86.4%
Forensic Exam	2,786	58.5%	1,804,460	13.6%
Grand Total	**4,762**	**100.0%**	**$13,304,691**	**100.0%**

CRIMINAL INJURIES COMPENSATION FUND

New Claims Filed
Fiscal Year 2009

Crime or Claim Type	Number Filed
Assault	1,195
Child Sexual Abuse	512
Homicide	420
Robbery by Force	283
Adult Sexual Assault	209
DUI	103
Vehicular (non-DUI)	51
Hit and Run	38
Other	20
Child Physical Abuse	5
Kidnapping	4
Stalking	1
Arson	1
Subtotal	2,842
Forensic Exam	3,406
Grand Total	**6,248**

Claims Denied
Fiscal Year 2009

Criminal Injuries Claims Reason Type	Number Denied	Percentage
Failure to Cooperate/Prosecute	292	23.7%
Contributory Behavior	270	21.9%
Insufficient Documentation	175	14.2%
Collateral Resource Covered Loss(es)	137	11.1%
Ineligible Crime	74	6.0%
Late Filing of Claim	59	4.8%
Ineligible Claimant	47	3.8%
Insufficient Proof of a Crime	42	3.4%
Loss(es) Less than $100	34	2.8%
Ineligible Loss(es)	34	2.8%
Late Reporting of Crime	29	2.4%
Other	22	1.8%
No Collateral Resource Information	9	0.7%
Passenger with Drunk Driver	5	0.4%
No Report of Crime	2	0.2%
Total Denial Reasons	**1,231**	**100.0%**

In fiscal year 2009, 976 criminal injuries claims were denied. Some claims are denied for more than one reason.

CLAIMS COMMISSION

Claims Commission

Section 9-8-301 of Tennessee Code Annotated establishes the Tennessee Claims Commission as the administrative tribunal to determine monetary claims against the state. The commission has three commissioners, one from each grand division of the state. The three commissioners, who are appointed by the Governor and confirmed by the General Assembly, serve staggered eight-year terms.

The commission has a central office in Nashville with an administrative clerk and administrative services assistant. The commission is attached to the Treasury Department of administrative purposes.

The commission adjudicates claims involving tax recovery, state workers' compensation, and alleged negligence by state officials or agencies (e.g., negligent care, custody, or control of persons, property, or animals; professional malpractice; negligent operation or maintenance of a motor vehicle; and dangerous conditions on state-maintained highways or state controlled real property). The claims are payable from the Risk Management Fund. Tort liability damages are limited to $300,000 per claimant and $1,000,000 per occurrence. In addition, the commission awards compensation to victims of crime through the Criminal Injury Compensation Fund, and the Claims Commission has jurisdiction to review final decisions of the Secretary of State, denying a charitable gaming annual application as provided for under Tennessee Code Annotated, Section 3-17-104(h)(1). The Treasury Department's Division of Claims Administration is responsible for paying all claims.

Claims Processing

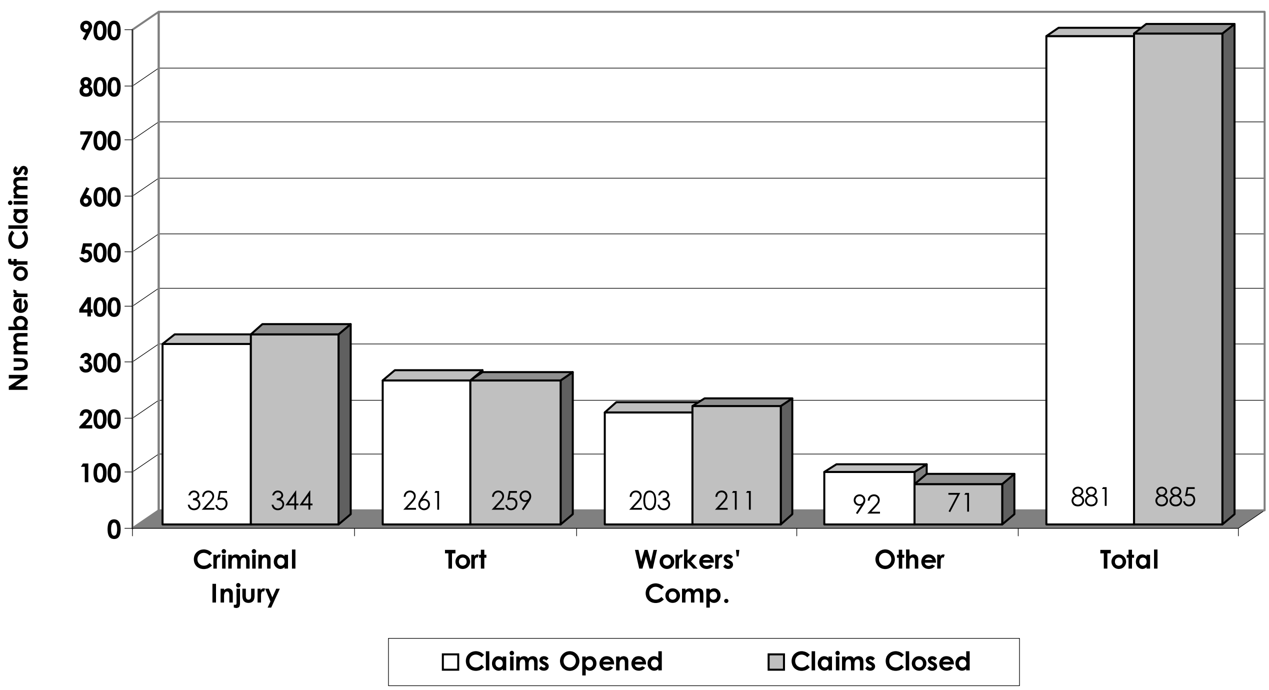
The vast majority of claims are first filed with the Division of Claims Administration. Claims involving taxes are filed directly with the Claims Commission, and claims involving workers' compensation are filed directly with the third party administrator.

Both the Division of Claims Administration and the third party administrator have 90 days to accept or deny a claim before the claim is automatically transferred to the commission. Claimant's can appeal both entities' decisions to the commission.

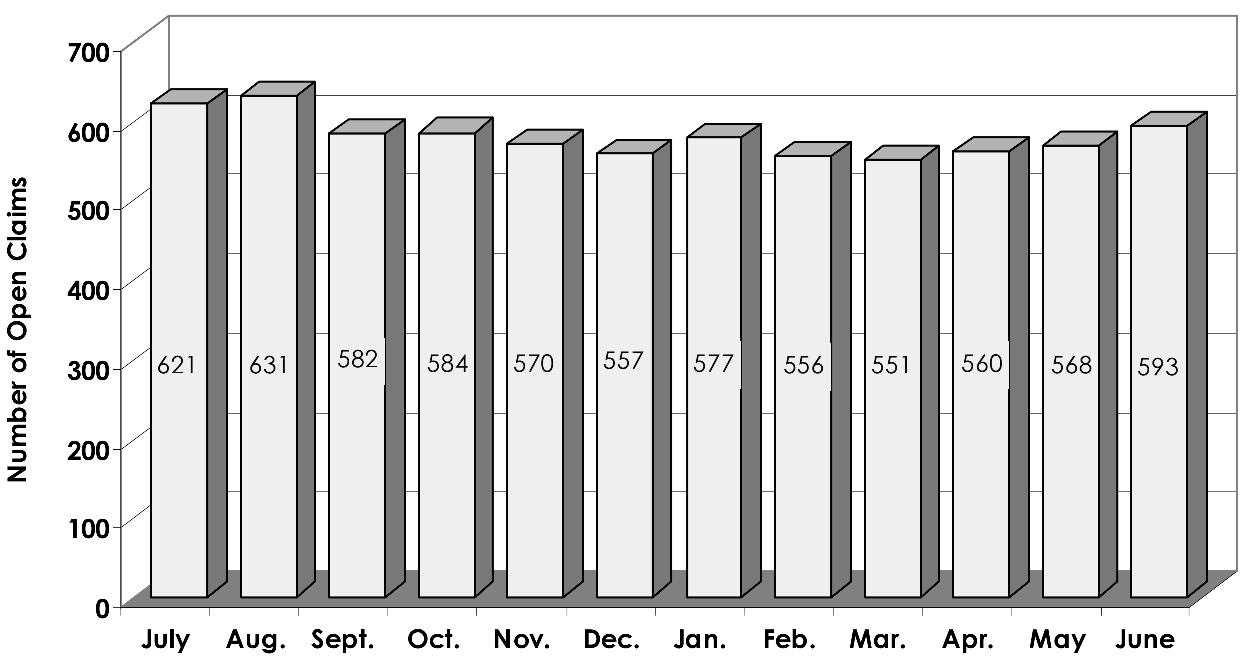
The commission has two separate dockets: a regular docket for claims greater than $25,000 and a small docket for claims under that amount. Commission decision regular docket claims can be appealed to the Tennessee Court of Appeals or, in the case of tax or workers' compensation, to the Tennessee Supreme Court. Small docket claims can not be appealed, but such can be removed to the regular docket (at the discretion of either party) before a hearing is held.

CLAIMS COMMISSION

Number of Claims Opened and Number of Dispositions By Claim Type
(Including Dispositions by Administrative Law Judges)
Fiscal Year 2009



Claims Commission Open Claims
Fiscal Year 2009



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 2008-2009 premium costs for all lines of property and casualty coverage amounted to $3.2 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, 2009, total insured property values were $16.9 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 2008-09, 177 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 2,497 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, 2009, seven state agencies had 53 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

The prevention and control of losses are important in managing the state's risks. In FY 2008-2009, risk management staff conducted loss prevention surveys at 67 locations. A total of 152 buildings were inspected 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.

STATE PROPERTY

Summary of Key Points
Fiscal Year 2008-2009

Insurance Coverage Information:		
Insured Property Values	$	16,900,000,000
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)	$	325,000
Risk Management Fund Obligation		2,699,138
Total Property Losses	$	3,024,138

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 (SMOB)Assistance Program. Chapter 830 required the department, by rule, to develop an assistance program for small and minority-owned businesses, as defined in T.C.A. Section 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. The SMOB Program 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, Southeast Tennessee Development District, 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
- South Central Tennessee Development District
- Southeast Capital Corporation
- Southwest Tennessee Development District

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

The SMOB Program was officially launched in February 2008 with results depicted below as of June 2009:

Race	Male	Female	Number of Loans	Total Loans By Race
African-American	$1,210,929	$ 987,645	32	$2,198,574
White	1,151,489	1,166,500	36	2,317,989
Other	375,000	125,000	4	500,000
Total Loans	$2,737,418	$2,279,145	72	$5,016,563

Interested parties may utilize the SMOB Program's website, located at 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, 2008 through June 30, 2009, $51.0 million of cash property was turned over to the Treasurer. This includes $3.5 million remitted by third party audit organizations from out-of-state non-reporting holders for Tennessee residents. An additional $9.1 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.tn.gov/treasury/unclaim. This site logged 3.7 million visitors at June 30, 2009, an increase of 470,000 for the fiscal year. In addition the owners' names are available on the national website Missing Money at: 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, 2008 through June 30, 2009, $23.3 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, $860,673 was refunded to 25 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 $1.4 million for residents or former residents in exchange for $2.1 million paid to other states' unclaimed property offices.

Since the program began operations in 1979, $612.3 million in unclaimed property has been reported to the Treasurer and $198.9 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 60% of property that is turned over with an owner's name.

UNCLAIMED PROPERTY DIVISION

METHODS USED TO RETURN PROPERTY
Fiscal Year 2009

Location Method	Number of Accounts	Value of Claims	Average Claim Value
Website Inquiries	12,278	$10,225,004	$ 833
Holder Referral or Reimbursement	582	2,325,063	3,995
Independent Locator	36	2,068,844	57,468
Staff or Other Outreach	849	1,970,615	2,321
Mailings to Last Known Address	3,557	1,944,717	547
Advertisement and Television	1,765	1,004,431	569
Match with Dept. of Labor and Work Force Records	2,403	741,810	309
Total Claim Payments	21,470	$20,280,484	$ 945
Refunds to Local Governments	25	860,673	
Interstate Exchanges	48	2,111,354	
Total Payments	**21,543**	**$23,252,511**	

SOURCES OF UNCLAIMED PROPERTY
Fiscal Years 2005-2009

	2009	2008	2007	2006	2005
Corporations, Transportation, Colleges, Retailers	27%	26%	22%	19%	11%
Insurance Companies	25%	22%	20%	21%	20%
Financial Institutions	19%	24%	28%	29%	37%
Escheat and Other	8%	7%	7%	6%	7%
Cities and Counties	5%	6%	4%	8%	5%
Utilities	5%	4%	5%	6%	5%
Securities and Brokerage Firms	4%	5%	5%	4%	8%
Hospitals and Health Care	4%	3%	6%	4%	3%
Other States	3%	3%	3%	3%	4%
Total	100%	100%	100%	100%	100%

ACTIVITY
Fiscal Years 2005-2009

	2009	2008	2007	2006	2005
Number of Holders Reporting	5,999	5,891	5,531	5,251	5,228
Number of Properties Received	319,466	371,527	223,703	290,254	226,918
Cash Received (not including shares sold)	$50,998,037	$52,314,382	$45,016,106	$40,233,068	$40,397,209
Number of Shares Received	2,224,055	2,257,769	1,364,190	1,685,649	489,767
Value of Shares Sold	$ 9,148,704	$28,157,142	$ 6,021,856	$23,277,122	$ 8,908,304
Number of Claims Paid	21,543	16,982	15,437	15,245	16,504
Cash Paid	$23,252,511	$22,428,974	$17,496,766	$20,727,999	$17,560,719
Shares Paid	270,135	223,892	148,952	348,525	265,790

ADMINISTRATION

Senate Chambers

Photo by Edward Crim

STATUTORY DUTIES OF THE STATE TREASURER

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

Administration	Tennessee Code Annotated Section
Baccalaureate Education System Trust	49-7-801, et seq.
Board of Claims	9-8-101, et seq.
Chairs of Excellence Trust	49-7-501—49-7-502
Collateral Pool	9-4-501—9-4-523
Collateral Program	9-4-101—9-4-105
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
Staff Assistant to the Treasurer	Joy Harris	615-741-2956
General Counsel	Mary Roberts-Krause, JD	615-253-3855
Human Resource Director	Ann Taylor-Tharpe	615-253-4111
Director of Internal Audit	Britt Wood, CPA, CFE, CGFM, CISA	615-253-2018
Director of Communications	Blake Fontenay	615-253-2668

Investments

Assistant to the Treasurer	Ed Hennessee, CFP	615-532-1167
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	Jeremy Conlin, CLU, ChFC, CFA	615-532-1152
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
Deputy Director of Fixed Income	Matthew Hedges, CFA	615-741-2704
Director of Private Equity	Lamar Villere, CFA	615-532-1154

Retirement Administration

TCRS Director	Jill Bachus, CPA, CGFM	615-741-7063
TCRS Assistant Director	Jamie Wayman, CPA	615-741-7063
TCRS Director of Deferred Compensation	Beth Chapman, CPA, CGFM	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

Support Services

Assistant to the 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

Program Services

Assistant to the Treasurer	Steven Curry, CPA-inactive, CEBS, CCM	615-532-8045
Director of Risk Management	Steve Gregory	615-741-1009
Manager Small Minority Business Program	Jaye Chavis	615-253-2265
Manager BEST Program	LaKesha 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
Manager Criminal Injury Program	Amy Dunlap	615-741-9962
East Tennessee Claims Commissioner	William O. Shults, JD	423-623-9270
Middle Tennessee Claims Commissioner	Stephanie Reevers, JD	615-253-1626
West Tennessee Claims Commissioner	Nancy Miller-Herron, JD	731-364-2440
Administrative Clerk, Claims Commission	Marsha Richeson	615-532-5385

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.

EXECUTIVE STAFF - TREASURER'S OFFICE

David H. Lillard, Jr.
J.D., LL.M. in Taxation
State Treasurer

From Top Row (l-r): Mary Roberts-Krause, JD, General Counsel; Joy Harris, Staff Assistant to the Treasurer; Britt Wood, CPA, CFE, CGFM, CISA, Director of Internal Audit; Blake Fontenay, Director of Communications; Ann Taylor-Tharpe, Director of Human Resources and Janice Cunningham, Chief of Staff

EXECUTIVE STAFF - PROGRAM SERVICES

Steve Curry, CPA-inactive, CEBS, CCM
Assistant to the Treasurer for Program Services

From Top Row (l-r): Jaye Chavis, Manager of Small and Minority-Owned Business Assistance Program; Marsha Richeson, Claims Commission Administrative Clerk; Steve Gregory, Director of Risk Management; LaKesha Page, Manager of Baccalaureate Education System Trust; Amy Dunlap, Manager of Criminal Injuries; Angela Woodrum, Supervisor of Unclaimed Property; John Gabriel, Director of Unclaimed Property; Kellie Williamson, Assistant Director of Unclaimed Property and Anne Adams, Director of Claims Administration

EXECUTIVE STAFF - RETIREMENT SERVICES

Ed Hennessee, CFP
Assistant to the Treasurer for Investments

Michael Brakebill, CFA
Chief Investment Officer

From Top Row (l-r): Tim McClure, CCM, Director of Short-Term Investments and TCRS Operations; Jill Bachus, CPA, CGFM, Director of TCRS; Matthew Hedges, CFA, Deputy Director of Fixed Income; Lamar Villere, Director of Private Equity; Andrew Palmer, CFA, Director of Fixed Income and Deputy CIO; Fred Marshall, CPA, Assistant Director of Concord; Jamie Wayman, CPA, Assistant Director of TCRS; Peter Katseff, Director of Real Estate; Erica Nale, Manager of Benefits and Prior Service of TCRS; Amanda Staggs, Supervisor of Field Services of TCRS; Chris Jones, Supervisor of Benefits of TCRS; Beth Chapman, CPA, CGFM, Director of Deferred Compensation; Billy Barrett, Supervisor of Insurance and Flexible Benefits of TCRS; Tracey Washington, Supervisor of Deceased Benefits, Refunds and Training of TCRS; Mia Robinson, Supervisor of Payroll and File Management of TCRS; Michael Keeler, CFA, Director of Domestic Equities; Keevia Battle, CPA, Manager of Financial Services of TCRS; Jennifer Wooten, Manager of Customer Service of TCRS; Candy O'Leary, Supervisor of Counseling of TCRS and Vernon Bush, JD, Director of Old Age and Survivor Insurance; *Not Present:* Sandra Sewell, Manager of Counseling Services of TCRS and Mark Wakefield, Supervisor of Prior Service of TCRS

EXECUTIVE STAFF - SUPPORT SERVICES

Rick DuBray, CPA
Assistant to the Treasurer for Support Services

From Top Row (l-r): David Bauer, Project Management Manager of Information Systems; Brian Derrick, Relationship Manager of Information Systems; Tim Sundell, Assistant Director of Information Systems; Amanda McGraw, Manager of Program Accounting; Cassandra Esaka, Manager of Investment Accounting; Marcus Dodson, Infrastructure Manager of Information Systems; Sonya Rafn, Security Analyst Supervisor of Information Systems; Mary Alexander, Assistant Director of Management Services; Kim Morrow, CPA, Director of Accounting; Anita Smith, Manager of State Trust and Lock Box; Amy Dineen, Manager of TCRS Accounting; Sam Baker, CCP, CDP, Application Support Manager of Information Systems; Kerry Hartley, CPA, Director of Management Services; Karen Baumgartel, Manager of Bank Accounting and Janice Patton, Manager of Treasury Operations; *Not Present:* Connie Gibson, CPA, Assistant Director of Accounting; Gary Ridner, CPA-inactive, CISSP, CISM, Director of Information Systems and David Singleton, Application Development Manager of Information Systems

TREASURY STAFF

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

[5] Received 5-year service award in 2009
[10] Received 10-year service award in 2009
[15] Received 15-year service award in 2009
[20] Received 20-year service award in 2009
[25] Received 25-year service award in 2009
[30] Received 30-year service award in 2009
[35] Received 35-year service award in 2009

TREASURY INTERNET SERVICES

Program	Internet Features	Internet Address
Services to the Public		
BEST	Program information, rate information, contracts, forms and newsletters	www.tn.gov/treasury/best
Careers NOW	Program information, calendar, campus contacts, job descriptions and applications	www.tn.gov/treasury/now
Criminal Injury Compensation Program	Frequently asked questions, application and forms, links to victims' programs nationwide and victims' organizations	www.tn.gov/treasury/injury
Unclaimed Property	Search for unclaimed property, claim forms, program information, links to other states' programs, holder reporting information, forms, instructions and free software	www.tn.gov/treasury/unclaim
Claims Commission	Information, contacts, rules and statutes	www.tn.gov/treasury/claims
Government Services		
Local Government Investment Pool	Information, forms, operations manual, newsletters, past rates, portfolio and investment policy	www.tn.gov/treasury/lgip
OASI/Social Security	Information, FICA rates, law and forms	www.tn.gov/treasury/oasi
Risk Management	Program and claim process information, frequently asked questions, property insurance report search, safety check lists, agency loss control reports, employee safety information and safety videos	www.tn.gov/treasury/risk
Workers' Compensation	Information on reporting accidents and filing claims, eligibility criteria, glossary, explanation of benefits and provider directory	www.tn.gov/treasury/wc
Public Employee Benefit Programs		
Deferred Compensation	Account access (inquiry, transfers, allocation changes), participation and investment information, benefit projection calculator, withdrawal information and forms	www.tn.gov/treasury/dc
Flexible Benefits Plan	Program information and forms	www.tn.gov/treasury/flex
Optional Retirement Program	Program information, forms, company contacts and product information	www.tn.gov/treasury/orp
Tennessee Consolidated Retirement System	Program information, benefits calculator, publications, newsletters, forms, annual report, frequently asked questions, political subdivision option search and retirement planning information	www.tn.gov/treasury/tcrs
Other		
About the Treasurer	Statutory duties and biographical information	www.tn.gov/treasury/about.html
Annual Report	Treasurer's Report on-line	www.tn.gov/treasury/TreasurersAnnualReport
Bank Collateral Pool	Program information, forms and participants	www.tn.gov/treasury/bank

FINANCIAL STATEMENTS

House of Representatives

Photo by Edward Crim

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

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

July 26, 2010

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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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 July 26, 2010, 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 read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN STATEMENTS OF FIDUCIARY NET ASSETS JUNE 30, 2009 AND JUNE 30, 2008

	June 30, 2009	June 30, 2008
ASSETS		
Cash and cash equivalents	$ 1,393,908	$ 1,756,131
Receivables		
Contributions receivable	7,878	8,651
Investment income receivable	731,234	855,069
Investments, at fair value		
Investment in fixed income index fund	34,374,154	41,233,334
Investment in equity index fund	41,399,327	47,064,196
TOTAL ASSETS	77,906,501	90,917,381
LIABILITIES		
Investments purchased	731,226	852,163
Accounts payable	110,636	0
Other investment payable	8,600	10,269
TOTAL LIABILITIES	850,462	862,432
NET ASSETS HELD IN TRUST FOR PLAN PARTICIPANTS	$ 77,056,039	$ 90,054,949

See accompanying Notes to the Financial Statements.

BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008
ADDITIONS		
Contributions	$ 4,424,484	$ 4,933,806
Investment income		
Net decrease in fair value of investments	(13,520,540)	(7,464,949)
Interest and dividend income	2,906,698	3,559,556
Less: Investment expense	(34,012)	(38,507)
Net investment income	(10,647,854)	(3,943,900)
Administrative fees	264,186	322,684
TOTAL ADDITIONS	(5,959,184)	1,312,590
DEDUCTIONS		
Refunds	578,778	832,858
Payments	6,039,754	5,551,813
Administrative cost	421,194	424,628
TOTAL DEDUCTIONS	7,039,726	6,809,299
CHANGE IN NET ASSETS	(12,998,910)	(5,496,709)
NET ASSETS HELD IN TRUST FOR PLAN PARTICIPANTS		
BEGINNING OF YEAR	90,054,949	95,551,658
END OF YEAR	$ 77,056,039	$ 90,054,949

See accompanying Notes to the Financial Statements.

BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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, includes 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 103 - 109 of this report.

1. **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, 2009 and June 30, 2008, the ESEP had $34,374,154 and $41,233,334 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, 2009 AND JUNE 30, 2008

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, 2009 and June 30, 2008 are not available since the SSgA US Aggregate Bond Index Fund is not traded on an exchange and is unrated; however the average rating for the securities in the index is AA1/AA2 for June 30, 2009 and June 30, 2008. 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, 2009 and June 30, 2008.

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.

2. **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 4.28 years at June 30, 2009 and 4.68 years at June 30, 2008. 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 $11,883,672 less at June 30, 2009, and $3,572,373 more at June 30, 2008, than the amounts needed to fund the outstanding tuition units at their weighted average tuition unit prices in effect at the respective dates.

CHAIRS OF EXCELLENCE
INDEPENDENT AUDITOR'S REPORT

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

July 26, 2010

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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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 July 26, 2010, 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 read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

CHAIRS OF EXCELLENCE
BALANCE SHEETS
JUNE 30, 2009 AND JUNE 30, 2008

	June 30, 2009	June 30, 2008
ASSETS		
Cash and cash equivalents	$ 5,231,759	$ 6,829,613
Investments, at fair value		
Government securities	67,236,425	65,101,130
Corporate securities	45,776,263	45,812,422
Investment in equity mutual fund	85,845,679	122,267,759
Total investments	198,858,367	233,181,311
Receivables		
Due from colleges and universities	763,000	417,000
Investment income receivable	1,651,530	1,868,609
Total receivables	2,414,530	2,285,609
TOTAL ASSETS	$206,504,656	$242,296,533
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Due to colleges and universities	$ 1,977,208	$ 1,825,705
Due to the Academic Scholars Fund	3,684,250	3,515,998
TOTAL LIABILITIES	5,661,458	5,341,703
FUND BALANCES		
Reserved for non-expendable corpus	99,929,963	99,929,963
Unreserved	100,913,235	137,024,867
TOTAL FUND BALANCES	200,843,198	236,954,830
TOTAL LIABILITIES AND FUND BALANCES	$206,504,656	$242,296,533

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, 2009 AND JUNE 30, 2008

	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008
REVENUES		
Investment loss	$ (28,334,670)	$ (7,631,048)
TOTAL REVENUES	(28,334,670)	(7,631,048)
EXPENDITURES		
University of Tennessee	3,609,430	3,541,606
Tennessee Board of Regents	3,832,292	3,826,426
Academic Scholars Fund	168,251	288,632
Administrative cost	166,989	204,842
TOTAL EXPENDITURES	7,776,962	7,861,506
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(36,111,632)	(15,492,554)
FUND BALANCES, BEGINNING OF YEAR	236,954,830	252,447,384
FUND BALANCES, END OF YEAR	$200,843,198	$236,954,830

See accompanying Notes to the Financial Statements.

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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, includes 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

(*CONTINUED*)

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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 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, 2009 and June 30, 2008, the COE Trust had the following investments:

(Expressed in Thousands)	Fair Value	U.S.	Credit Quality Ratings					
	as of	Treasury/						Not
Investment Type	**June 30, 2009**	**Agency (1)**	**AAA**	**AA**	**A**	**BBB**	**CCC**	**Rated**
Debt Investments								
U.S. Government Treasuries	$ 10,019	$10,019						
U.S. Government TIPS	22,810	22,810						
U.S. Government Agencies	4,488		$ 3,027					$ 1,461 (2)
Government Mortgage-Backed	29,920	5,512						24,408 (2)
Corporate Mortgage-Backed	15,288		13,718			$ 86	$ 1,484	
Corporate Bonds	26,860		1,028	$ 4,636	$ 10,769	10,378		49
Corporate Asset-Backed	3,628		3,628					
Total Debt Investments	$ 113,013	$38,341	$ 21,401	$ 4,636	$ 10,769	$ 10,464	$ 1,484	$25,918
Other Investments								
Commingled Funds								
U.S. Equity	$ 60,268							
Non - U.S. Equity	25,577							
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							

(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.

(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.

(Expressed in Thousands)	Fair Value	U.S.	Credit Quality Ratings				
	as of	Treasury/					Not
Investment Type	**June 30, 2008**	**Agency (1)**	**AAA**	**AA**	**A**	**BBB**	**Rated (2)**
Debt Investments							
U.S. Government Treasuries	$ 9,894	$ 9,894					
U.S. Government TIPS	23,658	23,658					
Government Mortgage-Backed	31,549	3,848					$27,701
Corporate Mortgage-Backed	18,142		$ 18,142				
Corporate Bonds	22,538		2,067	$ 2,925	$ 10,241	$ 7,305	
Corporate Asset-Backed	5,133		4,583		60	490	
Total Debt Investments	$ 110,914	$37,400	$ 24,792	$ 2,925	$ 10,301	$ 7,795	$27,701
Other Investments							
Commingled Funds							
U.S. Equity	$ 83,034						
Non - U.S. Equity	39,233						
Money Market Funds	6,880						
Total Other Investments	$ 129,147						
Total Investments	$ 240,061						
Less: Investments Classified as Cash Equivalents on Balance Sheet (Rated AAA)	(6,880)						
Total Investments as Shown on Balance Sheet	$ 233,181						

(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.

(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.

(CONTINUED)

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

1. **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, 2009 and June 30, 2008 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, 2009 and June 30, 2008.

   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 page 103 - 109 of this report.

2. **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:

	June 30, 2009		June 30, 2008	
Issuer Organization	Fair Value	Percentage	Fair Value	Percentage
Federal National Mortgage Association	$ 21,643,866	10.88%	$ 24,110,196	10.04%

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

3. **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, 2009. and June 30, 2008.

(CONTINUED)

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

Debt Investments

(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2009	Effective Duration (years)
Debt Investments		
U.S. Government Treasuries	$10,019	10.54
U.S. Government TIPS	22,810	5.41
U.S. Government Agencies	4,488	4.27
Government Mortgage-Backed	29,920	3.19
Corporate Mortgage-Backed	15,288	2.02
Corporate Bonds	26,860	4.97
Corporate Asset-Backed	3,628	4.71
Total Debt Investments	$113,013	4.65

Investment Type	Fair Value as of June 30, 2008	Effective Duration (years)
Debt Investments		
U.S. Government Treasuries	$ 9,894	10.63
U.S. Government TIPS	23,658	7.00
Government Mortgage-Backed	31,549	4.21
Corporate Mortgage-Backed	18,142	3.40
Corporate Bonds	22,538	4.84
Corporate Asset-Backed	5,133	3.70
Total Debt Investments	$110,914	5.35

4. **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, 2009 was $15,287,405 of which $8,929,085 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2008 was $18,141,180 of which $10,551,422 were CMOs that are generally more sensitive to interest rate changes.

C. <u>OTHER ACCOUNTING DISCLOSURES</u>

1. **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, 2009, 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, 2009. This includes $44,000,000 from the State, $10,321,300 from Colleges and Universities, and $45,608,663 from private contributions.

2. **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.

CRIMINAL INJURIES COMPENSATION FUND
INDEPENDENT AUDITOR'S REPORT

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

July 26, 2010

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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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 July 26, 2010, 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 read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

CRIMINAL INJURIES COMPENSATION FUND
BALANCE SHEETS
JUNE 30, 2009 AND JUNE 30, 2008

	June 30, 2009	June 30, 2008
ASSETS		
Cash	$ 11,183,201	$ 7,964,318
Accounts receivable	530,037	591,921
Due from federal government	5,642,000	5,253,000
TOTAL ASSETS	$ 17,355,238	$ 13,809,239
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 603,255	$ 136,211
Claims liability	7,077,334	6,694,308
TOTAL LIABILITIES	7,680,589	6,830,519
FUND BALANCES		
Reserved for victims of drunk drivers (see Note B.2)	1,717,329	1,919,987
Unreserved	7,957,320	5,058,733
TOTAL FUND BALANCES	9,674,649	6,978,720
TOTAL LIABILITIES AND FUND BALANCES	$ 17,355,238	$ 13,809,239

See accompanying Notes to the Financial Statements.

CRIMINAL INJURIES COMPENSATION FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008
REVENUES		
State		
Fines	$ 6,649,241	$ 7,038,358
Fees	2,976,080	3,178,573
Federal	7,114,799	5,253,000
Interest income	166,281	270,119
Other	701,461	399,697
TOTAL REVENUES	17,607,862	16,139,747
EXPENDITURES		
Claim payments	13,687,719	13,576,616
Victims' coalition grant	100,000	100,000
District Attorneys General grant	223,140	204,400
Administrative cost	901,074	843,091
TOTAL EXPENDITURES	14,911,933	14,724,107
EXCESS OF REVENUES OVER EXPENDITURES	2,695,929	1,415,640
OTHER FINANCING SOURCES		
Transfer from general fund	0	3,700,000
TOTAL OTHER FINANCING SOURCES	0	3,700,000
NET CHANGE IN FUND BALANCES	2,695,929	5,115,640
FUND BALANCES, BEGINNING OF YEAR	6,978,720	1,863,080
FUND BALANCES, END OF YEAR	$ 9,674,649	$ 6,978,720

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, 2009 AND JUNE 30, 2008

	For the Year Ended June 30, 2009			For the Year Ended June 30, 2008		
	Original Budget	Final Budget	Actual (Budgetary Basis)	Original Budget	Final Budget	Actual (Budgetary Basis)
SOURCES OF FINANCIAL RESOURCES						
FUND BALANCES, BEGINNING OF YEAR	$ 6,978,720	$ 6,978,720	$ 6,978,720	$ 1,863,080	$ 1,863,080	$ 1,863,080
REVENUES						
Taxes	4,710,000	4,710,000	6,649,241	5,000,000	5,000,000	7,038,358
Fees	2,967,000	2,967,000	2,976,080	3,167,000	3,167,000	3,178,573
Federal	5,595,000	7,067,800	7,114,799	5,055,000	5,055,000	5,253,000
Interest income	0	0	166,281	0	0	270,119
Other	553,000	553,000	701,461	603,000	603,000	399,697
OTHER FINANCING SOURCES						
Transfer in	0	0	0	1,900,000	3,700,000	3,700,000
TOTAL SOURCES OF FINANCIAL RESOURCES	20,803,720	22,276,520	24,586,582	17,588,080	19,388,080	21,702,827
USES OF FINANCIAL RESOURCES						
EXPENDITURES						
Claim payments	15,030,000	16,179,660	13,687,719	15,000,000	18,425,600	13,576,616
Victims' coalition grant	0	100,000	100,000	0	100,000	100,000
District Attorneys General grant	0	223,140	223,140	0	204,400	204,400
Administrative cost	825,000	825,000	901,074	825,000	825,000	843,091
TOTAL USES OF FINANCIAL RESOURCES	15,855,000	17,327,800	14,911,933	15,825,000	19,555,000	14,724,107
FUND BALANCES, END OF YEAR	$ 4,948,720	$ 4,948,720	$ 9,674,649	$ 1,763,080	$ (166,920)	$ 6,978,720

See accompanying Notes to the Financial Statements.

CRIMINAL INJURIES COMPENSATION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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 103 - 109 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.

(*CONTINUED*)

CRIMINAL INJURIES COMPENSATION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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.

3. **Other Financing Sources -** During fiscal year 2008, two transfers totaling $3,700,000 were made from the State's general fund. *Chapter 603 of the Public Acts of 2007* authorized a transfer from the general fund of $1,900,000. *Chapter 1203 of the Public Acts of 2008* authorized a transfer from the general fund of $1,800,000.

FLEXIBLE BENEFITS PLAN
INDEPENDENT AUDITOR'S REPORT

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

July 26, 2010

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 statement of fiduciary net assets of the Flexible Benefits Plan, an employee benefit trust fund of the State of Tennessee, as of June 30, 2009, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit 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 audit provides 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, 2009, and the changes in its financial position for the year 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, 2009, and the changes in its fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B.1., 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 July 26, 2010, 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 read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

FLEXIBLE BENEFITS PLAN
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2009

ASSETS	
Cash	$ 706,228
Contributions receivable	288,951
TOTAL ASSETS	995,179
LIABILITIES	
Accounts payable	11,354
TOTAL LIABILITIES	11,354
NET ASSETS	
Held in trust for employees' flexible benefits	$ 983,825

See accompanying Notes to the Financial Statements.

FLEXIBLE BENEFITS PLAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

ADDITIONS	
Employee contributions	$8,464,285
TOTAL ADDITIONS	8,464,285
DEDUCTIONS	
Employee reimbursements	8,340,379
Administrative cost	85,534
TOTAL DEDUCTIONS	8,425,913
CHANGE IN NET ASSETS	38,372
NET ASSETS, BEGINNING OF YEAR	1,489,652
Prior Period Adjustment (Note B.1)	(544,199)
NET ASSETS, BEGINNING OF YEAR RESTATED	945,453
NET ASSETS, END OF YEAR	$ 983,825

See accompanying Notes to the Financial Statements.

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

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 15th 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 103 - 109 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 the participating employer agency funds. The amount forfeited in fiscal year 2009 is reflected on the Statement of Changes in Fiduciary Net Assets as administrative cost.

(*CONTINUED*)

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

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 the year. 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.

RISK MANAGEMENT FUND
INDEPENDENT AUDITOR'S REPORT

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

July 26, 2010

Members of the General Assembly,
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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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 July 26, 2010, 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 read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

RISK MANAGEMENT FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND JUNE 30, 2008

	June 30, 2009	June 30, 2008
ASSETS		
Current assets		
Cash	$ 127,016,873	$ 123,966,156
Due from federal government	0	3,340,676
Total current assets	127,016,873	127,306,832
Noncurrent assets		
Due from federal government	3,148,081	3,294,074
TOTAL ASSETS	130,164,954	130,600,906
LIABILITIES		
Current liabilities		
Accounts payable	708,721	482,934
Deferred revenue	8,000	7,000
Claims liability	29,008,558	28,389,349
Total current liabilities	29,725,279	28,879,283
Noncurrent liabilities		
Claims liability	64,147,282	64,488,551
TOTAL LIABILITIES	93,872,561	93,367,834
NET ASSETS - UNRESTRICTED	$ 36,292,393	$ 37,233,072

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, 2009 AND JUNE 30, 2008

	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008
OPERATING REVENUES		
Casualty premiums	$ 34,231,220	$ 38,893,900
Property premiums	5,594,200	5,491,000
TOTAL OPERATING REVENUES	39,825,420	44,384,900
OPERATING EXPENSES		
Torts		
Death	2,194,167	1,742,145
Bodily injury	3,042,169	3,972,936
Property damage	993,253	794,530
Total Torts	6,229,589	6,509,611
Workers' Compensation		
Death	185,445	275,251
Medical	12,773,681	11,117,290
Temporary disability	2,889,359	2,768,288
Permanent disability	7,399,496	6,782,070
Total Workers' Compensation	23,247,981	20,942,899
Property Damage		
Employee property	24,687	28,266
State owned property	348,437	1,814,435
Total Property Damage	373,124	1,842,701
Property insurance premiums	3,220,254	2,748,524
Professional/Administrative	9,329,091	9,398,779
Addition to accrued liability	277,940	4,418,101
TOTAL OPERATING EXPENSES	42,677,979	45,860,615
OPERATING LOSS	(2,852,559)	(1,475,715)
NON-OPERATING REVENUES (EXPENSES)		
Grant revenue	0	3,302,097
Interest income	2,000,530	4,441,672
Taxes	1,800	1,625
Other expenses	(90,450)	0
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,911,880	7,745,394
CHANGE IN NET ASSETS	(940,679)	6,269,679
NET ASSETS, BEGINNING OF YEAR	37,233,072	30,963,393
NET ASSETS, END OF YEAR	$ 36,292,393	$ 37,233,072

See accompanying Notes to the Financial Statements.

RISK MANAGEMENT FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from premiums	$ 39,825,420	$ 44,397,000
Payments for claims	(29,703,061)	(29,313,846)
Payments for administrative expenses	(9,249,937)	(9,392,759)
Payments for insurance premiums	(3,220,254)	(2,936,477)
NET CASH FROM OPERATING ACTIVITIES	(2,347,832)	2,753,918
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant revenue received	3,396,219	0
Taxes received	1,800	1,625
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	3,398,019	1,625
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,000,530	4,441,672
NET CASH FROM INVESTING ACTIVITIES	2,000,530	4,441,672
NET INCREASE IN CASH	3,050,717	7,197,215
CASH, BEGINNING OF YEAR	123,966,156	116,768,941
CASH, END OF YEAR	$ 127,016,873	$ 123,966,156
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
OPERATING LOSS	$ (2,852,559)	$ (1,475,715)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Changes in assets and liabilities		
Decrease in accounts receivable	0	12,100
Increase (decrease) in accounts payable	225,787	(201,568)
Increase in deferred revenue	1,000	1,000
Increase in claims liability	277,940	4,418,101
TOTAL ADJUSTMENTS	504,727	4,229,633
NET CASH FROM OPERATING ACTIVITIES	$ (2,347,832)	$ 2,753,918

See accompanying Notes to the Financial Statements.

RISK MANAGEMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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 103 - 109 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, 2009 AND JUNE 30, 2008

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 $82,831,368 (discounted at 3.00%) at June 30, 2009 and $84,622,437 (discounted at 3.50%) at June 30, 2008. An additional $300,000 was added to the casualty liability for 2008 for a general liability claim ordered to be paid by the courts. The order occurred prior to June 30, 2008 but had not yet been paid at that date. The data for this claim was not provided to the actuary and thus was not included in the actuarial calculation. The accrued liability for incurred property losses was $10,324,472 at June 30, 2009 and $7,955,463 at June 30, 2008. The changes in the balances of the claims liabilities during fiscal years 2008 and 2009 were as follows:

Fiscal Year	Beginning Claims Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Claims Liability
2009	$92,877,900	$30,128,635	($29,850,695)	$93,155,840
2008	88,459,799	33,713,312	(29,295,211)	92,877,900

The RMF held $127.0 million in cash at June 30, 2009 and $123.9 million in cash at June 30, 2008 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. The portion of these funds expected to be received in the next fiscal year is classified as a current asset.

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

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

July 26, 2010

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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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 July 26, 2010, 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 read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM FUND
BALANCE SHEETS
JUNE 30, 2009 AND JUNE 30, 2008

	June 30, 2009	June 30, 2008
ASSETS		
Cash	$ 7,785,271	$ 10,305,873
Long-term loan receivables (net of allowance for doubtful accounts)	3,018,511	1,400,000
TOTAL ASSETS	$ 10,803,782	$ 11,705,873
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 97,904	$ 19,375
TOTAL LIABILITIES	97,904	19,375
FUND BALANCES		
Reserved for loans	3,018,511	1,400,000
Unreserved	7,687,367	10,286,498
TOTAL FUND BALANCES	10,705,878	11,686,498
TOTAL LIABILITIES AND FUND BALANCES	$ 10,803,782	$ 11,705,873

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, 2009 AND JUNE 30, 2008

	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008
REVENUES		
Interest income	$ 149,513	$ 490,212
TOTAL REVENUES	149,513	490,212
EXPENDITURES		
Disparity study	408,320	464,000
Administrative cost	390,324	456,808
Bad debt expense	331,489	0
TOTAL EXPENDITURES	1,130,133	920,808
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(980,620)	(430,596)
FUND BALANCES, BEGINNING OF YEAR	11,686,498	12,117,094
FUND BALANCES, END OF YEAR	$ 10,705,878	$ 11,686,498

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, 2009 AND JUNE 30, 2008

	For the Year Ended June 30, 2009			For the Year Ended June 30, 2008		
	Original Budget	Final Budget	Actual (Budgetary Basis)	Original Budget	Final Budget	Actual (Budgetary Basis)
SOURCES OF FINANCIAL RESOURCES						
FUND BALANCES, BEGINNING OF YEAR	$11,686,498	$11,686,498	$11,686,498	$12,117,094	$12,117,094	$12,117,094
REVENUES						
Interest income	0	0	149,513	80,100	151,800	490,212
TOTAL SOURCES OF FINANCIAL RESOURCES	11,686,498	11,686,498	11,836,011	12,197,194	12,268,894	12,607,306
USES OF FINANCIAL RESOURCES						
EXPENDITURES						
Loan guarantee payments	0	0	0	68,100	151,800	0
Disparity study	1,672,300	1,672,300	408,320	0	2,100,000	464,000
Administrative cost	251,800	500,000	390,324	0	0	456,808
Bad debt expense	0	0	331,489	0	0	0
TOTAL USES OF FINANCIAL RESOURCES	1,924,100	2,172,300	1,130,133	68,100	2,251,800	920,808
FUND BALANCES, END OF YEAR	$ 9,762,398	$ 9,514,198	$10,705,878	$12,129,094	$10,017,094	$11,686,498

See accompanying Notes to the Financial Statements.

SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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 103 - 109 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.

(*CONTINUED*)

SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM FUND NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND JUNE 30, 2008

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. 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.

STATE POOLED INVESTMENT FUND
INDEPENDENT AUDITOR'S REPORT

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

July 26, 2010

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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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 July 26, 2010, 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 read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

STATE POOLED INVESTMENT FUND
STATEMENTS OF FIDUCIARY NET ASSETS
JUNE 30, 2009 AND JUNE 30, 2008

	JUNE 30, 2009	JUNE 30, 2008
ASSETS		
Cash and cash equivalents	$2,610,586,955	$ 3,573,096,697
Short-term investments, at amortized cost	4,868,091,306	5,008,478,537
Accrued income receivable	7,786,502	15,238,704
TOTAL ASSETS	7,486,464,763	8,596,813,938
LIABILITIES AND NET ASSETS		
NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS	$ 7,486,464,763	$ 8,596,813,938

See accompanying Notes to the Financial Statements.

STATE POOLED INVESTMENT FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008
OPERATIONS		
Investment income	$ 119,870,570	$ 326,177,632
Expenses		
Administrative fee	3,627,813	4,026,688
Custodian and banking services fees	219,916	60,664
Total expenses	3,847,729	4,087,352
NET INVESTMENT INCOME	116,022,841	322,090,280
CAPITAL SHARE TRANSACTIONS (DOLLAR AMOUNTS AND NUMBER OF SHARES ARE THE SAME)		
Shares sold	35,895,520,509	36,424,289,408
Less shares redeemed	37,121,892,525	35,928,384,192
INCREASE (DECREASE) FROM CAPITAL SHARE TRANSACTIONS	(1,226,372,016)	495,905,216
TOTAL INCREASE (DECREASE) IN NET ASSETS	(1,110,349,175)	817,995,496
NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS		
BEGINNING OF YEAR	8,596,813,938	7,778,818,442
END OF YEAR	$ 7,486,464,763	$ 8,596,813,938

See accompanying Notes to the Financial Statements.

STATE POOLED INVESTMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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, 2009 and June 30, 2008, 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, 2009 and June 30, 2008, the principal amount of certificates of deposit in state depositories was $2,536,800,000 and $2,495,325,000 respectively. Interest rates on certificates of deposit held at June 30, 2009 ranged from 0.25% to 1.70% and at June 30, 2008 ranged from 2.0% to 5.25% The days to maturity on certificates of deposit ranged from 7 to 300 days at June 30, 2009 and 22 to 239 days at June 30, 2008.

As of June 30, 2009 and June 30, 2008, the SPIF had the following investments:

(CONTINUED)

STATE POOLED INVESTMENT FUND NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND JUNE 30, 2008

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)							
Add: certificates of deposit classified as short-term investments on Statement of Fiduciary Net Assets	1,985,800,000							
Short-term investments as shown on Statement of Fiduciary Net Assets	$4,868,091,306							

(1) A1 is the highest rating category for commercial paper.

(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.

June 30, 2008

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	$3,113,841,984	$3,110,291,646	$3,123,536,500	1.64% - 5.75%	1 - 389	$557,228,731		$2,556,613,253
Commercial Paper	2,665,600,874	2,665,600,874	2,666,000,000	2.05% - 2.55%	1 - 44		$2,665,600,874	
Total Cash Equivalents and Short-term Investments	$5,779,442,858	$5,775,892,520	$5,789,536,500			$557,228,731	$2,665,600,874	$2,556,613,253
Less: short-term investments classified as cash equivalents on Statement of Fiduciary Net Assets	(2,905,439,321)							
Add: certificates of deposit classified as short-term investments on Statement of Fiduciary Net Assets	2,134,475,000							
Short-term investments as shown on Statement of Fiduciary Net Assets	$5,008,478,537							

(1) A1 is the highest rating category for commercial paper.

(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.

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, 2009 and June 30, 2008 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

(CONTINUED)

that are not fully guaranteed by the United States 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:

(CONTINUED)

STATE POOLED INVESTMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

June 30, 2009		
Issuer Organization	**Carrying Amount**	**Percentage of Total Investments**
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%

June 30, 2008		
Issuer Organization	**Carrying Amount**	**Percentage of Total Investments**
Federal National Mortgage Association	$ 1,018,192,043	17.62%
Federal Home Loan Mortgage Corporation	1,006,383,112	17.41%
Federal Home Loan Banks	661,047,171	11.44%
Merrill Lynch	449,968,750	7.79%
Toyota	449,968,750	7.79%
Nestle	449,904,403	7.78%
Federal Farmers Credit Banks	428,219,658	7.41%
American General	349,975,208	6.06%
HSBC	299,981,250	5.19%

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, 2009 and June 30, 2008, the SPIF portfolio had the following weighted average maturities on debt investments:

(CONTINUED)

STATE POOLED INVESTMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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

June 30, 2008		
Investment Type	Carrying Amount	Weighted Average Maturity (Months)
U.S. Government Agencies	$3,113,841,984	4.97
Commercial Paper	2,665,600,874	0.10
Aggregate Portfolio	$5,779,442,858	2.72

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.

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, 2009 and June 30, 2008, 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.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
INDEPENDENT AUDITOR'S REPORT

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

January 29, 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, 2009, and June 30, 2008, 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 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, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, 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.

(CONTINUED)

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

January 29, 2010
Page Two

The management's discussion and analysis and the schedules of funding progress and employer contributions on pages 112 through 117 and 132 through 133 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The actuarial balance sheet on page 134 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 January 29, 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 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 read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

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, 2009 and June 30, 2008. 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, 2009 were $26.4 billion, decreasing nearly $5.3 billion (16.6 percent) from the plan net assets at June 30, 2008. 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, 2007, the date of the latest actuarial valuation, the TCRS' funded ratio was 96.2 percent for the SETHEEPP group and 89.4 percent for the PSPP group.

- Contribution revenue for fiscal year 2009 totaled $1,090,470,093; an increase of .6 percent compared to fiscal year 2008.

- Net investment income for fiscal year 2009 was $(4,858,486,179). During fiscal year 2009, the TCRS received an investment return on its portfolio of (15.27) percent, compared to (1.21) percent for fiscal year 2008.

- Total benefits and refunds paid for fiscal year 2009 were $1,489,685,109; an increase of 8.0 percent over fiscal year 2008 total benefits and refunds paid of $1,378,691,525.

- Total administrative expenses for fiscal year 2009 were $7,202,572; a slight increase over fiscal year 2008 administrative expenses of $7,201,911.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the *Statement of Plan Net Assets* (on pages 118 through 119), the *Statement of Changes in Plan Net Assets* (on pages 120 through 121) and the *Notes to the Financial Statements* (on pages 122 through 131). In addition, *Required Supplementary Information* is presented, which includes this *Management's Discussion and Analysis,* as well as the schedules on pages 132 through 133.

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.

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

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 obligations. The *Notes to the Financial Statements* are also important 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, 2009, the TCRS had plan net assets (total assets in excess of total liabilities) of $26.4 billion, a decrease of nearly $5.3 billion (16.6 percent) from $31.6 billion at June 30, 2008, following the fiscal year 2008 decrease of over $731.8 million (2.3 percent) from the $32.4 billion of plan net assets as of June 30, 2007. The assets of the TCRS consist primarily of investments. The continued decrease in plan net assets is primarily the result of negative investment income caused by continued unfavorable market conditions. Condensed financial information comparing the TCRS' plan net assets for the past three fiscal years follows.

PLAN NET ASSETS	June 30, 2009	June 30, 2008	FY09 - FY08 Percentage Change	June 30, 2007	FY08 - FY07 Percentage Change
ASSETS					
Cash and cash equivalents	$ 1,267,296,450	$ 358,321,692	253.7 %	$ 569,035,627	(37.0) %
Member and employer receivables	74,112,021	86,041,851	(13.9) %	86,352,774	(0.4) %
Investment income receivables	141,081,804	159,667,086	(11.6) %	169,973,211	(6.1) %
Investments sold	202,538,122	62,828,189	222.4 %	16,256,391	286.5 %
Foreign currency receivable	1,029,441,749	153,933,265	568.8 %	5,796,800	2,555.5 %
Short-term securities	391,283,896	49,997,750	682.6 %	527,594,750	(90.5) %
Long-term investments	24,664,493,110	31,015,208,805	(20.5) %	31,014,634,498	0.0 %
TOTAL ASSETS	27,770,247,152	31,885,998,638	(12.9) %	32,389,644,051	(1.6) %
LIABILITIES					
Death benefits, refunds and other payables	7,364,733	1,591,252	362.8 %	2,750,418	(42.1) %
Investments purchased	283,830,660	85,807,691	230.8 %	10,520,944	715.6 %
Other investment payables	4,868,872	9,367,826	(48.0) %	4,606,919	103.3 %
Foreign currency payable	1,104,957,172	155,102,387	612.4 %	5,796,800	2,575.7 %
TOTAL LIABILITIES	1,401,021,437	251,869,156	456.2 %	23,675,081	963.9 %
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 26,369,225,715	$ 31,634,129,482	(16.6) %	$ 32,365,968,970	(2.3) %

(*CONTINUED*)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

ANALYSIS OF REVENUES AND EXPENSES

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. However, a significant decrease in investment income due to the continued unfavorable market conditions 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 and negative investment income of $4.86 billion 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, 2009 were $1,489,685,109, an increase of 8.0 percent over fiscal year 2008 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2008 were $1,378,691,525, an increase of 8.8 percent over fiscal year 2007 total benefits and refunds paid. The increase in benefit expenses can be attributed to 3.0 percent in cost-of-living adjustments awarded to retirees on both July 1, 2008 and July 1, 2007, respectively. In addition, more retirees were added to payroll than removed during these fiscal years. The fluctuations in the amount of refunds from fiscal year 2007 through fiscal year 2009 can be attributed to a large employer withdrawing from the TCRS and receiving a refund of employer contributions of $9.5 million in fiscal year 2008.

In addition, 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. Administrative expenses for the year ended June 30, 2008 were $7,201,911, an increase of 11.3 percent over fiscal year 2007 administrative expenses. This increase was primarily due to the additional expense of the biennial actuarial study performed in fiscal year 2008.

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

(*CONTINUED*)

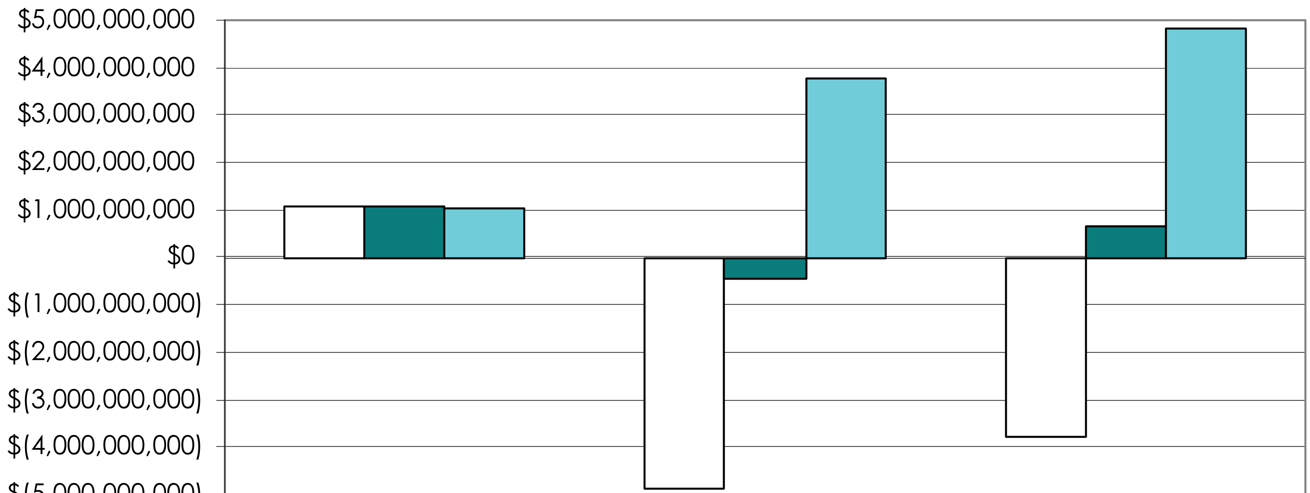
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

CHANGES IN PLAN NET ASSETS

	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008	FY09 - FY08 Percentage Change	For the Year Ended June 30, 2007	FY08 - FY07 Percentage Change
ADDITIONS					
Contributions	$ 1,090,470,093	$ 1,084,112,872	0.6 %	$ 1,027,174,038	5.5 %
Investment income					
Net appreciation (depreciation) in fair value of investments	(5,855,240,629)	(1,574,090,230)	(272.0) %	2,717,644,583	(157.9) %
Interest, dividends and other investment income	1,018,043,263	1,168,574,283	(12.9) %	1,097,511,473	6.5 %
Less: Investment expense	(21,288,813)	(24,542,977)	(13.3) %	(23,752,405)	3.3 %
Net investment income	(4,858,486,179)	(430,058,924)	(1,029.7) %	3,791,403,651	(111.3) %
TOTAL ADDITIONS	(3,768,016,086)	654,053,948	(676.1) %	4,818,577,689	(86.4) %
DEDUCTIONS					
Annuity benefits					
Retirement benefits	1,083,753,159	993,293,429	9.1 %	918,540,446	8.1 %
Survivor benefits	66,732,833	62,811,272	6.2 %	58,202,209	7.9 %
Disability benefits	29,607,231	28,128,249	5.3 %	26,722,134	5.3 %
Cost of living	271,845,658	243,575,211	11.6 %	221,463,825	10.0 %
Death benefits	5,724,443	4,907,479	16.6 %	5,502,982	(10.8) %
Refunds	32,021,785	45,975,885	(30.4) %	36,343,972	26.5 %
Administrative expenses	7,202,572	7,201,911	0.0 %	6,468,558	11.3 %
TOTAL DEDUCTIONS	1,496,887,681	1,385,893,436	8.0 %	1,273,244,126	8.8 %
NET INCREASE (DECREASE)	(5,264,903,767)	(731,839,488)	(619.4) %	3,545,333,563	(120.6) %
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
BEGINNING OF YEAR	31,634,129,482	32,365,968,970	(2.3) %	28,820,635,407	12.3 %
END OF YEAR	$ 26,369,225,715	$ 31,634,129,482	(16.6) %	$ 32,365,968,970	(2.3) %

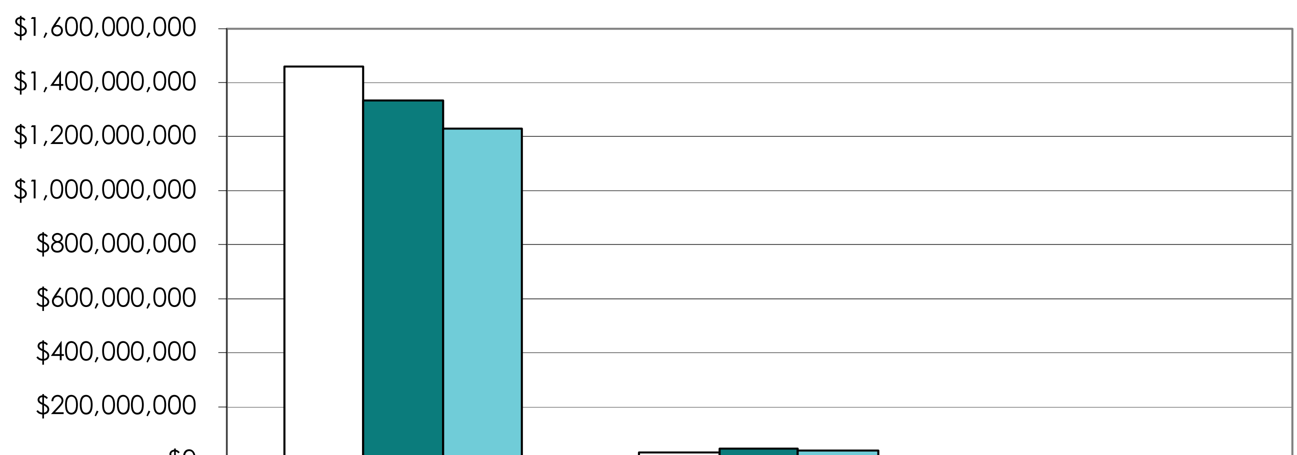
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

REVENUES BY TYPE



	Contributions	Net Investment Income	Total Additions
Year Ended 6/30/09	$1,090,470,093	$(4,858,486,179)	$(3,768,016,086)
Year Ended 6/30/08	$1,084,112,872	$(430,058,924)	$654,053,948
Year Ended 6/30/07	$1,027,174,038	$3,791,403,651	$4,818,577,689

EXPENSES BY TYPE



	Benefit Payments	Refunds	Administrative
Year Ended 6/30/09	$1,457,663,324	$32,021,785	$7,202,572
Year Ended 6/30/08	$1,332,715,640	$45,975,885	$7,201,911
Year Ended 6/30/07	$1,230,431,596	$36,343,972	$6,468,558

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

For the year ended June 30, 2009, the domestic portfolios weakened considerably with a loss of 27.11 percent following a loss of 11.93 percent the prior fiscal year. The S&P 1500 index, TCRS' domestic equity benchmark, reported a loss of 26.34 percent for the fiscal year ended June 30, 2009. Likewise, the international stock portfolios followed a negative return of 6.38 percent for the year ended June 30, 2008 with a negative return of 30.63 percent for 2009. The international equity market, as represented by the EAFE IMI index, reported a negative return of 10.61 percent in fiscal year 2008, followed by a 30.71 percent negative return in the fiscal year ended June 30, 2009. The domestic bond market, as measured by the Citigroup Broad Investment Grade index, had a positive return of 7.78 percent for the year ended June 30, 2008, followed by 7.04 percent return for the 2009 fiscal year. The domestic fixed income portfolio earned 5.98 percent for fiscal year 2008 and 2.07 percent for fiscal year 2009. Fixed income relative performance suffered due to the poor performance of asset backed securities. The real estate portfolio earned 12.53 percent for the fiscal year ended June 30, 2008, but lost 10.74 percent for the fiscal year ended June 30, 2009, as compared to the NCREIF index benchmark returns of 13.58 percent and negative 14.68 percent, respectively.

The initial stages of broad equity and fixed income market weakness began during the 2008 fiscal year. The outlook for domestic and international markets is improved.

The employer contribution rates changed on July 1, 2008 for most of the employers participating in TCRS. The contribution levels did not change significantly because of the overall positive experience of the plan.

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, 10th Floor Andrew Jackson Building, 502 Deaderick Street, Nashville, TN 37243-0201.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2009 AND JUNE 30, 2008

Expressed in Thousands	**State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)**	**Political Subdivisions Pension Plan (PSPP)**
ASSETS		
Cash and cash equivalents	$ 1,055,329	$ 211,967
Receivables		
Member receivable	19,308	4,544
Employer receivable	32,444	17,816
Accrued interest receivable	92,607	18,601
Accrued dividends receivable	24,654	4,952
Real estate income receivable	223	45
Foreign currency receivable	857,258	172,184
Investments sold	168,662	33,876
Total receivables	1,195,156	252,018
Investments, at fair value		
Short-term securities	325,838	65,446
Government securities	6,287,715	1,262,913
Corporate securities	4,624,271	928,804
Corporate stocks	8,629,509	1,733,273
Real estate	997,630	200,378
Total investments	20,864,963	4,190,814
TOTAL ASSETS	23,115,448	4,654,799
LIABILITIES		
Accounts payable		
Death benefits and refunds payable	1,293	281
Retiree insurance premium payable	4,598	923
Other	270	0
Investments purchased	236,358	47,473
Foreign currency payable	920,142	184,815
Other investment payables	4,054	814
TOTAL LIABILITIES	1,166,715	234,306
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 21,948,733	$ 4,420,493

See accompanying Notes to the Financial Statements.

(CONTINUED)

June 30, 2009 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2008 Total
$ 1,267,296	$ 300,422	$ 57,899	$ 358,321
23,852	20,835	4,794	25,629
50,260	41,864	18,549	60,413
111,208	104,184	20,079	124,263
29,606	28,482	5,489	33,971
268	1,202	232	1,434
1,029,442	129,060	24,873	153,933
202,538	52,676	10,152	62,828
1,447,174	378,303	84,168	462,471
391,284	41,919	8,079	49,998
7,550,628	6,225,179	1,199,756	7,424,935
5,553,075	5,512,517	1,062,408	6,574,925
10,362,782	13,150,692	2,534,486	15,685,178
1,198,008	1,115,236	214,935	1,330,171
25,055,777	26,045,543	5,019,664	31,065,207
27,770,247	26,724,268	5,161,731	31,885,999
1,574	1,195	212	1,407
5,521	0	0	0
270	52	133	185
283,831	71,943	13,865	85,808
1,104,957	130,040	25,062	155,102
4,868	7,854	1,514	9,368
1,401,021	211,084	40,786	251,870
$ 26,369,226	$ 26,513,184	$ 5,120,945	$ 31,634,129

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

Expressed in Thousands	**State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)**	**Political Subdivisions Pension Plan (PSPP)**
ADDITIONS		
Contributions		
Member contributions	$ 185,729	$ 67,830
Employer contributions	583,985	252,926
Total contributions	769,714	320,756
Investment income		
Net depreciation in fair value of investments	(4,892,001)	(963,239)
Interest	530,229	104,403
Dividends	263,105	51,806
Real estate income, net of operating expenses	57,232	11,268
Total investment income	(4,041,435)	(795,762)
Less: Investment expense	(17,787)	(3,502)
Net investment income	(4,059,222)	(799,264)
TOTAL ADDITIONS	(3,289,508)	(478,508)
DEDUCTIONS		
Annuity benefits		
Retirement benefits	927,977	155,776
Survivor benefits	57,141	9,592
Disability benefits	25,351	4,256
Cost of living	240,293	31,553
Death benefits	4,062	1,662
Refunds	16,503	15,519
Administrative expense	3,616	3,586
TOTAL DEDUCTIONS	1,274,943	221,944
NET INCREASE (DECREASE)	(4,564,451)	(700,452)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	26,513,184	5,120,945
END OF YEAR	$ 21,948,733	$ 4,420,493

See accompanying Notes to the Financial Statements.

(CONTINUED)

June 30, 2009 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2008 Total
$ 253,559	$ 181,236	$ 64,617	$ 245,853
836,911	593,412	244,847	838,259
1,090,470	774,648	309,464	1,084,112
(5,855,240)	(1,322,815)	(251,275)	(1,574,090)
634,632	631,028	119,867	750,895
314,911	297,009	56,418	353,427
68,500	53,995	10,257	64,252
(4,837,197)	(340,783)	(64,733)	(405,516)
(21,289)	(20,625)	(3,918)	(24,543)
(4,858,486)	(361,408)	(68,651)	(430,059)
(3,768,016)	413,240	240,813	654,053
1,083,753	851,426	141,867	993,293
66,733	53,840	8,971	62,811
29,607	24,111	4,017	28,128
271,846	215,810	27,765	243,575
5,724	3,309	1,599	4,908
32,022	19,113	26,863	45,976
7,202	3,711	3,491	7,202
1,496,887	1,171,320	214,573	1,385,893
(5,264,903)	(758,080)	26,240	(731,840)
31,634,129	27,271,264	5,094,705	32,365,969
$ 26,369,226	$ 26,513,184	$ 5,120,945	$ 31,634,129

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP) 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, includes 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. 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.

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2007, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	70,598	27,632
Terminated members entitled to but not receiving benefits	21,032	9,732
Current active members	136,329	76,396
Total	227,959	113,760
Number of participating employers	140	488

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; (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. 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, 2009, the plan's Member Reserve and Employer Reserve were fully funded with balances of $3,560.1 million and $18,388.6 million, respectively. At June 30, 2008, the plan's Member Reserve and Employer Reserve were fully funded with balances of $3,495.6 million and $23,017.6 million, respectively.

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND JUNE 30, 2008

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 SETHEEPP 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 SETHEEPP. 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, 2009, the plan's Member Reserve and Employer Reserve were fully funded with balances of $1,010.9 million and $3,409.5 million, respectively. At June 30, 2008, the plan's Member Reserve and Employer Reserve were fully funded with balances of $951.5 million and $4,169.5 million, 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 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.

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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 percent of the market value of the System's total assets for risk mitigating positions and 10 percent 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 10 percent of the value of the fund for fixed income instruments and 10 percent for equity futures.

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

As of June 30, 2009 and June 30, 2008, the TCRS had the following investments:

(*CONTINUED*)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

Investments
(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2009	U. S. Treasury/ Agency (1)	Credit Quality Ratings								
			AAA	AA	A	BBB	BB	B	CCC	A1 (3)	Not Rated
Debt Investments											
U.S. Govt. Treasuries, Notes, Bonds	$ 1,202,822	$1,202,822									
U.S. Govt. Inflation Indexed	2,073,076	2,073,076									
U.S. Govt. Agencies	530,395	13,525	$ 431,244								$ 85,626
Govt. Mortgage-Backed	2,921,531	454,436									(2) 2,467,095
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
Total Debt Investments	$ 14,702,611	$3,743,859	$2,929,784	$748,318	$ 966,518	$1,773,608	$169,868	$129,876	$159,391	$636,343	$3,445,046
Other Investments											
U.S. Equity	$ 7,342,606										
Non-U.S. Equity	3,052,908										
Real Estate	1,198,008										
Commingled Money Market Funds	205										
Total Other Investments	11,593,727										
Total Investments	$ 26,296,338										
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(1,240,561)										
Total Investments as Shown on Statements of Plan Net Assets	$ 25,055,777										

(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.
(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.
(3) A1 is the highest rating category for commercial paper.

Investment Type	Fair Value as of June 30, 2008	U. S. Treasury/ Agency (1)	Credit Quality Ratings								
			AAA	AA	A	BBB	BB	B	CCC	A1 (5)	Not Rated
Debt Investments											
U.S. Govt. Treasuries, Notes, Bonds	$ 859,779	$ 859,779									
U.S. Govt. Inflation Indexed	1,617,494	1,617,494									
U.S. Govt. Agencies	489,958		$ 489,958								
Govt. Mortgage-Backed	3,481,814	463,141									(2) $3,018,673
Corporate CMO's	2,186,147		2,133,824	$ 33,463							18,860
Corporate Bonds	3,045,230		12,142	220,368	$ 981,941	$1,767,224	$ 45,258	$ 18,297			
Corporate Asset-Backed	1,230,858		1,112,036	62,183	19,641	36,998					
Non-U.S. Govt./Sovereign	975,890		(3) 525,506	(3) 450,384							
Non-U.S. Corporate	19,614		19,614								
Short-Term Commercial Paper	287,352									$287,352	
Short-Term Agencies	121,969										(4) 121,969
Total Debt Investments	$ 14,316,105	$2,940,414	$4,293,080	$766,398	$1,001,582	$1,804,222	$ 45,258	$ 18,297	$ -	$287,352	$3,159,502
Other Investments											
U.S. Equity	$ 10,937,097										
Non-U.S. Equity	4,841,156										
Real Estate	1,330,171										
Total Other Investments	17,108,424										
Total Investments	$ 31,424,529										
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(359,322)										
Total Investments as Shown on Statements of Plan Net Assets	$ 31,065,207										

(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.
(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.
(3) Includes $317,381 thousand in AAA and $450,384 thousand in AA rated securities that had previously been included in the U. S. Treasury /Agency column.
(4) Includes $121,969 thousand in securities that were previously included in the U. S. Treasury /Agency column but were only implicitly guaranteed by the U. S. Government.
(5) A1 is the highest rating category for commercial paper. Commercial paper was previously shown not rated.

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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, 2009 and June 30, 2008 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 on pages 103-109 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 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:

	June 30, 2009		June 30, 2008	
Issuer Organization	**Fair Value**	**Percentage**	**Fair Value**	**Percentage**
Federal National Mortgage Association	$1,933,810,560	7.33%	$2,214,699,793	7.00%

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, 2009 and June 30, 2008.

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

Debt Investments
(Expressed in Thousands)

Investment Type	Fair Value As of June 30, 2009	Effective Duration (years)
Debt Investments		
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

Investment Type	Fair Value As of June 30, 2008	Effective Duration (years)
Debt Investments		
Government Agencies	$ 698,083	4.54
Government Bonds	1,627,544	7.30
Government Inflation Indexed	1,617,494	7.29
Government Mortgage-Backed	3,481,814	4.39
Corporate Collateralized Mortgage Obligations (CMO)	2,186,148	3.94
Corporate Asset-Backed Securities	1,230,857	2.94
Corporate Bonds	3,064,844	6.42
Short-Term Commercial Paper	287,352	0.00
Short-Term Agencies	121,969	0.13
Total Debt Investments	$ 14,316,105	5.17

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, 2009 was $1,254,443,668 of which $645,384,527 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2008 was $2,186,147,672 of which $1,223,407,319 were CMOs that are generally more sensitive to interest rate changes.

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, 2009 and June 30, 2008 was as follows:

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

Foreign Currency-Denominated Investments
(Expressed in Thousands)

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

Currency	Total Fair Value June 30, 2008	Fixed Income	Equity	Cash
Australian Dollar	$ 262,220	$ -	$ 262,220	$ -
British Pound Sterling	1,256,316	128,214	1,128,102	-
Canadian Dollar	47,193	-	47,193	-
Danish Krone	93,241	-	93,220	21
Euro Currency	1,779,678	332,656	1,445,990	1,032
Hong Kong Dollar	141,112	-	141,020	92
Japanese Yen	1,554,682	534,634	1,016,364	3,684
New Zealand Dollar	4,900	-	4,819	81
Norwegian Krone	63,305	-	63,305	-
Singapore Dollar	79,452	-	79,106	346
Swedish Krona	117,084	-	116,720	364
Swiss Franc	326,064	-	325,978	86
Total	$5,725,247	$995,504	$4,724,037	$ 5,706

Derivatives – The TCRS may buy or sell equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. The futures contracts are limited to the S&P 500 Index, the S&P Midcap 400 Index and the Russell 2000 Index. The TCRS can increase (decrease) equity market exposure by buying (selling) the equity index future to obtain its target domestic equity allocation. 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. As of June 30, 2009, the TCRS was not under any futures contracts; however, at June 30, 2008, the TCRS was under contract for equity index futures and the resulting payable is reflected in the financial statements at fair value.

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

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 percent of its foreign currency exposure into US dollars. The fair value of foreign currency forward contracts outstanding as of June 30, 2009 and June 30, 2008 has been reflected in the financial statements.

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 25 basis points on the $320 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, 30 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively or 37.5 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, 2009 the TCRS did not have any commitments for pending real estate purchases. At June 30, 2008 the TCRS had unfunded commitments of $18,476,000 for pending real estate purchases.

Private Equity Investment– During the year ending June 30, 2009, the TCRS was permitted to begin investing in Private Equities. The first commitment agreement was made on June 30, 2009 for $44 million with the initial transfer of funds occurring after June 30, 2009.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of July 1, 2007, the most recent actuarial valuation date, is as follows:

SCHEDULES OF FUNDING PROGRESS
(Expressed in Thousands)

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	$ 26,214,995	$ 27,240,151	$ 1,025,156	96.24%	$ 5,742,866	17.85%
PSPP	$ 4,897,974	$ 5,475,620	$ 577,646	89.45%	$ 2,081,964	27.75%

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND JUNE 30, 2008

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2007, the TCRS reestablished unfunded accrued liabilities for all groups. For the year ended June 30, 2008, information regarding the funded status and funding progress is required to be presented using the entry age actuarial cost method. In the actuarial valuation in which unfunded accrued liabilities are reestablished, the Frozen Entry Age actuarial cost method and the entry age normal actuarial cost method produce the same results.

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. Since the requirement to present the Schedule of Funding Progress using the entry age actuarial cost method is effective beginning for the year ended June 30, 2008, only the funded status information relating to the most recent actuarial valuation date is provided in the required supplemental information. Additional required historical information will be provided in subsequent years once available.

Additional information as of the latest actuarial valuation follows:

	SETHEEPP	PSPP
Valuation date	July 1, 2007	July 1, 2007
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	5-year Moving Market Average
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	3.00%	3.00%
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

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	7/1/2007	$ 26,214,995	$ 27,240,151	$ 1,025,156	96.24%	$ 5,742,866	17.85%
PSPP	7/1/2007	$ 4,897,974	$ 5,475,620	$ 577,646	89.45%	$ 2,081,964	27.75%

The schedule of funding progress 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. Since the TCRS has previously calculated the annual required contribution (ARC) using the aggregate actuarial cost method and the requirement to present the Schedule of Funding Progress using the entry age actuarial cost method is effective beginning for the year ended June 30, 2008, only the funded status information relating to the most recent actuarial valuation date is provided. Additional required historical information will be provided in subsequent years once available.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS

SCHEDULES OF EMPLOYER CONTRIBUTIONS
Expressed in Thousands

	SETHEEPP		PSPP	
Year Ended June 30	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**
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%
2004	271,298	100.00%	139,808	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2009.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM ACTUARIAL BALANCE SHEET

ACTUARIAL BALANCE SHEET
as of July 1, 2007

	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEEPP)	Political Subdivision Pension Plan (PSPP)	Total
ASSETS			
Present assets creditable to			
Employer accumulation fund	$ 22,828,158,274	$ 4,001,181,918	$ 26,829,340,192
Members' accumulation fund	3,386,836,344	896,792,065	4,283,628,409
Total present assets	26,214,994,618	4,897,973,983	31,112,968,601
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	3,822,067,457	1,321,097,983	5,143,165,440
Accrued liability	1,025,156,148	577,645,568	1,602,801,716
Total employer accumulation	4,847,223,605	1,898,743,551	6,745,967,156
Member's accumulation fund	1,559,379,148	515,995,791	2,075,374,939
Total prospective contributions	6,406,602,753	2,414,739,342	8,821,342,095
TOTAL ASSETS	$ 32,621,597,371	$ 7,312,713,325	$ 39,934,310,696
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	$ 12,544,677,397	$ 1,902,875,092	$ 14,447,552,489
Present active members	19,503,069,132	5,234,527,606	24,737,596,738
Former members	573,850,842	175,310,627	749,161,469
TOTAL LIABILITIES	$ 32,621,597,371	$ 7,312,713,325	$ 39,934,310,696

This report is available in its entirety on the Internet at:
www.tn.gov/treasury/TreasurersAnnualReport.pdf

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