2001 Treasurer's Report

Steve Adams, Treasurer
State of Tennessee

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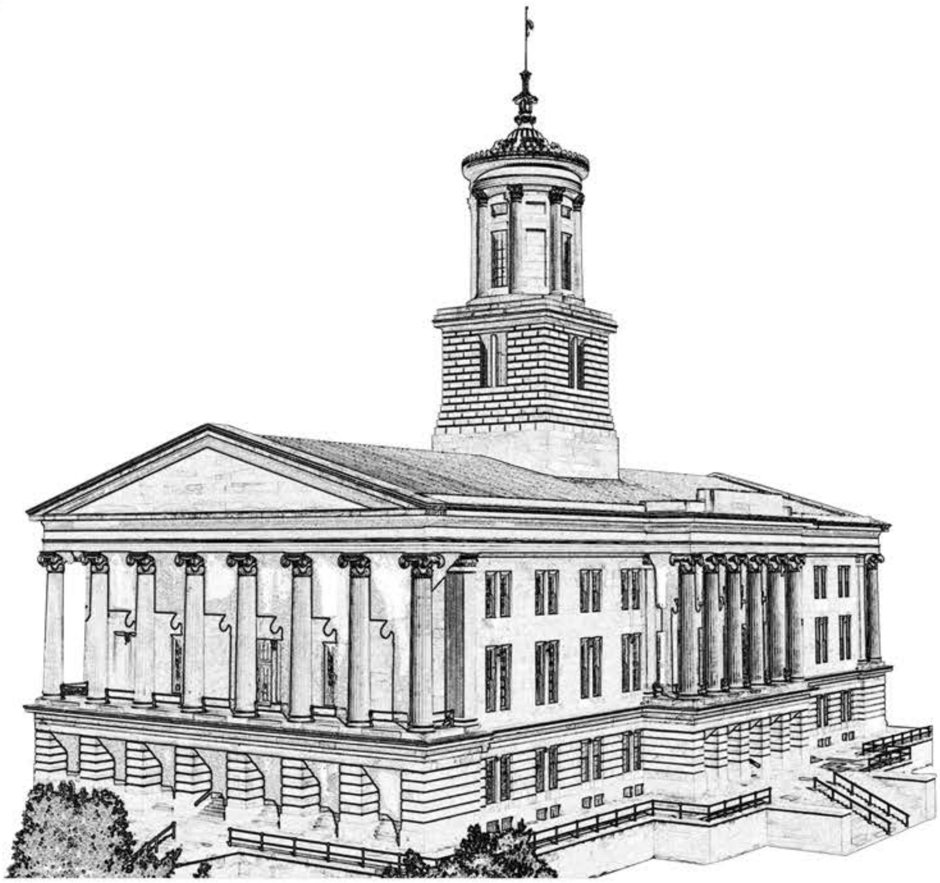

Steve Adams, Treasurer
State of Tennessee

Fiscal Year Ended June 30, 2001

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Treasury Department, December 2001, Authorization No. 309084, 350 copies.
This public document was printed at a cost of $4.28 each.

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LETTER OF TRANSMITTAL

State of Tennessee
Treasury Department
State Capitol
Nashville, Tennessee 37243

December 31, 2001

The Honorable Don Sundquist, Governor
The Honorable John S. Wilder, Speaker of the Senate
The Honorable Jimmy Naifeh, Speaker of the House of Representatives
Members of the General Assembly
Citizens of the State of Tennessee

Ladies and Gentlemen:

Pursuant to the requirements of Section 4-4-114, *Tennessee Code Annotated*, I am pleased to transmit a report of the activity of the Treasury Department for the fiscal year ending June 30, 2001.

My staff and I continue to appreciate your support and interest in the programs we administer and our efforts to serve all Tennesseans. We look forward to working with you to meet the challenges ahead in this new year.

Sincerely,

Steve Adams

Steve Adams

EXECUTIVE SUMMARY

INTRODUCTION

The 2001 Treasurer's Report contains reports on various programs administered by the Treasury Department, including Investments, the Tennessee Consolidated Retirement System, the Deferred Compensation Program, the Flexible Benefits Plan, Claims Administration, the Tennessee Claims Commission, Risk Management, the Unclaimed Property Program, the Chairs of Excellence Program, the Baccalaureate Education System Trust, and the Careers Now Program. The following comments represent a brief recap of the purpose and operations of each program administered by the department. The remainder of this report gives detailed data regarding these programs' activities during the 2000-2001 fiscal year.

INVESTMENTS

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

State Cash Management - This section manages the State Pooled Investment Fund which includes the state's cash, the various dedicated reserves and trust funds of the state, and the Local Government Investment Pool. Investments during 2000-2001 averaged $4.14 billion, producing $244.5 million in income for an average rate of return of 5.94%. The Local Government Investment Pool received $116.2 million in interest at a rate averaging 5.79%. The State Trust of Tennessee allows the department to use the Federal Reserve Wire Transfer System to transfer funds on a limited basis.

Pension Fund Investments - This section manages the investments of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 2001 totaled $24.0 billion at fair value. For the year, investment earnings were $(327.5) million, for a rate of return of (1.6)% on a fair value basis. This return compares favorably with the public fund index of (4.0)%. TCRS was ranked in the 35th percentile (1=best, 100=worst) in the Callan total plan sponsor database. The Pension Fund Investment section also manages investments for the Chairs of Excellence Trust which at June 30, 2001 totaled $223.9 million at fair value.

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, 2001, there were 194,725 active TCRS members: 42,914 state employees; 65,040 K-12 teachers; 68,656 political subdivision employees; and 18,115 higher education employees. As of June 30, 2001, there were 77,742 retirees. TCRS paid out $756.4 million in benefits during fiscal year 2000-2001. 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.

DEFERRED COMPENSATION PROGRAM

The State of Tennessee Deferred Compensation Program offers state employees the opportunity to accumulate supplemental retirement income on a tax deferred basis. 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 $20 per month. As of June 30, 2001, a total of 55,199 state and higher education employees had accounts in the program. The market value of accumulated account balances totaled $591.1 million.

Executive Summary

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, 2001, 38,985 state employees were using the plan: 38,433 paid group medical premiums, 16,035 paid group dental premiums, 2,919 used the medical expense reimbursement account and 365 used the dependent care reimbursement account. The plan generated over $2.6 million in F.I.C.A. savings for the state during the 2000-2001 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 part of the 401(k) match for state employees.

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 5,706 claims for tort, employee property damage and workers' compensation. Payments made during the year for workers' compensation, tort, and employee property damage claims totaled $23.3 million. During the year, 1,190 victims of criminal injury and drunk driver claims were approved for payment. Payments made to victims of criminal injuries and drunk drivers totaled $9.1 million. Since the first payments were issued in 1982, more than $112.6 million has been paid to crime victims.

Tennessee 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. Claims are payable from the Claims Award Fund by the Division of Claims Administration after adjudication by a commissioner. At June 30, 2001, the commission had 854 open claims (including claims transferred to administrative law judges). This represented a 20.48% reduction from cases open at June 30, 2000.

Division of Risk Management

The Division of Risk Management is responsible for administering the state's Property/Casualty Insurance Program, including the procurement of boiler insurance and employee fidelity bond coverage. All state-owned buildings and contents are provided all-risk, replacement cost coverage for the limits of liability listed in the state's Property Insurance Schedule. On July 1, 2000, the total scheduled values were $9.2 billion. The State Reserve for Casualty Losses, in the amount of $5 million, provides an annual aggregate retention for the payment of property claims. Excess property coverage is procured from an independent insurance carrier to provide claim payments in excess of the retention, should losses exceed $5 million in a given fiscal year. In fiscal year 2000-2001, the premium cost for total property coverage without the $5 million retention was estimated to be $14.7 million. The actual cost of the program for the same period was $4.5 million, providing a savings to the state of approximately $10.2 million.

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 forgotten assets. The types of property covered by this act are

Executive Summary

primarily cash property such as bank accounts, insurance policies, utility deposits, etc. During the fiscal year, $28.2 million of unclaimed property was turned over to the Treasurer and $9 million was returned to owners or their heirs. Since the program began operations in 1979, over $213.3 million in unclaimed property has been reported to the Treasurer and more than $62.1 million (29%) of that property has been returned to owners or their heirs. Internet inquiries received have doubled. Entities with property to report may download their forms from the department's Internet site.

Chairs of Excellence

The Chairs of Excellence Trust is a non-expendable trust fund authorized in 1984 to further the cause of education in Tennessee. The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus, creating a chair. Income from the chair is used to offset the cost of retaining a nationally or regionally recognized scholar at a state college or university who teaches in a specified academic area. During the 2001 fiscal year, one chair was created and private contributions of $625 thousand were received. Since 1984, a total of 99 chairs have been created. The Trust totaled $225.7 million fair value at June 30, 2001 and earnings were $(6.7) million for the year.

Baccalaureate Education System Trust (BEST)

The Baccalaureate Education System Trust, or BEST, is a 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 average tuition inflation at Tennessee public universities. Through the purchase of affordable tuition units, Tennesseans can pay for future tuition at today’s price and ease their concerns about whether they will have enough funds to pay for their children’s higher education. Contributions to the Savings Plan, which began in March 2000, are invested in portfolios that change asset allocation over time based on the age of the beneficiary. At June 30, 2001, the Prepaid College Tuition Plan held 6,769 contracts and the Savings Plan held 781 contracts. At June 30, the program had assets of $29.7 million.

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 therein by working in one of the three constitutional offices for a semester. The program has had 137 students since it began in January 1996. Since the program's inception, 28% of participants have accepted job offers from the state.

Bond Refunding Trust

The Treasurer has been appointed Refunding Trustee for the Tennessee Local Development Authority (TLDA), for the Tennessee State School Bond Authority, and for the Funding Board of the State of Tennessee in connection with the sale of bonds issued to refund, in advance of maturity, bonds and notes previously issued by the TLDA, School Bond Authority, and Funding Board. The Treasurer has established a Refunding Trust Fund for the benefit of the holders of the refunded bonds and notes. A portion of the proceeds of the refunding bonds were used to acquire direct general obligations of the United States of America or obligations which are unconditionally guaranteed by the United States of America as to principal and interest.

TREASURY NUMBERS AT A GLANCE
FISCAL YEAR 2000-2001

ADMINISTRATIVE	Number of Filled Positions		188
	Payroll Expenditures	$	9,023,159
	Other Expenditures	$	3,969,068
	Total Administrative Expenditures	$	12,992,227
CASH MANAGEMENT PROGRAM	General Fund Earnings	$	58,520,057
	LGIP Earnings	$	116,160,174
	Restricted Fund Earnings	$	69,812,550
	Total Cash Management Earnings	$	244,492,781
RETIREMENT PROGRAM	Retirement Benefits	$	756,384,263
	Number of Retirees		77,742
	Number of Active Members		194,725
	Retirement Contributions	$	516,416,729
	Retirement Investment Earnings	$	(327,511,701)
CLAIMS ADMINISTRATION PROGRAM	Workers' Compensation Payments	$	17,049,306
	Workers' Compensation Claims Filed		3,847
	Employee Property Damage Payments	$	30,150
	Employee Property Damage Claims Filed		212
	Tort Claims Payments	$	6,228,215
	Tort Claims Filed		1,647
	Criminal Injury Payments	$	9,101,646
	Criminal Injury Number of Payments Made		1,190
RISK MANAGEMENT PROGRAM	Property Values Insured	$	9,163,215,100
	Total Cost of Program	$	4,483,242
	Savings to the State over Private Insurance Rates	$	10,177,902
CHAIRS OF EXCELLENCE PROGRAM	Chairs of Excellence Contributions	$	625,000
	Chairs Of Excellence Investment Earnings	$	(6,654,858)
	Chairs of Excellence Expenses	$	7,225,476
	Total Number of Chairs of Excellence		99
OTHER PROGRAMS	Deferred Compensation Contributions	$	63,194,515
	Deferred Compensation Participants		55,199
	Flexible Benefits Plan Payments	$	4,050,141
	FICA Savings Generated from Flex Plan	$	2,625,270
	Unclaimed Property Revenues	$	28,238,678
	Unclaimed Property Payments	$	9,006,184
	BEST Accounts		6,769
	BEST Contributions (net of fees)	$	5,469,239
FAIR VALUE OF ASSETS UNDER MANAGEMENT AT JUNE 30, 2001	Retirement Trust Fund	$	24,517,823,143
	Chairs of Excellence Trust Fund	$	225,729,827
	State Pooled Investment Fund Investments	$	4,429,134,271
	Deferred Compensation (outside managers)	$	591,131,020
	BEST Educational Services Plan	$	28,007,840
	BEST Educational Savings Plan (outside manager)	$	1,704,200
	Total Assets Under Management	$	29,793,530,301

Program Administration

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 165 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 2000-2001 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was $4,141,855,833 per month and interest income of $244,492,781 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 the State Trust of Tennessee. Funds may also be invested in prime commercial paper and prime banker's acceptances.

At June 30, 2001, investments had an average maturity of 86 days, and an average weighted yield of 4.19%. The total balance in the State Pooled Investment Fund at June 30, 2001, $4,429,134,271 fair value, was allocated as follows: U.S. Treasury government and agency securities, 47.36%; repurchase agreements, 1.63%; collateralized certificates of deposit, 25.70%; and commercial paper, 25.31%.

During the fiscal year, the State Pooled Investment Fund purchased PG&E Commercial Paper totaling $51.7 million. At the time of purchase, the commercial paper had the highest rating by both Standard and Poor's and Moody's. Subsequently the commercial paper was downgraded and eventually went into default. On April 6, 2001, PG&E filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in San Francisco bankruptcy court. PG&E filed a plan with the bankruptcy court where they assert that all creditors would receive 100% repayment of principal with interest. Creditors would receive 60% cash on the settlement date and a long-term note for the remaining 40%. PG&E is developing a guarantee as part of the plan that the note would pay 100% of principle for a certain period of time after the issuance. If the bankruptcy court approves the company's plan, the settlement date is expected to occur in late 2002 or early 2003. At this time, a hearing has not been scheduled by the bankruptcy court to consider the company's plan. The court may amend the company's plan or may consider alternative plans. The ultimate resolution rests with the bankruptcy court.

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

State Cash Management

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 Trust 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 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 as described on the next page. The types of investment instruments which are eligible to be pledged as collateral are listed in this report.

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

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

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.

STATE CASH MANAGEMENT

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 only healthy institutions are permitted to participate.

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. 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.

The Collateral Pool began operations on November 1, 1995 with 13 banks participating. Only banks were initially eligible to participate in the pool, but in the spring of 1996, legislation was passed to allow thrift institutions to participate in the Collateral Pool. The Collateral Pool Board began accepting applications from thrift institutions on August 29, 1996.

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

Currently, the Collateral Pool has 47 participant institutions collateralizing public funds in excess of $3.5 billion.

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]New Pool Funds	[4]90 Day Treasury (CD Equivalent Yield)
2000-01	5.94%	5.53%	5.79%	5.37%
1999-00	5.66	5.53	5.73	5.37
1998-99	5.22	5.02	5.03	4.59
1997-98	5.64	5.44	5.59	5.17
1996-97	5.50	5.25	5.40	5.17

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

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
2000-01	$ 1,341,893,500	$ 81,814,311	6.09%
1999-00	1,648,537,750	91,881,629	5.58%
1998-99	1,403,271,417	73,497,837	5.25%
1997-98	1,055,776,333	59,831,252	5.66%
1996-97	848,697,167	46,917,097	5.53%

Repurchase Agreements and Overnight Deposit Accounts

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2000-01	$ 74,052,750	$ 5,109,695	5.73%
1999-00	79,427,917	4,343,921	5.62%
1998-99	139,544,000	6,971,489	5.05%
1997-98	164,851,917	9,136,064	5.56%
1996-97	180,228,167	9,743,171	5.37%

Commercial Paper

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2000-01	$ 1,331,471,250	$ 79,108,382	6.00%
1999-00	1,144,931,750	66,980,997	5.81%
1998-99	1,113,779,417	58,565,097	5.26%
1997-98	890,313,583	50,659,421	5.69%
1996-97	739,561,917	41,056,244	5.55%

U.S. Government Securities

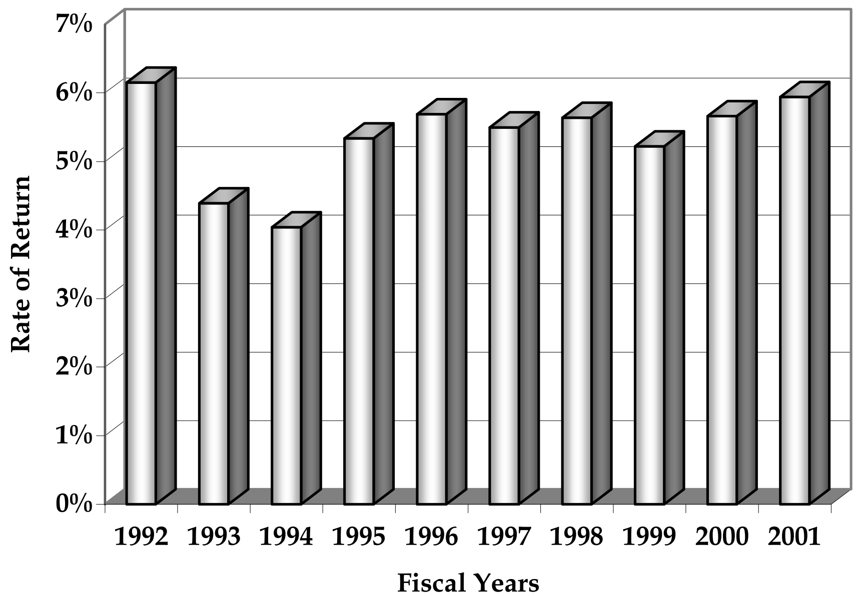
Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2000-01	$ 1,394,438,333	$ 78,460,393	5.62%
1999-00	647,764,750	38,291,206	5.58%
1998-99	680,657,333	34,017,497	5.14%
1997-98	652,920,833	36,098,337	5.52%
1996-97	622,375,583	34,547,557	5.45%

Total Funds

Fiscal Year	Average Total Funds Invested	Cash Management Investment Earnings	Composite Weighted Average Rate of Return
2000-01	$ 4,141,855,833	$ 244,492,781	5.94%
1999-00	3,520,662,167	201,497,753	5.66%
1998-99	3,337,252,167	173,051,920	5.22%
1997-98	2,763,862,666	155,725,074	5.64%
1996-97	2,390,862,834	132,264,069	5.50%

State Cash Management

CASH MANAGEMENT INVESTMENTS COMPOSITE WEIGHTED AVERAGE RATE OF RETURN
Fiscal Years 1992-2001



ANALYSIS OF STATE CASH EARNINGS
Fiscal Years 1992-2001

State Cash Management

CASH MANAGEMENT PORTFOLIO ANALYSIS
Fiscal Year Ended June 30, 2001

Month	Current Investment Yield	Total Portfolio Yield	Avg. Days to Maturity	Portfolio Composition: Certificates of Deposit	Repurchase Agreements	U.S. Treasury Notes	U.S. Agency	Commercial Paper
Jul-00	6.62%	6.52%	58	40.16%	1.28%	0.00%	23.20%	35.36%
Aug-00	6.60%	6.58%	63	37.55%	1.50%	0.00%	25.56%	35.39%
Sep-00	6.61%	6.64%	67	37.68%	1.25%	0.00%	24.16%	36.90%
Oct-00	6.60%	6.66%	67	35.76%	1.54%	0.00%	26.37%	36.34%
Nov-00	6.63%	6.69%	79	38.10%	1.56%	0.00%	26.54%	33.80%
Dec-00	6.62%	6.73%	73	38.27%	1.65%	0.00%	26.19%	33.89%
Jan-01	6.01%	6.47%	69	35.99%	2.42%	0.00%	26.69%	34.90%
Feb-01	5.52%	5.85%	79	34.71%	3.22%	0.00%	35.36%	26.71%
Mar-01	5.29%	5.38%	72	26.90%	2.52%	6.88%	39.32%	24.38%
Apr-01	4.77%	5.00%	79	24.78%	1.56%	7.85%	36.07%	29.73%
May-01	4.18%	4.52%	79	21.17%	1.55%	8.54%	37.97%	30.77%
Jun-01	3.97%	4.28%	77	22.03%	1.46%	8.72%	39.06%	28.74%
Average	5.79%	5.94%	72	32.76%	1.79%	2.67%	30.54%	32.24%

Date	General Fund Average	General Fund Percent	LGIP Average	LGIP Percent	Other Restricted Average	Other Restricted Percent	Total Average Invested
Jul-00	$1,018,270,470	26.03%	$ 1,866,474,016	47.72%	$1,026,954,514	26.25%	$ 3,911,699,000
Aug-00	1,190,833,888	28.39%	1,860,944,543	44.37%	1,142,443,569	27.24%	4,194,222,000
Sep-00	1,225,948,048	29.16%	1,835,890,032	43.68%	1,141,922,920	27.16%	4,203,761,000
Oct-00	1,165,649,781	28.62%	1,777,398,134	43.65%	1,129,412,085	27.73%	4,072,460,000
Nov-00	931,871,513	24.50%	1,736,643,819	45.66%	1,135,210,668	29.84%	3,803,726,000
Dec-00	746,285,559	20.04%	1,781,912,313	47.85%	1,195,562,128	32.11%	3,723,760,000
Jan-01	783,754,210	19.58%	2,040,392,343	50.96%	1,179,546,447	29.46%	4,003,693,000
Feb-01	721,859,309	17.69%	2,174,727,792	53.30%	1,183,931,899	29.01%	4,080,519,000
Mar-01	598,650,524	14.28%	2,404,651,726	57.36%	1,188,865,750	28.36%	4,192,168,000
Apr-01	646,852,438	14.94%	2,438,824,271	56.32%	1,244,425,291	28.74%	4,330,102,000
May-01	900,238,718	19.40%	2,442,667,901	52.62%	1,298,577,381	27.98%	4,641,484,000
Jun-01	1,042,696,377	22.94%	2,195,576,707	48.31%	1,306,402,916	28.75%	4,544,676,000
Average	$ 914,409,236	22.13%	$ 2,046,341,966	49.32%	$1,181,104,631	28.55%	$ 4,141,855,833

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 at 1,386 accounts. The Department of Transportation (DOT) program has 382 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.

During Fiscal Year 2002, an electronic banking system will be implemented to allow participants to access their accounts in a secure Internet application. Thus, participants will be 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 average rate of interest earned on the investments acquired for the entire cash management pool each month. This average earnings rate is reduced each month by six one hundredths of one percent (.06%) as an administrative fee for participating in the LGIP program. During the 2000-2001 fiscal year, the average rate participants earned on their deposits after the fee reduction was 5.725%. 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, 2001

	Account Balance 7/1/00	Net Deposits/ (Withdrawals) FY 2000-2001	Net Interest Credited FY 2000-2001	Account Balance 6/30/01
Cities	$ 294,010,508	$ 80,611,287	$ 21,391,237	$ 396,013,032
Counties	790,695,933	26,828,095	47,325,766	864,849,794
Commitments to D.O.T.	50,433,791	(2,358,691)	2,861,225	50,936,325
Educational Institutions	458,200,586	(59,573,126)	29,581,288	428,208,748
Community Health Agencies	8,030,557	(2,706,662)	447,947	5,771,842
Other	254,421,543	13,461,294	13,325,575	281,208,412
Total	$ 1,855,792,918	$ 56,262,197	$ 114,933,038	$ 2,026,988,153

STATE CASH MANAGEMENT

STATE TRUST OF TENNESSEE

The State Trust of Tennessee, a not-for-profit corporation, was chartered in the State of Tennessee on April 20, 1979 and began operations in December 1980. The State Trust has enabled the Treasury Department to gain limited membership in the Federal Reserve Bank System. Being a limited member of the Federal Reserve gives the Treasury Department access to the Federal Reserve Wire System, which is used to send, receive, transfer and control funds movement expediently under the Treasurer's management.

Due to restrictions imposed upon state-owned trust companies by the Federal Reserve Board, the State Trust of Tennessee is limited in the number of daily outgoing wire transfers and can no longer settle ACH transactions through its account at the Federal Reserve.

The restrictions required the State Trust of Tennessee to contract with an agent bank to execute these transactions. AmSouth Bank of Tennessee in Nashville serves as the Trust's agent for the period July 1, 1999 through June 30, 2004.

The State Trust became an associate member of the Nashville Clearinghouse on April 1, 1994. Approximately 85% of all check items presented for redemption are processed through the clearinghouse.

STATE TRUST OF TENNESSEE FEDERAL RESERVE BANK TRANSACTIONS
Fiscal Year 2000-2001

Transaction Type	Number	Amount
(1) Wire Disbursements	8,294	$ 10,197,027,084
(2) Wire Receipts	7,834	14,770,026,188
(3) Security Disbursements	581	21,612,782,336
(4) Security Receipts	650	22,703,689,964
(5) Check Redemptions	7,416,411	7,350,416,413
Total	7,433,770	$ 76,633,941,985

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.

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

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

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

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

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, 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.

An Investment Advisory Council was established by the Consolidated Retirement Act of 1972 to provide policy guidance to the Board of Trustees and the investment staff. The current Advisory Council is comprised of senior investment professionals from within the State of Tennessee. All members hold the Chartered Financial Analyst designation or Certified Public Accountant designation.

To assist in the fiduciary responsibility for managing the TCRS portfolio, Callan Associates serves as the general investment consultant for TCRS. The Townsend Group serves as the real estate investment consultant.

The current contract with the Master Custodial Bank for TCRS expires June 30, 2002. The department has issued an RFP to secure these services. The selection of the Master Trust Bank will be completed by March 2002. The Master Trust Bank provides safekeeping and accounting services for the TCRS 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, Callan Associates, provides performance measurement for TCRS. Performance measurement is determined in conformance with the standards established by the Association for Investment Management and Research (AIMR). During the 2000-2001 fiscal year, TCRS had a total return of (1.6)% which compares favorably to the public fund index return of(4.0)%. TCRS was ranked in the 35th percentile (1=best, 100=worst) in the Callan total plan sponsor database.

TCRS Investments

INVESTMENT SUMMARY
as of June 30, 2001

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	$ 8,434,585,998	35.29%	$ 555,648,102	2.32%	$ 8,990,234,100	37.61%
Corporate Bonds	3,297,563,337	13.80%	277,456,832	1.16%	3,575,020,169	14.96%
Convertible Bonds	0	0.00%	111,580	0.00%	111,580	0.00%
Total Bonds	$11,732,149,335	49.09%	$ 833,216,514	3.48%	$12,565,365,849	52.57%
Preferred Stock	0	0.00%	24,780,599	0.10%	24,780,599	0.10%
Total Fixed Income	$11,732,149,335	49.09%	$ 857,997,113	3.58%	$12,590,146,448	52.67%
Common Stock						
Commingled Fund	$ 0	0.00%	$ 12,590,509	0.05%	$ 12,590,509	0.05%
Consumer Discretionary	983,349,388	4.11%	387,112,752	1.62%	1,370,462,140	5.73%
Consumer Staples	597,272,493	2.50%	180,427,831	0.76%	777,700,324	3.26%
Energy	519,898,194	2.18%	182,497,730	0.76%	702,395,924	2.94%
Financials	1,337,550,292	5.60%	415,365,495	1.74%	1,752,915,787	7.34%
Health Care	969,069,805	4.05%	157,702,187	0.66%	1,126,771,992	4.71%
Industrials	850,408,211	3.56%	288,304,412	1.21%	1,138,712,623	4.77%
Information Technology	1,395,546,023	5.84%	194,967,509	0.82%	1,590,513,532	6.66%
Materials	164,250,754	0.69%	144,025,079	0.60%	308,275,833	1.29%
Private Placement	0	0.00%	7,031,332	0.03%	7,031,332	0.03%
Rights/Warrants	0	0.00%	75,622	0.00%	75,622	0.00%
Telecommunication Svc.	400,067,348	1.67%	185,570,197	0.78%	585,637,545	2.45%
Unclassified	0	0.00%	3,438,923	0.01%	3,438,923	0.01%
Utilities	289,210,100	1.21%	53,580,361	0.23%	342,790,461	1.44%
Total Common Stock	$ 7,506,622,608	31.41%	$2,212,689,939	9.27%	$ 9,719,312,547	40.68%
Short-term Investments						
Commercial Paper	$ 751,888,749	3.15%	$ 0	0.00%	$ 751,888,749	3.15%
Corporate Bonds	15,320,400	0.06%	0	0.00%	15,320,400	0.06%
U.S. Gov't Securities	533,583,822	2.23%	0	0.00%	533,583,822	2.23%
Total Short-term Investments	$ 1,300,792,971	5.44%	$ 0	0.00%	$ 1,300,792,971	5.44%
Real Estate	$ 290,382,307	1.21%	$ 0	0.00%	$ 290,382,307	1.21%
Total Investments	$20,829,947,221	87.15%	$3,070,687,052	12.85%	$23,900,634,273	100.00%
Invested Securities Lending Collateral	$ 113,685,867		$ 0		$ 113,685,867	
Short-term Investments Classified as Cash Equivalents	$ (781,044,360)		$ 0		$ (781,044,360)	
Total Investments and Invested Securities Lending Collateral as Shown on the Statement of Plan Net Assets	$20,162,588,728		$3,070,687,052		$23,233,275,780	

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
2000-01	(4.1)%	(1.6)%
1999-00	9.5	7.9
1998-99	10.0	9.5
1997-98	17.9	15.1
1996-97	18.9	15.7
1995-96	15.8	12.8
1994-95	15.4	12.8
1993-94	1.6	0.5
1992-93	13.2	15.1
1991-92	12.1	13.7

[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 1996-1997 through 2000-2001

Fiscal Year	TCRS Portfolio Earnings
2000-01	$ (327,511,701)
1999-00	1,761,074,099
1998-99	1,932,716,042
1997-98	2,758,267,944
1996-97	2,514,952,816

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

MEMBERSHIP

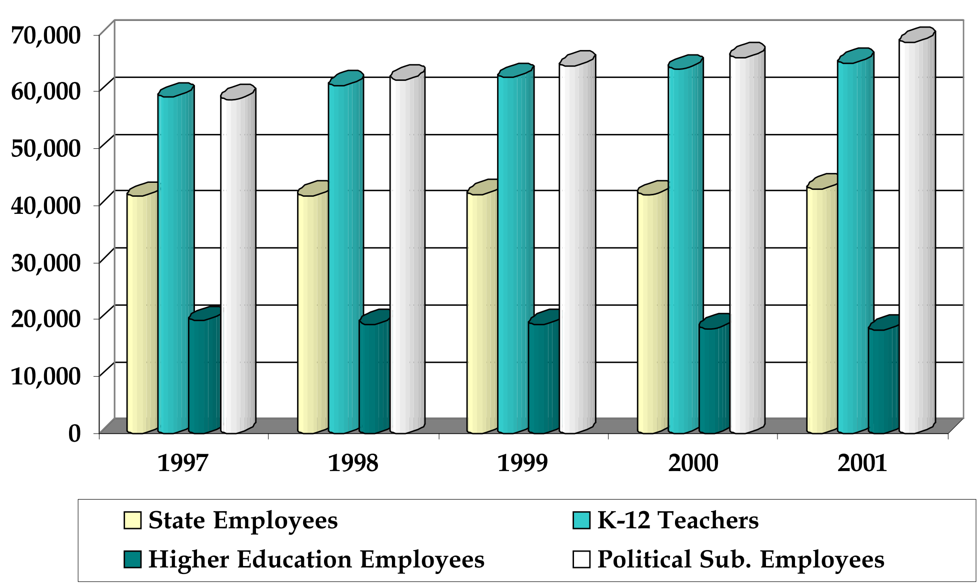
Membership in the retirement system is a condition of employment for full-time state employees, teachers, general employees in higher education, and the employees of local governments that participate in TCRS. Membership is optional for certain part-time employees. Faculty employees in higher education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

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

As of June 30, 2001, there were 194,725 active members of TCRS and 11,063 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 1997-2001



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.

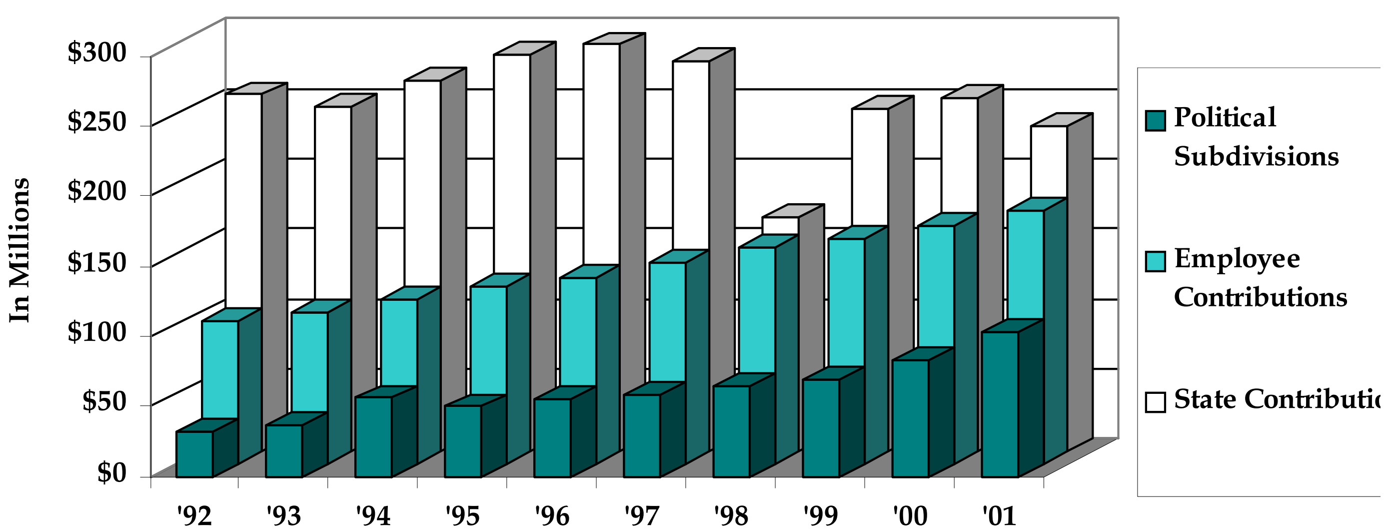
Upon termination of employment, a member may elect to withdraw his contributions and accumulated interest from the retirement system in a lump sum. By obtaining a lump sum refund, a member waives all rights and benefits in the retirement system. A vested member may leave his account balance in TCRS and 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 2000-2001 fiscal year, 4,771 refunds totaling $28.5 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, 2001 were as follows:

Noncontributory State and Higher Education Employees	6.19%
K-12 Teachers	3.72%
Political Subdivisions	Individually Determined
Faculty Members Electing to Participate in the ORP	10.00%*

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

RETIREMENT CONTRIBUTIONS
Fiscal Years 1992-2001
(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, 2001, 77,742 retirees were receiving monthly benefit payments. This represents a 3.95% 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.

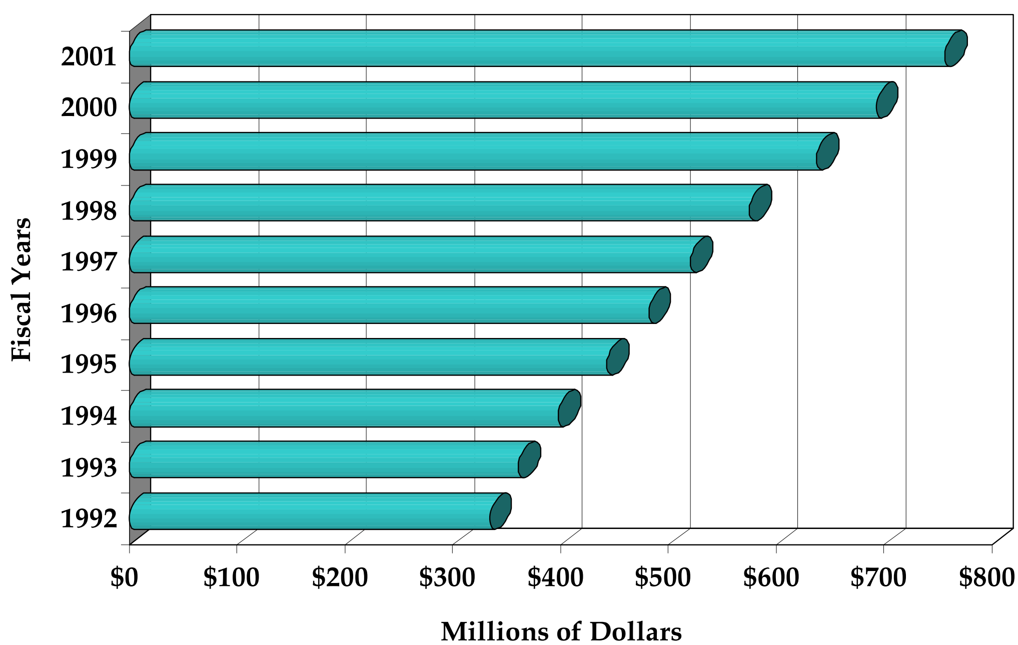
Disability benefits are available to active members with five years of service who become disabled and can not engage in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is a result of an accident or injury occurring while the member 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 can select an optional benefit which is actuarially reduced so that his beneficiary may continue to receive a benefit after his death.

Benefits paid in fiscal year 2000-2001 totaled $756.4 million, an increase of $63.7 million over 1999-2000 benefit payments.

ANNUAL BENEFIT PAYMENTS
Fiscal Years 1992-2001
(in Millions)



TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS
for Calendar Year 2001

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	8,280		8,280		8,280		8,280		8,280	
	Total	$ 11,824	78.8%	$ 13,005	86.7%	$ 14,186	94.6%	$ 15,368	102.5%	$ 16,549	110.3%
$20,000	TCRS	$ 4,725		$ 6,300		$ 7,875		$ 9,450		$ 11,025	
	Social Security	9,852		9,852		9,852		9,852		9,852	
	Total	$ 14,577	72.9%	$ 16,152	80.8%	$ 17,727	88.6%	$ 19,302	96.5%	$ 20,877	104.4%
$25,000	TCRS	$ 5,906		$ 7,875		$ 9,844		$ 11,813		$ 13,781	
	Social Security	11,424		11,424		11,424		11,424		11,424	
	Total	$ 17,330	69.3%	$ 19,299	77.2%	$ 21,268	85.1%	$ 23,237	92.9%	$ 25,205	100.8%
$30,000	TCRS	$ 7,088		$ 9,450		$ 11,813		$ 14,175		$ 16,538	
	Social Security	12,996		12,996		12,996		12,996		12,996	
	Total	$ 20,084	66.9%	$ 22,446	74.8%	$ 24,809	82.7%	$ 27,171	90.6%	$ 29,534	98.4%
$35,000	TCRS	$ 8,269		$ 11,025		$ 13,781		$ 16,538		$ 19,294	
	Social Security	14,580		14,580		14,580		14,580		14,580	
	Total	$ 22,849	65.3%	$ 25,605	73.2%	$ 28,361	81.0%	$ 31,118	88.9%	$ 33,874	96.8%
$40,000	TCRS	$ 9,631		$ 12,842		$ 16,052		$ 19,262		$ 22,473	
	Social Security	15,672		15,672		15,672		15,672		15,672	
	Total	$ 25,303	63.3%	$ 28,514	71.3%	$ 31,724	79.3%	$ 34,934	87.3%	$ 38,145	95.4%
$45,000	TCRS	$ 11,009		$ 14,679		$ 18,349		$ 22,019		$ 25,688	
	Social Security	16,260		16,260		16,260		16,260		16,260	
	Total	$ 27,269	60.6%	$ 30,939	68.8%	$ 34,609	76.9%	$ 38,279	85.1%	$ 41,948	93.2%
$50,000	TCRS	$ 12,387		$ 16,517		$ 20,646		$ 24,775		$ 28,904	
	Social Security	16,776		16,776		16,776		16,776		16,776	
	Total	$ 29,163	58.3%	$ 33,293	66.6%	$ 37,422	74.8%	$ 41,551	83.1%	$ 45,680	91.4%
$55,000	TCRS	$ 13,766		$ 18,354		$ 22,943		$ 27,531		$ 32,120	
	Social Security	17,244		17,244		17,244		17,244		17,244	
	Total	$ 31,010	56.4%	$ 35,598	64.7%	$ 40,187	73.1%	$ 44,775	81.4%	$ 49,364	89.8%
$60,000	TCRS	$ 15,144		$ 20,192		$ 25,239		$ 30,287		$ 35,335	
	Social Security	17,700		17,700		17,700		17,700		17,700	
	Total	$ 32,844	54.7%	$ 37,892	63.2%	$ 42,939	71.6%	$ 47,987	80.0%	$ 53,035	88.4%

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

This chart is based on a date of retirement in 2001. 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 2001;

(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: www.treasury.state.tn.us/tcrs/

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, 1999 to establish employer contribution rates. The system's accrued liability at July 1, 1999 was $293.2 million. The accrued liability is being amortized over a 40 year period which began in 1975. The next actuarial valuation will be effective July 1, 2001.

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, 1999 actuarial valuation of the plan:

Economic Assumptions

(1) 7.5% annual return on investments

(2) 5.5% salary increases annually

(3) 4.5% 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 and sex

(3) Disability rate based on age

(4) Turnover rate based on age and length of service

(5) Retirement age distribution based on age and service

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, 2001:

Cities	156
Counties	87
Utility Districts	39
Special School Districts	22
Joint Ventures	24
Development Agencies	13
Housing Authorities	10
911 Emergency Communication Districts	30
Miscellaneous Authorities	23
Total	404

Tennessee Consolidated Retirement System

MAJOR LEGISLATIVE IMPROVEMENTS
1980-2001

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%–assumed by the state. Salaries of employees in active service on the date these provisions were adopted were indexed by 3.6%. Subsequent legislation continued this indexing each year since.

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.

Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.

The minimum benefit increased from $7 to $8 per month per year of service.

Retirement credit for armed conflict military service approved.

1985 An ad hoc increase granted to retirees at a lump-sum cost of $22 million.

Death benefits for spouse and children provided when member's death is in the line of duty.

1987 Service credit for half of peacetime military service made available.

Another ad hoc increase to retirees provided at a lump-sum cost of $17 million.

A retirement incentive program offered for state employees retiring during a 90-day window.

Section 414(h) of the IRC adopted to provide that employee contributions made on a tax-deferred basis.

1989 Retirement service credit for members receiving worker's compensation due to a temporary disability made available.

1990 A retirement incentive program offered for state employees retiring during a 120-day window.

1991 The Board of Trustees authorized to designate additional vendors for the optional retirement plan for higher education employees.

1992 The minimum number of years required to qualify for retirement was reduced from 10 to five years.

Disability and death benefits were made available to inactive, vested members.

1993 Salary portability for service in different classifications authorized effective Jan. 1, 1994.

A 5% benefit improvement authorized effective Jan. 1, 1994.

1996 An installment payment plan for prior service authorized.

1997 Compounding of future cost of living adjustments and catch up adjustments authorized.

3.6% indexing of salaries for noncontributory employees was extended permanently.

1998 Group 2 and Group 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%.

Supplemental bridge benefit established in conjunction with reestablishment of mandatory retirement for all state public safety officers.

1999 Group I benefit limitation increased to 90%.

2000 Group 2 benefit maximum increased to 80%.

2001 Line of Duty Death Benefits improved to guarantee a minimum $50,000 death benefit.

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. Since 1991, the social security tax rate has been 6.20% each for employers and employees and the Medicare (hospital insurance) rate has been 1.45% each.

SCHEDULE OF HISTORICAL SOCIAL SECURITY CONTRIBUTION RATES

Calendar Year	Employee Rate	Employer Rate	Social Security Wage Base	Medicare Wage Base
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
1999	7.65	7.65	72,600	No Limit
1998	7.65	7.65	68,400	No Limit
1997	7.65	7.65	65,400	No Limit
1996	7.65	7.65	62,700	No Limit
1995	7.65	7.65	61,200	No Limit
1994	7.65	7.65	60,600	No Limit
1993	7.65	7.65	57,600	$ 135,000

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 deferred basis. Participants may postpone income taxes on contributions and earnings by agreeing to defer receipt of a portion of their current income until retirement.

This program offers employees two plans. 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, 2001, accounts were held by 51,435 individuals in the 401(k) plan and 3,764 individuals in the 457 plan. At June 30, 24,590 state employees, 8,037 University of Tennessee employees, and 8,346 Tennessee Board of Regents employees were actively contributing to the 401(k) plan and 1,114 state employees, 103 University of Tennessee employees, and four 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 $35,000 per year.

IRS regulations for 2001 allow a maximum deferral in the 457 plan of 25% of taxable salary up to the maximum annual contribution of $8,500. The maximum deferral in the 401(k) plan is 20% of salary for most members, up to the maximum annual contribution of $10,500. Participants who use more than one tax-deferred savings plan are subject to additional limits.

During the 2000-2001 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 $20 per month as authorized by the General Assembly. The amount contributed by the state during the year was $5,774,802.

Participants in the program may direct the investment of their deferred salary to Union Planters Time Deposit Account, Aetna'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, Asset Manager, and Government Money Market Portfolio.

Enrollment and record keeping services for the program are provided by BenefitsCorp, a Great-West Life company. 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 video, 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.

The Internet site, www.treasury.state.tn.us/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, 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, 2001, contributions to the program totaled $63,194,515. Contributions are wired

DEFERRED COMPENSATION PROGRAM

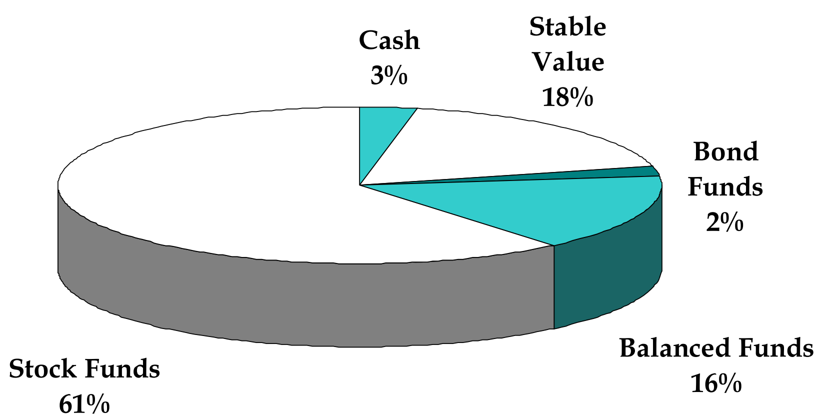
through the State Trust of Tennessee for immediate crediting.

At June 30, 2001, accumulated account balances totaled $591,131,020. Distribution of the program's assets among the program's investment providers is shown on the following page.

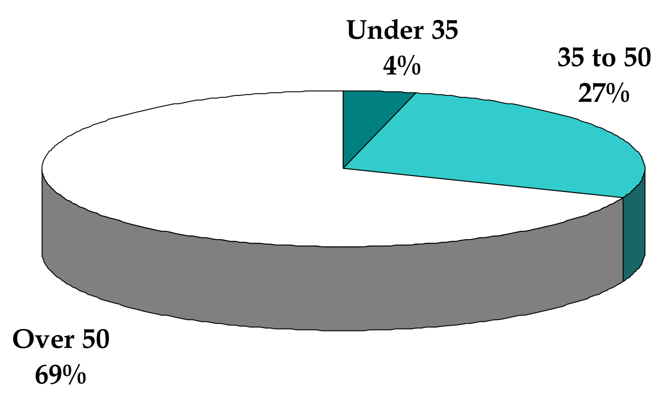
Under the loan program offered in the 401(k) plan, active employees who have accumulated $4,000 or more in their 401(k) account may borrow up to half of their account value. Participants repay principal and interest to their 401(k) account through salary deduction. Taxes continue to be deferred while funds accumulated in the plan are in loan status. As of June 30, 2001, there were 1,152 loans outstanding from the 401(k) plan. Outstanding loan balances totaled $4.5 million.

Benefits from the program may be distributed in periodic payments, in an annuity, or in a lump sum. At June 30, 2001, there were 868 individuals receiving periodic payments and 107 individuals receiving annuity payments from the program. In addition, a total of 2,591 lump sum distributions were issued during 2000-2001.

DISTRIBUTION OF ASSETS
by Fund Category
as of June 30, 2001



DISTRIBUTION OF ASSETS
by Participant Age
as of June 30, 2001



DEFERRED COMPENSATION PROGRAM

DEFERRED COMPENSATION CONTRIBUTIONS AND MARKET VALUE

	Contributions FY 2000-2001	Market Value June 30, 2001
Plan I (457)		
Aetna-ING	$ 294,463	$ 33,569,934
American General	31,029	759,015
Calvert	49,561	2,294,338
Fidelity	1,765,869	90,175,493
State Street	71,378	2,073,600
Union Planters	207,219	14,520,064
	$ 2,419,519	$ 143,392,444
Plan II (401k)		
Aetna-ING	$ 4,157,464	$ 45,654,274
Calvert	913,540	7,338,110
Fidelity	51,132,761	366,038,701
State Street	2,129,913	7,715,937
Union Planters	2,441,318	20,991,554
	$ 60,774,996	$ 447,738,576
Total for both plans	$ 63,194,515	$ 591,131,020

Flexible Benefits Plan

FLEXIBLE BENEFITS PLAN

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

In exchange for its favorable tax treatment, the plan must comply with specific rules set forth by the Internal Revenue Code and Regulations. Employees must decide what they will purchase through the plan and how much they will spend before the year begins. 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.

Tennessee's Flexible Benefits Plan, or "cafeteria" plan was implemented January 1, 1989. The Treasury Department took over administration of the program effective January 1, 1992.

At June 30, 2001, a total of 38,985 state employees were enrolled in one or more of the plan's four options: 38,433 employees used the plan to pay medical insurance premiums, 16,035 paid dental insurance premiums, 2,919 used the medical expense reimbursement account, and 365 used the dependent care reimbursement account.

Since contributions to the plan are exempt from both employee and employer F.I.C.A. (social security) tax, employees' use of the plan creates F.I.C.A. savings for the state. In fiscal year 2000-2001, the state's F.I.C.A. savings totaled $2.6 million. Employees realize similar savings. Since the program began operation in January 1989, the state's F.I.C.A. savings have totaled $24.7 million. 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, and funding matching contributions to the 401(k) plan. As of June 30, 2001, $20.9 million had been transferred to offset costs of other benefit programs.

Claims Against the State

CLAIMS AGAINST THE STATE

The Division of Claims Administration processes claims filed against the state for the negligent operation of motor vehicles or machinery; negligent care, custody and control of persons or property; professional malpractice; workers' compensation claims by state employees; dangerous conditions on state maintained highways and bridges; and nuisances created or maintained by the state. The Division of Claims Administration operates in conjunction with the Attorney General's Office and the Tennessee Claims Commission in this claims process.

The Division of Claims Administration 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.

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 has enabled the state to obtain approximately 33% savings off billed charges on workers' compensation medical bills.

The Division of Claims Administration also handles all employee property damage claims and tort claims up to a certain monetary limit.

During fiscal year 2000-2001, the Division of Claims Administration received 5,706 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 2000-2001 fiscal year, the Board took action on a total of four matters regarding claims and insurance. The Board also reviews and approves the purchase of insurance policies by the state and makes recommendations to the Commissioner of Finance and Administration and the General Assembly regarding the required funding for the Claims Award Fund.

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

Claims Against the State

CLAIMS AND PAYMENT ACTIVITY
Fiscal Year 2000-2001

	Claims Filed	Payments Made
Workers' Compensation Claims	3,847	
Death Payments		$ 549,144
Medical Payments		8,417,821
Temporary Disability (Lost Time)		1,618,426
Permanent Disability		6,463,915
Subtotal		$ 17,049,306
Employee Property Damage	212	$ 30,150
Tort Claims	1,647	
Death Payments		$ 1,580,182
Bodily Injury Payments		3,767,891
Property Damage Payments		880,142
Subtotal		$ 6,228,215
Total	5,706	$ 23,307,671

Victims' Compensation Program

VICTIMS' COMPENSATION PROGRAM

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

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

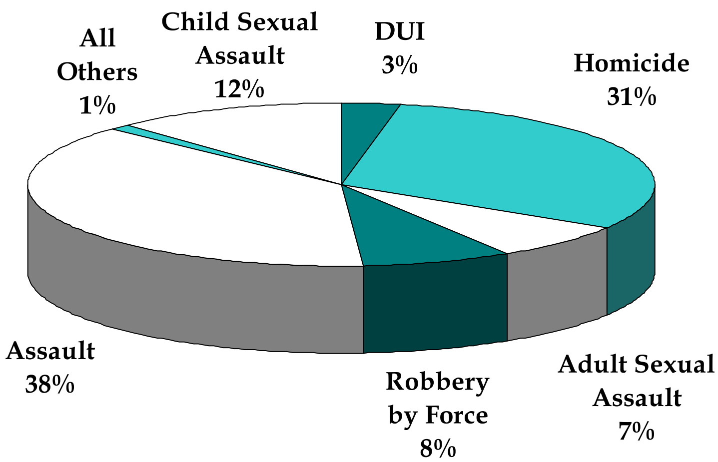
During the 2000-2001 fiscal year, the Division of Claims Administration made payments on 1,190 criminal injury claims for a total of $9,101,646. Payments are issued promptly to the victim and, if appropriate, his or her attorney. Federal funding assistance for the program has aided in allowing prompt claim payment.

Victims of drunk drivers are also paid from the Criminal Injury Compensation Fund. Identical monetary benefits are available to both drunk driver and criminal injury victims. When the proximate cause of a death or injury is the operator's intoxication as prohibited by *T.C.A.* Section 55-10-401, the victim's death or injury is eligible for compensation in the same manner as criminal injury compensation, not to exceed a maximum award of $18,000 per claim plus attorney fees for injuries occurring on or after July 1, 2000. A supplemental award of up to $12,000 was available for crimes occurring during the 2000-2001 fiscal year.

Since the first claims were paid in 1982, the program has awarded a total of more than $112.6 million to crime victims. The Division of Claims Administration has made an effort to educate members of the public of the existence and benefits of the Criminal Injury Compensation 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 availability of criminal injury compensation. The program also provides various information and resources on its web page: www.treasury.state.tn.us/injury.

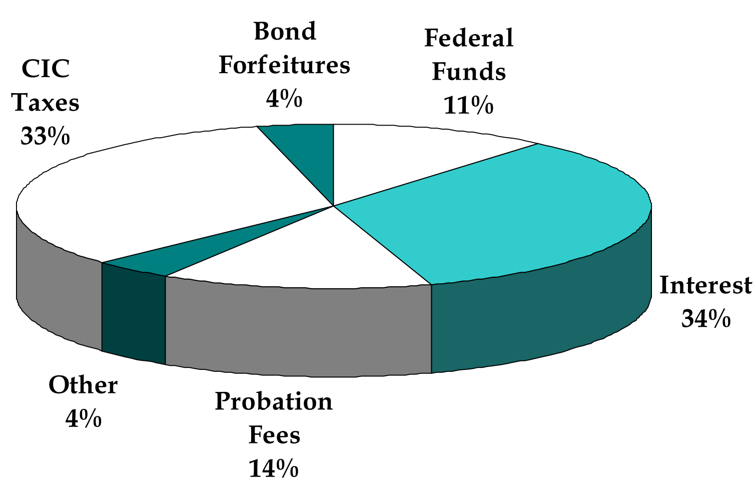
VICTIMS' COMPENSATION PROGRAM

VICTIMS' COMPENSATION AWARDS PAID
Percentage of Awards Based on Crime Classification
Fiscal Year 2000-2001



During fiscal year 2000-2001, 1,190 awards totaling $9,101,646 were made. Of that amount, $372,563 can be attributed to claims involving DUI with the remaining $8,729,083 related to all other crime types. The average award for all types was $7,648. Nine percent of all claims were the result of domestic violence.

CRIMINAL INJURY COMPENSATION FUND SOURCES OF FUNDS
Fiscal Year 2000-2001



Claims Commission

CLAIMS COMMISSION

Chapter 972 of the 1984 Public Acts (codified as *Tennessee Code Annotated,* Section 9-8-301 et seq.) created 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 six-year terms.

The commission has a central office in Nashville with an administrative clerk and an administrative services assistant. For administrative purposes, the commission is attached to the Department of the Treasury. (Prior to July l, 1997, the commission was attached to the Department of Commerce and Insurance.)

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, personal 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). These claims are payable from the Claims Award Fund. Damages are limited to $300,000 per claimant and $l,000,000 per occurrence. In addition, the commission awards compensation to victims of crime through the Criminal Injury Compensation Fund. The Department of the Treasury'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 a 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. Claimants can appeal both entities' decisions to the Claims Commission.

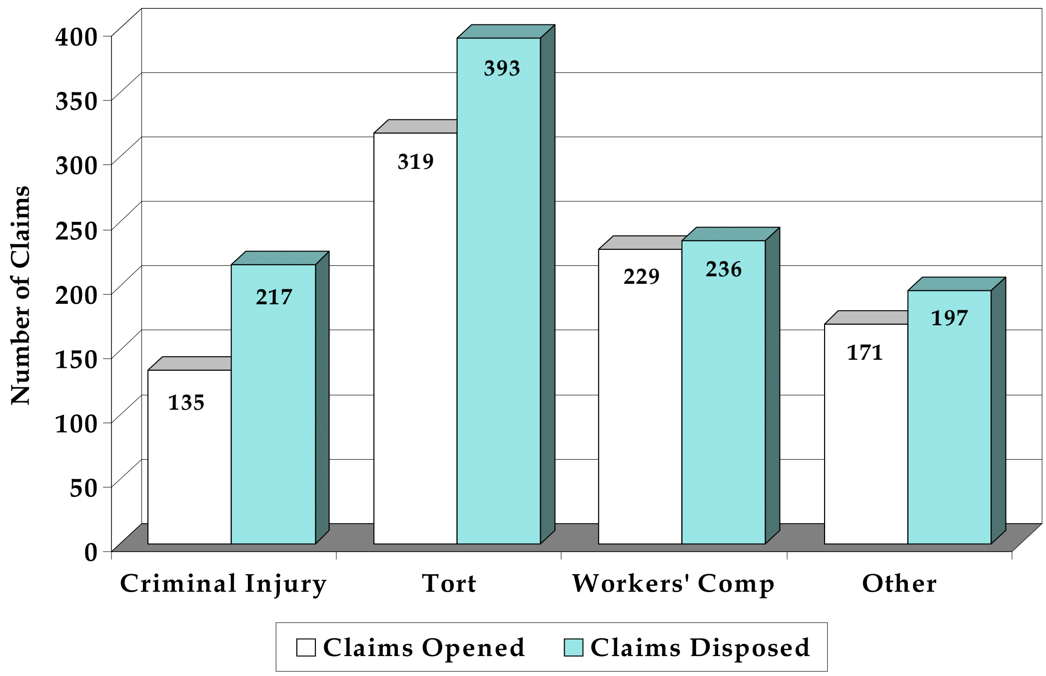
The commission has two separate dockets: a regular docket for claims greater than $15,000 and a small claims docket for claims under that amount. Commission decisions on regular docket claims can be appealed to the Tennessee Court of Appeals or, in the case of tax and workers' compensation claims, to the Tennessee Supreme Court. Small docket claims cannot be appealed, but such claims can be moved to the regular docket (at the discretion of either party) before a hearing is held.

As of July l, 1997, upon request by the Governor, by an individual claims commissioner, or by the majority of the claims commissioners, the Secretary of State may assign administrative law judges to "assist in the removal of unacceptable congestion or delay on the claims commission docket." In adjudicating claims, the administrative law judges have the same powers as commissioners.

CLAIMS COMMISSION

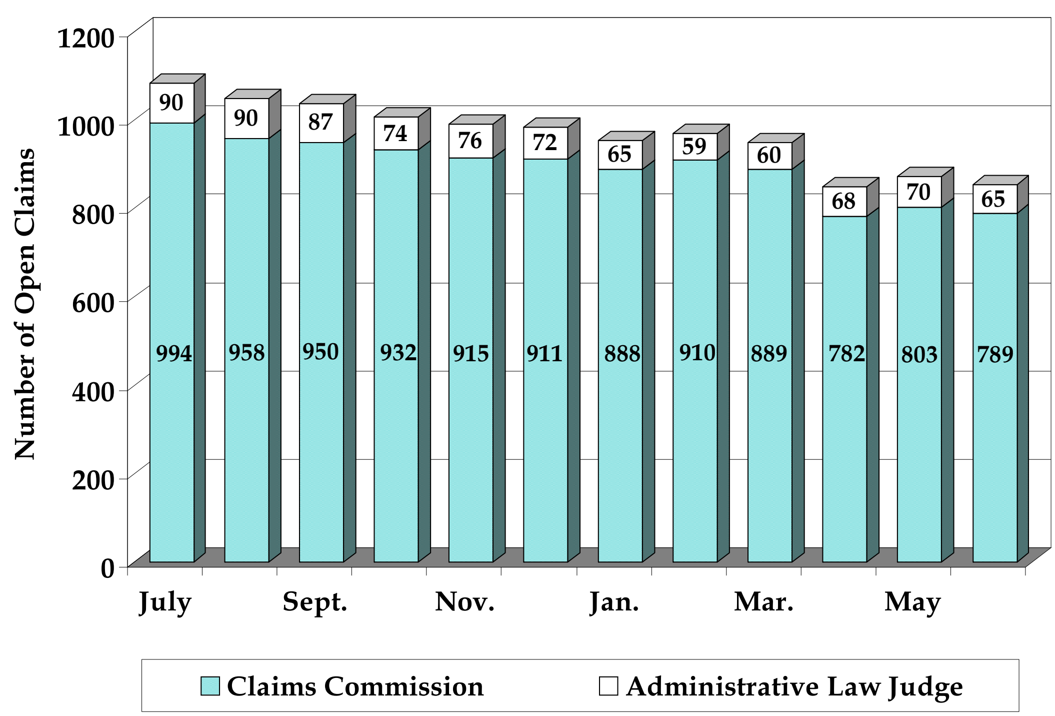
NUMBER OF CLAIMS OPENED AND NUMBER OF DISPOSITIONS BY CLAIM TYPE

(Including Dispositions by Administrative Law Judges)
Fiscal Year 2000-2001



CLAIMS COMMISSION AND ADMINISTRATIVE LAW JUDGE OPEN CLAIMS

Fiscal Year 2000-2001



Division of Risk Management

DIVISION OF RISK MANAGEMENT

The Division of Risk Management administers a variety of insurance programs for the state. The Property/Casualty Insurance Program provides all-risk, replacement cost coverage, including flood and earthquake, for all state-owned buildings and contents. This is accomplished through a $5 million annual aggregate retention—a property/casualty reserve fund appropriated for the payment of property claims within a given fiscal year—and an excess property insurance policy purchased from a private carrier.

All property exposures are thoroughly inspected and evaluated to determine appropriate rates for premium development and allocation of premium costs to the various departments. As of July 1, 2000, the state's property values were approximately $9.2 billion. The premium cost for excess property coverage and fidelity bond amounted to $666,166. This translates to an annual rate of .00727 cents per $100 of coverage.

The Builders' Risk Insurance Program provides property insurance coverage for building construction or renovation projects which have been approved by the State Building Commission. The Division of Risk Management reviews all construction contracts and insurance specifications and issues builders risk policies providing all-risk coverage for the state agency, contractor and subcontractors for the duration of the project.

Boiler insurance must be provided to ensure protection for all state-owned boiler objects. A boiler insurance policy is purchased from a private insurance carrier which is not only responsible for the insurance coverage, but must also provide a boiler inspection service. Certified inspectors evaluate all boiler objects on a regularly scheduled basis to ensure the safe operation of these systems. This loss prevention program has proven very effective with results showing no major incidents within the past five years.

In order to protect the state from financial loss due to employee dishonesty, the Division of Risk Management procures an Honesty Blanket Position and Faithful Performance Blanket Position Bond. This bond is provided by the excess property insurance carrier and is negotiated as part of the property insurance package. Fidelity coverage is provided in the amount of $1 million per incident for 29 scheduled employees and $100,000 per incident for all remaining state employees.

The Division of Risk Management also has the responsibility to investigate and process all property, boiler, and fidelity bond claims. A detailed property inventory schedule is maintained which provides the insurable values for both buildings and contents in the event a loss occurs. There is a $5,000 deductible per occurrence which must be assumed by the individual departments. Documented losses above the deductible amount are indemnified by the property/casualty reserve fund, through an allotment revision process. Should this reserve fund become completely exhausted within a given fiscal year, the excess property policy would provide the primary fund resource for claim payments.

During fiscal year 2000-2001, the state received 38 claims in excess of the $5,000 deductible. These losses amounted to $3,950,714 with a resulting net loss to the fund of $3,765,714. Considering actual net losses of $3,765,714 and a manual premium for first dollar coverage of $14.7 million, the state's pure property loss ratio would be 25.7%. Since the generally expected standard in the insurance industry for loss ratio break-even is approximately 48%, the state's property loss experience remains at an excellent level.

The prevention and control of losses continues to be an item of growing importance in the area of state risk management. The Division of Risk Management currently administers a statewide fire/life safety inspection program. This in-depth inspection process targets high risk state-owned facilities in an effort to prevent extensive loss to property and human life. The individual departments are issued detailed safety reports which outline all safety hazards and provide recommendations for corrective action. Also, with the continuing rise in workers compensation and tort liability loss costs, the Division of Risk Management will expand its loss control program in an effort to mitigate the growth in these areas.

Division of Risk Management

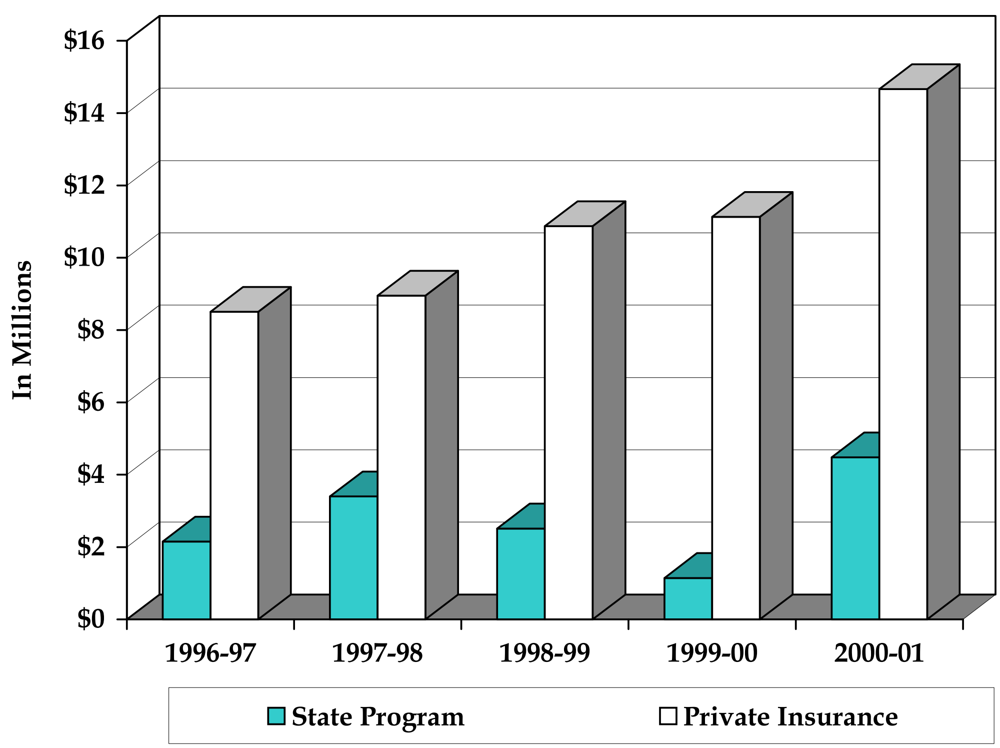
COST OF PROPERTY/CASUALTY PROGRAM VERSUS PRIVATE INSURANCE
Fiscal Year 2000-2001

[1]Premium - Excess Property, Builders' Risk, & Bond Coverage	$ 666,166
Premium - Boiler Insurance Coverage	51,362
Total Premium	717,528
Total Net Incurred Losses	3,765,714
Total Cost of State Program	4,483,242
[2]Private Insurance Premium Cost at Manual Rates with No State Retention	14,661,144
Net Savings to State	$ 10,177,902

[1] Based on July 1, 2000 values totaling $9,163,215,100

[2] Estimated based on July 1, 2000 values at 16 cents per $100 of coverage
Rates provided by Royal & SunAlliance Insurance Company

COST OF PROPERTY/CASUALTY PROGRAM VERSUS PRIVATE INSURANCE
Fiscal Years 1997-2001



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 cash property which 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 advertises the owner's name and last known address in order to locate the owners. Since the program began operations in 1979, $213.3 million in unclaimed property has been reported to the Treasurer and $62.1 million (29%) has been returned to owners or heirs.

During the period July 1, 2000 through June 30, 2001, $27.6 million of cash property was turned over to the Treasurer. This includes $4.8 million in cash and stock remitted by third party audit organizations from out-of-state non-reporting holders for Tennessee residents. An additional $692 thousand in proceeds from stock sales was recognized as revenue. The chart on the following page illustrates the sources of cash collections for fiscal year 2000-2001.

In addition to advertising the property, the Treasurer makes other efforts to locate the rightful owner. Another location method used is to send notification to the last known address of each owner. If no response is received, additional search efforts are made through Department of Labor and Workforce Development records, telephone directories, drivers' license records, and other sources.

Further, a searchable database of the owners' names is available on the division's Internet site: www.treasury.state.tn.us/unclaim. This site logged 492,990 visitors at June 30, 2001, an increase of 246,113 for the fiscal year. The records of unclaimed property owners are also available for viewing by the public in the Unclaimed Property office.

All property turned over to the Treasurer is held in trust for the rightful owner or his heirs in perpetuity, thereby allowing the owners or their heirs to make claims on it at anytime.

During the period July 1, 2000 through June 30, 2001, more than $9 million of cash property was returned by the Unclaimed Property Division to the owners or their heirs.

Any local government in Tennessee which 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, $955,763 was refunded to 23 local governments.

Tennessee has reciprocal agreements with other states' unclaimed property programs to exchange property held by one state for owners with a last known address in the other state. During this fiscal year, Tennessee received $966,295 for residents or former residents and paid $594,064 to 38 other states' unclaimed property offices.

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 expressed their appreciation for this easy access to reporting tools.

Legislation passed in 2001 provides for a safe harbor and amnesty from penalty for entities that come forward voluntarily in full compliance prior to notification of an audit examination and prior to May 1, 2002.

Unclaimed Property Division

METHODS USED TO RETURN PROPERTY
July 1, 2000 - June 30, 2001

Location Method	# of Accounts	Value of Claims	% of Claim Value
Web site inquiries and other	2,347	$ 1,576,339	21%
Mailings to last known address	2,239	1,181,781	16%
Advertisement and television	2,700	1,125,388	15%
Match with Dept. of Labor and Workforce records	3,275	975,335	13%
Independent locator	168	842,920	11%
UCP staff outreach/Telephone directory	90	707,180	10%
Holder referral	333	611,964	8%
Reimburse holder	89	276,610	4%
Legislator listing	83	158,840	2%
Total claim payments	11,324	$ 7,456,357	100%
Refunds to local governments	23	955,763	
Interstate exchanges	38	594,064	
Total payments	11,385	$ 9,006,184	

SOURCES OF UNCLAIMED PROPERTY
Fiscal Years 1997 - 2001

	2001	2000	1999	1998	1997
Financial institutions	39%	29%	33%	35%	28%
Insurance companies	21%	17%	22%	23%	16%
Corporations, transportation, colleges, retailers	13%	11%	14%	12%	14%
Securities	8%	25%	6%	5%	4%
Escheat and other	6%	5%	7%	6%	9%
Cities and counties	4%	3%	6%	6%	8%
Hospitals and health care	3%	3%	1%	1%	6%
Utilities	3%	3%	6%	6%	6%
Other states	3%	4%	5%	6%	9%
Total	100%	100%	100%	100%	100%

CLAIMS PAID BY SOURCE
Fiscal Years 1997 - 2001

	2001	2000	1999	1998	1997
Web site inquiries & other	21%	22%	60%	8%	10%
Mailings to last known address	16%	27%	14%	26%	26%
Advertisement & TV	15%	5%	9%	26%	14%
Match with Dept. of Labor and Workforce records	13%	1%	2%	3%	7%
Independent locator	11%	8%	7%	16%	19%
UCP staff	9%	8%	0%	0%	0%
Holder referral	8%	9%	5%	11%	11%
Reimburse holder	4%	8%	0%	0%	0%
Legislator listing	2%	1%	1%	6%	1%
Telephone directory	1%	11%	2%	4%	12%
Total	100%	100%	100%	100%	100%

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 made by a private donor and a matching amount by the state, thus, creating a chair. Interest and dividends on the trust are used to fund expenditures for the chair. Gains and losses must be reinvested in the corpus of the fund for use in supporting the trust in future years.

Since the start of the program in 1984, there have been 99 chairs created, with state appropriations totaling $44,000,000 and matching contributions totaling $55,523,375. For the year ending June 30, 2001, investment income totaled $(6,654,858) with expenses of $7,225,476.

THE UNIVERSITY OF TENNESSEE

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

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

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

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

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

Chairs of Excellence Trust

TENNESSEE BOARD OF REGENTS

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

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

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

Tennessee State University
- Frist COE in Business Administration
- COE in Banking & Finance

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

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

* Chair established during fiscal year 2000-2001.

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. 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 requirements for participation and administration of the Savings Plan are contained in *Chapter 1700-5-2* of the *Official Compilation of the Rules and Regulations of the State of Tennessee*.

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.

Anyone who wants to set up a tuition prepayment plan for a child can participate. The person who opens the account or the child must be a resident of Tennessee when the tuition account is opened. There is no age limit for enrollment; however, tuition units must be on account with BEST for at least two years prior to use. Flexibility is a key component of the program by allowing participants to determine when and how much to save and by providing multiple payment options.

Qualified expenses include tuition, fees, supplies, books, certain room and board, 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.

The Treasury Department uses technology to keep interested parties and participants informed about the BEST program. The Internet site, located at www.treasury.state.tn.us/best, provides full information about BEST. The site also features the contract application, which can be downloaded, completed, and mailed to the BEST office. Questions or comments to BEST staff can be e-mailed through this site. Also available to participants in the program is telephone access to account balances and activity 24 hours a day.

The Baccalaureate Education System Trust began accepting contracts and contributions in June 1997. At June 30, 2001, BEST had 6,769 contracts with assets totaling $28.0 million. Unit prices were $33.00.

The BEST program is in its second successful year of making payments to colleges and universities on behalf of BEST beneficiaries. More than 300 payments totaling approximately $500,000 have been made to colleges and universities around the country.

BEST SAVINGS PLAN

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

BACCALAUREATE EDUCATION SYSTEM TRUST

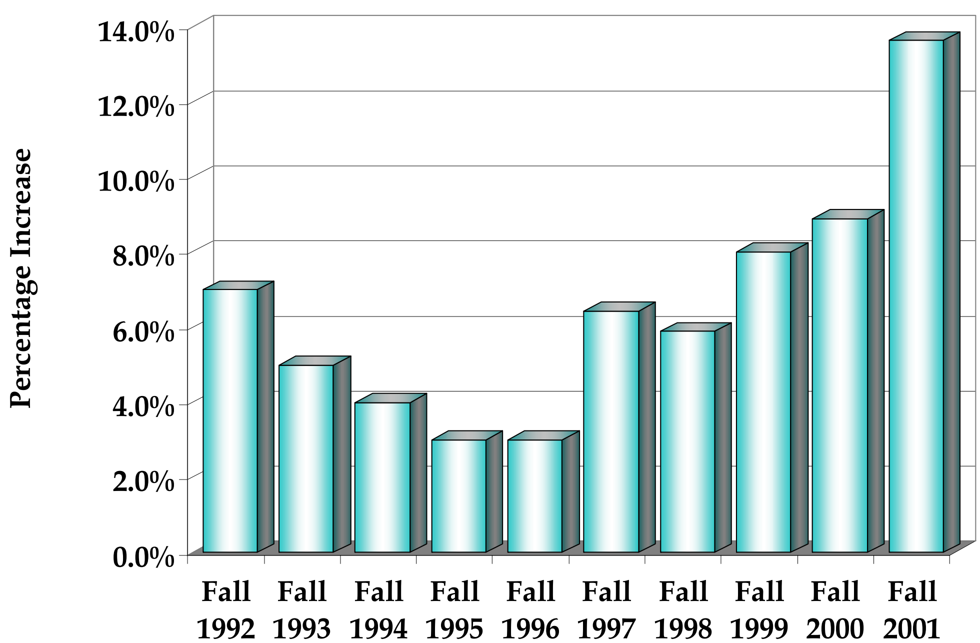
Contributions are placed in a mix of investments, with the objective of growing to meet the future cost of tuition. Monies are invested in investment portfolios that are specifically designed to meet the investment time frame of the beneficiary. These portfolios blend stock, bond and money market mutual funds. Portfolios for younger beneficiaries are more heavily weighted toward stocks, and the portfolios become increasingly more conservative as the beneficiary reaches college age. The investment time horizon determines the type and mix of underlying investments. There are no guarantees of principal or returns, and the account values may fluctuate.

TIAA-CREF Tuition Financing, Inc. (TFI) manages the plan investments, and its affiliate company, Teachers Advisors, Inc., provides investment advisory services. TFI is part of TIAA-CREF, a New York-based financial services organization with more than 80 years experience and over $270 billion in assets under management.

The Savings Plan began accepting contracts and contributions in March 2000. At June 30, 2001, there were 781 contracts with contributions totaling $1.7 million.

The BEST program offers several favorable tax benefits to its participants. BEST contracts are exempt from all state and local taxes. In addition, with the June passage of the Economic Growth and Tax Relief Reconciliation Act of 2001, earnings on any distribution used to pay for qualified higher education expenses are exempt for taxation beginning January 1, 2002. Previously, earnings from qualified tuition plans were tax deferred and then taxed at the beneficiary's rate upon withdrawal.

AVERAGE TUITION INCREASES FOR TENNESSEE PUBLIC INSTITUTIONS
1992-2001



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.

The Careers NOW Program's first class of 12 students began in January 1996. Since the program's inception, 137 students have been selected to participate. New classes begin each fall, spring, and summer semester.

Applicants have come from Austin Peay State University, East Tennessee State University, Fisk University, David Lipscomb University, Middle Tennessee State University, Rhodes College, Tennessee State University, Tennessee Technological University, University of Memphis, University of Tennessee at Martin, University of Tennessee at Knoxville, 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 38 percent of the student participants have been minorities and 40 percent of the students have come from Tennessee State University.

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. 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 state income tax proposals, 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.

The Careers NOW Program has recently begun accepting Tennessee residents who are attending out-of-state colleges and universities including North Alabama University and St. Louis University. 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.treasury.state.tn.us/now/.

Treasury Internet Services

Program	Internet Site Features	Internet Address
Services to the Public		
BEST	Program information, rate information, contracts, forms and newsletters	www.treasury.state.tn.us/best
Careers NOW	Program information, calendar, campus contacts, job descriptions and applications	www.treasury.state.tn.us/now
Criminal Injury Compensation Prog.	Frequently asked questions, application and forms, links to victims' programs nationwide and victims' organizations	www.treasury.state.tn.us/injury
Unclaimed Property Program	Search for unclaimed property, claim forms, program information, links to other states' programs, holder reporting information, forms, instructions and free software	www.treasury.state.tn.us/unclaim
Tenn. Claims Comm.	Information, contacts, rules and statutes	www.treasury.state.tn.us/claims
Government Services		
Local Government Investment Pool	Information, forms, operations manual, newsletters, past rates, portfolio, and investment policy.	www.treasury.state.tn.us/lgip
OASI/Social Security	Information, FICA rates, law and forms	www.treasury.state.tn.us/oasi
Risk Management Program	Program and claim process information, frequently asked questions, and property insurance report search	www.treasury.state.tn.us/risk
Tort Reporting (GTLA)	Information, rules and reporting templates	www.treasury.state.tn.us/risk/tort/
Workers' Compensation Program	Information on reporting accidents and filing claims, eligibility criteria, glossary, explanation of benefits, and provider directory	www.treasury.state.tn.us/wc
Public Employee Benefit Programs		
Deferred Compensation Program	Account access (inquiry, transfers, allocation changes), participation and investment information, benefit projection calculator, withdrawal information and forms	www.treasury.state.tn.us/dc
Flexible Benefits Prog.	Program information and forms	www.treasury.state.tn.us/flex
Optional Retirement Program	Program information, forms, company contacts and product information	www.treasury.state.tn.us/orp
Tennessee Consolidated Retirement System	Program information, benefits calculator, publications, newsletters, forms, annual report, frequently asked questions and retirement planning information	www.treasury.state.tn.us/tcrs
Other		
About the Treasurer	Statutory duties and biographical information	www.treasury.state.tn.us/about.html
Annual Report	Treasurer's Report on-line	www.treasury.state.tn.us/ann-report.htm
Map to Treasury Offices	Directions to Treasury offices	www.treasury.state.tn.us/map.gif

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	49-7-801, et seq.
Bank Collateral Pool Board	9-4-501, et seq.
Board of Claims	9-8-101, et seq.
Board of Equalization	4-3-5101
Board of Trustees of the Tennessee Consolidated Retirement System	8-34-301 — 8-34-319
Chairs of Excellence Trust	49-7-501 — 49-7-502
Commission to Purchase Federal Property	12-1-103
Council on Pensions and Insurance	3-9-101
Funding Board	9-9-101
Natural Resources Trust Fund	11-14-304
Public Records Commission	10-7-302
Sick Leave Bank Board	8-50-903
State Building Commission	4-15-101
State Capitol Commission	4-8-301, et seq.
State Insurance Committee	8-27-101
State Library and Archives Management Board	10-1-101, et seq.
State School Bond Authority	49-3-1204
State Teacher Insurance Comm.	8-27-301
State Trust of Tennessee	9-4-801, et seq.
Tennessee Child Care Loan Guarantee Board	4-37-101, et seq.
Tennessee Competitive Export Corp.	13-27-104
Tennessee Higher Education Commission	49-7-201, et seq.
Tennessee Housing Development Agency	13-23-106
Tennessee Local Development Authority	4-31-103
Tennessee Sports Hall of Fame	4-3-5402
Tennessee Student Assistance Corp.	49-4-202
Tennessee Tomorrow	4-17-405
Tuition Guaranty Fund Board	49-7-2018
Volunteer Public Education Trust	49-3-401, et seq.
Workers Compensation Fund Board	50-6-604
ADMINISTRATION	
Baccalaureate Education System Trust	49-7-801, et seq.
Board of Claims	9-8-101, et seq.
Chairs of Excellence Trust	49-7-501 — 49-7-502
Collateral Pool	9-4-501 — 9-4-523
Collateral Program	9-4-101 — 9-4-105
Council on Pensions and Insurance	3-9-101
Criminal Injury Compensation Fund	29-13-101, et seq.
Deferred Compensation	8-25-101, et seq.
Escheat	31-6-101, et seq.
Flexible Benefits Plan	8-25-501
Investment Advisory Council	8-37-108
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Pooled Investment Fund	9-4-704
Receipt and Disbursement of Public Funds	8-5-106 — 8-5-111; 9-4-301, et seq.
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	Steve Adams, CPA	(615) 741-2956
Executive Assistant	Dale Sims	(615) 741-2956
Executive Assistant	Janice Cunningham	(615) 741-2956
Assistant to the Treasurer	Steve Curry, CPA, CEBS, CCM	(615) 532-1167
Human Resource Director/Careers Now Coordinator	Ann Taylor-Tharpe	(615) 532-9912
Investments		
Chief Investment Officer	Thomas Milne, CFA	(615) 532-1157
Director of Equity	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 International Equity Portfolio Manager	Roy Wellington, CFA	(615) 532-1151
Director of Fixed Income	Jeff Bronnenburg, CFA, CPA	(615) 532-1182
Senior Fixed Income International Portfolio Manager	Leighton Shantz, CFA	(615) 532-1183
Senior Short-Term Portfolio Manager	Randy Graves, CPA	(615) 532-1154
Director of Real Estate	Peter Katseff	(615) 532-1160
Retirement Administration		
Director of TCRS	Ed Hennessee, CFP	(615) 741-7063
Assistant Director of TCRS	Jill Bachus, CPA	(615) 741-7063
Director of Deferred Compensation, Research and Publications	Deana Reed Hannah, CRC, CRA	(615) 741-7063
Publications Editor/Web Designer	Janice Reilly	(615) 741-7063
General Counsel	Mary Roberts-Krause, JD	(615) 741-7063
Counsel	Vernon Bush, JD	(615) 741-7063
Director of Old Age and Survivors Insurance	Mary E. Smith	(615) 741-7902
Manager of Counseling Services	Donna Finley	(615) 741-1971
Manager of Member Services	Velva Booker	(615) 741-1971
Manager of Financial Services	Connie Gibson, CPA	(615) 741-4913
Other Divisions		
Director of Accounting	Rick DuBray, CPA	(615) 532-3840
Accounting Manager	Kim Morrow, CPA	(615) 532-8051
Director of Computer Operations	Sam Baker, CCP, CDP	(615) 532-8026
Director of Information Systems	Newton Molloy, III, CDP	(615) 532-8035
Director of Internal Audit	Jamie Wayman, CPA	(615) 532-1164
Director of Risk Management	Steve Gregory	(615) 741-2314
Director of Unclaimed Property	Beth Chapman, CPA	(615) 741-6499
Manager of Treasury Operations	Gaylon Bandy	(615) 741-4985
Manager of Workers' Comp and Tort Claims	Anne Adams	(615) 741-2734
Manager of Criminal Injury Claims	Amy Dunlap	(615) 741-2734
East Tennessee Claims Commissioner	Vance Cheek, JD	(423) 854-5330
Middle Tennessee Claims Commissioner	William Baker, JD	(615) 792-7471
West Tennessee Claims Commissioner	Randy Camp, JD	(901) 696-5581
Administrative Clerk, Claims Commission	Marsha Richeson	(615) 532-5385
Budget Officer	Wendy Padgett	(615) 741-4985

The Treasurer is housed on the 1st floor of the State Capitol Building.
Divisions are housed on the 9th, 10th, 11th, and 13th floors of the Andrew Jackson Building.

Treasury Staff

Anne Adams
Steve Adams
Muriel Agnew
[5]Rhonda Akins
Mary Alexander
Patti Allison
[5]Roger Amos
Sandra Anderson
Kelly Armes
Sandra Arnold
[5]Janice Atkins
[20]Ron Aymett
[20]Jill Bachus
Linda Baker
Sam Baker
Sherry Baker
William Baker
Gaylon Bandy
Jacqueline Banniza
Karen Baumgartel
Peggy Birthrong
Gweneivere Blount
Velva Booker
Milkia Brady
Kim Brickles
Jeff Bronnenberg
Bobby Burns
[20]Vernon Bush
Randy Camp
Jeremy Carney
Brenda Carr
William Cavender
Beth Chapman
[15]Shirley Chatman
Vance Cheek
Barbara Cole
Alva Coleman
Jeremy Conlin
Jamie Cope
Bridget Corley
Liddye Cotter
Janie Couch
Daniel Crews
Janice Cunningham
Steve Curry
Shawn Curtis
Chris Daniel
Ted Daniel
Ruth Daniels
Pat Darrell
Mary Sue Davidson
Vivian Davidson
Terry Davis
Jim Dawson
Brian Derrick
Larissa Dills
Rick DuBray
Aimee Duffey
Amy Dunlap
Shaune Eberhart
Robin Edwards
Whitney Edwards
Sharon Farmer
Donna Finley
Peggy Fisher
Delcinia Fitzpatrick
Jamie Fohl
Noy Fongnaly
Eddy Fonseca
Diego Fua
Charlotte Fuller
[15]Monica Fuqua
[5]John Gabriel
Doug Gaines
[5]Angela Gasser
Ann Gatewood
Bernard Gentry
Cleveland Gibbs
Connie Gibson
Teresa Gibson
Kellie Givens
Randy Graves
Janice Green
[25]Barbara Greene
[15]Steve Gregory
Delores Griffin
Deana Hannah
Tamara Hanserd
Kathy Hargrove
Sharon Harris
Kerry Hartley
David Head
Ed Hennessee
Laverne Hill
Ellen Hoffmann
[15]Malinda Hudson
Roxanne Johnson
Tom Jordan
Peter Katseff
Michael Keeler
Natalie Kilgore
Jenny King
George Ladd
Liren Li
Buffy Lowe
Wanda Mackey
Vallie Majors
[5]Fred Marshall
Grady Martin
Tim McClure
Rick McCutcheon
Lonnie McWhorter
Mandy Meadows
Brenda Mercier
[20]Henry Miller
Tiffany Milliken
[5]Tom Milne
Newt Molloy
Linda Moore
Carrie Morgan
Prentice Morgan
Kim Morrow
[30]Gail Moses
Tempra Mosley
Michael Moulder
Sareatha Murphy
Alicia Myles
Shannon North
Candy O'Leary
Glenda Oshop
Kimberly Otts
Wendy Padgett
LaKesha Page
Renee Page
Yvonne Parlow
Floyd Parton
[5]Marian Porter
Kimberly Powell
Michael Ragland
William Redmond
Janice Reilly
Marsha Richeson
[5]Carla Riley
Mary Roberts-Krause
Rachel Roberts
Candice Robinson
Jim Robinson
Stephanie Sabin
Sharon Sanders
Tammie Scott
[25]Sandra Sewell
Leighton Shantz
Dale Sims
David Singleton
Anita Smith
Mary Smith
Robert Smith
Rebecca Stapleton
Sandy Strickland
Ann Taylor-Tharpe
George Thomas
Elanya Tracy
Christie Vaughn
Johnny Veach
Maxine Vinson
[15]Malinda Wagner
Mark Wakefield
Tracey Washington
[5]Susanna Wassom
Jamie Wayman
Roy Wellington
Shirley Wheeler
Lucy White
Teresa Williams
[5]Kellie Williamson
Dianne Willocks
Shirley Wilson
Genera Wimmer
Angela Woodrum
Dawn Young

[5] Received 5-year service award in 2001
[15] Received 15-year service award in 2001
[20] Received 20-year service award in 2001
[25] Received 25-year service award in 2001
[30] Received 30-year service award in 2001

Investment Portfolios

STATE CASH PORTFOLIO
AS OF JUNE 30, 2001

	Rating	Maturity	Yield to Maturity	Par Value	Fair Value
U.S. TREASURY AND AGENCY OBLIGATIONS					
FEDERAL HOME LN BANK BONDS	Aaa	2/15/2002	5.10	$150,000,000	$152,625,000
FEDERAL HOME LN BANK BONDS	Aaa	5/15/2002	4.42	29,825,000	29,842,895
FEDERAL HOME LN BANK BONDS	Aaa	5/1/2002	4.53	50,000,000	51,140,000
FEDERAL HOME LN BANK BONDS	Aaa	6/28/2002	3.81	100,000,000	99,780,000
FEDERAL HOME LN MTG CORP MTN B	Aaa	2/7/2002	5.16	100,000,000	100,090,000
FEDERAL HOME LOAN MORTGAGE CORP	Aaa	4/2/2002	4.77	35,000,000	35,000,000
FEDERAL HOME LOAN MORTGAGE CORP	Aaa	4/5/2002	4.78	50,000,000	50,000,000
FEDERAL HOME LOAN MORTGAGE CORP	Aaa	5/8/2002	4.42	100,000,000	100,020,000
FEDERAL HOME LOAN MORTGAGE CORP	Aaa	5/15/2002	4.20	25,000,000	24,995,000
FEDERAL HOME LOAN MORTGAGE CORP	Aaa	6/14/2002	4.23	10,000,000	9,996,000
FEDERAL MORTGAGE DISCOUNT NOTE	Aaa	7/20/2001	3.92	200,000,000	199,620,000
FEDERAL MORTGAGE DISCOUNT NOTE	Aaa	8/23/2001	3.92	100,000,000	99,460,000
FEDERAL MORTGAGE DISCOUNT NOTE	Aaa	7/24/2001	3.88	100,000,000	99,770,000
FEDERAL NATIONAL DISCOUNT NOTE	Aaa	8/16/2001	3.93	50,000,000	49,765,000
FEDERAL NATIONAL MTG ASSN	Aaa	2/1/2002	4.61	48,665,000	49,409,575
FEDERAL NATIONAL MTG ASSN	Aaa	6/28/2002	4.03	50,000,000	49,985,000
FEDERAL NATIONAL MTG ASSN	Aaa	1/16/2002	5.31	103,000,000	103,061,800
FEDERAL NATIONAL MTG ASSN	Aaa	2/21/2002	5.25	50,000,000	50,095,000
FEDERAL NATIONAL MTG ASSN DISCOUNT NOTE	Aaa	7/5/2001	4.63	96,278,000	96,249,117
FEDERAL NATIONAL MTG ASSN DISCOUNT NOTE	Aaa	10/11/2001	4.51	50,000,000	49,490,000
FEDERAL NATIONAL MTG ASSN DISCOUNT NOTE	Aaa	10/15/2001	4.14	100,000,000	98,940,000
FEDL HOME LOAN MTG CORP DISCOUNT NOTE	Aaa	1/3/2002	4.49	50,000,000	49,060,000
FEDL HOME LOAN MTG CORP DISCOUNT NOTE	Aaa	7/3/2001	3.96	50,000,000	49,995,000
UNITED STATES TREASURY BILL	Aaa	7/19/2001	3.79	400,000,000	399,280,000
TOTAL U.S. TREASURY AND OBLIGATIONS				**$2,097,768,000**	**$2,097,669,387**

	Maturity	Yield to Maturity	Par Value	Fair Value
CERTIFICATES OF DEPOSIT				
THE BANK OF ALAMO	7/31/2001	5.50	$ 1,000,000	$ 1,000,000
THE BANK OF ALAMO	10/19/2001	4.25	3,000,000	3,000,000
THE BANK OF ALAMO	11/13/2001	3.90	1,000,000	1,000,000
THE BANK OF ALAMO	7/10/2001	5.50	2,000,000	2,000,000
BANK OF CROCKETT, BELLS	7/17/2001	5.50	300,000	300,000
BANK OF CROCKETT, BELLS	12/21/2001	3.90	200,000	200,000
PEOPLES BANK OF POLK COUNTY, BENTON	7/17/2001	5.50	200,000	200,000
PEOPLES BANK OF POLK COUNTY, BENTON	8/14/2001	5.25	200,000	200,000
FIRST SOUTH BANK, BOLIVAR	10/23/2001	4.25	2,142,700	2,142,700
BANK OF BRADFORD	9/14/2001	4.60	100,000	100,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	8/31/2001	5.00	100,000	100,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	9/18/2001	4.60	100,000	100,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	7/31/2001	5.25	100,000	100,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	12/24/2001	3.60	500,000	500,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	9/21/2001	4.60	200,000	200,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	10/9/2001	4.60	200,000	200,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	9/28/2001	4.60	100,000	100,000
CUMBERLAND BANK, CARTHAGE	7/20/2001	5.50	500,000	500,000
FIRST STATE BANK, CHAPEL HILL	10/26/2001	4.25	200,000	200,000
SUNTRUST BANK, CHATTANOOGA	7/5/2001	3.90	30,000,000	30,000,000
SUNTRUST BANK, CHATTANOOGA	7/6/2001	3.90	15,000,000	15,000,000
SUNTRUST BANK, CHATTANOOGA	8/27/2001	3.60	15,000,000	15,000,000
FIRST FEDERAL SAVINGS BANK, CLARKSVILLE	7/27/2001	5.50	3,000,000	3,000,000
FIRST FEDERAL SAVINGS BANK, CLARKSVILLE	10/5/2001	4.60	2,000,000	2,000,000
FIRST FEDERAL SAVINGS BANK, CLARKSVILLE	8/3/2001	5.25	100,000	100,000
LEGENDS BANK, CLARKSVILLE	9/21/2001	4.60	1,000,000	1,000,000
THE BANK/FIRST CITIZENS BANK, CLEVELAND	10/19/2001	4.25	5,500,000	5,500,000
PEOPLES BANK, CLIFTON	12/14/2001	3.90	500,000	500,000
FIRST FARMERS & MERCHANTS NATL BANK, COLUMBIA	7/25/2001	3.90	10,000,000	10,000,000

(continued)

STATE CASH PORTFOLIO AS OF JUNE 30, 2001

	Maturity	Yield to Maturity	Par Value	Fair Value
FIRST FARMERS & MERCHANTS NATL BANK, COLUMBIA	12/24/2001	3.60	5,000,000	5,000,000
FIRST BANK OF POLK COUNTY, COPPERHILL	8/21/2001	5.25	4,300,000	4,300,000
EFS FEDERAL SAVINGS BANK, CORDOVA	10/5/2001	4.60	5,000,000	5,000,000
EFS FEDERAL SAVINGS BANK, CORDOVA	7/17/2001	5.50	2,500,000	2,500,000
EFS FEDERAL SAVINGS BANK, CORDOVA	9/28/2001	4.60	2,500,000	2,500,000
EFS FEDERAL SAVINGS BANK, CORDOVA	10/19/2001	4.25	1,500,000	1,500,000
EFS FEDERAL SAVINGS BANK, CORDOVA	10/5/2001	4.60	1,500,000	1,500,000
RHEA CO NATIONAL BANK, DAYTON	7/6/2001	5.50	1,000,000	1,000,000
RHEA CO NATIONAL BANK, DAYTON	8/31/2001	5.00	1,200,000	1,200,000
RHEA CO NATIONAL BANK, DAYTON	10/12/2001	4.60	950,000	950,000
TRISTAR BANK, DICKSON	9/18/2001	4.60	500,000	500,000
THE HOME BANK FSB, DUCKTOWN	10/12/2001	4.60	500,000	500,000
THE HOME BANK FSB, DUCKTOWN	10/12/2001	4.60	1,000,000	1,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/6/2001	4.25	1,500,000	1,500,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/6/2001	4.25	2,425,000	2,425,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/6/2001	4.25	1,500,000	1,500,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/6/2001	3.90	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/6/2001	3.90	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/20/2001	3.90	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/6/2001	3.90	3,000,000	3,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/20/2001	3.90	3,000,000	3,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/6/2001	4.25	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/27/2001	3.90	6,000,000	6,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/6/2001	4.25	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/20/2001	3.90	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	7/20/2001	3.90	1,000,000	1,000,000
SECURITY BANK, DYERSBURG	9/18/2001	4.60	300,000	300,000
SECURITY BANK, DYERSBURG	9/25/2001	4.60	300,000	300,000
CITIZENS BANK, ELIZABETHTON	10/12/2001	4.60	2,600,000	2,600,000
TENNESSEE COMMERCE BANK, FRANKLIN	9/7/2001	5.00	500,000	500,000
BANK OF FRIENDSHIP	10/19/2001	4.25	90,000	90,000
BANK OF FRIENDSHIP	8/3/2001	5.25	525,000	525,000
BANK OF FRIENDSHIP	8/3/2001	5.25	1,550,000	1,550,000
GATES BANKING & TRUST COMPANY	10/15/2001	4.25	500,000	500,000
GATES BANKING & TRUST COMPANY	10/9/2001	4.60	450,000	450,000
GATES BANKING & TRUST COMPANY	10/16/2001	4.25	350,000	350,000
TENNESSEE STATE BANK, GATLINBURG	8/3/2001	4.25	5,000,000	5,000,000
TENNESSEE STATE BANK, GATLINBURG	7/24/2001	4.25	4,000,000	4,000,000
TENNESSEE STATE BANK, GATLINBURG	7/23/2001	4.25	1,300,000	1,300,000
TENNESSEE STATE BANK, GATLINBURG	7/23/2001	4.25	700,000	700,000
TRUST ONE BANK, GERMANTOWN	7/3/2001	4.60	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	7/3/2001	4.60	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	7/3/2001	4.60	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	7/3/2001	4.60	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	8/1/2001	4.25	3,000,000	3,000,000
TRUST ONE BANK, GERMANTOWN	8/1/2001	4.25	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	8/1/2001	4.25	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	8/1/2001	4.25	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	9/4/2001	3.90	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	8/1/2001	4.25	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	8/1/2001	4.25	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	9/4/2001	3.90	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	9/4/2001	3.90	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	9/4/2001	3.90	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	9/4/2001	3.90	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	9/4/2001	3.90	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	9/4/2001	3.90	3,000,000	3,000,000
BANK OF GLEASON	9/21/2001	4.60	1,000,000	1,000,000

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2001

	Maturity	Yield to Maturity	Par Value	Fair Value
BANK OF GLEASON	7/31/2001	5.25	350,000	350,000
BANK OF GLEASON	9/21/2001	4.60	1,000,000	1,000,000
BANK OF GLEASON	12/4/2001	3.90	300,000	300,000
BANK OF GLEASON	9/25/2001	4.60	200,000	200,000
BANK OF HALLS	7/27/2001	5.50	300,000	300,000
BANK OF HALLS	7/20/2001	5.50	200,000	200,000
BANK OF HALLS	7/5/2001	4.60	200,000	200,000
BANK OF HALLS	12/11/2001	3.90	700,000	700,000
BANK OF HALLS	10/30/2001	4.25	400,000	400,000
BANCORPSOUTH, HUMBOLDT	8/31/2001	5.00	1,000,000	1,000,000
BANCORPSOUTH BANK, JACKSON	8/17/2001	5.25	10,000,000	10,000,000
BANCORPSOUTH BANK, JACKSON	10/12/2001	4.60	10,000,000	10,000,000
BANCORPSOUTH BANK, JACKSON	10/5/2001	4.60	2,500,000	2,500,000
BANCORPSOUTH BANK, JACKSON	10/12/2001	4.60	5,000,000	5,000,000
BANCORPSOUTH BANK, JACKSON	8/10/2001	5.25	5,000,000	5,000,000
BANCORPSOUTH BANK, JACKSON	8/31/2001	5.00	1,000,000	1,000,000
BANCORPSOUTH BANK, JACKSON	11/30/2001	3.90	10,000,000	10,000,000
BANCORPSOUTH BANK, JACKSON	9/11/2001	4.60	500,000	500,000
FENTRESS COUNTY BANK, JAMESTOWN	7/23/2001	3.90	500,000	500,000
FENTRESS COUNTY BANK, JAMESTOWN	8/3/2001	3.90	200,000	200,000
FENTRESS COUNTY BANK, JAMESTOWN	7/30/2001	3.90	500,000	500,000
FENTRESS COUNTY BANK, JAMESTOWN	8/3/2001	3.90	450,000	450,000
FENTRESS COUNTY BANK, JAMESTOWN	9/11/2001	3.90	300,000	300,000
FENTRESS COUNTY BANK, JAMESTOWN	8/3/2001	3.90	500,000	500,000
PROGRESSIVE SAVINGS BANK, JAMESTOWN	8/14/2001	5.25	300,000	300,000
CITIZENS STATE BANK, JASPER	12/14/2001	3.90	100,000	100,000
CITIZENS STATE BANK, JASPER	12/14/2001	3.90	200,000	200,000
CITIZENS STATE BANK, JASPER	9/28/2001	4.60	200,000	200,000
BANKFIRST, KNOXVILLE	10/1/2001	4.60	40,000,000	40,000,000
SUNTRUST BANK, KNOXVILLE	8/27/2001	3.60	15,000,000	15,000,000
SUNTRUST BANK, KNOXVILLE	8/28/2001	3.60	15,000,000	15,000,000
SUNTRUST BANK, KNOXVILLE	8/27/2001	3.60	25,000,000	25,000,000
CITIZENS BANK OF LAFAYETTE	7/17/2001	5.50	500,000	500,000
CITIZENS BANK OF LAFAYETTE	8/21/2001	5.25	100,000	100,000
CITIZENS BANK OF LAFAYETTE	9/11/2001	4.60	250,000	250,000
CITIZENS BANK OF LAFAYETTE	7/20/2001	5.50	100,000	100,000
FIRST CENTRAL BANK, LENOIR CITY	10/29/2001	4.25	500,000	500,000
FIRST CENTRAL BANK, LENOIR CITY	9/21/2001	4.60	500,000	500,000
THE COFFEE COUNTY BANK, MANCHESTER	11/23/2001	3.90	95,000	95,000
CITY STATE BANK, MARTIN	12/24/2001	3.60	2,000,000	2,000,000
CITY STATE BANK, MARTIN	7/17/2001	5.50	1,500,000	1,500,000
CITY STATE BANK, MARTIN	8/15/2001	4.60	1,500,000	1,500,000
PLANTERS BANK OF MAURY CITY	12/24/2001	3.60	200,000	200,000
THE FIRST NATIONAL BANK OF MCMINNVILLE	7/10/2001	5.00	2,500,000	2,500,000
THE FIRST NATIONAL BANK OF MCMINNVILLE	7/10/2001	5.00	5,000,000	5,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	12/14/2001	3.90	3,000,000	3,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	9/4/2001	5.00	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	9/4/2001	5.00	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	10/5/2001	4.60	1,000,000	1,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	9/7/2001	5.00	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	8/3/2001	5.25	1,000,000	1,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	12/4/2001	3.90	5,000,000	5,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	9/11/2001	4.60	1,000,000	1,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	9/14/2001	4.60	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	8/10/2001	5.25	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	10/5/2001	4.60	500,000	500,000
INDEPENDENT BANK, MEMPHIS	12/4/2001	3.90	2,000,000	2,000,000
INDEPENDENT BANK, MEMPHIS	9/7/2001	5.00	500,000	500,000

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STATE CASH PORTFOLIO AS OF JUNE 30, 2001

	Maturity	Yield to Maturity	Par Value	Fair Value
INDEPENDENT BANK, MEMPHIS	10/9/2001	4.60	1,500,000	1,500,000
INDEPENDENT BANK, MEMPHIS	7/23/2001	4.25	1,000,000	1,000,000
INDEPENDENT BANK, MEMPHIS	9/4/2001	5.00	1,000,000	1,000,000
INDEPENDENT BANK, MEMPHIS	8/13/2001	4.25	2,000,000	2,000,000
INDEPENDENT BANK, MEMPHIS	12/4/2001	3.90	5,000,000	5,000,000
MEMPHIS FIRST COMMUNITY BANK	12/24/2001	3.60	2,000,000	2,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	7/9/2001	3.75	100,000,000	100,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	7/6/2001	3.75	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	8/28/2001	3.60	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	10/1/2001	3.60	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	11/1/2001	3.60	25,000,000	25,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	12/21/2001	3.60	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	8/6/2001	3.75	50,000,000	50,000,000
SOUTHTRUST BANK, MEMPHIS	12/4/2001	3.90	25,000,000	25,000,000
SOUTHTRUST BANK, MEMPHIS	11/23/2001	3.90	1,000,000	1,000,000
SOUTHTRUST BANK, MEMPHIS	12/4/2001	3.90	25,000,000	25,000,000
SOUTHTRUST BANK, MEMPHIS	11/23/2001	3.90	25,000,000	25,000,000
SOUTHTRUST BANK, MEMPHIS	12/4/2001	3.90	1,000,000	1,000,000
SOUTHTRUST BANK, MEMPHIS	11/16/2001	3.90	2,000,000	2,000,000
BANK OF MURFREESBORO	12/24/2001	3.60	4,000,000	4,000,000
BANK OF AMERICA, NASHVILLE	8/20/2001	3.90	100,000,000	100,000,000
CAPITAL BANK & TRUST COMPANY, NASHVILLE	8/21/2001	5.25	1,000,000	1,000,000
CAPITAL BANK & TRUST COMPANY, NASHVILLE	8/31/2001	5.00	2,000,000	2,000,000
SOUTHTRUST BANK, NASHVILLE	11/20/2001	3.90	10,000,000	10,000,000
SOUTHTRUST BANK, NASHVILLE	7/10/2001	3.90	50,000,000	50,000,000
SOUTHTRUST BANK, NASHVILLE	12/21/2001	3.60	40,000,000	40,000,000
SOUTHTRUST BANK, NASHVILLE	12/21/2001	3.60	3,000,000	3,000,000
SOUTHTRUST BANK, NASHVILLE	12/21/2001	3.60	2,800,000	2,800,000
SOUTHTRUST BANK, NASHVILLE	7/10/2001	3.90	4,000,000	4,000,000
SOUTHTRUST BANK, NASHVILLE	12/21/2001	3.60	6,000,000	6,000,000
SOUTHTRUST BANK, NASHVILLE	11/9/2001	3.90	3,500,000	3,500,000
SOUTHTRUST BANK, NASHVILLE	11/9/2001	3.90	4,000,000	4,000,000
SOUTHTRUST BANK, NASHVILLE	7/13/2001	3.90	30,000,000	30,000,000
THE BANK OF NASHVILLE	7/20/2001	5.50	5,000,000	5,000,000
THE BANK OF NASHVILLE	7/27/2001	5.50	5,000,000	5,000,000
NEWPORT FEDERAL BANK	8/31/2001	5.00	95,000	95,000
NEWPORT FEDERAL BANK	9/11/2001	4.60	500,000	500,000
NEWPORT FEDERAL BANK	9/11/2001	4.60	500,000	500,000
NEWPORT FEDERAL BANK	8/31/2001	5.00	300,000	300,000
EFS FEDERAL SAVINGS BANK, OAKLAND	7/24/2001	5.50	2,500,000	2,500,000
THE FIRST NATIONAL BANK OF ONEIDA	8/10/2001	5.25	500,000	500,000
THE FIRST NATIONAL BANK OF ONEIDA	9/11/2001	4.60	500,000	500,000
THE FIRST NATIONAL BANK OF ONEIDA	9/4/2001	5.00	2,500,000	2,500,000
FIRST NATIONAL BANK OF PIKEVILLE	8/17/2001	5.25	300,000	300,000
FIRST NATIONAL BANK OF PULASKI	8/2/2001	5.25	1,000,000	1,000,000
FIRST NATIONAL BANK OF PULASKI	7/20/2001	5.50	700,000	700,000
FIRST NATIONAL BANK OF PULASKI	7/24/2001	5.50	500,000	500,000
FIRST NATIONAL BANK OF PULASKI	7/20/2001	5.50	300,000	300,000
FIRST NATIONAL BANK OF PULASKI	7/24/2001	5.50	300,000	300,000
FIRST NATIONAL BANK OF PULASKI	7/26/2001	5.50	300,000	300,000
FIRST NATIONAL BANK OF PULASKI	8/2/2001	5.25	1,000,000	1,000,000
FIRST NATIONAL BANK OF PULASKI	7/26/2001	5.50	1,000,000	1,000,000
BANK OF RIPLEY	7/24/2001	5.50	100,000	100,000
BANK OF RIPLEY	12/21/2001	3.90	100,000	100,000
BANK OF RIPLEY	12/14/2001	3.90	100,000	100,000
BANK OF RIPLEY	7/24/2001	5.50	150,000	150,000
BANK OF RIPLEY	11/27/2001	3.90	200,000	200,000
THE HARDIN COUNTY BANK, SAVANNAH	12/7/2001	3.90	1,000,000	1,000,000

(continued)

STATE CASH PORTFOLIO AS OF JUNE 30, 2001

	Maturity	Yield to Maturity	Par Value	Fair Value
THE BANK OF SHARON	7/2/2001	4.60	1,500,000	1,500,000
THE BANK OF SHARON	11/20/2001	3.90	1,000,000	1,000,000
THE BANK OF SHARON	12/18/2001	3.90	1,000,000	1,000,000
THE BANK OF SHARON	10/5/2001	4.60	1,000,000	1,000,000
THE BANK OF SHARON	8/10/2001	5.25	1,000,000	1,000,000
THE BANK OF SHARON	8/3/2001	5.25	1,000,000	1,000,000
SOMERVILLE BANK & TRUST COMPANY	8/3/2001	5.25	200,000	200,000
MERCHANTS & PLANTERS BANK, TOONE	11/6/2001	4.25	100,000	100,000
MERCHANTS & PLANTERS BANK, TOONE	9/7/2001	5.00	100,000	100,000
MERCHANTS & PLANTERS BANK, TOONE	7/24/2001	5.50	200,000	200,000
MERCHANTS & PLANTERS BANK, TOONE	7/27/2001	5.50	200,000	200,000
WAYNE COUNTY BANK, WAYNESBORO	12/11/2001	3.90	500,000	500,000
WAYNE COUNTY BANK, WAYNESBORO	7/13/2001	5.50	900,000	900,000
TOTAL CERTIFICATES OF DEPOSIT			**$1,138,372,700**	**$1,138,372,700**

	Maturity	Yield to Maturity	Par Value	Fair Value
REPURCHASE AGREEMENTS AND OVERNIGHT DEPOSIT ACCOUNTS				
DRESDNER - OVERNIGHT	7/2/2001	4.10	$48,709,000	$48,709,000
DRESDNER - OVERNIGHT	7/2/2001	4.10	8,291,000	8,291,000
AMSOUTH BANK - OVERNIGHT DEPOSIT ACCOUNT	7/2/2001	5.78	15,000,000	15,000,000
TOTAL REPURCHASE AGREEMENTS			**$72,000,000**	**$72,000,000**

	Maturity	Yield to Maturity	Par Value	Fair Value
COMMERCIAL PAPER				
AMERICAN EXPRESS	7/9/2001	3.90	$50,000,000	$49,956,778
CARGILL INCORPORATED	7/27/2001	3.73	50,000,000	49,865,666
CARGILL INCORPORATED	8/21/2001	3.69	50,000,000	49,740,041
CARGILL GLOBAL FUNDING	7/2/2001	4.13	150,000,000	149,982,792
FORD MOTOR CREDIT COMPANY	7/2/2001	4.00	50,000,000	49,994,458
FORD MOTOR CREDIT	7/9/2001	3.90	50,000,000	49,956,778
GENERAL ELECTRIC CAPITAL	7/9/2001	3.99	50,000,000	49,955,889
GENERAL ELECTRIC CAPITAL	7/31/2001	3.80	50,000,000	49,842,500
HOUSEHOLD FINANCE	7/13/2001	3.90	100,000,000	99,870,667
HOUSEHOLD FINANCE	7/2/2001	4.12	75,000,000	74,991,417
KOCH INDUSTRIES	7/6/2001	3.83	50,000,000	49,973,403
MORGAN STANLEY	7/6/2001	3.86	100,000,000	99,946,528
NESTLE CAPITAL CORPORATION	7/9/2001	3.89	100,000,000	99,914,000
PACIFIC GAS & ELECTRIC	1/23/2001	3.75	30,000,000	21,000,000
PACIFIC GAS & ELECTRIC	1/29/2001	3.75	21,706,000	15,194,200
PRUDENTIAL FUNDING	7/5/2001	4.00	50,000,000	49,977,833
PRUDENTIAL FUNDING	7/3/2001	3.91	50,000,000	49,989,167
SONY CAPITAL	7/10/2001	3.94	61,000,000	60,940,067
TOTAL COMMERCIAL PAPER			**$1,137,706,000**	**$1,121,092,184**

TOTAL PORTFOLIO			**$4,445,846,700**	**$4,429,134,271**

Baccalaureate Education System Trust Portfolio as of June 30, 2001

LARGEST BOND HOLDINGS
as of June 30, 2001
by Fair Value

Par Value	Security Name	Yield to Maturity	Maturity	Moody's Quality Rating	Fair Value
1,075,000	UNITED STATES TREAS BONDS	5.39%	11/15/2012	Aaa	$ 1,359,370
1,100,000	FEDERAL NATL MTG ASSN	4.26%	11/12/2002	Aaa	1,134,716
875,000	UNITED STATES TREAS NOTES	5.07%	07/15/2006	Aaa	948,964
775,000	UNITED STATES TREAS NOTES	4.78%	11/15/2004	Aaa	848,625
725,000	UNITED STATES TREAS BONDS	4.94%	11/15/2009	Aaa	845,647
700,000	UNITED STATES TREAS NOTES	5.15%	05/15/2007	Aaa	751,842
500,000	MORGAN STANLEY GROUP INC	6.85%	04/15/2011	Aa3	496,265
450,000	FEDERAL HOME LN MTG CORP	5.23%	01/27/2005	Aaa	492,116
400,000	ACE INA HLDG INCORPORATED	4.77%	08/15/2004	A2	424,076
400,000	CIT GROUP INCORPORATED	4.97%	11/08/2002	A2	404,664

A complete portfolio listing is available upon request.

	Units	Fair Value
MUTUAL FUND		
State Street S & P 500 Index Fund	163,143	$ 8,675,134
TOTAL MUTUAL FUND		**$ 8,675,134**

Tennessee Consolidated Retirement System
Largest Holdings

LARGEST STOCK HOLDINGS
as of June 30, 2001
by Fair Value

Shares	Security Name	Fair Value
6,742,000	GENERAL ELECTRIC COMPANY	$328,672,500
3,599,000	MICROSOFT CORPORATION	262,727,000
2,335,297	EXXON MOBIL CORPORATION	203,988,193
4,656,750	PFIZER INCORPORATED	186,502,838
3,319,004	CITIGROUP INCORPORATED	175,376,171
2,960,500	AOL TIME WARNER INCORPORATED	156,906,500
1,287,000	INTERNATIONAL BUSINESS MACHINES	145,431,000
2,958,000	WAL-MART STORES INCORPORATED	144,350,400
1,531,320	AMERICAN INTERNATIONAL GROUP INC.	131,693,520
4,336,000	INTEL CORPORATION	126,828,000

LARGEST BOND HOLDINGS
as of June 30, 2001
by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Quality Rating	Fair Value
300,000,000	U.S. TREASURY BONDS	5.42%	8/15/2013	Aaa	$415,311,000
220,000,000	U.S. TREASURY BONDS	5.91%	8/15/2019	Aaa	273,935,200
214,000,000	U.S. TREASURY BONDS	5.93%	5/15/2021	Aaa	269,038,660
165,000,000	U.S. TREASURY BONDS	5.77%	2/15/2015	Aaa	250,001,400
186,000,000	U.S. TREASURY BONDS	5.90%	2/15/2019	Aaa	246,565,320
212,150,000	U.S. TREASURY NOTES	4.33%	8/15/2003	Aaa	218,149,602
202,653,083	GNMA POOL 781089	6.28%	9/15/2029	Aaa	207,782,232
155,450,000	U.S. TREASURY BONDS	5.03%	5/15/2010	Aaa	182,338,187
174,271,058	GNMA II POOL 002767	6.91%	6/20/2029	Aaa	172,092,670
170,917,716	GNMA II POOL 002754	6.91%	5/20/2029	Aaa	168,781,245

A complete portfolio listing is available upon request.

Chairs of Excellence Largest Holdings

LARGEST STOCK HOLDINGS
as of June 30, 2001
by Fair Value

Shares	Security Name	Fair Value
100,800	GENERAL ELECTRIC COMPANY	$ 4,914,000
47,000	MICROSOFT CORPORATION	3,431,000
31,841	EXXON MOBIL CORPORATION	2,781,311
50,714	CITIGROUP INCORPORATED	2,679,728
45,000	AOL TIME WARNER INC	2,385,000
46,000	WAL MART STORES INC	2,244,800
50,500	PFIZER INCORPORATED	2,022,525
32,200	VERIZON COMMUNICATIONS	1,722,700
55,000	INTEL CORPORATION	1,608,750
14,000	INT'L BUSINESS MACHINES	1,582,000

LARGEST BOND HOLDINGS
as of June 30, 2001
by Fair Value

Par Value	Security Name	Yield to Maturity	Maturity	Moody's Quality Rating	Fair Value
10,000,000	UNITED STATES TREAS NOTES	5.44%	8/15/2010	Aaa	$ 10,226,600
9,000,000	UNITED STATES TREAS NOTES	5.19%	8/15/2007	Aaa	9,433,080
7,000,000	FEDERAL NATL MTG ASSN	6.06%	6/15/2009	Aaa	7,136,710
6,200,000	UNITED STATES TREAS NOTES	4.91%	8/15/2005	Aaa	6,562,328
6,000,000	UNITED STATES TREAS NOTES	5.37%	5/15/2009	Aaa	6,048,720
5,000,000	MERRILL LYNCH & COMPANY INC	6.05%	5/15/2006	Aa3	5,277,900
5,000,000	SALOMON INCORPORATED	4.99%	5/15/2003	Aa3	5,101,400
5,000,000	AESOP FDG II LLC	4.58%	10/20/2003	Aaa	5,099,650
5,000,000	FEDERAL NATL MTG ASSN	5.02%	5/14/2004	Aaa	5,080,450
5,000,000	COMED TRANSITIONAL FDG TR	4.89%	6/25/2005	Aaa	5,037,500

A complete portfolio listing is available upon request.

Key to Ratings: All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide 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

Financial Statements

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 37243-0264
PHONE (615) 401-7897

December 4, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the State Pooled Investment Fund as of June 30, 2001, and June 30, 2000, and the related statements of changes in 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 government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Pooled Investment Fund as of June 30, 2001, and June 30, 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A.5. to the financial statements, the State Pooled Investment Fund changed its method of accounting for the issuance of warrants, checks, and automated clearing house payments.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001, on our consideration of the State Pooled Investment Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *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
Division of State Audit

State Pooled Investment Fund
Comparative Statements of Net Assets
June 30, 2001 and June 30, 2000

	June 30, 2001	June 30, 2000
ASSETS		
Cash and cash equivalents (see Note A.5)	$ 2,167,004,978	$ 2,101,530,776
Short-term investments, at amortized cost	2,129,904,122	1,694,048,173
Accrued income receivable	17,911,769	27,599,517
TOTAL ASSETS	$ 4,314,820,869	$ 3,823,178,466
LIABILITIES AND NET ASSETS		
NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS	$ 4,314,820,869	$ 3,823,178,466

See accompanying Notes to the Financial Statements

State Pooled Investment Fund
Comparative Statements of Changes in Net Assets
For the Years Ended June 30, 2001 and June 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
OPERATIONS		
Investment income	$ 244,492,781	$ 201,497,753
Expenses		
Administrative fee	1,922,720	1,897,329
Custodian and banking services fees	48,781	34,054
Total expenses	1,971,501	1,931,383
NET INVESTMENT INCOME	242,521,280	199,566,370
CAPITAL SHARE TRANSACTIONS (DOLLAR AMOUNTS AND NUMBER OF SHARES ARE THE SAME)		
Shares sold	25,623,679,484	22,085,429,395
Less shares redeemed	25,374,558,361	22,029,307,195
INCREASE FROM CAPITAL SHARE TRANSACTIONS	249,121,123	56,122,200
TOTAL INCREASE IN NET ASSETS	491,642,403	255,688,570
NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS		
BEGINNING OF YEAR	3,823,178,466	3,744,267,975
Prior period adjustment (see Note A.5)	0	(176,778,079)
BEGINNING OF YEAR, RESTATED	3,823,178,466	3,567,489,896
END OF YEAR	$ 4,314,820,869	$ 3,823,178,466

See accompanying Notes to the Financial Statements

State Pooled Investment Fund
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

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). The SPIF follows all applicable GASB pronouncements, as well as applicable private sector pronouncements issued on or before November 30, 1989. The financial statements have been prepared using the flow of 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, 2001 and June 30, 2000, the State had not obtained or provided any legally binding guarantees to support the value of participant shares.

5. Prior Period Adjustment and Restatement

During the year ended June 30, 2001, the SPIF began recognizing a reduction to cash upon the issuance of warrants, checks and automated clearing house (ACH) payments rather than their redemption through the banking system. This change resulted in a prior period adjustment of $176,778,079 to net assets held in trust for pool participants, at the beginning of the year, on the Statement of Changes in Net Assets for the year ended June 30, 2000 and a restatement of related amounts, including an increase of $15,545,158 to shares redeemed for the year ended June 30, 2000. In addition, cash and cash equivalents on the Statement of Net Assets as of June 30, 2000 has been restated from $2,293,854,013 to $2,101,530,776.

B. DEPOSITS AND INVESTMENTS

1. Investment Policy

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 in certain obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). Investment in derivative type securities and investments of high risk is prohibited.

This resolution further states that the dollar weighted average maturity of the State Pooled Investment Fund shall not exceed 90 days and that no investment may be purchased with a remaining maturity of greater than 397

(*continued*)

State Pooled Investment Fund
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

calendar days. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than 0.5 percent 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 90 days or less to maturity.

The State Pooled Investment Fund is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that the fund loan specific securities from its holdings to the broker in return for collateral securities. Statute requires that the loaned securities be collateralized at 102% of their market value. There were no securities on loan from the State Pooled Investment Fund during the years ended June 30, 2001 and June 30, 2000.

Statutes require that state deposits be secured by collateral securities with a market value of 105% of the face of the deposit secured thereby after considering the applicable FDIC coverage, or the depository must be a member of the State Collateral Pool and the pool must have securities pledged which in total equal the required percentage established by the Collateral Pool Board.

Certificates of deposit are not placed or renewed with a financial institution until adequate collateral is pledged. Open accounts maintained for deposit of state revenues are collateralized on an estimate of the average daily balance in the account based on previous balances and monitored for variation to actual balances. The Treasurer is required, by statute, to evaluate the market value of required collateral monthly, and more frequently if market conditions require. Statutes 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 repurchases are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The policy guidelines approved by the State Funding Board require that the market value of the securities underlying the repurchase agreement be at least 102% of the cash investment. The policy also requires that collateral securities be marked-to-market daily and be maintained at a value equal to or greater than the cash investment. Prime commercial paper may be acquired from authorized broker dealers or directly from the issuer. There is no collateral requirement for prime commercial paper.

2. Deposits

Deposits with financial institutions are required to be categorized to indicate the level of custodial credit risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 deposits are uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the State's name.

As of June 30, 2001 and June 30, 2000, the carrying amounts of the State Pooled Investment Fund deposits were $1,007,886,383 and $1,484,183,803 respectively. The bank balance, including accrued interest, was $1,201,535,579 as of June 30, 2001 and $1,700,475,814 as of June 30, 2000. Of the bank balance, $1,200,943,362 at June 30, 2001 and $1,700,298,334 at June 30, 2000 was considered category 1, covered by insurance or collateral (at fair value) held in the state's name by independent custodial banks or in the state's account at the Federal Reserve Bank. At June 30, 2001, $592,217 (at fair value) and at June 30, 2000, $177,480 (at fair value) was considered category 3, uninsured and uncollateralized. There were no material amounts uncollateralized during the years ended June 30, 2001 and June 30, 2000.

At June 30, 2001 and June 30, 2000, the principal amount of certificates of deposit in state depositories was $1,138,372,700 and $1,571,857,700 respectively. Interest rates on certificates of deposit held at June 30, 2001 ranged from 3.60% to 5.50% and at June 30, 2000 ranged from 5.40 % to 6.70%. The days to maturity ranged from 7 to 179 days at June 30, 2001 and 7 to 182 days at June 30, 2000.

(continued)

STATE POOLED INVESTMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000

June 30, 2001

	Carrying Amount	Fair Value	Par Value	Interest Rate Range	Days to Maturity
Cash Equivalents and Short-term Investments:					
Repurchase Agreements	$ 57,000,000	$ 57,000,000	$ 57,000,000	4.10%	3 days
U.S. Government and Agency Obligations	2,095,418,733	2,097,669,386	2,097,768,000	3.82% to 5.31%	53 to 393 days
Commercial Paper	1,136,603,984	1,121,092,184	1,137,706,000	3.69% to 4.13%	3 to 54 days
Total Cash Equivalents and Short-term Investments	3,289,022,717	$3,275,761,570	$3,292,474,000		
Less: short-term investments classified as cash equivalents on Statement of Net Assets	(1,688,916,295)				
Add: certificates of deposit classified as short-term investments on Statement of Net Assets	529,797,700				
Short-term investments as shown on Statement of Net Assets	$ 2,129,904,122				

June 30, 2000

	Carrying Amount	Fair Value	Par Value	Interest Rate Range	Days to Maturity
Cash Equivalents and Short-term Investments:					
Repurchase Agreements	$ 74,500,000	$ 74,500,000	$ 74,500,000	6.50% to 6.63%	3 days
U.S. Government and Agency Obligations	909,050,350	908,795,227	914,746,000	5.91% to 6.88%	28 to 366 days
Commercial Paper	1,327,844,796	1,327,844,796	1,334,496,000	6.19% to 7.10%	3 to 103 days
Total Cash Equivalents and Short-term Investments	2,311,395,146	$2,311,140,023	$2,323,742,000		
Less: short-term investments classified as cash equivalents on Statement of Net Assets	(1,761,054,673)				
Add: certificates of deposit classified as short-term investments on Statement of Net Assets	1,143,707,700				
Short-term investments as shown on Statement of Net Assets	$ 1,694,048,173				

The State Pooled Investment Fund's investments, shown above as of June 30, 2001 and June 30, 2000, are all considered category 1. All securities, whether owned outright or pledged as collateral against repurchases, are held in the State's account in the Federal Reserve Bank or at a third party trustee custodian in the State's name.

(continued)

State Pooled Investment Fund
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

3. Investments

Investments are also required to be categorized to indicate the level of custodial credit risk assumed by the State. Category 1 includes investments that are insured or registered, or for which securities are held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the State. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by the counterparty's trust department or agent but not in the name of the State.

During Fiscal Year 2001, the SPIF purchased commercial paper issued by Pacific Gas and Electric Company (PG&E) which was due to mature at $51,706,000. PG&E defaulted on the maturity payment and filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As of the date of issuance of the SPIF financial statements, the reorganization plan was still pending. However, it is the SPIF's opinion that any loss of principal resulting from the bankruptcy court's decision is more than remote but less than likely.

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. An administrative fee of .06 percent for LGIP and .08 percent for the State's departments and agencies 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 37243-0264
PHONE (615) 401-7897

December 4, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2001, and June 30, 2000, and the related statements of changes in plan 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 government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Consolidated Retirement System as of June 30, 2001, and June 30, 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A.6. to the financial statements, the State of Tennessee changed its definition of cash and cash equivalents.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The actuarial balance sheet on page 76 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 *Government Auditing Standards*, we have also issued our report dated December 4, 2001, on our consideration of the system's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *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
Division of State Audit

Tennessee Consolidated Retirement System
Comparative Statements of Plan Net Assets
As of June 30, 2001 and June 30, 2000

Expressed in Thousands	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ASSETS		
Cash and cash equivalents	$ 676,173	$ 103,613
Receivables		
Member contributions receivable	15,055	3,809
Employer contributions receivable	17,681	8,447
Accrued interest receivable	160,809	24,641
Accrued dividends receivable	3,840	588
Other investment receivable	101	15
Investments sold	233,929	35,846
Total receivables	431,415	73,346
Investments, at fair value		
Short-term securities	450,688	69,061
Government bonds	7,795,671	1,194,563
Corporate bonds	3,100,092	475,040
Corporate stocks	8,449,363	1,294,730
Real estate	251,798	38,584
Invested securities lending collateral	98,580	15,106
Total investments	20,146,192	3,087,084
TOTAL ASSETS	21,253,780	3,264,043
LIABILITIES		
Accounts payable		
Death benefits and refunds payable	644	359
Other	11	0
Investments purchased	574,728	88,068
Other investment payables	1,840	282
Securities lending collateral	98,580	15,106
TOTAL LIABILITIES	675,803	103,815
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedules of funding progress for the plans are presented on page 74)	$ 20,577,977	$ 3,160,228

See accompanying Notes to the Financial Statements

(continued)

(CONTINUED)

June 30, 2001 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2000 Total
$ 779,786	$ 539,755	$ 80,680	$ 620,435
18,864	13,565	3,361	16,926
26,128	19,970	6,346	26,316
185,450	164,199	24,632	188,831
4,428	8,710	1,307	10,017
116	0	0	0
269,775	16,453	2,468	18,921
504,761	222,897	38,114	261,011
519,749	294,164	44,129	338,293
8,990,234	8,213,549	1,232,168	9,445,717
3,575,132	3,119,945	468,044	3,587,989
9,744,093	8,682,844	1,302,570	9,985,414
290,382	133,285	19,995	153,280
113,686	0	0	0
23,233,276	20,443,787	3,066,906	23,510,693
24,517,823	21,206,439	3,185,700	24,392,139
1,003	1,385	583	1,968
11	13	1	14
662,796	41,966	6,296	48,262
2,122	3,666	550	4,216
113,686	0	0	0
779,618	47,030	7,430	54,460
$ 23,738,205	$ 21,159,409	$ 3,178,270	$ 24,337,679

Tennessee Consolidated Retirement System
Comparative Statements of Changes in Plan Net Assets
For the Years Ended June 30, 2001 and June 30, 2000

Expressed in Thousands	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ADDITIONS		
Contributions		
Member contributions	$ 135,154	$ 45,433
Employer contributions	232,149	103,681
Total contributions	367,303	149,114
Investment income		
Net appreciation (depreciation) in fair value of investments	(1,198,688)	(184,059)
Interest	806,941	123,906
Dividends	101,496	15,585
Real estate income, net of operating expenses	16,525	2,538
Total investment income (loss)	(273,726)	(42,030)
Less: Investment expense	10,738	1,637
Net income (loss) from investing activities	(284,464)	(43,667)
Securities lending activities		
Securities lending income	2,078	319
Less: securities lending expense	1,540	237
Net income from securities lending activities	538	82
Net investment income (loss)	(283,926)	(43,585)
Transfer of assets from PSPP	12,604	0
TOTAL ADDITIONS	95,981	105,529
DEDUCTIONS		
Annuity benefits		
Retirement benefits	491,204	75,517
Survivor benefits	31,224	4,800
Disability benefits	16,094	2,474
Cost of living	116,892	13,477
Death benefits	3,720	982
Refunds	16,484	12,034
Administrative expense	1,795	1,683
Transfer of assets to SETHEEPP	0	12,604
TOTAL DEDUCTIONS	677,413	123,571
NET INCREASE (DECREASE)	(581,432)	(18,042)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	21,159,409	3,178,270
END OF YEAR	$ 20,577,977	$ 3,160,228

See accompanying Notes to the Financial Statements

(continued)

(CONTINUED)

June 30, 2001 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2000 Total
$ 180,587	$ 129,925	$ 39,906	$ 169,831
335,830	252,162	82,749	334,911
516,417	382,087	122,655	504,742
(1,382,747)	663,408	98,645	762,053
930,847	768,033	114,203	882,236
117,081	108,596	16,148	124,744
19,063	3,567	530	4,097
(315,756)	1,543,604	229,526	1,773,130
12,375	10,491	1,565	12,056
(328,131)	1,533,113	227,961	1,761,074
2,397	0	0	0
1,777	0	0	0
620	0	0	0
(327,511)	1,533,113	227,961	1,761,074
12,604	0	0	0
201,510	1,915,200	350,616	2,265,816
566,721	450,919	69,164	520,083
36,024	28,839	4,423	33,262
18,568	15,089	2,315	17,404
130,369	106,542	11,933	118,475
4,702	2,658	852	3,510
28,518	15,474	13,088	28,562
3,478	2,363	1,990	4,353
12,604	0	0	0
800,984	621,884	103,765	725,649
(599,474)	1,293,316	246,851	1,540,167
24,337,679	19,866,093	2,931,419	22,797,512
$ 23,738,205	$ 21,159,409	$ 3,178,270	$ 24,337,679

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000

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 TCRS follows all applicable GASB pronouncements, as well as applicable private sector pronouncements issued on or before November 30, 1989. 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 in which the contributions are due. 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 is invested in the State Pooled Investment Fund administered by the State Treasurer. 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, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). 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 pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001 and June 30, 2000. The classification of cash and cash equivalents also includes cash held in a custody account under a contractual arrangement for master custody services. Cash balances with the custodial agent are not classified into the credit risk categories established by Statement Number 3 of the Governmental Accounting Standards Board as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security.

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. Short-term investments that do not have an established market are reported at cost plus accrued interest which approximates fair value. 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 consists of 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.

5. **Receivables**
Receivables primarily consist of interest which is recorded when earned. The receivables for contributions as of June 30, 2001 consist of member contributions of $15.1 million and $3.8 million due to SETHEEPP and PSPP respectively, and employer contributions of $17.7 million and $8.4 million due to SETHEEPP and PSPP respectively. The receivables for contributions as of June 30, 2000 consist of member contributions of $13.6 million and $3.3 million due to SETHEEPP and PSPP respectively, and employer contributions of $20.0 million and $6.3 million due to SETHEEP and PSPP respectively.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000

6. **Accounting Change**
During Fiscal Year 2001, the state changed its definition of cash and cash equivalents for certain short-term securities which were previously classified as investments regardless of the period from acquisition to maturity. These securities are now included in cash and cash equivalents on the Statement of Plan Net Assets if the maturity date is within three months of the acquisition date. Due to this change, short-term investments of $619.2 million as previously reported on the June 30, 2000 Statement of Plan Net Assets have been included in cash and cash equivalents for comparative purposes.

7. **Reclassifications**
Certain amounts previously presented in the June 30, 2000 financial statements have been reclassified for comparative purposes. Investment expenses of $3.1 million have been reclassified to net appreciation in fair value of investments. In addition, $14.1 million previously reported as retired payroll (checks) payable and $931,000 previously reported for warrants payable have been reclassified as reductions to cash and cash equivalents. The issuance of warrants and checks, rather than their redemption through the banking system is deemed to effectively reduce cash.

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 1999, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	52,177	19,469
Terminated members entitled to but not receiving benefits	12,948	2,635
Current active members	123,540	64,540
Total	188,665	86,644
Number of participating employers	140	394

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% 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.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000

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, 2001, the plan's Member Reserve and Employer Reserve were fully funded with balances of $2,640.7 million and $17,937.3 million, respectively. At June 30, 2000, the plan's Member Reserve and Employer Reserve were fully funded with balances of $2,521.5 million and $18,637.9 million, respectively.

Political Subdivisions Pension Plan

Plan Description

PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the State of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by 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, 2001, the plan's Member Reserve and Employer Reserve were fully funded with balances of $592.3 million and $2,567.9 million, respectively. At June 30, 2000, the plan's Member Reserve and Employer Reserve were fully funded with balances of $541.8 million and $2,636.5 million, respectively.

C. PLAN TRANSFERS

During Fiscal Year 2001, assets in the amount of $12.6 million relating to the Regional Library System were transferred from the PSPP to the SETHEEPP. Under *Tennessee Code Annotated*, Section 10, Chapter 5, Part 2, the employees of the Regional Library System, whose retirement assets were included in the PSPP, became employees of the Department of State, which is under the SETHEEPP plan.

D. INVESTMENTS

State statute 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 and further subject to the following restrictions:

a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75%) of the total 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%) of the total funds of the retirement system. Private Placements are limited to 15% of the total fixed income portfolio.

(continued)

c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15%) 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.

d. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30%) of total assets.

e. The total sum invested in real estate shall not exceed five percent (5%) of the total of the funds of the retirement system.

The TCRS investment securities are categorized on the chart that follows according to the level of custodial credit risk associated with the custodial arrangements. Category 1 includes investments that are insured or registered, or for which the securities are held by the TCRS or its agent in the name of the TCRS. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the TCRS. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by the counterparty's trust department or agent, but not in the name of the TCRS.

Expressed in Thousands	**Fair Value June 30, 2001**	**Fair Value June 30, 2000**
Investments - Category 1		
Cash equivalents and short-term securities		
Commercial paper	$ 751,889	$ 464,308
Corporate notes	15,320	58,102
Government bonds	533,584	435,128
Long-term investments		
Government bonds	8,872,472	9,434,325
Corporate bonds	3,575,132	3,567,843
Corporate stocks	9,102,052	9,956,951
Total investments - Category 1	22,850,449	23,916,657
Investments - Category 2	0	0
Investments - Category 3		
Short-term securities lending collateral investments held by custodian bank	113,686	0
Margin deposit on futures contracts		
Government bonds	0	11,392
Total investments - Category 3	113,686	11,392
Investments - Not Categorized		
Investments held by broker-dealers under securities on loan contracts for cash collateral		
Corporate stocks	97,563	0
Real estate	290,382	153,280
Unsettled investment acquisitions		
Government bonds	117,762	0
Corporate bonds	0	20,146
Corporate stocks	544,478	28,463
Total investments - Not Categorized	1,050,185	201,889
Total investments and invested securities lending collateral	24,014,320	24,129,938
Less: Short-term securities included in cash equivalents on the Statements of Plan Net Assets	(781,044)	(619,245)
Total investments as shown on the Statements of Plan Net Assets	$ 23,233,276	$ 23,510,693

(continued)

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

As of June 30, 2001 and June 30, 2000, the TCRS had no concentrations of investments, other than those issued or guaranteed by the U.S. government, in any one organization that represents five percent or more of plan net assets.

Securities Lending

The TCRS is authorized by its investment policy, as adopted by the Board of Trustees, to enter into collateralized securities lending agreements whereby the TCRS loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the TCRS' assets. The TCRS' custodian bank manages the lending program and maintains the collateral on behalf of the TCRS. Under the securities lending agreement, only cash may be accepted as collateral for securities on loan. Cash received as collateral may be reinvested by the lending agent in accordance with the investment policy, as further restricted under the TCRS securities lending agreement. Collateral securities cannot be pledged or sold unless the borrower defaults.

The loaned securities are initially collateralized at 102 percent of their fair value for domestic securities and 105 percent for international. Collateral is marked-to-market daily and additional collateral is pledged by the borrower if the fair value of the collateral subsequently falls below 100 percent for domestic securities and 105 percent for international. Although there is no specific policy for matching the maturities of collateral investments and the securities loans, the total average maturity on the cash collateral investment portfolio cannot exceed fifteen days under the securities lending agreement and the securities on loan can be terminated on demand by either the TCRS or the borrower. At June 30, 2001, the weighted average maturity of invested collateral was 8.9 days. In the event of a default by a borrower, the securities lending agreement includes provisions for the securities lending agent to purchase replacement securities from the sales proceeds of collateral, as well as credit the TCRS with the value of all distributions on the loaned securities. If the collateral proceeds are insufficient to cover the amounts due to the TCRS, the lending agent is responsible for crediting the TCRS for the remaining amounts owed by the borrower. As of June 30, 2001, the fair value of securities on loan to brokers was $97,563,290 and the fair value of collateral pledged for the securities on loan was $113,685,867. At June 30, 2001, the TCRS had no credit risk exposure to borrowers as the amounts owed to borrowers exceeded the amounts the borrowers owed the TCRS. For the year ended June 30, 2000, the TCRS had no securities on loan.

Financial Instruments with Off-Balance Sheet Risk

The TCRS is a party to financial instruments with off-balance sheet risk used in the normal course of business to generate earnings and reduce its own exposure to fluctuations in market conditions. The TCRS is authorized by statute to engage in forward contracts to exchange different currencies at a specified future date and rate and in domestic stock index futures contracts. These contracts involve elements of custodial credit, market and legal risk in excess of amounts recognized in the Statements of Plan Net Assets as of June 30, 2001 and June 30, 2000. The TCRS may purchase or sell domestic stock index futures contracts for the purposes of making asset allocation changes and improving liquidity. Futures contracts are limited to the S&P 500 Index, the S&P Midcap 400 Index and the Russell 2000 Index. The contractual or notional amounts express the extent of the TCRS' involvement in these instruments and do not represent exposure to credit loss. The credit risk on forward and futures contracts is controlled through limits and monitoring procedures. Market risk, the risk that changing market conditions may make a financial instrument less valuable, is controlled through limitations on the use of such instruments. Legal risk is controlled through the use of only authorized instruments and brokers. The allowable currencies for hedging purposes are limited by policy of the Board of Trustees to the currencies of those countries otherwise authorized for investment.

At June 30, 2001, there were forward exchange contracts outstanding at a total net notional amount of $17,113,000 and a fair value of $17,392,319. At June 30, 2000, there were forward exchange contracts outstanding at a total net notional amount of $118,673,979 and a fair value of $89,933,176.

At June 30, 2001, the TCRS was not under any futures contracts. At June 30, 2000, the notional amount of futures contracts was $185,518,750 at a fair value of $183,512,500. The changes in fair value of outstanding futures contracts are settled daily.

The TCRS is also authorized by investment policy to engage in the issuance of options. Activity is limited to selling covered call options. The TCRS had no options outstanding at June 30, 2001 and June 30, 2000.

(*continued*)

Asset-Backed Securities

The TCRS 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 CMOs held were issued by quasi-U.S. governmental agencies. There were no CMOs held at June 30, 2001. The fair value of CMOs held at June 30, 2000 was $50,366,466. The TCRS also invests in various asset-backed securities, representing ownership interests in trusts consisting of credit card or auto loan receivables. These securities are issued by organizations with AAA or AA credit ratings. TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets.

During Fiscal Year 2001, the TCRS purchased commercial paper issued by Pacific Gas and Electric Company (PG&E) which was due to mature at $25,994,000. PG&E defaulted on the maturity payment and filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As of the date of issuance of the TCRS financial statements, the reorganization plan was still pending. However, it is the TCRS's opinion that any loss of principal resulting from the bankruptcy court's decision is more than remote but less than likely.

E. 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 7.5 basis points on the $250 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, and 12 basis points during times when either Moody's or Standard and Poor's has assigned ratings other than Aaa and AAA 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.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

UNAUDITED

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	7/1/99	$ 18,327,133	$ 18,420,156	$ 93,023	99.49%	$ 4,132,409	2.25%
	6/30/97	15,671,678	15,782,850	111,172	99.30%	3,810,231	2.92%
PSPP	7/1/99	2,690,781	2,890,942	200,161	93.08%	1,341,363	14.92%
	6/30/97	2,226,891	2,287,904	61,013	97.33%	1,130,585	5.40%

The SETHEEPP is comprised of a number of employee groups. However, the unfunded liability of $93.0 million at July 1, 1999 is attributable to two employee groups: 1) County Officials employed prior to July 1, 1972 and 2) State Judges and Attorneys General employed prior to July 1, 1972. The PSPP represents 394 participating entities at July 1, 1999. The unfunded liability of $200.1 million is attributable to 258 of the 394 entities.

See accompanying Notes to Required Supplementary Information

SCHEDULES OF EMPLOYER CONTRIBUTIONS
Expressed in Thousands

	SETHEEPP		PSPP	
Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2001	$ 232,149	100%	$ 103,681	100%
2000	252,162	100%	82,749	100%
1999	244,453	100%	69,230	100%
1998	166,756	100%		

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2001. The June 30, 1995 valuation determined the employer contribution rate for the year ended June 30, 1997 for the SETHEEPP and the PSPP, and for the year ended June 30, 1998 for the PSPP. Therefore, the Schedule of Employer Contributions, in accordance with the parameters of GASB Statement Number 25, is not available for the year ended June 30, 1997 for either plan or for the year ended June 30, 1998 for the PSPP.

See accompanying Notes to Required Supplementary Information

UNAUDITED

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2001 AND JUNE 30, 2000

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the July 1, 1999 actuarial valuation follows.

	SETHEEPP	PSPP
Valuation Date	July 1, 1999	July 1, 1999
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	16 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	7.5%	7.5%
Projected salary increases	5.5%	5.5%
Includes inflation at	(2)	(2)
Cost-of-living adjustments	3%	3%
Increase in Social Security wage base	4.5%	4.5%

(1) The length of the amortization period varies by political subdivision. For political subdivisions entering the plan on or after July 1, 1994, the amortization period does not exceed 20 years.

(2) No explicit assumption is made regarding the portion attributable to the effect of inflation on salaries.

Tennessee Consolidated Retirement System
Actuarial Balance Sheet
As of July 1, 1999

UNAUDITED

	Political Subdivision Pension Plan (PSPP)	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEEPP)	Total
ASSETS			
Present assets creditable to			
Employer accumulation fund	$ 2,189,378,316	$ 15,930,536,763	$ 18,119,915,079
Members' accumulation fund	501,402,539	2,396,596,344	2,897,998,883
Total present assets	2,690,780,855	18,327,133,107	21,017,913,962
Present value of prospective Contributions payable to			
Employer accumulation fund			
Normal	405,380,664	1,794,139,353	2,199,520,017
Accrued liability	200,161,388	93,022,745	293,184,133
Total employer accumulation	605,542,052	1,887,162,098	2,492,704,150
Members' accumulation fund	278,399,559	1,211,838,630	1,490,238,189
Total prospective contributions	883,941,611	3,099,000,728	3,982,942,339
TOTAL ASSETS	$ 3,574,722,466	$ 21,426,133,835	$ 25,000,856,301
LIABILITIES			
Present value of prospective Benefits payable on account of			
Present retired members and beneficiaries	877,145,344	6,401,753,221	7,278,898,565
Present active members	2,637,351,974	14,739,420,115	17,376,772,089
Former members	60,225,148	284,960,499	345,185,647
TOTAL LIABILITIES	$ 3,574,722,466	$ 21,426,133,835	$ 25,000,856,301

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 37243-0264
PHONE (615) 401-7897

December 4, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Flexible Benefits Plan as of June 30, 2001, and June 30, 2000, 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 government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Flexible Benefits Plan as of June 30, 2001, and June 30, 2000, and the changes in fund balances for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001, on our consideration of the Flexible Benefits Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *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
Division of State Audit

Flexible Benefits Plan
Comparative Balance Sheets
June 30, 2001 and June 30, 2000

	June 30, 2001		June 30, 2000	
ASSETS				
Cash	$	386,383	$	390,736
Due from other funds		142,526		129,308
TOTAL ASSETS	$	528,909	$	520,044
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$	76,299	$	67,974
Dependent care deposits		147,815		147,256
Medical reimbursement deposits		145,600		90,693
Due to other funds		65,502		63,153
TOTAL LIABILITIES		435,216		369,076
FUND BALANCES RESERVED FOR EMPLOYEE BENEFITS		93,693		150,968
TOTAL LIABILITIES AND FUND BALANCES	$	528,909	$	520,044

See accompanying Notes to the Financial Statements

Flexible Benefits Plan
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances
For the Years Ended June 30, 2001 and June 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
REVENUES		
FICA savings	$ 2,625,270	$ 2,442,467
Flexible benefit forfeiture	11,283	20,303
TOTAL REVENUES	2,636,553	2,462,770
EXPENDITURES		
Deferred compensation match	1,732,441	1,639,730
Administrative fees	300,924	198,507
Employee benefit program	47,018	52,592
TOTAL EXPENDITURES	2,080,383	1,890,829
EXCESS OF REVENUES OVER EXPENDITURES	556,170	571,941
OTHER FINANCING USES		
Operating transfer to State General Fund	(204,350)	(179,623)
Operating transfer to State Internal Service Fund	(409,095)	(309,816)
TOTAL OTHER FINANCING USES	(613,445)	(489,439)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(57,275)	82,502
FUND BALANCES, BEGINNING OF YEAR	150,968	68,466
FUND BALANCES, END OF YEAR	$ 93,693	$ 150,968

See accompanying Notes to the Financial Statements

Flexible Benefits Plan
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Flexible Benefits Plan is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an expendable 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. Contributions to the plan not withdrawn by the end of the plan year are forfeited to the state and are used for defraying administrative costs, in accordance with *IRS Proposed Regulation* 1.125-2 (Q7).

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 flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recorded when they become both measurable and available, and expenditures are recognized at the time the fund liabilities are incurred.

3. Cash

Cash deposited in the Flexible Benefits Plan is pooled with the State Pooled Investment Fund, administered by the State Treasurer, which 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, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated,* Section 9-4-602(b). 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 Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001, and June 30, 2000. The primary government's policy regarding the definition of Cash and Cash Equivalents includes cash management pools as cash.

4. Reclassification

Effective June 30, 2001, the Flexible Benefits Plan discontinued reporting warrants payable and a portion of accounts payable as liabilities on the Balance Sheet. The issuance of warrants and automated clearing house (ACH) payments, rather than their redemption through the banking system, is considered a reduction to cash. The June 30, 2000 warrants payable of $2,688.41 and ACH payments of $28,876.54 included in accounts payable have been reclassified as reductions to cash.

B. OTHER ACCOUNTING DISCLOSURES

1. The FICA savings generated by the Flexible Benefits Fund are used by the State for other employee benefit programs. During the years ended June 30, 2001 and June 30, 2000 the following amounts were paid or transferred to other State funds for these employee benefit programs:

(continued)

Flexible Benefits Plan
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

Program	FY 2001	FY 2000
Deferred Compensation Contribution Match	$1,732,441	$1,639,730
State Wellness Program	409,095	309,816
State Day Care	204,350	179,623
Automated Teller Machines in State Buildings	47,018	52,592

2. Due from other funds consists of dependent care and medical reimbursement deposits from the accrued payroll at June 30 for the following funds:

	FY 2001	FY 2000
Due from General Fund	$114,822	$104,207
Due from Internal Service Fund	6,438	4,423
Due from Enterprise Fund	2,386	2,161
Due from Special Revenue Fund	5,676	6,178
Due from Highway Fund	8,126	7,059
Due from Education Trust Fund	5,078	5,280

3. Due to other funds consists of deferred compensation match payments from the accrued payroll at June 30 for the following funds:

	FY 2001	FY 2000
Due to General Fund	$52,050	$50,154
Due to Internal Service Fund	1,518	1,296
Due to Enterprise Fund	342	333
Due to Special Revenue Fund	2,016	1,974
Due to Highway Fund	8,061	7,896
Due to Education Trust Fund	1,515	1,500

Claims Award 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 37243-0264
PHONE (615) 401-7897

December 4, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Claims Award Fund as of June 30, 2001, and June 30, 2000, and the related statements of revenues, expenses, and changes in retained earnings 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 government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Claims Award Fund as of June 30, 2001, and June 30, 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001, on our consideration of the Claims Award Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *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
Division of State Audit

Claims Award Fund
Comparative Balance Sheets
June 30, 2001 and June 30, 2000

	June 30, 2001	June 30, 2000
ASSETS		
Cash	$ 76,200,051	$ 71,658,395
TOTAL ASSETS	$ 76,200,051	$ 71,658,395
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable	$ 543,069	$ 782,976
Deferred revenue	3,000	0
Claims liability	69,838,987	63,106,969
TOTAL LIABILITIES	70,385,056	63,889,945
EQUITY		
Retained earnings, reserved for claims	5,814,995	7,768,450
TOTAL LIABILITIES AND EQUITY	$ 76,200,051	$ 71,658,395

See accompanying Notes to the Financial Statements

Claims Award Fund
Comparative Statements of Revenues, Expenses and Changes in Retained Earnings
For the Years Ended June 30, 2001 and June 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
OPERATING REVENUES		
Insurance premiums	$ 30,382,100	$ 24,929,400
OPERATING EXPENSES		
Torts		
Death	1,580,182	1,210,255
Bodily injury	3,767,891	2,959,662
Property damage	880,142	835,738
Total Torts	6,228,215	5,005,655
Workers' Compensation		
Death	549,144	279,058
Medical	8,417,821	8,329,811
Temporary disability	1,618,426	1,695,147
Permanent disability	6,463,915	7,185,268
Total Workers' Compensation	17,049,306	17,489,284
Employee property damage	30,150	27,155
Professional/Administrative	7,035,723	7,161,271
Addition to actuarial liability	6,732,018	1,546,044
TOTAL OPERATING EXPENSES	37,075,412	31,229,409
OPERATING LOSS	(6,693,312)	(6,300,009)
NON-OPERATING REVENUES		
Interest income	4,736,732	4,294,467
Taxes	3,125	3,381
TOTAL NON-OPERATING REVENUES	4,739,857	4,297,848
NET LOSS	(1,953,455)	(2,002,161)
RETAINED EARNINGS, BEGINNING OF YEAR	7,768,450	9,770,611
RETAINED EARNINGS, END OF YEAR	$ 5,814,995	$ 7,768,450

See accompanying Notes to the Financial Statements

Claims Award Fund
Comparative Statements of Cash Flows
For the Years Ended June 30, 2001 and June 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from premiums	$ 30,382,100	$ 24,957,000
Payments for claims	(23,304,671)	(22,522,094)
Payments for administrative expenses	(7,275,630)	(6,548,374)
NET CASH USED BY OPERATING ACTIVITIES	(198,201)	(4,113,468)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Taxes received	3,125	3,381
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	3,125	3,381
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	4,736,732	4,294,467
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,736,732	4,294,467
NET INCREASE IN CASH	4,541,656	184,380
CASH, BEGINNING OF YEAR	71,658,395	71,474,015
CASH, END OF YEAR	$ 76,200,051	$ 71,658,395
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (6,693,312)	$ (6,300,009)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Changes in assets and liabilities		
Decrease in accounts receivable	0	27,600
Increase (decrease) in accounts payable	(239,907)	612,897
Increase in deferred revenue	3,000	0
Increase in claims liability	6,732,018	1,546,044
TOTAL ADJUSTMENTS	6,495,111	2,186,541
NET CASH USED BY OPERATING ACTIVITIES	$ (198,201)	$ (4,113,468)

See accompanying Notes to the Financial Statements

Claims Award Fund
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Claims Award Fund (CAF) 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 Claims Award Fund follows all applicable GASB pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989. 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.

3. Cash

Cash deposited in the Claims Award Fund is pooled with the State Pooled Investment Fund, administered by the State Treasurer, which is authorized by 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, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). 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 Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001, and June 30, 2000. The primary government's policy regarding the definition of Cash and Cash Equivalents includes cash management pools as cash.

4. Reclassifications

Effective June 30, 2001, the CAF discontinued reporting warrants payable and checks payable as a liability on the Balance Sheet. The issuance of warrants, checks and automated clearing house (ACH) payments, rather than their redemption through the banking system, is considered a reduction to cash. The June 30, 2000 warrants payable, checks payable and ACH payments included in accounts payable in the amounts of $109,205, $401,133, and $2,500 respectively, have been reclassified as reductions to cash. The CAF has adopted the direct method of presentation for the Statement of Cash Flows for the year ended June 30, 2001 and therefore, the Statement of Cash Flows for the year ended June 30, 2000 previously presented by the indirect method has been restated for comparative purposes.

B. OTHER ACCOUNTING DISCLOSURES

1. Risk Management

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state'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 Claims Award Fund (CAF).

CAF services claims for risk of loss to which the state is exposed including general liability, automobile liability, professional malpractice, and workers' compensation. All agencies and authorities of the state participate in CAF, except for the Supreme Court Boards, The Dairy Promotion Board, and Certified Cotton Growers' Organization. CAF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year end to determine the fund liability and premium allocation.

(continued)

Claims Award Fund
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

CAF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2001, the present value of these liabilities discounted at 4.96% was $69,838,987**.** Changes in the balances of claims liabilities during fiscal years 2001 and 2000 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2000-2001	$63,106,969	$30,039,689	$(23,307,671)	$69,838,987
1999-2000	$61,560,925	$24,068,138	$(22,522,094)	$63,106,969

At June 30, 2001, CAF held $76.2 million in cash designated for payment of these claims.

2. Transfer of University of Tennessee Memorial Research Center

On July 29, 1999, the University of Tennessee (UT) sold the University of Tennessee Memorial Research Center to University Health Systems, Inc. (UHS), a nonprofit corporation. In accordance with the agreement, UHS assumed all liability for workers' compensation and tort for the employees now leased to UHS from UT for all incidents occurring on or after July 29, 1999. Although the CAF is still liable for all incidents occurring at the hospital prior to July 29, 1999, UHS has promised to reimburse the CAF for all expenses relating to these incidents occurring prior to the sale but not paid until after the sale. The accounts payable at June 30, 2000 includes $506,087 to UT for reimbursements received during the year from UHS but not paid at year end. The accounts payable at June 30, 2001 does not include any funds due to UT from UHS reimbursements.

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 37243-0264
PHONE (615) 401-7897

December 4, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Criminal Injuries Compensation Fund as of June 30, 2001, and June 30, 2000, 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 government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Criminal Injuries Compensation Fund as of June 30, 2001, and June 30, 2000, and the changes in fund balances for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001, on our consideration of the Criminal Injuries Compensation Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *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
Division of State Audit

Criminal Injuries Compensation Fund
Comparative Balance Sheets
June 30, 2001 and June 30, 2000

	June 30, 2001	June 30, 2000
ASSETS		
Cash	$ 82,552,417	$ 78,696,489
Accounts receivable	502,402	596,115
TOTAL ASSETS	$ 83,054,819	$ 79,292,604
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 175,753	$ 372,306
Claims liability	4,164,658	4,436,500
TOTAL LIABILITIES	4,340,411	4,808,806
FUND BALANCES		
Reserved for future benefits	75,478,264	73,846,300
Reserved for related assets (see Note B.1)	2,118,455	0
Reserved for victims of drunk drivers (see Note B.1)	1,117,689	637,498
TOTAL FUND BALANCES	78,714,408	74,483,798
TOTAL LIABILITIES AND FUND BALANCES	$ 83,054,819	$ 79,292,604

See accompanying Notes to the Financial Statements

CRIMINAL INJURIES COMPENSATION FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
REVENUES		
State		
Taxes	$ 5,188,766	$ 8,138,511
Fines	2,574,484	2,400,137
Federal	1,529,000	1,959,000
Interest income	4,711,792	4,045,391
TOTAL REVENUES	14,004,042	16,543,039
EXPENDITURES		
Claim payments	8,829,803	6,509,330
Victims' coalition grant	100,000	100,000
Administrative cost	750,673	0
TOTAL EXPENDITURES	9,680,476	6,609,330
EXCESS OF REVENUES OVER EXPENDITURES	4,323,566	9,933,709
OTHER FINANCING USES		
Operating transfer to State General Fund	92,956	0
TOTAL OTHER FINANCING USES	92,956	0
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	4,230,610	9,933,709
FUND BALANCES, BEGINNING OF YEAR	74,483,798	64,550,089
FUND BALANCES, END OF YEAR	$ 78,714,408	$ 74,483,798

See accompanying Notes to the Financial Statements

CRIMINAL INJURIES COMPENSATION FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) FOR THE YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2000

	For the Year Ended June 30, 2001			For the Year Ended June 30, 2000		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**	**Budget**	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
SOURCES OF FINANCIAL RESOURCES						
FUND BALANCES, BEGINNING OF YEAR	$ 74,483,798	$ 74,483,798	$ 0	$ 64,550,089	$ 64,550,089	$ 0
REVENUES						
Taxes	0	5,188,766	5,188,766	0	8,138,511	8,138,511
Fines	0	2,574,484	2,574,484	0	2,400,137	2,400,137
Federal	1,614,000	1,529,000	(85,000)	1,845,000	1,959,000	114,000
Interest income	0	4,711,792	4,711,792	0	4,045,391	4,045,391
TOTAL SOURCES OF FINANCIAL RESOURCES	76,097,798	88,487,840	12,390,042	66,395,089	81,093,128	14,698,039
USES OF FINANCIAL RESOURCES						
EXPENDITURES						
Claim payments	9,400,000	8,829,803	570,197	6,700,000	6,509,330	190,670
Victims' Coalition Grant	0	100,000	(100,000)	0	100,000	(100,000)
Administrative cost	832,800	750,673	82,127	0	0	0
OTHER FINANCING USES - TRANSFERS OUT	0	92,956	(92,956)	0	0	0
TOTAL USES OF FINANCIAL RESOURCES	10,232,800	9,773,432	459,368	6,700,000	6,609,330	90,670
FUND BALANCES, END OF YEAR	$ 65,864,998	$ 78,714,408	$ 12,849,410	$ 59,695,089	$ 74,483,798	$ 14,788,709

See accompanying Notes to the Financial Statements

Criminal Injuries Compensation Fund
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Criminal Injuries Compensation Fund 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 (CIC) is funded through privilege 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. According to state statute, the CIC program can only compensate victims to the extent funds are available within the program. State funds cannot be utilized for claim payments.

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 flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recorded when they become both measurable and available, and expenditures are recognized at the time the fund liabilities are incurred.

3. Cash

Cash deposited in the Criminal Injuries Compensation Fund is pooled with the State Pooled Investment Fund (SPIF), administered by the State Treasurer, which is authorized by 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, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated,* Section 9-4-602(b). 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 Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001, and June 30, 2000. The primary government's policy regarding the definition of Cash and Cash Equivalents includes cash management pools as cash.

4. Budgetary Process

Legislation requires that annual budgets be adopted for special revenue funds. The CIC budget is included in the budget presented by the Governor to the General Assembly at the beginning of each annual legislative session. The General Assembly enacts the budget by passing specific appropriations which may not exceed estimated revenues. The CIC 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.

5. Reclassification

Effective June 30, 2001, the CIC discontinued reporting warrants payable as a liability on the Balance Sheet. The issuance of warrants, rather than their redemption through the banking system, is considered a reduction to cash. The June 30, 2000 warrants payable in the amount of $766,393 has been reclassified as a reduction to cash.

B. OTHER ACCOUNTING DISCLOSURES

1. Reserves

The reserve for related assets has been established for the CIC program's share of the State Pooled Investment Fund's investment in commercial paper issued by Pacific Gas and Electric Company (PG&E). PG&E defaulted on the maturity payment and filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As of the date of issuance of the CIC financial statements, the reorganization plan was still pending. However, it is the SPIF's opinion that any loss of principal resulting from the bankruptcy court's decision is more than remote but less than likely.

A reserve has also been established for the Victims of Drunk Drivers Compensation Fund (VDDC) which is included in the Criminal Injuries Compensation Fund. A requirement of the CIC 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.

2. Other Financing Uses

During the fiscal year that ended June 30, 2001, an operating transfer was made to the District Attorneys General Conference for domestic violence prevention and drug enforcement activities.

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 37243-0264
PHONE (615) 401-7897

December 4, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Baccalaureate Education System Trust, Educational Services Plan as of June 30, 2001, and June 30, 2000, 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 government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Baccalaureate Education System Trust, Educational Services Plan as of June 30, 2001, and June 30, 2000, and the changes in fund balances for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A.6. to the financial statements, the State of Tennessee changed its definition of cash and cash equivalents.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001, on our consideration of the Baccalaureate Education System Trust, Educational Services Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *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
Division of State Audit

Baccalaureate Education System Trust, Educational Services Plan
Comparative Balance Sheets
June 30, 2001 and June 30, 2000

	June 30, 2001	June 30, 2000
ASSETS		
Cash and cash equivalents	$ 1,635,783	$ 1,035,678
Contributions receivable	7,821	6,914
Investment income receivable	277,459	254,762
Investments, at fair value		
Government bonds	8,998,350	9,353,345
Corporate bonds	8,413,293	5,120,428
Investment in equity mutual fund	8,675,134	6,669,898
TOTAL ASSETS	$ 28,007,840	$ 22,441,025
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 0	$ 54,000
Investments purchased	0	201,068
TOTAL LIABILITIES	0	255,068
FUND BALANCES		
Fund balances reserved for plan participants	28,764,257	21,747,797
Fund balances, unreserved	(756,417)	438,160
TOTAL FUND BALANCES	28,007,840	22,185,957
TOTAL LIABILITIES AND FUND BALANCES	$ 28,007,840	$ 22,441,025

See accompanying Notes to the Financial Statements

Baccalaureate Education System Trust, Educational Services Plan
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances
For the Years Ended June 30, 2001 and June 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
REVENUES		
Contributions	$ 5,469,239	$ 6,124,671
Investment income		
Net decrease in fair value of investments	(623,720)	(80,313)
Interest and dividend income	1,349,515	1,016,892
Administrative fees	418,900	463,046
TOTAL REVENUES	6,613,934	7,524,296
EXPENDITURES		
Refunds	65,435	50,723
Tuition payments	323,734	45,326
Administrative cost	402,882	420,657
TOTAL EXPENDITURES	792,051	516,706
Excess of revenues over expenditures	5,821,883	7,007,590
FUND BALANCES, BEGINNING OF YEAR	22,185,957	15,178,367
FUND BALANCES, END OF YEAR	$ 28,007,840	$ 22,185,957

See accompanying Notes to the Financial Statements

BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Tennessee Baccalaureate Education System Trust Fund (BEST), Educational Services Plan (ESEP) is an integral part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an expendable 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) using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recorded when they become both measurable and available, and expenditures are recognized at the time the fund liabilities are incurred.

3. Cash and Cash Equivalents

Cash and Cash Equivalents, by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The primary government's 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 is invested in the State Pooled Investment Fund administered by the State Treasurer. 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, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). 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 Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001 and June 30, 2000. The classification of cash and cash equivalents also includes cash held in a custody account under a contractual arrangement for master custody services. Cash balances with the custodial agent are not classified into credit risk categories established by Statement Number 3 of the Governmental Accounting Standards Board as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security. In addition, cash and cash equivalents include funds invested in a portfolio of short-term investments maintained by the Tennessee Consolidated Retirement System. These short-term securities may include U.S. Treasury and Agency obligations, commercial paper, medium-term corporate notes, promissory notes and repurchase agreements and are valued at cost plus accrued interest, which approximates fair value.

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.

5. Fund Balance, Reserved for Plan Participants

The amount of Fund Balance Reserved for Plan Participants is based on the number of outstanding tuition units and the weighted average tuition unit price in effect at year-end.

6. Accounting Change

During Fiscal Year 2001, the state changed its definition of cash and cash equivalents for certain short-term securities which were previously classified as investments regardless of the period from acquisition to maturity. These securities are now included in cash and cash equivalents on the Balance Sheet if the maturity date is within three months of the acquisition date. Due to this change, short-term investments of $1,118,043, and a liability of $79,543, (Due to State General Fund) as previously reported on the June 30, 2000 Balance Sheet, have been included in cash and cash equivalents for comparative purposes.

7. Reclassification

Effective June 30, 2001, the ESEP discontinued reporting warrants payable as a liability on the Balance Sheet. The issuance of warrants, rather than their redemption through the banking system, is considered a reduction to cash. The June 30, 2000 warrants payable amount of $2,822 has been reclassified as a reduction to cash and cash equivalents for comparative purposes.

(continued)

Baccalaureate Education System Trust, Educational Services Plan
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

B. INVESTMENTS

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. In accordance with the investment policy, 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.

The ESEP investments included SEC-registered open-end mutual funds of $8,675,134 as of June 30, 2001 and $6,669,898 as of June 30, 2000.

The ESEP investment securities are categorized below according to the level of custodial credit risk associated with the custodial arrangements at year-end. Category 1 consists of investments that are insured or registered, or for which securities are held by the ESEP or its agent in the name of the ESEP. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the ESEP. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the name of the ESEP. The open-end mutual fund is not categorized as the investment is not evidenced by securities that exist in physical or book entry form.

	June 30, 2001 Fair Value	June 30, 2000 Fair Value
INVESTMENTS - CATEGORY 1		
Cash equivalents and short-term securities		
Commercial paper	$ 1,434,596	$ 838,306
Government bonds	55,629	217,958
Corporate notes	0	61,779
Long-term investments		
Government bonds	8,998,350	9,353,345
Corporate bonds	8,413,293	4,918,948
TOTAL INVESTMENTS - CATEGORY 1	18,901,868	15,390,336
INVESTMENTS - CATEGORY 2	0	0
INVESTMENTS - CATEGORY 3	0	0
INVESTMENTS - NOT CATEGORIZED		
Unsettled investment acquisitions		
Corporate bonds	0	201,480
Investment in open-end mutual fund	8,675,134	6,669,898
TOTAL INVESTMENTS - NOT CATEGORIZED	8,675,134	6,871,378
TOTAL INVESTMENTS	27,577,002	22,261,714
Less: Short-term securities classified as cash equivalents on the Balance Sheets	(1,490,225)	(1,118,043)
TOTAL INVESTMENTS AS SHOWN ON THE BALANCE SHEETS	$ 26,086,777	$ 21,143,671

The unsettled acquisitions of corporate bonds as of June 30, 2000 in the amount of $201,480 were previously included in Category 1 in the Notes to the Financial Statements. The June 30, 2000 amounts have been restated as Not Categorized.

C. DESCRIPTION OF THE EDUCATIONAL SERVICES PLAN

The Tennessee Baccalaureate Education System Trust, Educational Services Plan, administered by the State Treasurer, is 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.

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 37243-0264
PHONE (615) 401-7897

December 4, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Chairs of Excellence as of June 30, 2001, and June 30, 2000, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chairs of Excellence as of June 30, 2001, and June 30, 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A.7. to the financial statements, the State of Tennessee changed its definition of cash and cash equivalents.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001, on our consideration of the Chairs of Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *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
Division of State Audit

CHAIRS OF EXCELLENCE
COMPARATIVE BALANCE SHEETS
JUNE 30, 2001 AND JUNE 30, 2000

	June 30, 2001	June 30, 2000
ASSETS		
Cash and cash equivalents	$ 20,909,956	$ 13,987,573
Investments, at fair value		
Government bonds	80,409,368	69,158,737
Corporate bonds	22,972,170	31,581,509
Corporate stocks	99,524,805	120,706,955
Total investments	202,906,343	221,447,201
Receivables		
Due from College and University Fund	762,000	669,063
Investment income receivable	1,151,528	1,021,943
Investments sold	0	983,936
Total receivables	1,913,528	2,674,942
TOTAL ASSETS	$ 225,729,827	$ 238,109,716
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Due to College and University Fund	$ 2,046,493	$ 1,989,476
Due to the Academic Scholars Fund	3,425,471	3,516,950
Investments purchased	1,152,252	242,345
TOTAL LIABILITIES	6,624,216	5,748,771
FUND BALANCES		
Endowment reserve	208,210,933	223,047,354
Special reserve	10,894,678	9,313,591
TOTAL FUND BALANCES	219,105,611	232,360,945
TOTAL LIABILITIES AND FUND BALANCES	$ 225,729,827	$ 238,109,716

See accompanying Notes to the Financial Statements

Chairs of Excellence
Comparative Statements of Revenues, Expenses and Changes in Fund Balances
For the Years Ended June 30, 2001 and June 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
OPERATING REVENUES		
Investment income	$ (6,654,858)	$ 12,335,710
Contributions from private sources	625,000	667,919
TOTAL OPERATING REVENUES	(6,029,858)	13,003,629
OPERATING EXPENSES		
University of Tennessee	3,112,107	3,145,840
Tennessee Board of Regents	3,701,770	3,486,719
Academic Scholars Fund	226,722	240,261
Administrative cost	184,877	184,825
TOTAL OPERATING EXPENSES	7,225,476	7,057,645
NET INCOME(LOSS)	(13,255,334)	5,945,984
FUND BALANCES, BEGINNING OF YEAR	232,360,945	226,414,961
FUND BALANCES, END OF YEAR	$ 219,105,611	$ 232,360,945

See accompanying Notes to the Financial Statements

Chairs of Excellence
Comparative Statements of Cash Flows
For the Years Ended June 30, 2001 and June 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from private sources	$ 625,000	$ 667,919
Payments to the University of Tennessee	(3,114,581)	(3,516,900)
Payments to the Tennessee Board of Regents	(3,735,216)	(3,973,803)
Payments to the Academic Scholars Fund	(318,200)	(344,700)
Payments for administrative cost	(184,877)	(184,825)
NET CASH USED BY OPERATING ACTIVITIES	(6,727,874)	(7,352,309)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	8,676,982	9,489,450
Proceeds from sales and maturities of investments	93,929,636	102,357,942
Purchase of investments	(88,956,361)	(102,625,077)
NET CASH PROVIDED BY INVESTING ACTIVITIES	13,650,257	9,222,315
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,922,383	1,870,006
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,987,573	12,117,567
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 20,909,956	$ 13,987,573
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES		
NET INCOME (LOSS)	$ (13,255,334)	$ 5,945,984
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES		
Investment income	6,654,858	(12,335,710)
Changes in assets and liabilities		
Increase in due From College and University Fund	(92,937)	(209,063)
Increase(decrease) in due to College and University Fund	57,017	(649,081)
Decrease in due to Academic Scholars Fund	(91,478)	(104,439)
TOTAL ADJUSTMENTS	6,527,460	(13,298,293)
NET CASH USED BY OPERATING ACTIVITIES	$ (6,727,874)	$ (7,352,309)

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

The Chairs of Excellence Trust had $1,152,252 of unsettled investment purchases and no unsettled investment sales at June 30, 2001. There were $242,345 of unsettled investment purchases and $983,936 of unsettled investment sales at June 30, 2000.

See accompanying Notes to the Financial Statements

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000

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 nonexpendable trust 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). The COE Trust follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. The financial statements have been prepared using the flow of 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**
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 is invested in the State Pooled Investment Fund administered by the State Treasurer. 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, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated,* Section 9-4-602(b). The State Pooled Investment Fund is also authorized to enter into secutities 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 pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001 and June 30, 2000. The classification of cash and cash equivalents also includes cash held in a custody account under a contractual arrangement for master custody services. Cash balances with the custodial agent are not classified into the credit risk categories established by Statement Number 3 of the Governmental Accounting Standards Board as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security. There were no cash balances at the custodian as of June 30, 2001 or June 30, 2000. In addition, cash and cash equivalents include funds invested in a portfolio of short-term investments maintained by the Tennessee Consolidated Retirement System. These short-term investments may include U.S. Treasury and Agency obligations, commercial paper, medium-term corporate notes, promissory notes and repurchase agreements and are valued at cost plus accrued interest, which approximates fair value.

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. Investment income includes 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.

5. **Fund Balance**
The Endowment Reserve includes funds provided by contributions from the state, colleges and universities and private sources, as well as gains and losses from fixed income and equity investments. The income from both fixed and equity investments that is not used to meet current needs is distributed to the Special Reserve. At the discretion of the Board of Trustees of the COE Trust, the Special Reserve may be used for future nonrecurring expenses or to supplement corpus or income.

6. **Reclassification**
The COE has adopted the direct method of presentation for the Statement of Cash Flows for the year ended June 30, 2001 and therefore, the Statement of Cash Flows for the year ended June 30, 2000 previously presented by the indirect method has been restated for comparative purposes.

(continued)

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001 AND JUNE 30, 2000

7. **Accounting Change**
   During Fiscal Year 2001, the state changed its definition of cash and cash equivalents for certain short-term securities which were previously classified as investments regardless of the period from acquisition to maturity. These securities are now included in cash and cash equivalents on the Balance Sheet if the maturity date is within three months of the acquisition date. Due to this change, short-term investments of $14,035,139, and a liability of $47,566, (Due to State General Fund) as previously reported on the June 30, 2000 Balance Sheet, have been included in cash and cash equivalents for comparative purposes. As a result, the change in the liability, Due to State General Fund, of $11,199 previously reported as negative cash balance implicitly repaid on the Statement of Cash Flows for the year ended June 30, 2000, is not reported on the Comparative Statement of Cash Flows.

B. INVESTMENTS

The investment policy of the COE Trust requires that public funds, capital gains on public funds, and all current income exceeding withdrawals be invested in fixed income securities. Private contributions may be invested in equity securities, including domestic and 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.

The COE Trust investment securities are categorized below according to the level of custodial credit risk associated with the custodial arrangements at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the COE Trust or its agent in the name of the COE Trust. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the COE Trust. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the name of the COE Trust.

	June 30, 2001 Fair Value	June 30, 2000 Fair Value
INVESTMENTS - CATEGORY 1		
Cash equivalents and short-term securities		
Commercial paper	$ 20,172,690	$ 10,523,515
Government bonds	782,226	2,736,093
Corporate notes	0	775,531
Long-term investments		
Government bonds	80,409,368	69,158,737
Corporate bonds	22,972,170	31,581,509
Corporate stocks	98,416,355	120,454,142
TOTAL INVESTMENTS - CATEGORY 1	222,752,809	235,229,527
INVESTMENTS - CATEGORY 2	0	0
INVESTMENTS - CATEGORY 3	0	0
INVESTMENTS - NOT CATEGORIZED		
Unsettled investment acquisitions		
Corporate stocks	1,108,450	252,813
TOTAL INVESTMENTS	223,861,259	235,482,340
Less: Short-term securities included in cash and cash equivalents on the Balance Sheets	(20,954,916)	(14,035,139)
TOTAL INVESTMENTS AS SHOWN ON THE BALANCE SHEETS	$ 202,906,343	$ 221,447,201

(continued)

Chairs of Excellence
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

The COE Trust is authorized by its investment policy, as adopted by the Board of Trustees of the COE Trust, to enter into collateralized securities lending agreements whereby the Trust loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the Trust's assets. During the years ended June 30, 2001 and June 30, 2000, the COE Trust had no securities on loan.

C. OTHER ACCOUNTING DISCLOSURES

1. Chairs of Excellence Endowment Trust

The COE Trust is a nonexpendable trust fund 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 sub-account 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, 2001, 99 Chairs have been established with matching contributions received totaling $55,523,375. This is an increase of 1 Chair and $625,000 since June 30, 2000. Total contributions to the COE Trust totaled $99,523,375 as of June 30, 2001. This includes $44,000,000 from the State, $10,321,300 from Colleges and Universities, and $45,202,075 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.

Bond Refunding Trust
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 37243-0264
PHONE (615) 401-7897

December 4, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Bond Refunding Trust as of June 30, 2001, and June 30, 2000, and the related statement of changes in assets and liabilities for the year ended June 30, 2001. 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 government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Refunding Trust as of June 30, 2001, and June 30, 2000, and the changes in assets and liabilities for the year ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001, on our consideration of the Bond Refunding Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *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
Division of State Audit

Bond Refunding Trust
Comparative Balance Sheets
June 30, 2001 and June 30, 2000

	June 30, 2001	June 30, 2000
ASSETS		
Cash	$ 0	$ 54,403,397
Investments (see Note C)	0	18,048,814
Accrued interest receivable	0	303,996
TOTAL ASSETS	$ 0	$ 72,756,207
LIABILITIES		
Amounts held in custody for others	$ 0	$ 72,756,207

See accompanying Notes to the Financial Statements

Bond Refunding Trust
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2001

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
ASSETS				
Cash	$ 54,403,397	$ 75,537,361	$ 129,940,758	$ 0
Investments (See Note C)	18,048,814	55,491,660	73,540,474	0
Accrued interest receivable	303,996	0	303,996	0
TOTAL ASSETS	$ 72,756,207	$ 131,029,021	$ 203,785,228	$ 0
LIABILITIES				
Amounts held in custody for others	$ 72,756,207	$ 1,692,891	$ 74,449,098	$ 0

See accompanying Notes to the Financial Statements

Bond Refunding Trust
Notes to the Financial Statements
June 30, 2001 and June 30, 2000

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity**
   The Bond Refunding Trust forms an integral part of the primary government and has been included as an agency 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). The agency fund is custodial in nature and does not measure results of operations or have a measurement focus. The agency fund is accounted for on the modified accrual basis of accounting.

3. **Method Used to Value Investments**
   Investments are reported at fair value. For fair value reporting, U.S. Government Securities are valued at the last reported price and State and Local Government Series Securities are valued at cost.

B. CASH

Cash held by the trustee is pooled with the State Pooled Investment Fund administered by the State Treasurer which is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee (Funding Board). The primary government's policy regarding the definition of Cash and Cash Equivalents includes cash management pools as cash. The current resolution of the Funding 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, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated,* Section 9-4-602(b). 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's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2001 and June 30, 2000.

C. INVESTMENTS

No investments were held by the trustee at June 30, 2001. The investments held by the trustee at June 30, 2000 consisted of State and Local Government Series Securities reported at cost of $18,048,814. The trust is restricted by the Tennessee Local Development Authority's and the Funding Board's Bond Resolutions to investing in direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America, which are non-callable at the option of the issuer. All securities are held in accounts with the Federal Reserve Bank or the Bureau of Public Debt in the state's name.

D. OTHER ACCOUNTING DISCLOSURES

The State Treasurer has been designated as a trustee for the Tennessee Local Development Authority, and for the Funding Board pursuant to various refunding trust agreements. Refunding bonds are issued to take advantage of lower interest rates and the proceeds resulting from the advance refundings are held by the trustee in an irrevocable trust to provide for the debt service payments and call premiums at the redemption dates. In February 1996, the Funding Board issued refunding bonds of $190,965,000 to refund: (1) $26,385,000 of the General Purpose bonds dated August 1, 1980 maturing on and after March 1, 1997, (2) $98,000,000 of the General Purpose bonds dated May 1, 1986 maturing on and after April 1, 1997, (3) $23,000,000 of the General Purpose bonds dated June 15, 1989 maturing on and after June 1, 2000 and (4) $50,000,000 of the General Purpose bonds dated June 15, 1991 maturing on and after June 1, 2002.

In March 1996, the 1980 refunded bonds were redeemed and in April 1996, the 1986 refunded bonds were redeemed. The 1989 refunded bonds were redeemed in June 1999 and the 1991 refunded bonds were redeemed in June 2001. The bond refunding matured and paid out in June 2001.

In November 1997, the Tennessee Local Development Authority issued refunding bonds of $37,385,000 to refund $19,515,000 of the 1991 Series A State Loan Program Revenue bonds, dated June 25, 1991 maturing on and after March 1, 1998 and $16,495,000 of the 1997 Series A State Loan Program Revenue Bond Anticipation Notes. The Note refunding matured and paid out in May 1998. The Bond refunding matured and paid out in March 2001.