State of Tennessee Treasurer's Report

Fiscal Year Ended June 30, 2012

David H. Lillard, Jr., State Treasurer

2012
Treasurer's Report

Gatlinburg, Tennessee
By Brandon Maloney, Resource Specialist
Information Systems

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

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The cover and divider pages within this report feature the beautiful photography by Treasury employees taken throughout Tennessee.

The cover features the State Capitol in Nashville, Tennessee by Heather Sczepczenski, Executive Assistant, State Treasurer's Office.

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This report is available in its entirety on the Internet at:
http://treasury.tn.gov/TreasurersAnnualReport_2012.pdf

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LETTER OF TRANSMITTAL

STATE OF TENNESSEE

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

March 25, 2013

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

Ladies and Gentlemen:

It is my honor to present the annual report of the Treasurer's Office for the fiscal year ended June 30, 2012, pursuant to the requirements of Section 4-4-114, Tennessee Code Annotated.

With your continued support and the outstanding employees in the Treasury Department, we have made tremendous advancements and continue to build on our existing structures to better serve the citizens of Tennessee. On the following pages, you will find more information on the activities and accomplishments of our programs. Please note that all of the Tennessee photos featured in this report were taken by talented Treasury Department employees. You will also find a new section at the end of the report entitled, *"Archives"*. This section includes copies of two of the oldest Treasurer's Reports on file with the Department of State's Library and Archives, the 1843 and 1865 reports!

For your convenience, the Treasurer's Report, other publications and press are located on our website at www.tn.gov/treasury. Again, thank you for your service to our State and her people.

Sincerely,

David H. Lillard, Jr.
Tennessee State Treasurer

MISSION OF THE TREASURY DEPARTMENT

Vision Statement

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

Mission Statement

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

Treasury Team Commitment

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

Department Core Values

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

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

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

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

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

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

EXECUTIVE SUMMARY

Introduction

The 2012 Treasurer's Report contains reports on various programs administered by the Treasury Department. The following comments represent a brief statement of the purpose and operations of programs administered by the department. The remainder of this report gives detailed data regarding the activities of these programs during the 2012 fiscal year.

Baccalaureate Education System Trust (BEST)

The Baccalaureate Education System Trust (BEST) is a Section 529 qualified tuition program that allows anyone to pay for higher education cost in advance on behalf of a beneficiary. Under the BEST division, there are two programs: The BEST Prepaid Plan and a savings plan, the TNStars™ College Savings 529 Program. The BEST prepaid plan (educational services plan), introduced in 1997, is based on the weighted average tuition inflation increases at Tennessee's four-year public universities. Under the prepaid plan, tuition units (1/100th of the weighted average tuition) have been purchased by participants. The units appreciate in value based on the future increases in the weighted average tuition. At June 30, 2012, the BEST Prepaid Plan had net assets totaling $92.7 million. With respect to the savings plan, Tennessee launched the TNStars™ College Savings 529 Program on September 18, 2012. The savings plan offers an aged based option and 14 self-selected investment options. The program offers the products at a competitive fee of 0-35 basis points.

Careers NOW Program

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

Certified Public Administrator

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

Chairs of Excellence

The Chairs of Excellence Trust is a permanent trust fund authorized in 1984 to further the cause of higher education in Tennessee. The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus, creating a chair. Income from the chair is used to offset the cost of retaining a nationally or regionally recognized scholar at a state college or university who teaches in a specified academic area. Since 1984, a total of 99 chairs have been created. The fair market value of the assets of the 99 chairs totaled $245.7 million at June 30, 2012. Since the inception of the program, more than $282.8 million of investment income has been generated. More than $155.2 million has been spent by the 99 chairs.

EXECUTIVE SUMMARY

CLAIMS ADMINISTRATION

The Division of Claims Administration is responsible for investigating and making determinations on claims made against the state for workers' compensation by state employees, employee property damage, tort liability and criminal injury compensation. Staff support from the Division of Claims Administration also assists the Board of Claims. The Division of Claims Administration received 4,899 claims for tort, employee property damage and workers' compensation. Payments made during the year for workers' compensation, tort and employee property damage claims totaled $34.2 million. The division received 5,377 criminal injury, drunk driver and sexual assault forensic exam claims. Payments made totaled $13 million. Since the first payments were issued in 1982, more than $241 million has been paid to crime victims.

CLAIMS COMMISSION

The Tennessee Claims Commission is an administrative tribunal created to determine monetary claims against the State of Tennessee. There are three commissioners, one from each grand division of the state. At June 30, 2012, the commission had 621 open claims.

DEFERRED COMPENSATION PROGRAM

The State of Tennessee Deferred Compensation Program offers state employees the opportunity to accumulate supplemental retirement income on a tax-advantaged basis. Participants may direct the investment of their deferred salary into a variety of investment products contracted for the program. During the fiscal year, the state, the University of Tennessee and Board of Regents each matched their employees' contributions to the 401(k) plan at $50 per month. As of June 30, 2012, a total of 81,087 state and higher education employee accounts were held in the program. The market value of accumulated account balances totaled $1.60 billion.

FLEXIBLE BENEFITS PLAN

The State of Tennessee Flexible Benefits Plan is an optional benefit plan which enables state employees to pay for certain expenses with before-tax dollars. At June 30, 2012, state employees utilized the plan in the following manner: 37,433 paid group medical premiums, 27,664 paid group dental premiums, 4,399 used the medical expense reimbursement account and 380 used the dependent care reimbursement account. In addition, 214 and 91 state employees utilized the parking and transportation reimbursement accounts, respectively.

INVESTMENTS

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

State Cash Management - This division manages the State Pooled Investment Fund which includes the state's cash, the various dedicated reserves and trust funds of the state and the Local Government Investment Pool. During 2012, investments averaged $7.8 billion, producing $12.1 million in income for an average rate of return of .17%.

Pension Fund Investments - This division manages the investments of the Tennessee Consolidated Retirement System (TCRS) which, at June 30, 2012, totaled $34.9 billion at fair market value. For the year, investment income of $1.8 billion was recognized, for a rate of return of 5.6% on a fair value basis. The Investment Division also manages investments for the Chairs of Excellence Trust and the Baccalaureate Education System Trust which, at June 30, 2012, had market values of $245.7 million and $92.7 million, respectively.

OPTIONAL RETIREMENT PLAN

The Optional Retirement Plan is a defined contribution plan. Investments are participant directed selected from options offered through the plan service providers using bundled contracts. Contributions to ORP for the year ended June 30, 2012 were $81.9 million and ORP assets were $2.63 billion. There were 11,020 ORP participants at June 30, 2012.

EXECUTIVE SUMMARY

Risk Management

The Division of Risk Management is responsible for identifying the state's exposure to property and casualty risks and determining the appropriate risk control methods to protect the state against monetary loss due to unforeseen events. The division administers the state's property and casualty insurance program, including the procurement of all-risk, replacement cost property insurance for all state-owned buildings and contents, builders' risk insurance for new construction, fine arts insurance to protect all types of valuable artwork and items of antiquity, boiler insurance and inspection services for all state-owned boiler objects, fidelity and crime coverage to protect against employee dishonesty and aviation insurance for the state's aircraft. The state procures its insurance with the aid of a qualified property and/or casualty insurance broker. Loss prevention and control services are also provided for workers' compensation and tort liability. As of July 1, 2012, the state's total insured property values were $18.7 billion.

Small and Minority-Owned Business Assistance Program

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

Tennessee Consolidated Retirement System

The Tennessee Consolidated Retirement System provides retirement coverage to state employees, higher education employees, teachers and employees of political subdivisions that have elected to participate in the plan. As of June 30, 2012, there were 210,493 active TCRS members: 42,171 state employees, 73,449 K-12 teachers, 78,180 political subdivision employees and 16,693 higher education employees. As of June 30, 2012, there were 122,499 retirees. TCRS paid $1.76 billion in benefits during fiscal year 2012. The state of Tennessee is responsible for the pension liability for state employees and higher education employees and funds a significant portion of the retirement liability for teachers through the BEP. Each participating political subdivision is responsible for the liability of its employees.

Unclaimed Property Division

The Unclaimed Property Division administers the state's Uniform Disposition of Unclaimed Property Act. Under this act, the state provides one centralized location which the owners of abandoned property, or their heirs, may search for checking accounts, savings accounts, insurance policies, utility deposits and securities. During the fiscal year, $65.1 million of unclaimed property was collected, which consisted of $56.9 million that was remitted to Treasury and $8.2 million in the sale of securities. In addition, $20.7 million was returned to owners or their heirs, local governments and other states. Since the program's inception in 1979, $812.6 million in unclaimed property has been reported to the Treasury and $266.9 million of that property has been returned to claimants.

TREASURY NUMBERS AT A GLANCE FISCAL YEAR 2012

ADMINISTRATIVE	Number of Filled Positions		216
	Payroll Expenditures	$	17,258,500
	Other Expenditures	$	6,483,300
	Total Operating Expenditures	$	23,741,800
CASH MANAGEMENT PROGRAM	General Fund Earnings	$	2,931,606
	LGIP Earnings	$	5,925,956
	Restricted Fund Earnings	$	3,277,312
	Total Cash Management Earnings	$	12,134,874
RETIREMENT PROGRAM	Retirement Benefits Paid to Retirees	$	1,763,605,580
	Number of Retirees		122,499
	Number of Active Members		210,493
	Retirement Contributions Received	$	1,266,468,685
	Retirement Net Investment Income	$	1,800,063,989
CLAIMS ADMINISTRATION PROGRAM	Workers' Compensation Payments	$	27,098,326
	Workers' Compensation Claims Filed		3,127
	Employee Property Damage Payments	$	18,827
	Employee Property Damage Claims Filed		89
	Tort Payments	$	7,069,114
	Tort Claims Filed		1,683
	Criminal Injury Fund Payments	$	13,057,032
	Criminal Injury Fund Claims Filed		5,377
RISK MANAGEMENT PROGRAM	Estimated Gross Property Losses Incurred	$	797,753
	Total Property Values Insured	$	18,789,784,400
CHAIRS OF EXCELLENCE PROGRAM	Chairs of Excellence Investment Income	$	10,300,357
	Chairs of Excellence Expenditures	$	7,665,964
	Number of Chairs of Excellence		99
OTHER PROGRAMS	Deferred Compensation Contributions	$	142,181,171
	Deferred Compensation Accounts		81,087
	Aggregate Deferred Compensation Balances	$	1,599,121,182
	Flexible Benefits Plan Payments	$	8,060,267
	Unclaimed Property Revenues	$	65,056,286
	Unclaimed Property Payments	$	20,726,913
	BEST Prepaid Accounts		8,688
	Optional Retirement Plan Contributions	$	81,987,706
	Optional Retirement Plan Participants		11,020
FAIR VALUE OF ASSETS UNDER MANAGEMENT AT JUNE 30, 2012	Retirement Trust Fund	$	34,912,772,972
	Chairs of Excellence Trust Fund	$	245,745,038
	State Pooled Investment Fund	$	8,212,716,721
	Deferred Compensation (outside managers)	$	1,599,121,182
	Optional Retirement Plan Assets (outside managers)	$	2,634,922,156
	BEST Educational Services Plan	$	92,673,815
	Total Assets Under Management	$	47,697,951,884

Employee Benefits

Nashville Zoo
By Bridget Dorse
Executive Secretary
TCRS Director's Office

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Tennessee Consolidated Retirement System

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

Membership

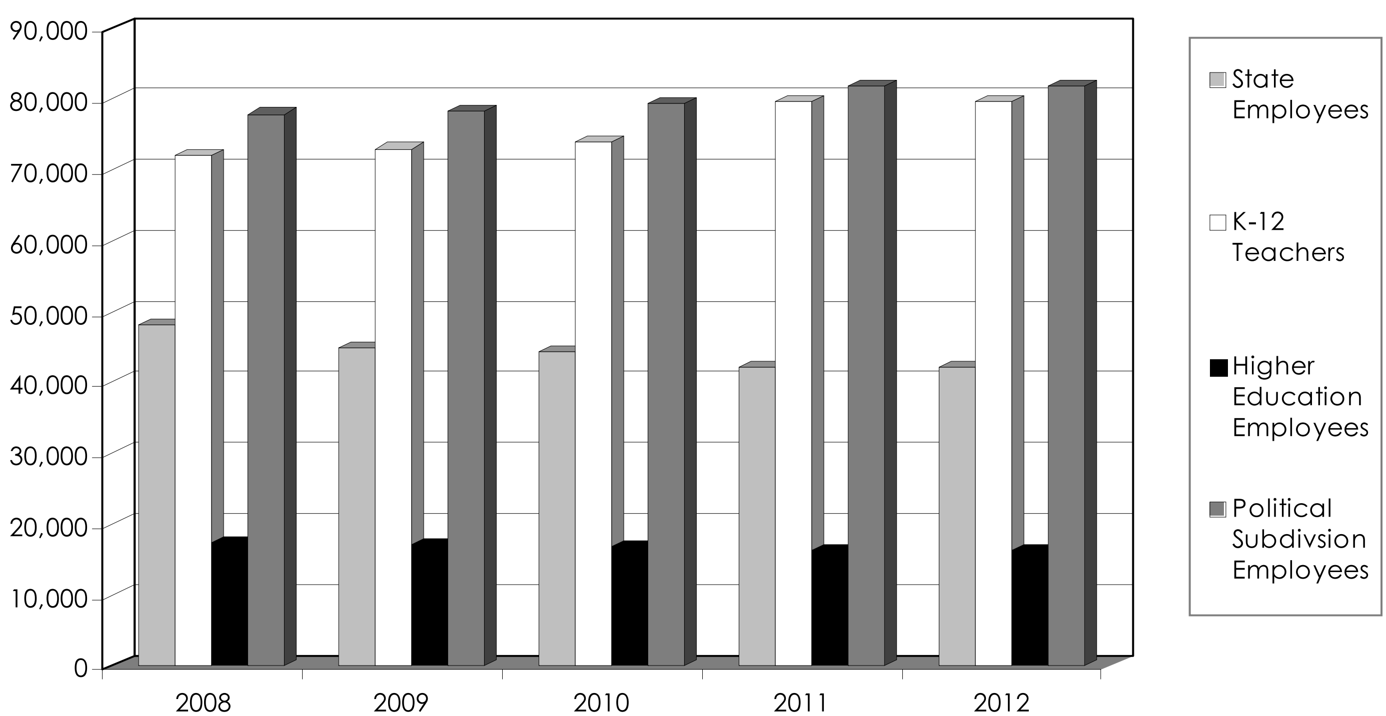
Membership in the retirement system is a condition of employment for full-time state employees, teachers, general employees in higher education and the employees of local governments that participate in TCRS. Membership is optional for certain part-time employees. Faculty employees in higher education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

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

As of June 30, 2012, there were 210,493 active members of TCRS and 11,020 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 2008-2012



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.

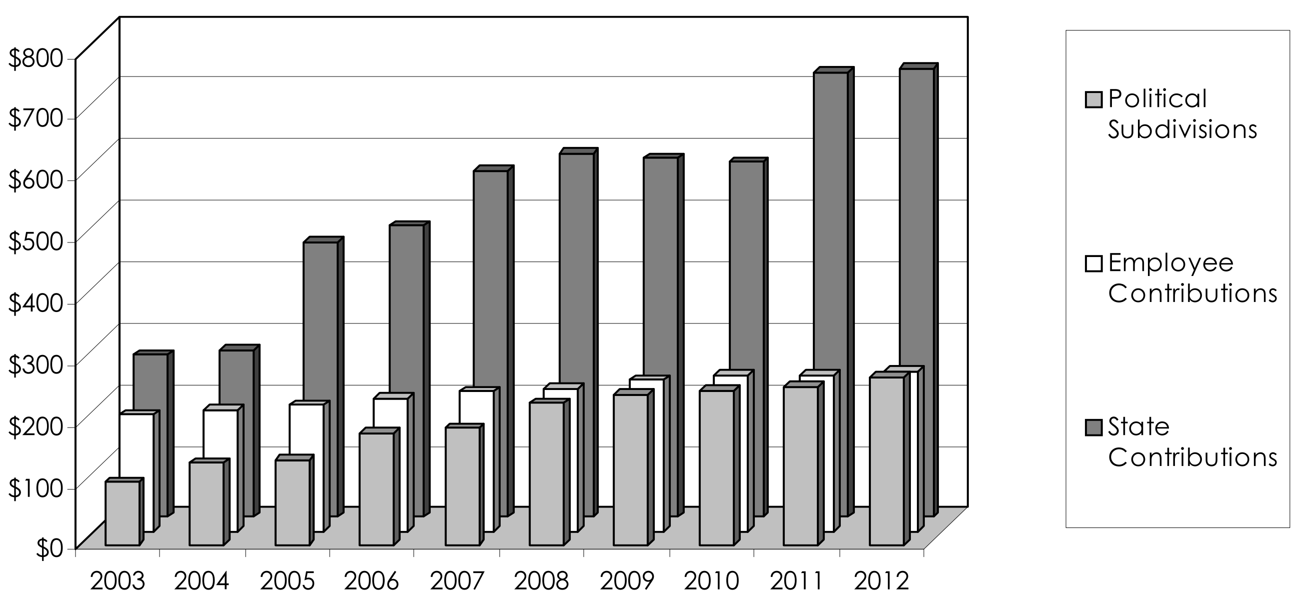
Upon termination of employment, a member may elect to withdraw his contributions and accumulated interest from the retirement system in a lump sum. By obtaining a lump sum refund, a member waives all rights and benefits in the retirement system. A vested member may leave his account balance in TCRS and 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 2012 fiscal year, 4,349 refunds totaling $39.9 million were issued.

The contribution rate for the employers participating in the retirement system is determined by a biennial actuarial valuation performed by an independent actuarial firm. The contribution rates include funding for the basic benefit, the cost-of-living increase provisions and amortization of the accrued liability over a 40-year period which began in July of 1975. The employer contribution rates for the year ending June 30, 2012 were as follows:

- Noncontributory State and Higher Education Employees — 14.91%
- K-12 Teachers — 9.05%
- Political Subdivisions Individually-Determined
- Faculty Members Electing to Participate in the ORP — 10.0%*

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

RETIREMENT CONTRIBUTIONS FISCAL YEARS 2003-2012 EXPRESSED IN MILLIONS



TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Retirement Benefits

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

As of June 30, 2012, 122,499 retirees were receiving monthly benefit payments. This represents a 4.5% increase over the previous year.

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

A Group I benefits calculator is available on the program's Internet site: tcrs.tn.gov.

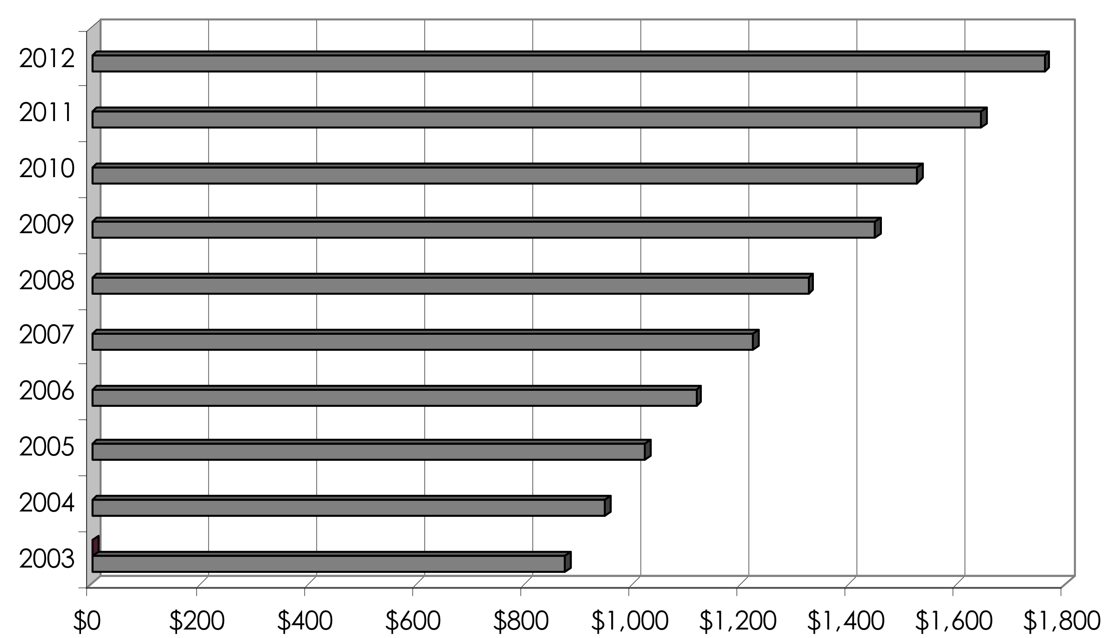
Disability benefits are available to active members with five years of service who become disabled and can not engage in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is a result of an accident or injury occurring while the member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

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

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

Benefits paid in fiscal year 2012 totaled $1.76 billion, an increase of $116 million over 2011 benefit payments.

Annual Benefit Payments
Fiscal Years 2003-2012
Expressed in Millions



TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS *FOR CALENDAR YEAR 2012*

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
$15,000	TCRS	$ 3,544		$ 4,725		$ 5,906		$ 7,088		$ 8,269	
	Social Security	9,540		9,540		9,540		9,540		9,540	
	Total	$13,084	87.2%	$14,265	95.1%	$15,446	103.0%	$16,628	110.9%	$17,809	118.7%
$20,000	TCRS	$ 4,725		$ 6,300		$ 7,875		$ 9,450		$11,025	
	Social Security	11,052		11,052		11,052		11,052		11,052	
	Total	$15,777	78.9%	$17,352	86.8%	$18,927	94.6%	$20,502	102.5%	$22,077	110.4%
$25,000	TCRS	$ 5,906		$ 7,875		$ 9,844		$11,813		$13,781	
	Social Security	12,576		12,576		12,576		12,576		12,576	
	Total	$18,482	73.9%	$20,451	81.8%	$22,420	89.7%	$24,389	97.6%	$26,357	105.4%
$30,000	TCRS	$ 7,088		$ 9,450		$11,813		$14,175		$16,538	
	Social Security	14,088		14,088		14,088		14,088		14,088	
	Total	$21,176	70.6%	$23,538	78.5%	$25,901	86.3%	$28,263	94.2%	$30,626	102.1%
$35,000	TCRS	$ 8,269		$11,025		$13,781		$16,538		$19,294	
	Social Security	15,600		15,600		15,600		15,600		15,600	
	Total	$23,869	68.2%	$26,625	76.1%	$29,381	83.9%	$32,138	91.8%	$34,894	99.7%
$40,000	TCRS	$ 9,450		$12,600		$15,750		$18,900		$22,050	
	Social Security	17,112		17,112		17,112		17,112		17,112	
	Total	$26,562	66.4%	$29,712	74.3%	$32,862	82.2%	$36,012	90.0%	$39,162	97.9%
$45,000	TCRS	$10,631		$14,175		$17,719		$21,263		$24,806	
	Social Security	18,636		18,636		18,636		18,636		18,636	
	Total	$29,267	65.0%	$32,811	72.9%	$36,355	80.8%	$39,899	88.7%	$43,442	96.5%
$50,000	TCRS	$11,813		$15,750		$19,688		$23,625		$27,563	
	Social Security	20,148		20,148		20,148		20,148		20,148	
	Total	$31,961	63.9%	$35,898	71.8%	$39,836	79.7%	$43,773	87.5%	$47,711	95.4%
$55,000	TCRS	$12,994		$17,325		$21,656		$25,988		$30,319	
	Social Security	21,648		21,648		21,648		21,648		21,648	
	Total	$34,642	63.0%	$38,973	70.9%	$43,304	78.7%	$47,636	86.6%	$51,967	94.5%
$60,000	TCRS	$14,175		$18,900		$23,625		$28,350		$33,075	
	Social Security	22,356		22,356		22,356		22,356		22,356	
	Total	$36,531	60.9%	$41,256	68.8%	$45,981	76.6%	$50,706	84.5%	$55,431	92.4%
$65,000	TCRS	$15,482		$20,643		$25,804		$30,965		$36,125	
	Social Security	23,076		23,076		23,076		23,076		23,076	
	Total	$38,558	59.3%	$43,719	67.3%	$48,880	75.2%	$54,041	83.1%	$59,201	91.1%
$70,000	TCRS	$16,860		$22,481		$28,101		$33,721		$39,341	
	Social Security	23,784		23,784		23,784		23,784		23,784	
	Total	$40,644	58.1%	$46,265	66.1%	$51,885	74.1%	$57,505	82.1%	$63,125	90.2%

* 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 2012. 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 2012;
(2) The retiree has worked a full career (TCRS plus other employers, if necessary) of 35 years or more; and
(3) Salary increases throughout the retiree's career have followed the same pattern as National Average Earnings.

The department's Internet benefits calculator allows members to receive an immediate estimate: tcrs.tn.gov

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Actuarial Valuation

An actuarial valuation of the TCRS is performed by an independent actuarial firm every two years. The purpose of the valuation is to determine the funding requirements for the employers participating in the TCRS. The latest valuation was performed July 1, 2011 to establish the employer contribution rates effective July 1, 2012. The system's unfunded accrued liability at July 1, 2012 was $3.4 billion. The state and teacher accrued liability is being amortized over a nine- and six-year period, respectively. The amortization period for local governments varies by entity.

In addition to the biennial actuarial valuation, an experience study is conducted every four years for the purpose of establishing actuarial and economic assumptions to be used in the actuarial valuation process. Following are the assumptions used in the July 1, 2011 actuarial valuation of the plan:

Economic Assumptions

(1) 7.5% annual return on investments

(2) Graded salary scale reflecting plan experience

(3) 3.5% annual increase in Social Security wage base

Actuarial Assumptions

(1) Pre-Retirement mortality based on age and sex

(2) Post-Retirement mortality based on age

(3) Disability rate based on age

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

(5) Retirement age distribution based on age and service

Political Subdivisions

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

Political Subdivision Participation

Participation as of June 30, 2012:

Cities	178
Counties	89
Utility Districts	66
Special School Districts	19
Joint Ventures	22
Housing Authorities	11
911 Emergency Communication Districts	47
Miscellaneous Authorities	56
Total	488

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

MAJOR LEGISLATIVE IMPROVEMENTS

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

1973 Annual cost-of-living increase based on the CPI with a cap of 1.5 percent adopted for retirees.

1974 Disability retirement eligibility requirement reduced from 10 years to 5 years of service.

Maximum annual cost-of-living increase raised to 3 percent.

Provision to increase retirees' benefits whenever the benefit formula is improved.

Service credit authorized for unused accumulated sick leave.

1976 Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.

Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.

1978 A bonus cost-of-living increase granted to retirees at a lump-sum cost of $15.3 million.

An optional retirement plan established for teachers in the Board of Regents system.

1980 Death benefits for members dying in-service with 10 years of service improved by offering a 100 percent joint and survivor annuity of the member's accrued benefit for the spouse.

1981 Noncontributory retirement for state employees and higher education employees adopted. Employees' contributions, up to 5 percent, were assumed by the state.

1983 An actuarially reduced retirement benefit at any age with 25 years of service authorized.

1984 Credit for out-of-state service for the purpose of determining retirement eligibility authorized.

Retirement credit for armed conflict approved.

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

1985 $22 million ad-hoc increase granted to retirees.

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

$17 million ad-hoc increase granted to retirees.

Retirement incentive for state employees.

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

1990 Retirement incentive for state employees.

1991 3.6 percent indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6 percent indexing was extended. In 1997, it was extended indefinitely.

1992 Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.

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

Benefit improvement up to 5 percent authorized.

1997 Compounded COLA for retirees approved.

1998 Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.

Group 1 and Prior Class C benefit limitations increased to 80 percent.

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

1999 Group 1 benefit maximum increased to 90 percent.

2000 Group 2 benefit maximum increased to 80 percent.

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

2005 Return to work statutes were reformed, including a temporary employment increase to 120 days.

2006 Ad-hoc increase granted to members retired prior to 1989.

2007 Public Safety Officer benefits were enhanced.

2012 New plan options offered to local governments.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Optional Retirement Plan

The Optional Retirement Plan is a defined contribution plan. Investments are participant directed and selected from options offered through the plan service providers using bundled contracts. ORP plan investment management and administrative services are offered by third party administrators. Contributions to ORP for the year ended June 30, 2012 were $81.9 million and ORP assets were $2.63 billion. There were 11,020 ORP participants at June 30, 2012.

Social Security

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

Prior to 1951, Social Security coverage was not available to public employees. Amendments to the Social Security Act made in 1950 allowed certain groups of state and local government employees who were not covered by an employer-sponsored retirement plan to voluntarily participate in Social Security. Amendments made in 1954 allowed coverage for public employees who were covered by an employer-sponsored retirement plan if federal referendum requirements are met.

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

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

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

Schedule of Historical Social Security Contribution Rates

Calendar Year	Employee Rate	Employer Rate	Social Security Wage Base	Medicare Wage Base
2012	5.65%	7.65%	$ 110,100	No Limit
2011	5.65%	7.65%	106,800	No Limit
2010	7.65%	7.65%	106,800	No Limit
2009	7.65%	7.65%	106,800	No Limit
2008	7.65%	7.65%	102,000	No Limit
2007	7.65%	7.65%	97,500	No Limit
2006	7.65%	7.65%	94,200	No Limit
2005	7.65%	7.65%	90,000	No Limit
2004	7.65%	7.65%	87,900	No Limit
2003	7.65%	7.65%	87,000	No Limit

DEFERRED COMPENSATION PROGRAM

Deferred Compensation Program

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

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

As of June 30, 2012, accounts were held by 82,409 individuals in the 401(k) plan and 6,141 individuals in the 457 plan. At fiscal year end, 30,255 state employees, 9,568 University of Tennessee employees, 11,324 Tennessee Board of Regents, and 206 Local Government employees were actively contributing to the 401(k) plan and 2,302 state employees, 704 University of Tennessee employees, 422 Tennessee Board of Regents, and 17 Local Government 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 $38,000 per year.

IRS regulations for 2012 allow a maximum deferral in the 457 plan of 100% of compensation up to the maximum annual contribution of $17,000. The maximum deferral in the 401(k) plan is 100% of compensation up to the maximum annual contribution of $17,000. Participants who also use a 403(b) plan are subject to additional limits. Participants age 50 and older are eligible to make additional deferrals.

During the 2012 fiscal year, the state, the Tennessee Board of Regents and the University of Tennessee each matched their employees' contributions to the 401(k) plan at $50 per month as authorized by the General Assembly. The amount contributed by the state during the year was $29.1 million. Employees contributed $113 million.

Participants in the program at June 30, 2012 directed the investment of their deferred salary to the Nationwide Bank Account, Allianz NFJ Large Cap Institutional Fund, Calvert Income Fund, Columbia Acorn Z Fund, Columbia Midcap Value Z Fund, DFA International Value Fund, Fidelity Contra Fund, Fidelity International Discovery Fund, Fidelity OTC Portfolio Fund, Fidelity Puritan Fund, Fidelity Stock Selector Small Cap, Invesco Van Kampen Small Cap Value Fund, Vanguard Institutional Index Fund, Vanguard Total Bond Market Index, and the ING Fixed Account. A self directed brokerage account option provides access to additional mutual funds.

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

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

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

DEFERRED COMPENSATION PROGRAM

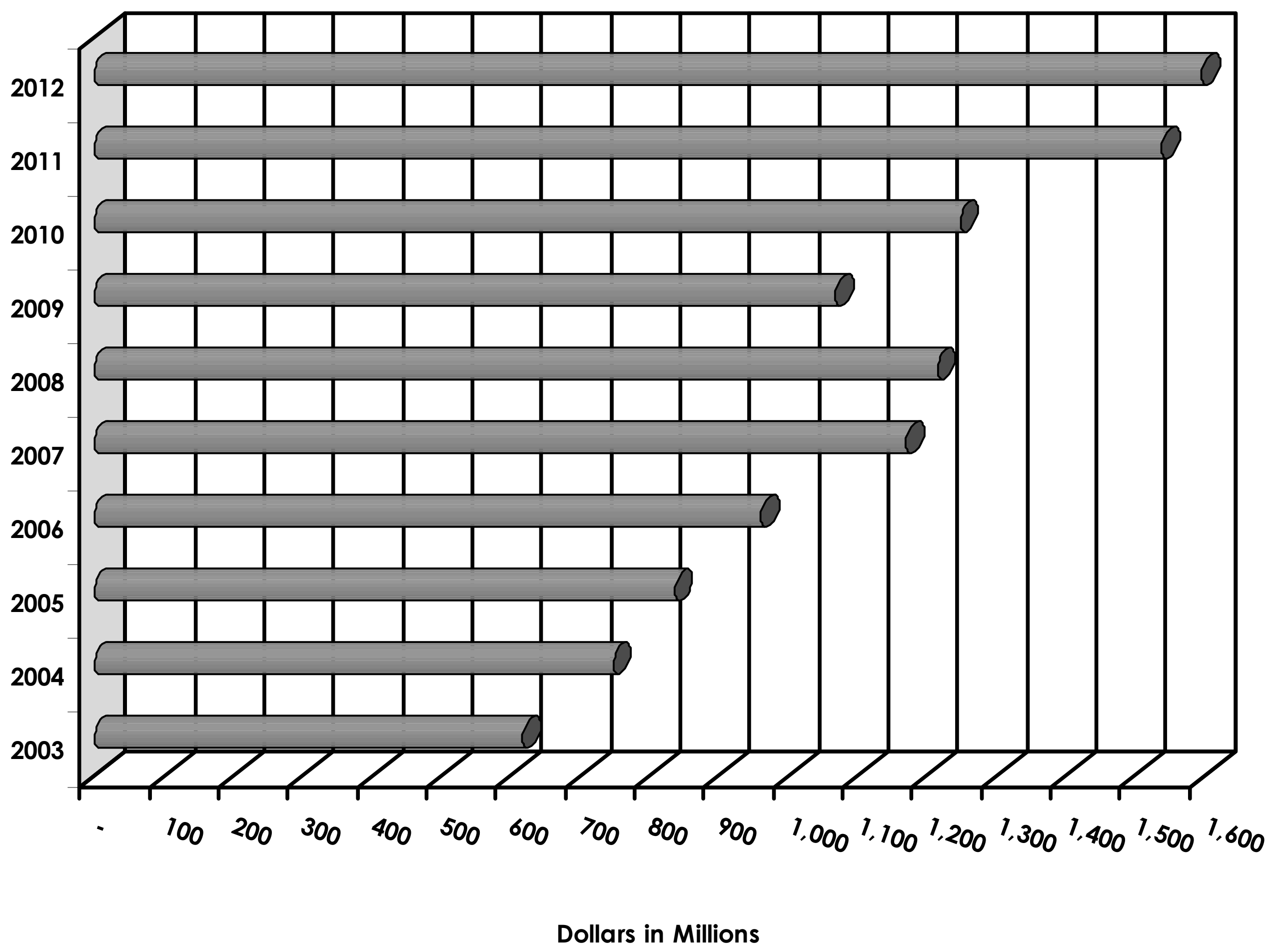
to request additional personalized information and full account activity access.

For the year ending June 30, 2012, contributions to the program totaled $142.1 million. Contributions are wired for immediate crediting. At June 30, 2012, accumulated account balances totaled $1.60 billion.

Under the loan program offered in the 401(k) plan, active employees who have accumulated $4,000 or more in their 401(k) account may borrow up to half of their account value. Participants repay principal and interest to their 401(k) account through salary deduction. Taxes continue to be deferred while funds accumulated in the plan are in loan status. As of June 30, 2012, there were 8,500 loans outstanding from the 401(k) plan. Outstanding loan balances totaled $26.5 million.

Benefits from the program may be distributed in periodic payments, in an annuity or in a lump sum. During the year ended June 30, 2012, there were 8,520 periodic payments made from the program. Members may choose monthly, quarterly, semi-annual or annual payments. In addition, 6,406 lump-sum distributions and 7,370 partial lump-sum distributions were issued during fiscal year 2012.

Deferred Compensation Program Assets
Expressed in Millions
Fiscal Years 2003-2012



DEFERRED COMPENSATION PROGRAM

DEFERRED COMPENSATION CONTRIBUTIONS AND MARKET VALUE
FISCAL YEAR 2012

	Contributions FY 2011-2012	Market Value June 30, 2012
Plan I (457)		
ING	$ 3,264,329	$ 47,302,365
American General	8,046	481,374
Calvert	750,474	8,379,136
Fidelity	8,141,725	102,986,006
Nationwide	157,668	21,331,680
Regions	1,002,585	0**
Vanguard	6,362,446	30,739,611
Dimenensional	441,054	2,259,816
TD Ameritrade SDB MM	0	7,341
TD Ameritrade SDB Securities Bal	0	261,209
	$ 20,128,327	$ 213,748,538
Plan II (401K)		
ING	$ 19,873,044	$ 240,756,500
Calvert	4,006,210	45,878,938
Fidelity	61,523,056	805,667,948
Nationwide	1,084,699	130,200,958
Regions	8,629,684	0**
Vanguard	22,181,046	147,663,449
Dimensional	1,985,012	13,186,393
TD Ameritrade SDB MM	0	530,689
TD Ameritrade SDB Securities Bal	0	1,487,769
Loan Repayment	2,770,093	0
	$ 122,052,844	$ 1,385,372,644
Total for Both Plans	**$ 142,181,171**	**$ 1,599,121,182**

** Regions assets were transferred to Nationwide during fiscal year 2012.

FLEXIBLE BENEFITS PLAN

Flexible Benefits Plan

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

In exchange for its favorable tax treatment, the plan must comply with specific rules set forth by the Internal Revenue Code and Regulations. Employees must decide what they will purchase through the plan and how much they will spend before the year begins. State employees enrolled in a group health or dental insurance program are automatically enrolled in the insurance premium portion of the plan. Use of the other benefit options requires a new election each year.

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

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

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

At June 30, 2012, over 37,000 state employees were enrolled in one or more of the plan's four Section 125 options: 37,433 employees used the plan to pay medical insurance premiums, 27,664 paid dental insurance premiums, 4,399 used the medical expense reimbursement account and 380 used the dependent care reimbursement account. In addition, 214 and 91 state employees participated in the parking and transportation reimbursement accounts, respectively.

INVESTMENTS

East Tennessee Fall Foliage
By Tawana Johnson
Account Technician
BEST Division

TCRS INVESTMENTS

TCRS Investments

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

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

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

The investment authority for TCRS is set out in *Tennessee Code Annotated*, Section 8-37-104(a), which provides that, with certain specific exceptions, investments of TCRS assets are subject to the same terms, conditions, and limitations imposed on domestic life insurance companies. It further provides that the investment policy for TCRS funds is subject to the approval of the Board of Trustees. From time to time, the TCRS Investment Division engages outside investment managers to manage a limited number of asset classes or subclasses. Pursuant to *Tennessee Code Annotated*, Section 8-37-114, in any such procurement, the Investment Division invites emerging investment managers to be among those entities providing proposals. During the fiscal year 2011-2012, no procurements for external investment managers occurred and no assets were under the control of emerging investment managers.

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

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

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

Cost of Investment Operation

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

Performance Measurement

An independent external investment consultant, Strategic Investment Solutions, Inc., provides performance measurement for TCRS. During the 2012 fiscal year, TCRS had a total return of 5.61%. Domestic stocks gained 5.03%, while the S&P 1500 Index gained 4.63%. Domestic bonds earned 15.63% versus the bond benchmark of 15.59%. International stocks lost 10.79% versus a loss of 13.97% for the MSCI EAFE IMI Index. Real estate gained 10.01% versus 13.41% for the NCREIF index.

TCRS INVESTMENTS

INVESTMENT SUMMARY
AS OF JUNE 30, 2012

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	$ 4,208,225,849	12.13%	$ 303,564,126	0.87%	$ 4,511,789,975	13.00%
Corporate Bonds	4,349,054,547	12.54%	0	0.00%	4,349,054,547	12.54%
Municipal/Provincial Bonds	155,316,416	0.45%	0	0.00%	155,316,416	0.45%
Total Bonds	8,712,596,812	25.11%	303,564,126	0.87%	9,016,160,938	25.99%
Lehman Brothers Escrow Adjustment	3,468,750	0.01%	0	0.00%	3,468,750	0.01%
Asset Backed	844,633,112	2.43%	0	0.00%	844,633,112	2.43%
Commercial Mortgage Backed	268,585,214	0.77%	0	0.00%	268,585,214	0.77%
Government Agencies	193,484,038	0.56%	27,463,671	0.08%	220,947,709	0.64%
Government Mortgage Backed Securites	3,287,839,874	9.48%	0	0.00%	3,287,839,874	9.48%
Non-Government CMOs	232,638,906	0.67%	0	0.00%	232,638,906	0.67%
Govt Issued Commercial Mortgaged Backed	13,277,315	0.04%	0	0.00%	13,277,315	0.04%
Preferred Stock	7,190,642	0.02%	23,766,572	0.07%	30,957,214	0.09%
Total Fixed Income	13,563,714,663	39.09%	354,794,369	1.02%	13,918,509,032	40.12%
Common Stock						
Consumer Discretionary	1,453,348,832	4.19%	582,429,727	1.68%	2,035,778,559	5.87%
Consumer Staples	1,363,735,236	3.93%	491,425,766	1.42%	1,855,161,002	5.35%
Energy	1,326,800,764	3.82%	624,083,758	1.80%	1,950,884,522	5.62%
Financials	1,887,542,369	5.44%	1,211,273,300	3.49%	3,098,815,669	8.93%
Healthcare	1,534,264,694	4.42%	468,268,261	1.35%	2,002,532,955	5.77%
Industrials	1,367,007,010	3.94%	709,973,852	2.05%	2,076,980,862	5.99%
Information Technology	2,492,190,507	7.18%	276,444,309	0.80%	2,768,634,816	7.98%
Materials	449,822,162	1.30%	650,919,795	1.88%	1,100,741,957	3.17%
Telecommunication Services	384,446,131	1.11%	219,762,250	0.63%	604,208,381	1.74%
Utilities	472,311,769	1.36%	111,043,077	0.32%	583,354,846	1.68%
Misc/Unclassified	0	0.00%	700,857,635	2.02%	700,857,635	2.02%
Equity Exchange Traded Fund	35,769,400	0.10%	0	0.00%	35,769,400	0.10%
Stapled Securities	0	0.00%	16,750,877	0.05%	16,750,877	0.05%
Total Common Stock	12,767,238,874	36.80%	6,063,232,607	17.48%	18,830,471,481	54.28%
Short-Term Investments						
Commercial Paper	113,853,437	0.33%	0	0.00%	113,853,437	0.33%
Pooled Funds and Mutual Funds	4,375,370	0.01%	0	0.00%	4,375,370	0.01%
Short-Term Bills and Notes	304,268,715	0.88%	0	0.00%	304,268,715	0.88%
Total Short-Term Investments	422,497,522	1.22%	0	0.00%	422,497,522	1.22%
Real Estate	1,349,052,197	3.89%	0	0.00%	1,349,052,197	3.89%
Private Equities	173,948,681	0.50%	0	0.00%	173,948,681	0.50%
Total Investments	28,276,451,937	81.50%	6,418,026,976	18.50%	34,694,478,913	100.00%
Derivatives and Options	650,255		0		650,255	
Short Term Investments Classified as Cash Equivalents	(402,717,632)		0		(402,717,632)	
Total Investments as Shown on the Statement of Plan Net Assets	$ 27,874,384,560		$ 6,418,026,976		$ 34,292,411,536	

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
2012	1.06%	5.61%
2011	21.6%	19.6%
2010	13.5%	10.2%
2009	(17.9)%	(15.3)%
2008	(4.7)%	(1.2)%
2007	14.1 %	13.2 %
2006	6.9 %	6.9 %
2005	9.4 %	7.3 %
2004	15.0 %	9.3 %
2003	3.7 %	4.9 %

(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 2008-2012

Fiscal Year	TCRS Portfolio Earnings
2012	$ 1,800,063,989
2011	5,528,753,502
2010	2,692,345,919
2009	(4,858,486,179)
2008	(430,058,924)

STATE CASH MANAGEMENT

State Cash Management

The State of Tennessee receives revenues from many sources such as taxes, licenses, fees and the federal government. As these monies are collected, they are deposited into one of the more than 80 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 2012 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was $7,716,230,200 per month and interest income of $12,134,874 was earned for the fiscal year. 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 120 days or less.

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

At June 30, 2012, investments had an average maturity of 123 days and an average weighted yield of .18%. The total balance in the State Pooled Investment Fund at June 30, 2012, $8,322,731,789 fair value, was allocated as follows: U.S. Treasury government and agency securities, 72.28%; overnight deposits, 11.08%; collateralized certificates of deposit, 7.29% and commercial paper, 9.35%.

Administration of Authorized State Depository Accounts

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

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

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

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

STATE CASH MANAGEMENT

monitor deposits and collateral based on appropriate bank ownership.

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

State Collateral Program

Collateral is required to secure state deposits held in authorized state depository institutions. Statute sets the required collateral level at a market value of 105 percent of the value of the deposit secured, less the amount secured by the Federal Deposit Insurance Corporation. However, if the state depository is operating with a capital-to-asset ratio of less than five percent, additional collateral with a market value of $100,000 is required. Alternatively, a financial institution may pledge collateral via the collateral pool. The types of investment instruments which are eligible to be pledged as collateral are listed in this report on page 25.

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

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

Collateral Pool

The operation of a collateral pool for banks is authorized by Tennessee Code Annotated, Section 9-4-501, et seq. The Collateral Pool operates under the jurisdiction of the Collateral Pool Board, which is comprised of four bankers and three government members representing state and local government divisions. The Collateral Pool Board has established rules and procedures that provide a low amount of risk and a high degree of efficiency for participating institutions.

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

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

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

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

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

STATE CASH MANAGEMENT

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

Currently, the Collateral Pool has 98 participant institutions collateralizing public funds in excess of $9.1 billion.

STATE TRUST

The State Trust of Tennessee, a not-for-profit corporation chartered in the State of Tennessee in 1979, continues to be utilized to obtain check clearing services through the Federal Reserve Bank with a check redemption volume of 1,534,600 during fiscal year 2012 at an estimated savings of $125,000.

STATE CASH MANAGEMENT COMPARATIVE RETURNS

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

Fiscal Year	(1) Total Pool Funds	(2) Merrill Lynch Institutional Fund	(3) Standard & Poor's 7-Day LGIP Yield Index	(4) 90-Day Treasury (CD Equivalent Yield)
2012	.17%	.05%	.09%	.05%
2011	.26%	.16%	.14%	.11%
2010	.40%	.16%	.39%	.12%
2009	1.66%	1.67%	1.33%	.64%
2008	4.13%	4.23%	2.60%	2.75%

(1) Investment return on total portfolio.

(2) This index most closely resembles the structures and objectives of the total cash portfolio.

(3) Index is for LGIP benchmark pools rated AAAm & AAm by S&P.

(4) This approximates the reinvestment yield for new funds for the period.

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
2012	$ 500,355,667	$ 1,411,747	0.29%
2011	772,436,583	2,478,112	0.33%
2010	1,636,994,750	11,438,313	0.62%
2009	2,618,880,250	47,806,706	1.82%
2008	2,455,349,750	107,899,521	4.35%

Repurchase Agreements and Overnight Deposit Accounts

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2012	$ 950,980,388	$ 1,522,199	0.29%
2011	871,447,388	2,703,893	0.30%
2010	643,502,305	1,061,207	0.30%
2009	367,930,650	2,860,837	1.03%
2008	387,890,324	12,631,202	3.93%

Commercial Paper

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2012	$ 876,477,417	$ 731,024	0.07%
2011	1,524,625,250	2,384,177	0.16%
2010	1,302,143,334	2,167,028	0.17%
2009	1,476,756,250	16,759,612	1.02%
2008	2,481,205,417	92,953,120	3.87%

U.S. Government Securities

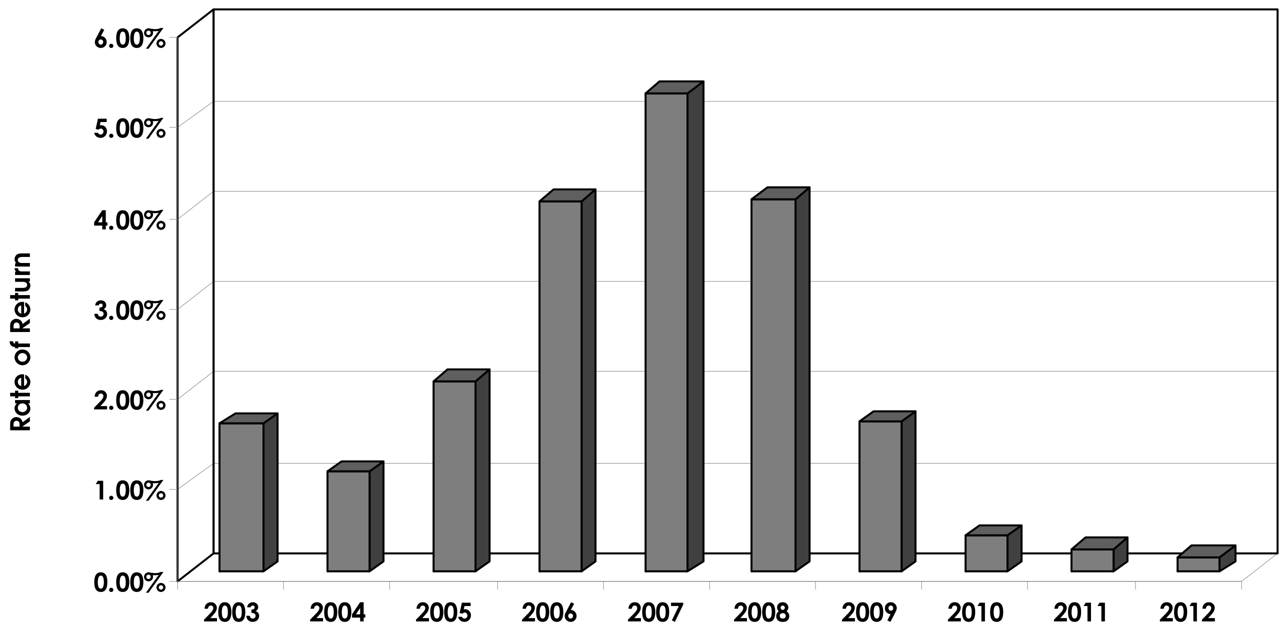
Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
2012	$ 5,483,522,167	$ 8,469,904	0.16%
2011	3,787,816,250	10,373,163	0.28%
2010	3,284,981,083	12,298,843	0.38%
2009	2,847,377,750	52,443,415	1.89%
2008	2,774,037,333	112,693,789	4.22%

Total Funds

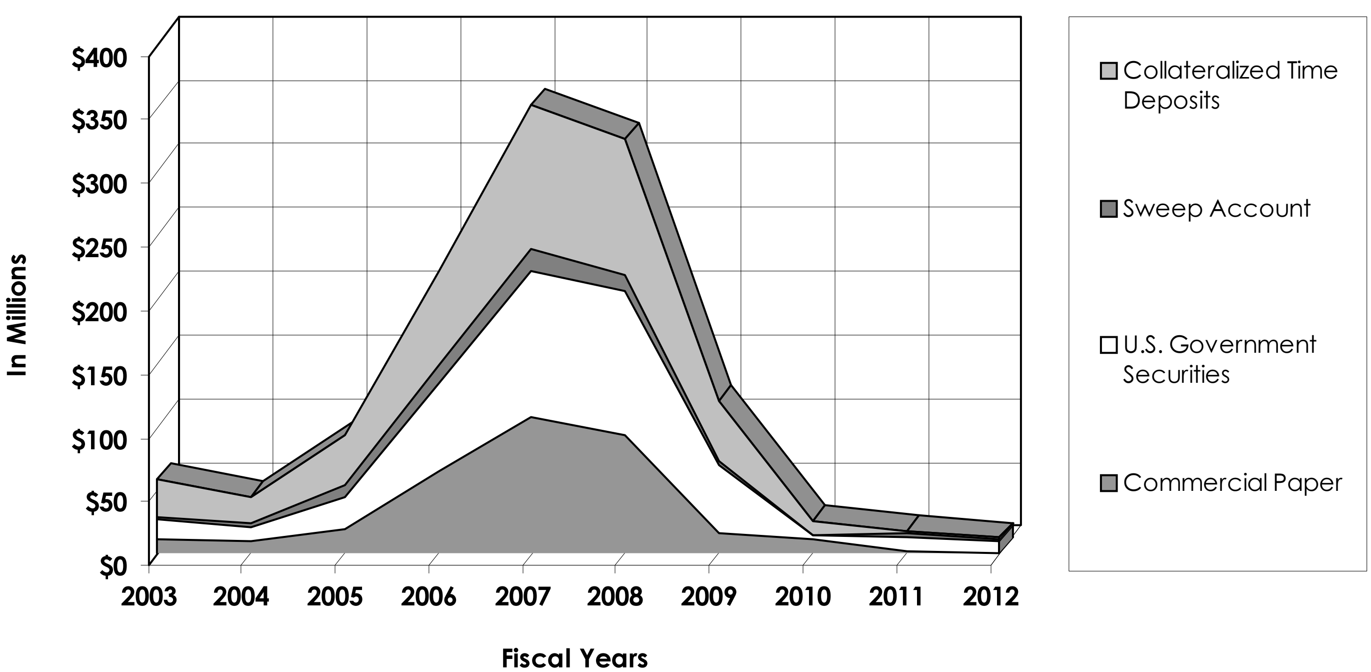
Fiscal Year	Average Total Funds Invested	Cash Management Investment Earnings	Composite Weighted Average Rate of Return
2012	$ 7,811,335,638	$ 12,134,874	0.17%
2011	6,956,325,471	17,939,345	0.26%
2010	6,867,621,472	26,965,391	0.40%
2009	7,310,944,900	119,870,570	1.66%
2008	8,098,482,824	326,177,632	4.13%

STATE CASH MANAGEMENT

CASH MANAGEMENT INVESTMENTS COMPOSITE WEIGHTED AVERAGE RATE OF RETURN
FISCAL YEARS 2003-2012



ANALYSIS OF STATE CASH EARNINGS
FISCAL YEARS 2003-2012



STATE CASH MANAGEMENT

CASH MANAGEMENT PORTFOLIO ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012

Date	Current Investment Yield	Total Portfolio Yield	Average Days to Maturity	Portfolio Composition: Certificates of Deposit	Sweep	U.S. Treasury Notes	U.S. Agency	Commercial Paper
July, 2011	0.05%	0.19%	96	7.78%	10.54%	14.54%	48.25%	18.90%
August, 2011	0.07%	0.18%	90	7.09%	12.31%	21.32%	48.19%	11.09%
September, 2011	0.05%	0.17%	99	7.46%	11.45%	30.35%	44.63%	6.11%
October, 2011	0.04%	0.17%	108	6.64%	10.18%	31.46%	40.76%	10.97%
November, 2011	0.04%	0.17%	96	6.15%	11.31%	34.38%	38.99%	9.18%
December, 2011	0.04%	0.17%	111	5.91%	10.50%	35.70%	41.02%	6.88%
January, 2012	0.04%	0.17%	109	5.51%	10.54%	32.26%	39.18%	12.50%
February, 2012	0.05%	0.17%	103	5.24%	11.77%	30.01%	42.46%	10.51%
March, 2012	0.07%	0.17%	108	5.19%	14.64%	30.81%	44.26%	5.10%
April, 2012	0.08%	0.17%	104	5.47%	9.83%	33.42%	42.41%	8.87%
May, 2012	0.09%	0.17%	110	5.61%	12.09%	27.31%	44.42%	10.57%
June, 2012	0.09%	0.18%	114	7.29%	11.08%	30.38%	41.90%	9.35%
Average	0.06%	0.17%	104	6.28%	11.35%	29.33%	43.04%	10.00%

Month	General Fund Average	General Fund Percent	LGIP Average	LGIP Percent	Other Restricted Average	Other Restricted Percent	Total Average Invested
July 2011	$2,666,738,449	34.18%	$3,342,642,656	42.85%	$ 1,791,882,082	22.97%	$7,801,263,187
August 2011	2,767,401,471	35.95%	3,175,361,667	41.25%	1,755,750,441	22.81%	7,698,513,579
September 2011	2,984,481,080	39.08%	3,152,594,633	41.28%	1,500,155,213	19.64%	7,637,230,926
October 2011	2,385,220,609	32.11%	3,052,936,116	41.10%	1,989,975,650	26.79%	7,428,132,375
November 2011	2,527,126,811	34.36%	3,010,041,720	40.93%	1,817,636,401	24.71%	7,354,804,932
December 2011	2,282,452,332	31.70%	3,148,517,721	43.73%	1,768,273,613	24.56%	7,199,243,666
January 2012	2,174,954,599	29.83%	3,333,932,917	45.72%	1,783,104,568	24.45%	7,291,992,084
February 2012	1,997,452,548	26.18%	3,657,099,362	47.92%	1,976,397,474	25.90%	7,630,949,384
March 2012	2,250,295,880	27.25%	4,096,187,667	49.60%	1,911,608,319	23.15%	8,258,091,866
April 2012	2,385,546,915	28.58%	3,986,397,991	47.77%	1,973,570,135	23.65%	8,345,515,041
May 2012	2,519,754,292	30.46%	3,679,631,059	44.48%	2,073,019,263	25.06%	8,272,404,614
June 2012	3,046,217,309	35.83%	3,422,553,874	40.26%	2,033,113,824	23.91%	8,501,885,007
Average	$2,498,970,191	32.10%	$3,421,491,449	43.95%	1,864,540,582	23.95%	$7,785,002,222

STATE CASH MANAGEMENT

Local Government Investment Pool

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

The Local Government Investment Pool began operations in November of 1980. Participation in the LGIP program currently stands in excess of 2,650 accounts. The Department of Transportation (DOT) program has more than 765 active accounts.

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

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

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

LGIP reports to participants are available online, including 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 available to the participant each time a deposit or withdrawal is made. Many participants rely on this documentation for daily and weekly reconciliations.

Participants earn interest on LGIP deposits based on the total portfolio return of the cash management pool, less a monthly administrative fee of five one hundredths of one percent (.05%). During the 2012 fiscal year, the average rate participants earned on their deposits after the fee reduction was .12%. 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, 2012

	Account Balance 6/30/2011	Net Deposits/(Withdrawals) FY 2011-2012	Interest Credited FY 2011-2012	Account Balance 6/30/2012
Cities	$ 1,050,959,454	$ 53,370,602	$ 1,363,817	$ 1,105,693,873
Counties	483,722,335	11,072,780	613,651	495,408,766
Commitments to D.O.T.	46,318,915	(5,942,098)	58,182	40,434,999
Educational Institutions	1,007,411,619	(47,586,295)	1,376,486	961,201,810
Bond Finance	257,730,772	(172,184,784)	218,838	85,764,826
Other	502,516,676	(28,901,652)	2,294,982	475,910,006
Total	**$ 3,348,659,771**	**$ (190,171,447)**	**$ 5,925,956**	**$ 3,164,414,280**

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
LARGEST HOLDINGS

LARGEST STOCK HOLDINGS
AS OF JUNE 30, 2012
BY FAIR VALUE

Shares	Security Name	Fair Value
945,500	Apple Inc Com Stk	$ 552,172,000
4,575,723	Exxon Mobil Corp Com	391,544,617
9,173,500	Microsoft Corp Com	280,617,365
2,468,230	Chevron Corp Com	260,398,265
1,283,800	International Business Machs Corp Com	251,085,604
10,298,900	General Electric Co	214,629,076
5,767,273	Wells Fargo & Co New Com Stk	192,857,609
2,188,500	Philip Morris Intl Com Stk Npv	190,968,510
311,900	Google Inc Cl A	180,923,833
4,947,945	AT&T Inc Com	176,443,719

LARGEST BOND HOLDINGS
AS OF JUNE 30, 2012
BY FAIR VALUE

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
$ 181,900,000	United States Treasury Index Linked Note	2.00%	01/15/16	Aaa	$ 233,258,861
139,470,000	United States Treasury Index Linked Bond	2.00%	01/15/26	Aaa	206,291,314
165,000,000	GNMA Pool #000000	4.00%	07/15/39	NR	180,185,115
101,800,000	United States Treasury Infl Index Bond	2.38%	01/15/25	Aaa	163,612,580
139,500,000	United States Treasury Note	2.63%	11/15/20	Aaa	153,330,170
72,550,000	United States Treasury Infl Index Bond	3.38%	04/15/32	Aaa	151,466,954
139,432,000	United States Treasury Note	2.00%	02/15/22	Aaa	144,126,954
110,250,000	United States Treasury Index Linked Note	2.36%	01/15/14	Aaa	142,512,313
126,300,000	United States Treasury Note	3.40%	04/15/16	Aaa	137,004,180
101,100,000	United States Treasury Index Linked Note	2.38%	01/15/17	Aaa	133,091,934

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
NR	Not Rated

STATE CASH PORTFOLIO
AS OF JUNE 30, 2012

Description	Maturity	Yield to Maturity	Par Value	Fair Value
U.S. TREASURY AND AGENCY OBLIGATIONS				
FAMC	02/07/13	0.19%	$ 50,000,000	$ 49,951,000
Federal Home Loan Bank	08/28/12	0.12%	50,000,000	50,006,000
Federal Home Loan Bank	10/10/12	0.17%	60,000,000	60,014,400
Federal Home Loan Bank	05/07/13	0.24%	100,000,000	100,034,000
Federal Home Loan Bank	12/10/12	0.19%	44,370,000	44,377,099
Federal Home Loan Bank	07/11/13	0.25%	100,000,000	100,077,000
Federal Home Loan Bank	07/11/13	0.25%	39,700,000	39,730,569
Federal Home Loan Bank	05/10/13	0.24%	30,000,000	29,994,900
Federal Home Loan Bank	02/01/13	0.20%	24,000,000	23,986,080
Federal Home Loan Bank	02/08/13	0.20%	75,000,000	74,955,000
Federal Home Loan Bank	02/08/13	0.23%	75,000,000	74,955,000
Federal Home Loan Bank	03/01/13	0.23%	100,000,000	99,960,000
Federal Home Loan Bank	02/28/13	0.21%	50,000,000	49,980,500
Federal Home Loan Bank	03/01/13	0.21%	50,000,000	49,980,000
Federal Home Loan Bank	02/22/13	0.23%	50,000,000	49,987,000
Federal Home Loan Bank	05/09/13	0.23%	50,000,000	49,987,000
Federal Home Loan Bank	05/09/13	0.24%	71,000,000	70,981,540
Federal Home Loan Bank	05/10/13	0.24%	100,000,000	99,974,000
Federal Home Loan Bank	06/21/13	0.25%	75,000,000	74,985,750
Federal Home Loan Bank	07/31/12	0.05%	100,000,000	99,998,000
Federal Home Loan Bank	05/07/13	0.25%	100,000,000	99,990,000
Federal Home Loan Bank	09/07/12	0.22%	100,000,000	100,013,000
FFCB Discount Notes	08/03/12	0.27%	50,000,000	50,004,500
FFCB Discount Notes	07/24/13	0.25%	75,000,000	74,943,000
FFCB Discount Notes	03/28/13	0.25%	25,000,000	24,992,750
FFCB Discount Notes	04/02/13	0.20%	40,000,000	39,987,600
FFCB Discount Notes	05/14/13	0.23%	50,000,000	49,954,500
FHLMC	07/15/12	0.12%	23,654,000	23,648,323
FHLMC	07/15/12	0.12%	1,066,000	1,065,744
FHLMC	07/15/12	0.12%	1,319,000	1,318,683
FHLMC Note .070	07/13/12	0.07%	200,000,000	199,998,000
FHLMC Note .100	09/14/12	0.10%	150,000,000	149,976,000
FHLMC Note .110	09/14/12	0.11%	100,000,000	99,984,000
FHLMC Note .130	08/15/12	0.13%	75,000,000	74,995,500
FHLMC Note .130	08/15/12	0.13%	111,000,000	110,993,340
FHLMC Note .130	10/15/12	0.13%	50,000,000	49,987,000
FHLMC Note .155	12/10/12	0.16%	100,000,000	99,942,000
FHLMC Note .215	08/06/12	0.22%	50,000,000	49,997,500

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2012

Description	Maturity	Yield to Maturity	Par Value	Fair Value
FHLMC Note .375	11/30/12	0.20%	$ 54,560,000	$ 54,623,290
FHLMC Note .515	11/26/12	0.20%	60,000,000	60,087,600
FHLMC Note 1.125	07/27/12	0.27%	50,000,000	50,032,500
FHLMC Note 1.125	07/27/12	0.27%	50,000,000	50,032,500
FHLMC Note 3.75	06/28/13	0.25%	21,346,000	22,096,525
FHLMC Note 4.000	06/12/13	0.25%	29,973,000	31,028,349
FHLMC Note 4.500	01/15/13	0.19%	38,677,000	39,559,609
FHLMC Note 4.500	01/15/13	0.19%	15,600,000	15,955,992
FHLMC Note 4.500	01/15/13	0.19%	51,000,000	52,163,820
FHLMC Note 4.500	07/15/13	0.25%	48,740,000	50,889,921
FHLMC Note 5.125	07/15/12	0.11%	140,000,000	140,256,200
FNMA Discount Notes	03/15/13	0.21%	50,000,000	51,443,500
FNMA Discount Notes	07/30/12	0.26%	20,514,000	20,529,591
FNMA Discount Notes	07/30/12	0.10%	70,000,000	70,053,200
FNMA Discount Notes	09/14/12	0.10%	100,000,000	99,984,000
FNMA Discount Notes	09/28/12	0.11%	47,000,000	46,990,600
IBRD Discount Note	07/13/12	0.06%	125,000,000	124,998,750
US Treasury Bills	07/26/12	0.03%	90,000,000	89,997,300
US Treasury Notes	08/15/12	0.10%	100,000,000	100,512,000
US Treasury Notes	08/15/12	0.08%	63,000,000	63,322,560
US Treasury Notes	11/15/12	0.14%	64,000,000	64,907,520
US Treasury Notes	02/15/13	0.22%	50,000,000	51,140,500
US Treasury Notes	09/30/12	0.12%	80,000,000	80,809,600
US Treasury Notes	08/15/12	0.10%	100,000,000	100,199,000
US Treasury Notes	08/15/12	0.12%	50,000,000	50,099,500
US Treasury Notes	08/15/12	0.11%	73,000,000	73,145,270
US Treasury Notes	10/15/12	0.11%	100,000,000	100,352,000
US Treasury Notes	10/15/12	0.15%	93,000,000	93,327,360
US Treasury Notes	10/15/12	0.15%	60,000,000	60,211,200
US Treasury Notes	10/15/12	0.14%	40,000,000	40,140,800
US Treasury Notes	11/15/12	0.14%	53,000,000	53,235,850
US Treasury Notes	11/15/12	0.13%	60,000,000	60,267,000
US Treasury Notes	11/15/12	0.11%	100,000,000	100,445,000
US Treasury Notes	11/15/12	0.15%	60,000,000	60,267,000
US Treasury Notes	02/15/13	0.21%	50,000,000	50,367,000
US Treasury Notes	02/15/13	0.18%	200,000,000	201,468,000
US Treasury Notes	03/15/13	0.21%	100,000,000	100,824,000
US Treasury Notes	04/15/13	0.25%	100,000,000	101,199,000
US Treasury Notes	04/15/13	0.25%	100,000,000	101,199,000

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2012

Description	Maturity	Yield to Maturity	Par Value	Fair Value
US Treasury Notes	05/15/13	0.23%	$ 200,000,000	$ 201,968,000
US Treasury Notes	07/15/13	0.24%	50,000,000	50,381,000
US Treasury Notes	07/15/13	0.24%	50,000,000	50,381,000
US Treasury Notes	09/30/12	0.10%	100,000,000	100,059,000
US Treasury Notes	08/31/12	0.15%	79,000,000	79,033,970
US Treasury Notes	08/31/12	0.09%	50,000,000	50,021,500
TOTAL U.S. TREASURY AND AGENCY OBLIGATIONS			**$ 5,883,519,000**	**$ 5,905,713,155**
CERTIFICATES OF DEPOSIT				
Community Bank & Trust, Ashland City	07/19/12	0.20%	$ 500,000.00	$ 500,000.00
Bank of Crockett, Bells	08/10/12	0.20%	1,500,000.00	1,500,000.00
Bank of Crockett, Bells	08/20/12	0.20%	2,000,000.00	2,000,000.00
Bank of Bradford	10/12/12	0.30%	90,000.00	90,000.00
CapitalMark Bank & Trust, Chattanooga	08/03/12	0.20%	5,000,000.00	5,000,000.00
CapitalMark Bank & Trust, Chattanooga	08/24/12	0.30%	10,000,000.00	10,000,000.00
CapitalMark Bank & Trust, Chattanooga	09/04/12	0.30%	5,000,000.00	5,000,000.00
CapitalMark Bank & Trust, Chattanooga	10/09/12	0.30%	2,000,000.00	2,000,000.00
CapitalMark Bank & Trust, Chattanooga	11/30/12	0.30%	5,000,000.00	5,000,000.00
Landmark Community Bank, Collierville	07/10/12	0.20%	4,000,000.00	4,000,000.00
Landmark Community Bank, Collierville	07/10/12	0.20%	1,500,000.00	1,500,000.00
Landmark Community Bank, Collierville	07/10/12	0.20%	5,000,000.00	5,000,000.00
Landmark Community Bank, Collierville	07/13/12	0.20%	8,000,000.00	8,000,000.00
Community First Bank & Trust, Columbia	07/13/12	0.20%	2,000,000.00	2,000,000.00
Community First Bank & Trust, Columbia	07/13/12	0.20%	1,000,000.00	1,000,000.00
Community First Bank & Trust, Columbia	07/23/12	0.20%	2,000,000.00	2,000,000.00
Community First Bank & Trust, Columbia	08/20/12	0.20%	3,000,000.00	3,000,000.00
Community National Bank, Dayton	07/13/12	0.30%	1,000,000.00	1,000,000.00
Community National Bank, Dayton	11/16/12	0.30%	1,000,000.00	1,000,000.00
The Farmers & Merchants Bank, Dyer	11/05/12	0.30%	2,000,000.00	2,000,000.00
First Citizens National Bank, Dyersburg	12/07/12	0.30%	20,000,000.00	20,000,000.00
First Citizens National Bank, Dyersburg	12/07/12	0.30%	3,000,000.00	3,000,000.00
Gates Banking and Trust Company	07/12/12	0.20%	1,000,000.00	1,000,000.00
Gates Banking and Trust Company	07/13/12	0.20%	1,300,000.00	1,300,000.00
Gates Banking and Trust Company	07/13/12	0.20%	1,200,000.00	1,200,000.00
Gates Banking and Trust Company	07/13/12	0.20%	500,000.00	500,000.00
Gates Banking and Trust Company	07/16/12	0.20%	450,000.00	450,000.00
Gates Banking and Trust Company	08/20/12	0.20%	600,000.00	600,000.00
Bank of Gleason	08/07/12	0.30%	300,000.00	300,000.00
Bank of Gleason	10/16/12	0.30%	750,000.00	750,000.00

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2012

Description	Maturity	Yield to Maturity	Par Value	Fair Value
Bank of Gleason	10/26/12	0.30%	$ 350,000	$ 350,000
Bank of Gleason	12/18/12	0.30%	2,000,000.00	2,000,000.00
Bank of Halls	07/02/12	0.20%	1,200,000.00	1,200,000.00
Bank of Halls	07/19/12	0.20%	735,000.00	735,000.00
Bank of Halls	07/30/12	0.20%	1,250,000.00	1,250,000.00
Bank of Halls	07/30/12	0.20%	1,125,000.00	1,125,000.00
Bank of Halls	08/10/12	0.20%	980,000.00	980,000.00
Bank of Halls	08/13/12	0.20%	980,000.00	980,000.00
Bank of Halls	08/23/12	0.20%	500,000.00	500,000.00
Bank of Halls	08/24/12	0.20%	735,000.00	735,000.00
Bank of Halls	08/27/12	0.20%	980,000.00	980,000.00
First Volunteer Bank of Tennessee, Jamestown	07/10/12	0.30%	500,000.00	500,000.00
First Volunteer Bank of Tennessee, Jamestown	07/10/12	0.30%	300,000.00	300,000.00
First Volunteer Bank of Tennessee, Jamestown	07/10/12	0.30%	500,000.00	500,000.00
First Volunteer Bank of Tennessee, Jamestown	07/10/12	0.30%	200,000.00	200,000.00
First Volunteer Bank of Tennessee, Jamestown	07/10/12	0.30%	500,000.00	500,000.00
First Volunteer Bank of Tennessee, Jamestown	07/10/12	0.30%	450,000.00	450,000.00
Citizens State Bank, Jasper	07/17/12	0.30%	100,000.00	100,000.00
Citizens State Bank, Jasper	07/17/12	0.30%	200,000.00	200,000.00
BB& T, Knoxville	10/02/12	0.30%	75,000,000.00	75,000,000.00
BB& T, Knoxville	10/19/12	0.30%	100,000,000.00	100,000,000.00
BB& T, Knoxville	11/16/12	0.30%	100,000,000.00	100,000,000.00
The Coffee County Bank, Manchester	08/21/12	0.30%	240,000.00	240,000.00
Trust Company Bank, Mason	07/20/12	0.20%	1,750,000.00	1,750,000.00
The First National Bank of McMinnville	07/06/12	0.20%	9,000,000.00	9,000,000.00
Cadence Bank, Memphis	09/28/12	0.30%	5,000,000.00	5,000,000.00
Cadence Bank, Memphis	12/18/12	0.30%	5,000,000.00	5,000,000.00
Cadence Bank, Memphis	12/18/12	0.30%	5,000,000.00	5,000,000.00
Cadence Bank, Memphis	12/18/12	0.30%	5,000,000.00	5,000,000.00
Cadence Bank, Memphis	12/18/12	0.30%	5,000,000.00	5,000,000.00
First Tennessee Bank National Association, Memphis	07/16/12	0.20%	100,000,000.00	100,000,000.00
Independent Bank, Memphis	07/11/12	0.20%	5,000,000.00	5,000,000.00
Patriot Bank, Millington	07/27/12	0.20%	2,500,000.00	2,500,000.00
Patriot Bank, Millington	07/30/12	0.20%	1,500,000.00	1,500,000.00
Patriot Bank, Millington	08/23/12	0.20%	3,000,000.00	3,000,000.00
Civic Bank & Trust, Nashville	09/21/12	0.30%	1,000,000.00	1,000,000.00
Pinnacle National Bank, Nashville	08/17/12	0.20%	30,000,000.00	30,000,000.00
Pinnacle National Bank, Nashville	08/24/12	0.20%	40,000,000.00	40,000,000.00
Newport Federal Bank	08/21/12	0.30%	95,000.00	95,000.00

(continued)

STATE CASH PORTFOLIO
AS OF JUNE 30, 2012

Description	Maturity	Yield to Maturity	Par Value	Fair Value
Newport Federal Bank	08/21/12	0.30%	$ 300,000	$ 300,000
Newport Federal Bank	12/07/12	0.30%	500,000.00	500,000.00
Newport Federal Bank	12/07/12	0.30%	500,000.00	500,000.00
TNBank, Oak Ridge	08/24/12	0.20%	1,000,000.00	1,000,000.00
Community Trust & Banking Company, Ooltewah	08/24/12	0.30%	500,000.00	500,000.00
Community Trust & Banking Company, Ooltewah	11/09/12	0.30%	500,000.00	500,000.00
Community Trust & Banking Company, Ooltewah	12/04/12	0.30%	500,000.00	500,000.00
The Hardin County Bank, Savannah	12/07/12	0.30%	1,000,000.00	1,000,000.00
The Hardin County Bank, Savannah	12/11/12	0.30%	2,000,000.00	2,000,000.00
Wayne County Bank, Waynesboro	09/07/12	0.30%	500,000.00	500,000.00
Wayne County Bank, Waynesboro	12/07/12	0.30%	900,000.00	900,000.00
TOTAL CERTIFICATES OF DEPOSIT			**$ 606,560,000**	**$ 606,560,000**
OVERNIGHT DEPOSIT ACCOUNTS				
Regions Bank - Overnight Deposit Account:	07/01/12	0.30%	$ 780,575,387	$ 780,575,387
First Tennessee Bank - Overnight Deposit Account:	07/01/12	0.42%	110,037,869	110,037,869
First Tennessee Bank - Overnight Deposit Account:	07/01/12	0.10%	31,845,659	31,845,659
TOTAL OVERNIGHT DEPOSIT ACCOUNTS			**$ 922,458,915**	**$ 922,458,915**

Description	Rating	Maturity	Par Value	Fair Value
COMMERCIAL PAPER				
BNP	A1	07/02/12	$ 350,000,000	$ 349,998,833
GE	A1	07/02/12	100,000,000	99,999,806
Pepsi	A1	07/13/12	100,000,000	99,996,667
Sheffield	A1	07/16/12	28,000,000	27,997,900
Sheffield	A1	07/16/12	50,000,000	49,995,833
Toyota	A1	07/13/12	100,000,000	99,995,667
Toyota	A1	07/02/12	50,000,000	49,999,944
TOTAL COMMERCIAL PAPER			**$ 778,000,000**	**$ 777,984,650**
TOTAL STATE CASH PORTFOLIO			**$ 8,190,537,915**	**$ 8,212,716,720**

BACCALAUREATE EDUCATION SYSTEM TRUST PORTFOLIO

Baccalaureate Education System Trust
As of June 30, 2012

Fixed Mutual Funds	**Units**	**Fair Value**
State Street US Aggregate Index	4,274,492	$59,757,402
Total Fixed Mutual Funds		**$59,757,402**
Equity Mutual Funds	**Units**	**Fair Value**
Northern Institutional Fund	1,162,269	$ 1,162,269
State Street MSCI EAFE Index Fund	684,986	8,563,698
State Street S&P 500 Index Fund	391,827	23,352,510
Total Equity Mutual Funds		**$33,078,477**
TOTAL PORTFOLIO		**$92,835,879**

CHAIRS OF EXCELLENCE LARGEST HOLDINGS

LARGEST BOND HOLDINGS
AS OF JUNE 30, 2012
BY FAIR VALUE

Par Value	Security Name	Yield at Market	Maturity	Moody's Quality Rating	Fair Value
$4,000,000	US Treasury Notes	0.67%	04/15/15	Aaa	$ 4,408,500
3,350,000	US Treasury Notes	0.67%	04/15/14	Aaa	3,759,409
2,600,623	FNMA POOL #AL0065	2.00%	04/01/41	NR	2,798,947
2,370,000	US Treasury Index Linked Bonds	0.67%	01/15/26	Aaa	3,505,488
2,200,000	US Treasury Notes	0.67%	01/15/20	Aaa	2,720,982
2,200,000	US Treasury Index Linked Notes	0.67%	01/15/22	Aaa	2,365,808
2,100,000	US Treasury Notes	0.62%	03/31/17	Aaa	2,347,241
2,000,000	General Elec Cap Corp	4.35%	01/14/38	A	2,296,008
2,000,000	Resolution Fdg Corp Fed Book Entry Cpn	0.94%	04/15/17	NR	1,899,520
2,000,000	United States Treasury Bonds	2.33%	05/15/30	Aaa	3,156,876

A complete portfolio listing is available upon request.

Mutual Funds	Units	Fair Value
State Street S&P 500 Index Fund	1,509,043	$ 89,937,433
State Street MCSI EAFE Index Fund	2,313,042	28,917,645
Total Mutual Funds		$ 118,855,078

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

Moody's rates securities as follows:

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

Programs

Burgess Falls
By Gary Wheeler
Service Counselor
Claims Administration

BACCALAUREATE EDUCATION SYSTEM TRUST

Baccalaureate Education System Trust

Tennessee Code Annotated, Title 49, Chapter 7, Part 8 sets forth the Tennessee Baccalaureate Education System Trust (BEST) Act. The Act creates a tuition program, as an agency and instrumentality of the State of Tennessee, under which parents and other interested persons may assist students in saving for tuition cost of attending colleges and universities. The tuition program is known as the BEST Program and is comprised of two types of tuition plans: an educational services plan, the BEST Prepaid Plan, and an educational savings plan, the TNStars™ College Savings 529 Program, which was launched on September 18, 2012.

The federal guidelines for both 529 plans are contained in Section 529 of the Internal Revenue Code. The requirements for participation and administration of the Prepaid College Tuition Plan are contained in Chapter 1700-5-1 of the Official Compilation of the Rules and Regulations of the State of Tennessee. The requirements for participation in the TNStars™ College Savings 529 Program are contained in Chapter 1700-5-4 of the Official Compilation of the Rules and Regulations of the State of Tennessee.

Both programs offer several favorable tax benefits to participants. Funds saved in the programs are exempt from all federal, state and local taxes if used for qualified education expenses. In addition, earnings on any distribution used to pay for qualified higher education expenses are exempt from taxation. Qualified expenses include tuition, fees, books, room and board, and supplies and equipment required for enrollment or attendance. Monies saved in the plans may be used at any accredited higher education institution – in-state or out-of-state, public or private. The funds 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 either program. The maximum account limit for a beneficiary in both programs is $235,000.

BEST Prepaid College Tuition Plan

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

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

The BEST prepaid program began accepting contracts and contributions in June 1997. At June 30, 2012, net assets total $92.7 million.

On November 22, 2010, the board voted to stop selling units in the BEST Prepaid Plan. The BEST Board annually sets the weighted average tuition of Tennessee's public colleges and universities which is effective August 1 of each year. The August 1, 2012 weighted average tuition per unit payout value was $76.88.

BACCALAUREATE EDUCATION SYSTEM TRUST

TNStars™ College Savings 529 Program

Launched September 18, 2012, the TNStars™ College Savings 529 Program is the State of Tennessee's educational savings plan. Recognizing the need for a highly skilled workforce and the role that higher education plays in achieving that goal, the State of Tennessee has developed the TNStars™ College Savings 529 Program.

This program is Tennessee's own 529 program, a program that is designed to make college savings easy. The program offers parents, relatives and friends a low-cost way to save for children's college expenses with attractive investment options and special tax advantages.

The plan offers an age-based track where the allocation becomes more conservative as the child approaches college. The plan also offers individual investment options including both domestic and international equities, balanced fund options, fixed income options, and an FDIC insured option. The underlying funds for each of the options are from a range of Fund Companies including Vanguard, DFA, Primecap, Great West and First Tennessee Bank. The program offers the products at a competitive fee of 0-35 basis points.

Interested parties and participants may utilize the TNStars™ website for program information and to enroll and maintain their accounts online. The program website is www.tnstars.com. Questions or comments about the program may be emailed through this site.

Prepaid Tuition Plan
History of Per Unit Payout, Prices and Fee

Enrollment Fiscal Year	Unit Payout	Administrative Fee	Actuarial Soundness	Unit Price (Aug. 1-Dec. 31)	Adjustment for Purchases after December 31*	Unit Price (Jan. 1-July 31)
1997	$ 21.64	$ 2.11	$ -	$ 23.75	$ -	$ 23.75
1998	21.64	2.11	-	23.75	-	23.75
1999	25.00	1.75	-	26.75	1.25	28.00
2000	27.08	1.92	-	29.00	1.25	30.25
2001	29.58	1.92	-	31.50	1.50	33.00
2002	33.51	0.99	-	34.50	2.35	36.85
2003	35.98	1.02	-	37.00	1.40	38.40
2004	40.70	1.30	-	42.00	1.60	43.60
2005	43.15	2.10	3.71	48.96	1.84	50.80
2006	47.71	2.28	4.07	54.06	2.03	56.09
2007	49.72	2.98	4.24	56.94	2.14	59.08
2008	53.79	3.13	4.56	61.48	2.15	63.63
2009	56.93	3.87	4.86	65.66	2.05	67.71
2010	61.20	3.90	5.22	70.32	2.20	72.52
2011	65.57	5.68	5.59	76.84	-	-
2012	72.15	-	-	-	-	-
2013	76.88	-	-	-	-	-

*Adjustment equal to 1/2 earnings rate assumption.

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

CAREERS NOW PROGRAM

Careers NOW Program

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

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

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

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

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

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

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

Current program information, assignment descriptions, and program application forms are available on the Internet at www.tn.gov/treasury/now.

CERTIFIED PUBLIC ADMINISTRATOR EDUCATIONAL INCENTIVE PAYMENT PROGRAM

Certified Public Administrator

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

The following table sets out the number of county officials receiving payment in October 2011:

County Official	Number Receiving Payment
Trustee	59
Register of Deeds	54
Clerk & Master	45
County Clerk	43
Circuit Court Clerk	42
County Mayor/County Executive	33
Assessor of Property	31
Chief Administrative Officer of Highways	13
Juvenile Court Clerk	4
Sheriff	4
Criminal Court Clerk	2
General Sessions Court Clerk	1
Probate Court Clerk	1
Total	332

The table below sets out a five-year history of recipients to receive educational incentive payments. The payment amount is determined by the number of eligible recipients and the appropriation amount in the annual state budget.

Fiscal Year Ended June 30	Recipients	Amount Paid Per Recipient	Total Payments
2012	332	$ 1,223	$ 406,036
2011	312	1,500	468,000
2010	287	1,500	430,500
2009	282	1,500	423,000
2008	288	1,500	432,000

County Provided Incentive Payment

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

Number of counties that provided an incentive	12
Number of counties that did not provide an incentive	41
Number of counties that did not provide information	42
Total	95
Total amount of incentives paid	$167,475
Total number of recipients	146
Average incentive payment	$ 1,147

CHAIRS OF EXCELLENCE TRUST

Chairs of Excellence Trust

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

The funding of the program is provided through contributions (corpus) made by a private donor and a matching amount by the state, thus creating a chair. A chair is authorized to spend 4% of the 3-year average market value of the chair. However, the corpus can not be spent.

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

Five-Year History
Fiscal Years 2008-2012

Fiscal Year	Investment Income/(Loss)	Total Spending of the Chairs	Asset Balance
2012	$10,300,357	$7,108,557	$245,745,038
2011	34,346,000	6,561,577	243,105,645
2010	22,324,590	6,937,327	215,665,629
2009	(28,334,670)	7,441,722	200,843,198
2008	(7,631,048)	7,368,032	236,954,830

Annualized Investment Return

	1 Year	5 Years	10 Years
Domestic Equity	5.45 %	0.25%	5.36%
International Equity	(13.85)%	(6.10)%	-
Fixed Income	8.80 %	7.61%	5.66%
Short-Term	(0.13)%	1.41%	2.11%
Total Portfolio	4.35 %	2.76%	5.25%

CHAIRS OF EXCELLENCE TRUST

Authorized Chairs of Excellence

The University of Tennessee

Chattanooga

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

Knoxville

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

Martin

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

Memphis

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

Space Institute

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

CHAIRS OF EXCELLENCE TRUST

AUTHORIZED CHAIRS OF EXCELLENCE

Tennessee Board of Regents

Austin Peay State University

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

East Tennessee State University

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

Middle Tennessee State University

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

Tennessee State University

COE in Banking and Finance
Frist COE in Business Administration

Tennessee Technological University

Mayberry Chair of Business Administration
Owen Chair of Business Administration

University of Memphis

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

CLAIMS AGAINST THE STATE

Claims Against The State

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

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

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

The division contracts with a managed care organization which has established a workers' compensation preferred provider network for medical treatment for injured state employees. Currently, 100% of all state employees have access to this network. The managed care organization also provides case management services such as pre-certification for inpatient hospital care, bill review, large case management and other services to manage the costs of workers' compensation claims. The use of a preferred provider network allows the state to negotiate further savings off workers' compensation medical bills after the mandated fee schedule reduction, which became required on January 1, 2006. Currently, the state has obtained approximately 46% savings off billed charges as a result of the fee schedule, plus an additional 4.2% savings (after fee schedule reduction) as a result of the preferred provider arrangement.

During fiscal year 2012, the Division of Claims Administration received 4,899 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 2012 fiscal year, the Board took action on one claim. The Board also reviews and approves the purchase of insurance policies by the state and makes recommendations to the Commissioner of Finance and Administration and the General Assembly regarding the required funding for the Risk Management Fund.

CLAIMS AGAINST THE STATE

Claims and Payment Activity
Fiscal Year 2012

Claims Activity	Payments Made
Worker's Compensation Claims	
Death Payments	$ 188,932
Medical Payments	15,642,340
Temporary Disability	4,065,553
Permanent Disability	7,201,501
Subtotal	27,098,326
Employee Property Damage	18,827
Tort Claims	
Death Payments	1,365,833
Bodily Injury Payments	4,825,608
Property Damage Payments	877,673
Subtotal	7,069,114
Total Claims Against the State	**$ 34,186,267**

Five-Year Claims History
Fiscal Years 2008-2012

Fiscal Year	Amount of Claims Paid
2012	$ 34,186,267
2011	31,249,686
2010	29,732,845
2009	29,502,257
2008	27,480,776

Claims Filed By Program
Fiscal Years 2008-2012

Fiscal Year	Workers' Compensation	Employee Property Damage	Tort	Total
2012	3,127	89	1,683	4,899
2011	3,296	132	1,708	5,136
2010	3,360	119	1,766	5,245
2009	3,431	117	1,289	4,837
2008	3,250	141	1,319	4,710

CRIMINAL INJURIES COMPENSATION FUND

Criminal Injuries Compensation Fund

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

Criminal Injuries Compensation Program

Payments made under the Criminal Injuries Compensation Program are intended to defray the costs of medical services, loss of earnings, burial costs and other pecuniary losses to either an innocent victim of a crime or to the dependents of a deceased victim. Applications for Criminal Injuries Compensation are filed with the Division of Claims Administration. During the 2012 fiscal year, 2,608 new claims were filed.

The division's staff reviews the application and obtains supporting information from the appropriate District Attorney's Office to determine eligibility for payment from the Criminal Injuries Compensation Fund. If the division cannot process a claim within 90 days, then the claim is transferred to the Tennessee Claims Commission. Eligible payments are issued promptly and are payable directly to the service provider if the bill is unpaid, to the victim for out-of-pocket expenses and, if appropriate, his or her attorney. On average, the division renders a decision on claims within 56 days.

During the 2012 fiscal year, the Division of Claims Administration made payments to victims of crime totaling $13 million.

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

Since the first claims were paid in 1982, the program has awarded a total of more than $241 million to crime victims.

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

Sexual Assault Forensic Exam Reimbursement

In 2007, the General Assembly amended the Criminal Injuries Compensation Act to provide payment for services related to sexual assault forensic examinations. The Fund provides reimbursement to a facility that performs sexual assault forensic exams on victims of certain sexually-oriented crimes. Facilities must bill the Fund (not the victim) and cannot seek any additional payment from the victim after payment by the Fund. Payment is up to $750 for such services for crimes occurring on or after July 1, 2007. During the 2012 fiscal year, 2,769 forensic claims were filed. On average, the division renders a decision within 26 days.

CRIMINAL INJURIES COMPENSATION FUND

SOURCES OF FUNDS
FISCAL YEARS 2010-2012

	2010		2011		2012	
Source	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Fines	$ 6,539,643	44%	$ 6,369,594	49%	$ 6,353,236	45%
Federal Funds	5,181,000	34%	3,848,000	29%	4,991,000	35%
Probation Fees	2,589,475	17%	2,353,382	18%	2,321,596	16%
Bond Forfeitures	735,349	5%	464,817	4%	569,550	4%
Other	31,483	0%	27,034	0%	20,163	0%
Total	**$ 15,076,950**	**100%**	**$ 13,062,827**	**100%**	**$ 14,255,545**	**100%**

CLAIMS PAID BY CRIME OR CLAIM TYPE
FISCAL YEAR 2012

Crime or Claim Type	Number Paid	Percentage of Total Claims	Amount Paid	Percentage of Total Paid
Assault	831	19.8%	$ 5,694,449	43.7%
Homicide	340	8.2%	2,577,172	19.7%
Child Sexual Abuse	312	7.5%	768,465	5.9%
Robbery by Force	199	4.8%	1,246,549	9.5%
Adult Sexual Assault	172	4.1%	470,576	3.6%
DUI	70	1.7%	442,837	3.4%
Hit and Run	25	0.6%	253,844	1.9%
Vehicular (non-DUI)	11	0.3%	126,245	1.0%
Child Physical Abuse	3	0.1%	2,840	0.0%
Arson	1	0.0%	8,336	0.1%
Subtotal	1,964	47.1%	$ 11,591,313	88.8%
Forensic Exams	2,204	52.9%	1,465,721	11.2%
Grand Total	**4,168**	**100.0%**	**$ 13,057,034**	**100.0%**

CRIMINAL INJURIES COMPENSATION FUND

NEW CLAIMS FILED
FISCAL YEAR 2012

Crime or Claim Type	Number Filed
Assault	1,066
Child Sexual Abuse	434
Homicide	433
Robbery by Force	224
Adult Sexual Assault	211
DUI	95
Hit and Run	62
Vehicular (non-DUI)	44
Other	18
Child Physical Abuse	13
Stalking	3
Kidnapping	3
Terrorism	1
Arson	1
Subtotal	2,608
Forensic Exams	2,769
Grand Total	**5,377**

CLAIMS DENIED
FISCAL YEAR 2012

Criminal Injuries Claims Reason Type	Number Denied	Percentage
Contributory Behavior	220	18.6%
Failure to Cooperate/Prosecute	218	18.4%
Insufficient Documentation	215	18.2%
Collateral Resource Covered Loss(es)	131	11.1%
Insufficient Proof of a Crime	63	5.3%
Loss(es) Less than $100	62	5.2%
Ineligible Crime	57	4.8%
Other	50	4.2%
Late Filing of Claim	48	4.1%
Ineligible Claimant	44	3.7%
Ineligible Loss(es)	33	2.8%
Late Reporting of Crime	18	1.5%
Passenger with Drunk Driver	12	1.0%
No Collateral Resource Information	8	0.7%
Claim Not Signed or Notarized	3	0.3%
Crime Not Reported	1	0.1%
Total Denial Reasons	**1,183**	**100.0%**

In fiscal year 2012, 916 criminal injuries claims were denied. Some claims are denied for more than one reason.

CLAIMS COMMISSION

Claims Commission

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

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

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

Nancy Miller-Herron, Western Division (Dresden)
Robert N. Hibbett, Middle Division (Nashville)
William Shults, Eastern Division (Newport)

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

The Commissioners' terms end as follows: The Eastern Division on June 30, 2017, the Middle Division on June 30, 2019 and the Western Division on June 30, 2015.

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

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

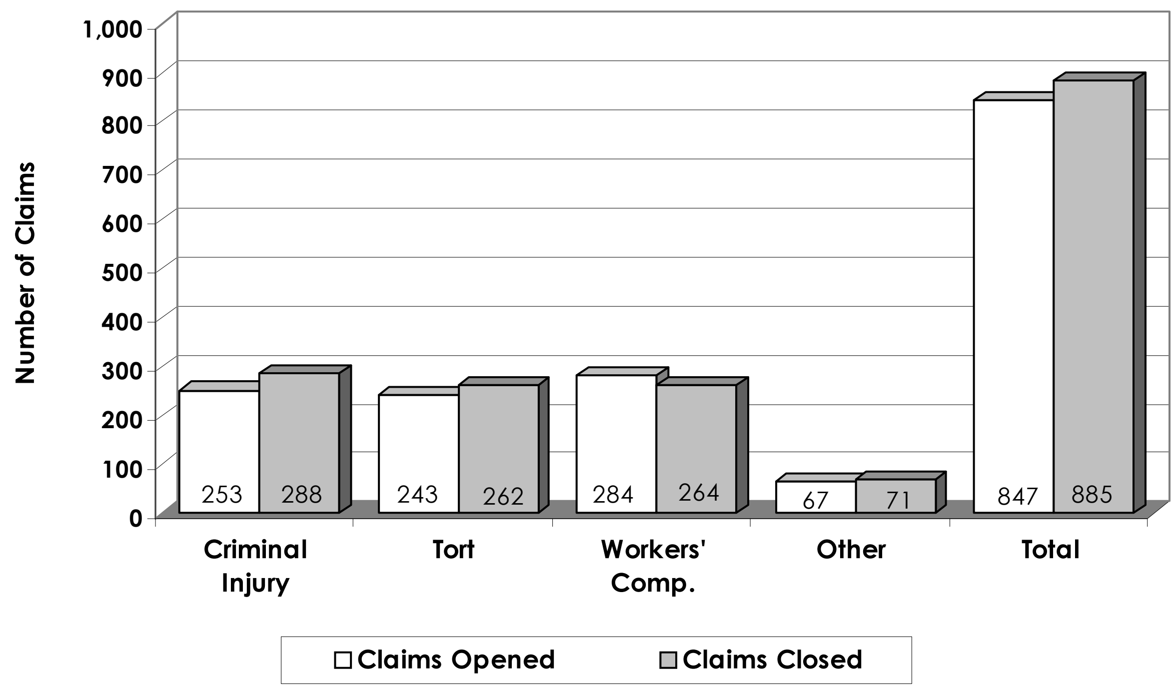
Claims Commission's Operation

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

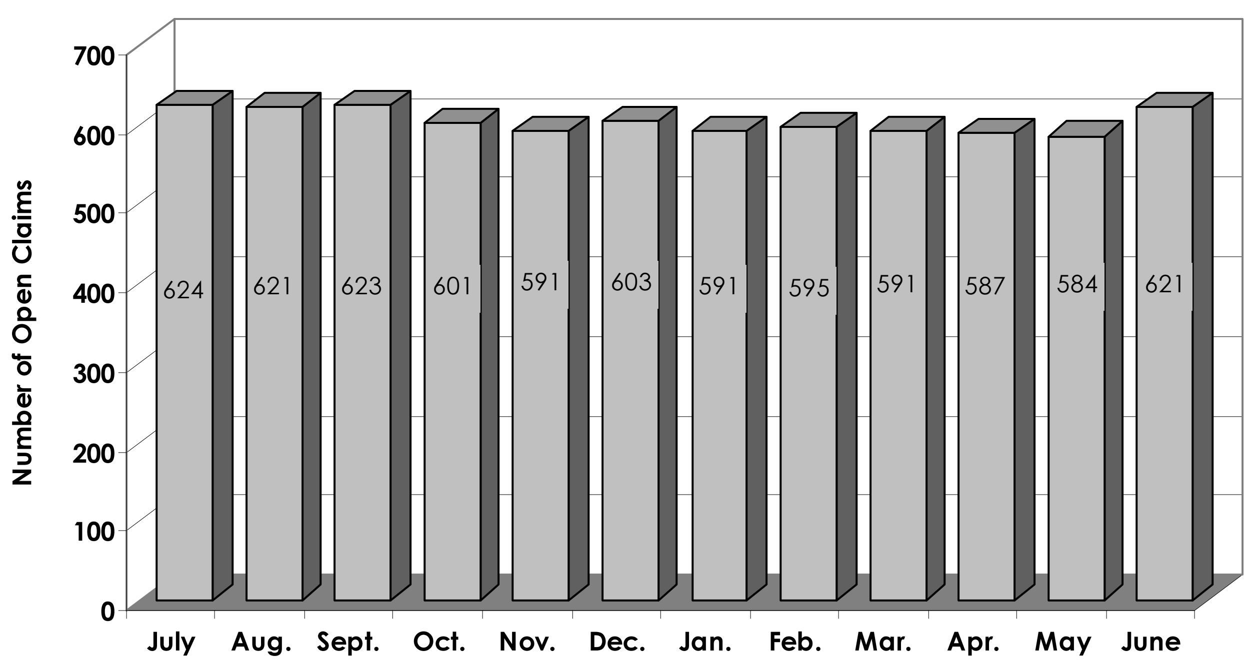
The state is represented before the Commission by the Office of the Attorney General or his delegatee. The Commission maintains two separate dockets: a regular docket consisting of claims with a monetary value of more than $25,000 and a small claims docket for claim of $25,000 and under. The Tennessee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

CLAIMS COMMISSION

NUMBER OF CLAIMS OPENED AND NUMBER OF DISPOSITIONS BY CLAIM TYPE
FISCAL YEAR 2012



CLAIMS COMMISSION OPEN CLAIMS
FISCAL YEAR 2012



RISK MANAGEMENT

Division of Risk Management

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

The state contracts with private insurance brokers to research the insurance marketplace and target only those insurance carriers with the highest A.M. Best ratings, which are capable and willing to provide competitive insurance quotes for the state's various lines of coverage. The lines of insurance coverage that the state acquires include property, builders' risk, aviation, fidelity and crime, boiler and machinery and fine arts. Fiscal year 2011-2012 premium costs for all lines of property and casualty coverage amounted to $4.8 million.

The state's primary level of property insurance limits was increased to $750 million. Flood coverage remained at $50 million, including properties in 100-year flood zones. Earthquake limits, once again, remained at $50 million for all zones except the New Madrid area, where limits were $25 million. The state, however, was able to purchase excess earthquake in the amount of $25 million, providing a total of $50 million coverage for New Madrid zones. The state's annual aggregate deductible is $10 million for property. The perils of earthquake and flood are a $10 million per occurrence deductible each. As of July 1, 2012, total insured property values were $18.7 billion.

The Builders' Risk Insurance Program provides coverage for building construction projects approved by the State Building Commission. The policy provides all-risk coverage for the state agency, general contractor and all subcontractors for the duration of the construction project. In fiscal year 2011-2012, 165 insurance certificates were issued for new construction projects approved by the State Building Commission. Certificates are renewed annually on July 1, for projects continuing from one fiscal year to the next, to ensure continuity of coverage. Coverage limits are $25 million per location and $30 million per occurrence. The contractor is responsible for providing builders' risk coverage for projects exceeding these limits. Evidence of such coverage must be provided to the state prior to beginning the construction project.

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

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

At June 30, 2012, seven state agencies had 54 aircraft where hull insurance and liability insurance coverage quotes were obtained. The purchase of hull insurance is a business decision made by each agency for each aircraft. Liability insurance is purchased for every aircraft. The level of liability coverage varies for each aircraft and is generally based on type of aircraft, usage and size as measured by the number of seats.

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

RISK MANAGEMENT

The prevention and control of losses are important in managing the state's risks. In fiscal year 2011-2012, risk management staff conducted loss prevention surveys at approximately 50 locations. A total of 160 buildings were inspected for fire/life safety hazards.

During these inspections, safety violations were recorded and corrective action reports were submitted to the agencies with recommendations for safety code compliance. Follow up for correction of safety violations is performed timely.

STATE PROPERTY
SUMMARY OF KEY POINTS
FISCAL YEAR 2011-2012

Insurance Coverage Information:	
Insured Property Values	$ 18,789,784,400
Primary Property Limits (Per Occurrence)	750,000,000
Annual Aggregate Deductibles:	
Property	$ 10,000,000
Earthquake (Per Occurrence)	10,000,000
Flood (Per Occurrence)	10,000,000
Builders' Risk	1,000,000

Financing of Estimated Property Losses:	
Cumulative Agency Deductibles (Agency Obligation)	$ 325,000
Risk Management Fund Obligation	797,753
Total Property Losses	$ 1,122,753

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

SMALL AND MINORITY-OWNED BUSINESS ASSISTANCE PROGRAM

Small and Minority-Owned Business (SMOB) Assistance Program

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

The SMOB Program was officially launched in February 2008. The SMOB Program replaced the Small and Minority-Owned Telecommunications Business Assistance Program that was administered by the Department of Economic and Community Development. The Telecommunications Program provided loan guarantees to qualifying businesses. With all program obligations met, the program has been phased out. Whereas the Telecommunications Program focused on a specific facet of industry, the SMOB Program was designed to perpetuate growth on a less restrictive continuum.

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

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

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

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

The Treasury Department handles the daily operation of the Program and oversees activities of the lenders who make the loans to the businesses that qualify for participation in the program.

Lenders for the SMOB Program are:

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

Interested parties may utilize SMOB's website, located at www.tn.gov/treasury/smob, to learn about the program.

OUTSTANDING LOANS AS OF JUNE 30, 2012

Race	Male	Female	Number of Loans	Total Loans By Race
African-American	$ 747,401	$ 763,060	30	$1,510,461
White	312,016	312,194	16	624,210
Other	141,348	117,050	4	258,398
Total Loans	$1,200,765	$1,192,304	50	$2,393,069

Unclaimed Property Division

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

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

During the period July 1, 2011 through June 30, 2012, $56.9 million of cash property was turned over to the Treasurer. This includes $4.0 million remitted by third party audit organizations from out-of-state non-reporting holders for Tennessee residents. An additional $8.2 million in proceeds from stock sales was recognized as revenue.

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

The Treasurer utilizes various methods to locate owners of unclaimed property. Initially, notification is sent 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, external locate research tool, and other sources. Finally the names of owners and last known addresses are advertised in newspapers throughout the state.

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

During the period July 1, 2011 through June 30, 2012, $20.7 million of cash property was returned by the Unclaimed Property Division to the owners or their heirs, local governments and reciprocal states.

Any local government in Tennessee that turns over unclaimed property to the state may request that the property be returned to the local government for safekeeping after it has been held by the state for 18 months. This fiscal year, $661,000 was refunded to 23 local governments.

Tennessee has reciprocal agreements with other unclaimed property programs in other states to exchange property held by one state for owners with a last known address in the other state. Tennessee received $210,000 for residents or former residents in exchange for $1.1 million paid to other states' unclaimed property offices.

Since the program began operations in 1979, $812.6 million in unclaimed property has been reported to the Treasurer and $266.9 million has been returned to owners, heirs, local governments and reciprocal states.

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

UNCLAIMED PROPERTY DIVISION

METHODS USED TO RETURN PROPERTY
FISCAL YEAR 2012

Location Method	Number of Accounts	Value of Claims	Average Claim Value
Website Inquiries	9,321	$ 10,718,575	$1,150
Staff or Other Outreach	306	3,032,410	9,910
Mailings to Last Known Address	3,476	2,474,060	712
Holder Referral or Reimbursement	575	1,746,309	3,037
Advertisement and Television	950	495,970	522
Independent Locator	23	486,642	21,158
Match with Dept. of Labor and Work Force Records	83	25,243	304
Total Claim Payments	14,734	$ 18,979,209	$1,288
Interstate Exchanges	43	1,086,280	
Refunds to Local Governments	23	661,424	
Total Payments	**14,800**	**$ 20,726,913**	

SOURCES OF UNCLAIMED PROPERTY
FISCAL YEARS 2008-2012

	2012	2011	2010	2009	2008
Financial Institutions	30%	27%	23%	19%	24%
Insurance Companies	22%	16%	19%	25%	22%
Retailers, Services, Telecommunications, Colleges	19%	10%	14%	15%	13%
Corporations, Transportation, Manufacturing, Natural Resources	7%	15%	18%	16%	16%
Securities and Brokerage Firms	7%	10%	3%	5%	5%
Hospitals and Health Care	5%	5%	4%	4%	3%
Cities and Counties	5%	8%	8%	5%	6%
Utilities	4%	6%	7%	5%	4%
Other States, Escheat and Other	1%	3%	4%	6%	7%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

ACTIVITY
FISCAL YEARS 2008-2012

	2012	2011	2010	2009	2008
Number of Holders Reporting	7,236	7,577	6,931	5,999	5,891
Number of Properties Received	498,009	529,502	543,412	319,466	371,527
Cash Received (not including shares sold)	$ 56,866,754	$ 60,128,207	$ 50,158,392	$ 50,998,037	$ 52,314,382
Number of Shares Received	3,682,696	13,412,891	1,859,331	2,224,055	2,257,769
Value of Shares Sold	$ 8,189,532	$ 11,408,829	$ 13,659,794	$ 9,148,704	$ 28,157,142
Number of Claims Paid	14,800	18,884	19,446	21,543	16,982
Cash Paid	$ 20,726,913	$ 23,661,977	$ 23,648,637	$ 23,252,511	$ 22,428,974
Shares Paid	150,722	234,684	254,547	270,135	223,892

Administration

Brentwood, Tennessee
By Heather Sczepczenski
Executive Assistant
State Treasurer's Office

STATUTORY DUTIES OF THE STATE TREASURER

Boards and Commissions	Tennessee Code Annotated Section
Access Improvement Project Committee	54-2-207
Advisory Board to Establish Compensation for Use of the Right-of-Way for Underground Fiber Optic Cable Facilities	54-16-112
Advisory Committee to the Trustees of the Fisk University Stieglitz Collection Art Endowment Fund	4-20-201
Advisory Council on Workers' Compensation	50-6-121
Appeals from Gift Tax Appraisals Board	67-8-116
Baccalaureate Education System Trust Board	49-7-804
Board of Claims	9-8-101
Catastrophic Injuries Fund Commission	29-20-408
Chairs of Excellence Endowment Trust	49-7-501
Collateral Pool Board	9-4-506
Commission to Purchase Surplus Federal Property	12-1-103
Council on Pensions & Insurance	3-9-101
Employee Misclassification Advisory Task Force	50-6-919
Governor's Commission on Crime Victims Assistance	Ex. Order 10 of 2003
Local Education Insurance Committee	8-27-301
Local Government Insurance Committee	8-27-207
Public Records Commission	10-7-302
Sick Leave Bank Board	8-50-903
State Board of Equalization	4-3-5101
State Building Commission	4-15-101
State Capitol Commission	4-8-301
State Funding Board	9-9-101
State Insurance Committee	8-27-101
State Protest Committee	4-56-103
State Trust of Tennessee	9-4-806
Tennessee Consolidated Retirement System Board of Trustees	8-34-302
Tennessee Financial Literacy Commission	49-6-1703
Tennessee Higher Education Commission	49-7-204
Tennessee Housing Development Agency	13-23-106
Tennessee Industrial Development Authority	13-16-301
Tennessee Industrial Finance Corporation	4-17-405
Tennessee Local Development Authority	4-31-103
Tennessee Sports Hall of Fame	4-3-5403
Tennessee State School Bond Authority	49-3-1204
Tennessee Student Assistance Corporation	49-4-202
Tuition Guaranty Fund Board	49-7-2018
Volunteer Public Education Trust	49-3-401, et seq.
Workers Compensation Insurance Fund Board	50-6-604

STATUTORY DUTIES OF THE STATE TREASURER (CONTINUED)

ADMINISTRATION	TENNESSEE CODE ANNOTATED SECTION
Advisory Council on Workers' Compensation	50-6-121, et seq.
Baccalaureate Education System Trust	49-7-801, et seq.
Board of Claims	9-8-101, et seq.
Chairs of Excellence Trust	49-7-501—49-7-503
Collateral Pool	9-4-501—9-4-523
Collateral Program	9-4-101—9-4-108
Council on Pensions and Insurance	3-9-101—3-9-104
Criminal Injury Compensation Fund	29-13-101, et seq.
Deferred Compensation	8-25-101, et seq.; 8-25-301, et seq.
Determinations of Reasonableness of Charter School Denials	49-13-108
Escheat	31-6-101, et seq.
Flexible Benefits Plan	8-25-501—8-25-502
Intermediate-Term Investment Fund	9-4-608
Investment Advisory Council	8-37-108
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704—9-4-707
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Pooled Investment Fund	9-4-603
Receipt and Disbursement of Public Funds	8-5-106—8-5-111; 9-4-301, et seq.
Small and Minority-Owned Business Assistance Program	65-5-113
State Cash Management	9-4-106—9-4-108; 9-4-401—9-4-409
State Treasurer's Office	4-3-2401, et seq.; 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
Tennessee Financial Literacy Program	49-6-1701, et seq.
Unclaimed Property	66-29-101, et seq.
Victims of Drunk Drivers Compensation Fund	40-24-107

EXECUTIVE STAFF DIRECTORY

Treasurer's Office		
Treasurer	David H. Lillard, Jr., JD, LLM in Taxation	615-741-2956
Chief of Staff	Janice H. Cunningham	615-741-2956
Deputy Chief of Staff	Joy Harris	615-532-9908
Staff Assistant to the Treasurer	Joshua Stites	615-532-9912
Director of Human Resources/Employee Development	Ann Taylor-Tharpe	615-532-3347
Director of Communications	Blake Fontenay	615-253-2668
Executive Assistant	Heather Sczepczenski	615-741-2956
Legal, Compliance and Internal Audit		
Assistant Treasurer	Christy Allen, JD	615-253-3853
General Counsel	Mary Roberts-Krause, JD	615-253-3855
Assistant General Counsel	Alison Cleaves, JD	615-253-6150
Administrator of Old Age and Survivors Insurance	Mary Griffin, JD	615-741-7902
Administrator of Workers' Compensation Advisory Council	Lynn Ivanick, JD	615-741-4358
Director of Internal Audit	Andrew Furlong, CPA	615-253-2018
Investments and Deferred Compensation		
Assistant Treasurer	Bill Abney, JD, LLM	615-532-1167
Chief Investment Officer	Michael Brakebill, CFA	615-532-1157
Deputy CIO and Fixed Income Director	Andy Palmer, CFA	615-532-1183
Senior Fixed Income Manager	Thomas Kim, CFA	615-253-5416
Equity Director	Michael Keeler, CFA	615-532-1165
Senior Equity Portfolio Manager	Jim Robinson, CFA	615-532-1177
Senior Equity Portfolio Manager	Roy Wellington, CFA	615-532-1151
Real Estate Director	Peter Katseff	615-532-1160
Director of Short-Term Investments	Tim McClure, CCM	615-532-1166
Director of Private Equity	Lamar Villere, CFA	615-532-1154
Director of Deferred Compensation	Kaci Lantz, CFP®	615-253-2347
Retirement Administration and Program Services		
First Deputy Treasurer	Steve Curry, CPA-inactive, CEBS, CCM	615-532-8045
Senior Director of Program Services	Steve Summerall	615-253-4115
TCRS Director	Jill Bachus, CPA, CGFM	615-741-7063
TCRS Assistant Director	Jamie Wayman, CPA	615-741-7063
Counseling Services Manager	Candy O'Leary	615-741-1971
Member Benefits Manager	Erica Nale	615-741-4868
Financial Services Manager	Keevia Battle, CPA	615-741-4913
Assistant Director of Concord	Fred Marshall, CPA	615-253-4871
Small and Minority-Owned Business Program Manager	Jaye Chavis	615-253-2265
Director of College Savings	LaKesha Page	615-532-5888
Director of Unclaimed Property	John Gabriel	615-253-5354
Assistant Director Unclaimed Property	Kellie Williamson	615-253-5356
Criminal Injury Program Manager	Amy Dunlap	615-741-9962
East Tennessee Claims Commissioner	William O. Shults, JD	423-623-9270
Middle Tennessee Claims Commissioner	Robert Hibbett, JD	615-253-1626
West Tennessee Claims Commissioner	Nancy Miller-Herron, JD	731-364-2440
Claims Commission Clerk	Paula Swanson	615-532-9812
Support Services		
Second Deputy Treasurer	Rick DuBray, CPA	615-253-5764
Director of Accounting	Kim Morrow, CPA	615-532-3840
Assistant Director of Accounting	Brian Derrick, CPA	615-532-8051
Director of Management Services	Kerry Hartley, CPA	615-532-8552
Assistant Director of Management Services	Mary Alexander	615-253-8771
Manager of Treasury Operations	Janice Patton	615-253-8757
Director of Information Systems	Tim Sundell	615-532-0734
Assistant Director of Information Systems	David Bauer	615-532-0892

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

TREASURY STAFF

Abney, Bill
Adams, Anne
Alexander, Mary
Allen, Christy
Armistead, James
Arnett, Ron
Atkins, Janice
Aymett, Ron
Bachus, Jill
Baker, Linda[40]
Bandy, Gregory
Battle, Keevia
Bauer, David
Baumgartel, Karen
Brakebill, Michael
Butler, Michelle
Butterfield, Keith[10]
Campbell, Heath[10]
Carpenter, Angela[10]
Chandler, Joseph
Chang, Albert
Chatman, Shirley
Chavis III, Jordan
Christensen, Mary
Cleaves, Alison[10]
Coleman, Kanika
Cook, Hope
Costa, Delcinia
Couch, Janie
Cox, Seth
Crews, Daniel
Culberson, Cavandrea[10]
Cunningham, Janice
Curry, Steve
Curtis, Karen
Curtis, Shawn[15]
Dagnan, Derrick
Daniel, Ted
Daniels, Ruth[35]
Darrell, Pat
Davis, Amanda[10]
Davis, Melissa
Denney, Pam
Derrick, Brian
Dice, Darrell
Dickens, Sarah[5]
Dills, Larissa
Dodson, Marcus
Dorse, Bridget
Doss, Gail
DuBray, Rick
Dunlap, Amy[20]
Elder-Baynes, Stephanie
Esaka, Cassandra
Farmer, Sharon
Farris, Carla
Fohl, Jamie[25]
Fontenay, Blake
Foote, Laura
Fredin, Cort
Fuqua, Monica
Furlong, Andy
Gabriel, John
Gaines, Doug
Giggie, Michael
Gray, Tammy
Green, Carrie
Green, Janice
Griffin, Delores
Griffin, Mary
Gupta, Kushal
Hadley, Chris[5]
Haitas, Matthew
Hall, Sherry
Hargrove, Kathy
Harris, Adrienne
Harris, Joy
Hartley, Kerry
Henry, Roger
Herschberg, Jennifer
Hibbett, Robert
Hicks, Brad
Hoffer, Mandy
Houghtaling, Cindy
Hudgins, Terry
Hunter, Deborah
Hurt, Sandra
Hyder, Patti
Ing, Jamie
Ivanick, Lynn
Jackson, Stacey
Jefferies, Brian
Jernigan, Carla
Johnson, Greg[5]
Johnson, Roxanne
Johnson, Tawana[10]
Jones, Chris
Jorgensen, Chelsea
Katseff, Peter
Keeler, Mike
Kilpatrick, Dawn
Kim, Thomas
King, Jenny[20]
Klar, Markus[5]
Ladd, George
Lantz, Kaci
Li, Liren
Lillard Jr., David
Lyon, Landon
Mackey, Wanda
Maddox, Teresa
Maloney, Brandon
Manson, Cathy[5]
Marshall, Fred
Martin, Alfredia
Mason, Justin
McAdoo, Buffy
McArthur, Andy
McBee, Johnny
McClure, Tim[25]
McDade, Joshua
McDowell, Kenneth
McGee, Shanta
Mercier, Brenda
Miller-Herron, Nancy
Moody, Tory
Moore, Crystal
Morris, Blake
Morrow, Kim
Moulder, Mike
Myers, Barbara
Myers, Rhonda
Nale, Erica[10]
Nelson, Dana
Newberry, Lori
O'Leary, Candy[25]
Oakley, Heather
Oliphant, Sarah
Otts, Kimberly
Oyster, David
Page, LaKesha
Palmer, Andy
Parlow, Yvonne
Parton, Floyd
Patton, Janice[20]
Payne, Jana[5]
Picunko, Jesse
Pierce, Roxanna
Pirtle, Karen
Pritchett, Brad[10]
Rand, Cheri
Reaves, Jessica
Redmond, William
Reynolds, Ian
Rife, Faith
Roberts, Rachel
Roberts-Krause, Mary[25]
Robinson, Jim
Robinson, Mia
Rochelle, Dawn
Ruffin, Justin
Sabin, Stephanie
Sadler, Anthony
Sanders, Sharon
Sanders, Teresa
Sanford, Letha
Scott, Tammie
Sczepczenski, Heather
Shackelford, Stephanie
Shanker, Anita
Shaw, Amy
Shults, William
Simpson, Ben[5]
Singleton, Lori
Slosberg, Carsten
Smith, Anita
Smith, Danny
Smith, Robert
Smotherman, Suzanne
Sprague, Andrew
Staggs, Amanda
Stites, Joshua
Summeral, Steve
Sundell, Tim
Swadley, Breeanna[5]
Swanson, Paula
Taylor-Tharpe, Ann
Tierney, Kevin
Tucker, Anthonio
Uribe, Nicole
Vandyke, Justin
Villere, Lamar
Wagner, Malinda
Wakefield, Gayle[5]
Wakefield, Mark[15]
Washington, Tracey
Wayman, Jamie
Wellington, Roy
Wheeler, Gary
Whitaker, Lauren
Wilkins, Natasha
Willeby, Michael
Williams, Teresa
Williamson, Kellie
Willocks, Dianne[45]
Wilson, Martha
Wilson, Shirley
Wimmer, Genera
Winrow, Karen
Wolfenbarger, Lindsey
Woodard, Vivian
Woodrum, Angela
Wright, Casey
Young, Hannah
Younglove, Sigourney
Zientar, Doreen

[5] Received 5-year service award in 2012
[10] Received 10-year service award in 2012
[15] Received 15-year service award in 2012
[20] Received 20-year service award in 2012
[25] Received 25-year service award in 2012
[30] Received 30-year service award in 2012

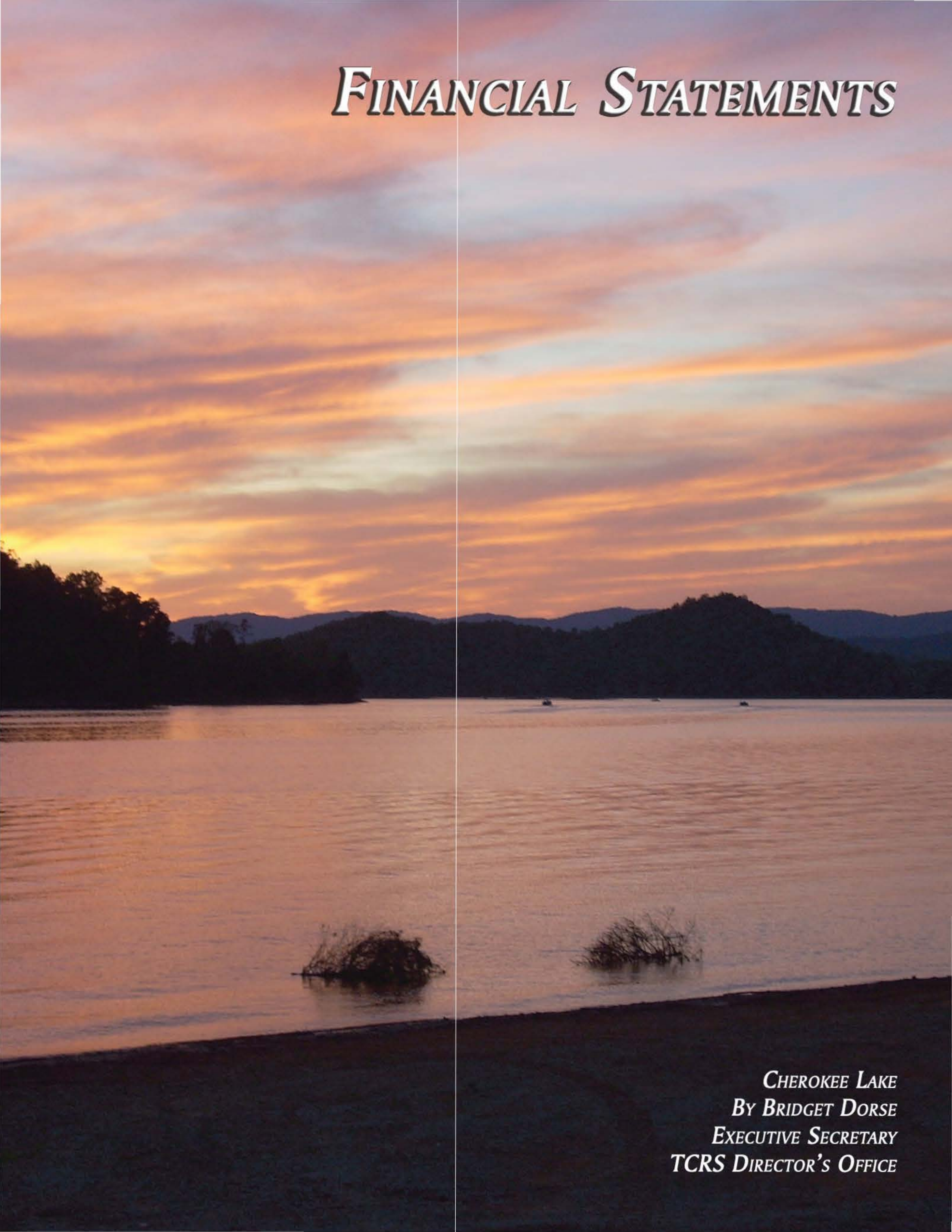
TREASURY INTERNET SERVICES

SERVICES TO THE PUBLIC		
BEST	Program information, rate information, contracts, forms and newsletters	http://treasury.tn.gov/best
Careers NOW	Program information, calendar, campus contacts, job descriptions and applications	http://treasury.tn.gov/now/index.html
Claims Commission	Program information, contacts, rules and statutes	http://treasury.tn.gov/claims/index.html
Criminal Injury Compensation Program	Program information, forms, links to victims' programs nationwide and victims' organizations	http://treasury.tn.gov/injury/index.html
Small and Minority-Owned Business Program	Program information, rules and legislation	http://treasury.tn.gov/smob/index.html
TNStars 529 College Savings Program	Program information, investment options, forms, savings calculator, videos, employer resources, FAQs	http://www.tnstars.com/
Unclaimed Property	Search for unclaimed property, program information, links to other states' programs, holder reporting information, forms, instructions and free software	http://treasury.tn.gov/unclaim/index.html
GOVERNMENT SERVICES		
Bank Collateral Pool	Program information, forms and participants	http://treasury.tn.gov/bank/index.html
Local Government Investment Pool	Information, forms, operations manual, newsletters, past rates, portfolio and investment policy	http://treasury.tn.gov/lgip/index.html
OASI/Social Security	Information, FICA rates, law and forms	http://treasury.tn.gov/oasi/index.html

TREASURY INTERNET SERVICES (CONTINUED)

PUBLIC EMPLOYEE BENEFIT PROGRAMS		
Deferred Compensation	Account access, program information, benefit projection calculator and forms	http://treasury.tn.gov/dc/index.html
Flexible Benefits Plan	Program information and forms	http://treasury.tn.gov/flex/index.html
Optional Retirement Program	Program information, forms, company contacts and product information	http://treasury.tn.gov/orp/index.html
Risk Management	Program and claim process information, property insurance report search, safety check lists, loss control reports and employee safety information/videos	http://treasury.tn.gov/risk/index.html
Tennessee Consolidated Retirement System	Program information, benefits calculator, newsletters, forms, annual report, frequently asked questions and retirement planning information	http://treasury.tn.gov/tcrs/index.html
WORKERS' COMPENSATION		
Advisory Council on Workers' Compensation	Program information, reports, video minutes/meetings and public notices	http://treasury.tn.gov/claims/wcadvisory.html
Workers' Compensation for State Employees Only	Program information, reporting accidents, filing claims, eligibility criteria and provider directory	http://treasury.tn.gov/wc/index.html
OTHER		
About the Treasurer	Statutory duties and biographical information	http://treasury.tn.gov/about.html
Annual Report	Treasurer's Report on-line	http://treasury.tn.gov/TreasurersAnnualReport_2012.pdf
Tennessee Financial Literacy Commission	Program information and resolutions	http://treasury.tn.gov/FinLit/index.html

FINANCIAL STATEMENTS



CHEROKEE LAKE
BY BRIDGET DORSE
EXECUTIVE SECRETARY
TCRS DIRECTOR'S OFFICE

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

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

December 6, 2012

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

Ladies and Gentlemen:

We have audited the accompanying statements of fiduciary net assets of the Baccalaureate Education System Trust, Educational Services Plan, a private-purpose trust fund of the State of Tennessee, as of June 30, 2012, and June 30, 2011, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of the Baccalaureate Education System Trust. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Baccalaureate Education System Trust, Educational Services Plan.

As discussed in Note A.1., the financial statements referred to above present only the Baccalaureate Education System Trust, Educational Services Plan, a private-purpose trust fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Baccalaureate Education System Trust, Educational Services Plan, of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 6, 2012, on our consideration of the Baccalaureate Education System Trust, Educational Services Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN STATEMENTS OF FIDUCIARY NET ASSETS JUNE 30, 2012 AND JUNE 30, 2011

	June 30, 2012	June 30, 2011
ASSETS		
Cash and cash equivalents	$ 1,057,970	$ 1,189,318
Receivables		
Investment income receivable	11	810,384
Other receivable	0	60,000
Investments, at fair value		
Investment in fixed income index fund	59,757,402	48,792,855
Investment in equity index fund	31,916,209	50,491,576
TOTAL ASSETS	92,731,592	101,344,133
LIABILITIES		
Investments purchased	0	810,370
Accounts payable	48,473	0
Other investment payable	9,304	11,066
TOTAL LIABILITIES	57,777	821,436
NET ASSETS HELD IN TRUST FOR PLAN PARTICIPANTS	$ 92,673,815	$ 100,522,697

See accompanying Notes to the Financial Statements.

BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
ADDITIONS		
Contributions	$ 0	$ 1,338,570
Investment income		
Net increase in fair value of investments	834,271	11,945,277
Interest and dividend income	1,355,067	2,813,988
Less: Investment expense	(38,339)	(42,707)
Net investment income	2,150,999	14,716,558
Administrative fees	0	134,560
Transfer from General Fund	0	14,750,000
TOTAL ADDITIONS	2,150,999	30,939,688
DEDUCTIONS		
Refunds	1,069,230	1,814,922
Payments	8,476,846	8,631,053
Administrative cost	453,805	473,297
TOTAL DEDUCTIONS	9,999,881	10,919,272
CHANGE IN NET ASSETS	(7,848,882)	20,020,416
NET ASSETS HELD IN TRUST FOR PLAN PARTICIPANTS		
BEGINNING OF YEAR	100,522,697	80,502,281
END OF YEAR	$ 92,673,815	$ 100,522,697

See accompanying Notes to the Financial Statements.

BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity –** The Tennessee Baccalaureate Education System Trust Fund (BEST), Educational Services Plan (ESEP) is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the BEST has been included in the *Tennessee Comprehensive Annual Financial Report* as a private-purpose trust fund.

2. **Measurement Focus and Basis of Accounting –** The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

3. **Cash and Cash Equivalents –** Cash and Cash Equivalents includes cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received by the ESEP that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund administered by the State Treasurer or a short-term, open-end mutual fund, Northern Institutional Government Portfolio, under the contractual arrangements for master custody services.

4. **Method Used to Value Investments –** Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. The fair value of investments in open-end mutual funds is based on the share price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

B. DEPOSITS AND INVESTMENTS

In accordance with State statute, the ESEP assets may be invested in any instrument, obligation, security or property that constitutes a legal investment for assets of the Tennessee Consolidated Retirement System (TCRS). In addition, the assets of the ESEP may be pooled for investment purposes with the assets of the TCRS or any other assets under the custody of the State Treasurer. The authority for investing the assets of the ESEP is vested in its Board of Trustees and the responsibility for implementing the investment policy established by the Board is delegated to the State Treasurer. The ESEP does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund (SPIF) is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 91-97 of this report.

Credit Risk – The ESEP does not currently own specific fixed income securities, but chooses to invest in an index fund that replicates the Barclays Aggregate Index. At June 30, 2012 and June 30, 2011, the ESEP had $59,757,402 and $48,792,855 respectively, invested in the SSgA US Aggregate Bond Index Fund.

(*CONTINUED*)

BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND JUNE 30, 2011

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the ESEP's investments in fixed income securities as of June 30, 2012 and June 30, 2011 are not available since the SSgA US Aggregate Bond Index Fund is not traded on an exchange and is unrated; however the average rating is AA for the Barclays Aggregate securities which is the basis for the SSgA US Aggregate Index at June 30, 2012 and June 30, 2011. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency. The Northern Institutional Government Portfolio had a credit quality rating of AAA at June 30, 2012 and June 30, 2011.

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

Interest Rate Risk – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The investment policy for the ESEP states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value. The effective duration for the SSgA US Aggregate Bond Index Fund that ESEP utilizes was 5.05 years at June 30, 2012 and 5.17 years at June 30, 2011. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price.

C. DESCRIPTION OF THE EDUCATIONAL SERVICES PLAN

The Tennessee Baccalaureate Education System Trust, Educational Services Plan, administered by the State Treasurer, was created under *Tennessee Code Annotated*, Title 49, Chapter 7, Part 8 for the purpose of improving higher education in the State of Tennessee by assisting students or their families to pay in advance, a portion of the tuition and other costs of attending colleges and universities. Under the program, a purchaser may enter into a contract with the BEST Board of Trustees to purchase tuition units on behalf of a beneficiary. Each tuition unit purchased entitles the beneficiary to an amount no greater than one percent of the weighted average tuition of Tennessee's four-year public universities during the academic term in which it is used; however, the tuition unit or equivalent funds may be used at any accredited public or private, in-state or out-of-state institution. The purchase price of the tuition unit is determined annually by the BEST Board of Trustees with the assistance of an actuary to maintain the plan's financial soundness. During the fiscal year that ended June 30, 2011, the BEST Board of Trustees voted to discontinue selling new prepaid units of tuition as of November 22, 2010 due to the rising cost of tuition. This action will have no effect on units purchased prior to this date. 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. Pursuant to provisions of *State of Tennessee Public Acts, 2010*, Public Chapter No. 1108, during the year ended June 30, 2011, the amount of $14,750,000 was transferred from the State's General Fund to the Educational Services Plan for the purpose of eliminating the current unfunded liability of the plan. The net assets held in trust for plan participants were $5,622,945 more at June 30, 2012, and $12,726,819 more at June 30, 2011, than the amounts needed to fund the outstanding tuition units at their weighted average tuition unit prices in effect at the respective dates.

CHAIRS OF EXCELLENCE
INDEPENDENT AUDITOR'S REPORT

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

December 6, 2012

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

Ladies and Gentlemen:

We have audited the accompanying balance sheets of the Chairs of Excellence, a permanent fund of the State of Tennessee, as of June 30, 2012, and June 30, 2011, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of the Chairs of Excellence. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Chairs of Excellence.

As discussed in Note A.1., the financial statements referred to above present only the Chairs of Excellence, a permanent fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chairs of Excellence of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 6, 2012, on our consideration of the Chairs of Excellence's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

CHAIRS OF EXCELLENCE BALANCE SHEETS JUNE 30, 2012 AND JUNE 30, 2011

	June 30, 2012	June 30, 2011
ASSETS		
Cash and cash equivalents	$ 11,748,236	$ 8,154,888
Investments, at fair value		
Government securities	82,853,089	80,837,836
Corporate securities	38,838,657	37,651,114
Investment in equity mutual fund	118,855,078	120,271,873
Total investments	240,546,824	238,760,823
Receivables		
Due from colleges and universities	315,000	526,316
Investment income receivable	858,507	1,775,257
Total receivables	1,173,507	2,301,573
TOTAL ASSETS	$253,468,567	$249,217,284
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Due to colleges and universities	$ 1,953,124	$ 1,886,589
Due to the Academic Scholars Fund	4,585,220	4,225,050
Investments purchased	1,185,185	0
TOTAL LIABILITIES	7,723,529	6,111,639
FUND BALANCES		
Nonspendable corpus	99,934,963	99,929,963
Restricted	145,810,075	143,175,682
TOTAL FUND BALANCES	245,745,038	243,105,645
TOTAL LIABILITIES AND FUND BALANCES	$253,468,567	$249,217,284

See accompanying Notes to the Financial Statements.

CHAIRS OF EXCELLENCE
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
REVENUES		
Investment income	$ 10,300,357	$ 34,346,000
Contributions from private sources	5,000	0
TOTAL REVENUES	10,305,357	34,346,000
EXPENDITURES		
University of Tennessee	3,626,598	3,429,502
Tennessee Board of Regents	3,481,959	3,132,075
Academic Scholars Fund	360,170	153,710
Administrative cost	197,237	190,697
TOTAL EXPENDITURES	7,665,964	6,905,984
EXCESS OF REVENUES OVER EXPENDITURES	2,639,393	27,440,016
FUND BALANCES, BEGINNING OF YEAR	243,105,645	215,665,629
FUND BALANCES, END OF YEAR	$ 245,745,038	$ 243,105,645

See accompanying Notes to the Financial Statements.

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity –** The Chairs of Excellence (COE) Trust forms an integral part of the primary government and has been included as a permanent fund in the *Tennessee Comprehensive Annual Financial Report.*

2. **Measurement Focus and Basis of Accounting –** The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available, and expenditures are recognized when the related fund liability is incurred. Interest associated with the current fiscal year is considered to be available if received in six months.

3. **Cash and Cash Equivalents –** Cash and cash equivalents include cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received by the COE Trust that cannot be immediately invested in securities, or that is needed for operations, is invested in either the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer or a short-term, open-end mutual fund, Northern Institutional Government Portfolio, under the contractual arrangement for master custody services.

4. **Method Used to Value Investments –** Investments are reported at fair value. For fair value reporting, securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of investments in open-end mutual funds is based on the share price. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments, and interest and dividend income. Securities and securities transactions are recorded in the financial statements on trade-date basis.

5. **Fund Balances –** Nonspendable fund balance includes amounts that cannot be spent because they are legally or contractually required to be maintained intact. The COE Trust's nonspendable corpus consists of funds provided by contributions from the state, colleges and universities, and private sources. Restricted fund balance includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The COE Trust's restricted fund balance consists of investment income that must be used for funding the Chairs of Excellence program.

6. **Adoption of New Accounting Pronouncement –** During the year ended June 30, 2011, the COE Trust adopted the provisions of Statement No. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the COE Trust is bound to honor constraints on the specific purposes for which amounts can be spent.

(*CONTINUED*)

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

B. DEPOSITS AND INVESTMENTS

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

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

(CONTINUED)

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

As of June 30, 2012 and June 30, 2011, the COE Trust had the following investments (expressed in thousands:

Investment Type	Fair Value as of June 30, 2012	U.S Treasury/ Agency (1)	Credit Quality Ratings AAA	AA	A	BBB	CCC	Not Rated
Debt Investments								
U.S. Government Agencies	$ 5,314	$ 2,348		$ 2,966				
U.S. Government TIPS	28,480	28,480						
U.S. Government Treasuries	14,599	14,599						
Municipal Bonds	3,626		$ 584	2,525	$ 517			
Government Asset Backed	991	991						
Government Mortgage Backed	29,843	3,250						$26,593 (2)
Corporate Asset Backed	261		261					
Corporate Bonds	33,797		1,640	3,304	11,280	$16,569		1,004
Corporate Mortgage Backed	4,781		2,650	1,656			$475	
Total Debt Investments	$121,692	$49,668	$5,135	$10,451	$11,797	$16,569	$475	$27,597
Other Investments								
Commingled Funds								
U.S. Equity	$ 89,937							
Non - U.S. Equity	28,918							
Money Market Mutual Funds (rated AAA)	11,851							
Total Other Investments	$130,706							
Total Investments	$252,398							
Less: Investments Classified as Cash Equivalents on Balance Sheet	(11,851)							
Total Investments as Shown on Balance Sheet	$240,547							

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U. S. government.

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

Investment Type	Fair Value as of June 30, 2011	U.S Treasury/ Agency (1)	Credit Quality Ratings AAA	AA	A	BBB	CCC	Not Rated
Debt Investments								
U.S. Government Agencies	$ 7,386	$ 1,731	$ 4,615	$1,040				
U.S. Government TIPS	25,027	25,027						
U.S. Government Treasuries	16,024	16,024						
Municipal Bonds	2,903		2,381	522				
Government Asset Backed	1,013	1,013						
Government Mortgage Backed	28,485	4,152						$24,333 (2)
Corporate Asset Backed	929		929					
Corporate Bonds	31,033		1,520	6,603	$11,717	$10,178		1,015
Corporate Mortgage Backed	5,689		5,076				$613	
Total Debt Investments	$118,489	$47,947	$14,521	$8,165	$11,717	$10,178	$613	$25,348
Other Investments								
Commingled Funds								
U.S. Equity	$ 86,284							
Non - U.S. Equity	33,988							
Money Market Mutual Funds (rated AAA)	8,200							
Total Other Investments	$128,472							
Total Investments	$246,961							
Less: Investments Classified as Cash Equivalents on Balance Sheet	(8,200)							
Total Investments as Shown on Balance Sheet	$238,761							

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U. S. government.

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

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the COE Trust's investments in fixed income securities as of June 30, 2012 and June 30, 2011 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency. The Northern Institutional Government Portfolio has a credit quality rating of AAA at June 30, 2012 and June 30, 2011.

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

As noted above, the COE Trust does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash purposes. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 91-97 of this report.

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

	June 30, 2012		June 30, 2011	
Issuer Organization	**Fair Value**	**Percentage**	**Fair Value**	**Percentage**
Federal National Mortgage Association	$ 20,558,296	8.55%	$ 20,567,915	8.61%

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

Interest Rate Risk – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The investment policy for the COE Trust states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. The fixed income portfolio is benchmarked against the Barclays Aggregate Index and tends to have a duration within a tight range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The COE Trust had the following investments and effective duration at June 30, 2012 and June 30, 2011 (expressed in thousands).

(CONTINUED)

CHAIRS OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

Debt Investments

(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2012	Effective Duration (years)
Debt Investments		
U.S. Government Agencies	$ 5,314	3.62
U.S. Government TIPS	28,480	8.53
U.S. Government Treasuries	14,599	8.48
Municipal Bonds	3,626	7.53
Government Asset Backed	991	4.39
Government Mortgage Backed	29,843	1.23
Corporate Asset Backed	261	0.00
Corporate Bonds	33,797	6.24
Corporate Mortgage Backed	4,781	1.44
Total Debt Investments	$ 121,692	5.52

Investment Type	Fair Value as of June 30, 2011	Effective Duration (years)
Debt Investments		
U.S. Government Agencies	$ 7,386	2.69
U.S. Government TIPS	25,027	3.51
U.S. Government Treasuries	16,024	7.69
Municipal Bonds	2,903	7.60
Government Asset Backed	1,013	7.64
Government Mortgage Backed	28,485	2.17
Corporate Asset Backed	929	0.11
Corporate Bonds	31,033	5.37
Corporate Mortgage Backed	5,689	1.81
Total Debt Investments	$ 118,489	4.22

Asset Backed Securities – The COE Trust invests in collateralized mortgage obligations (CMOs) which are mortgage backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The fair value of CMOs at June 30, 2012 was $4,780,616 of which $2,585,576 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2011 was $5,689,161 of which $2,901,938 were CMOs that are generally more sensitive to interest rate changes.

C. OTHER ACCOUNTING DISCLOSURES

1. **Chairs of Excellence Endowment Trust –** The COE Trust is authorized by the 94th General Assembly to further the cause of education in Tennessee. The COE Trust is administered by the State Treasurer. The Trust is set up into two general accounts which equally divide any state appropriations: one for the University of Tennessee and one for the Tennessee Board of Regents. As each Chair is designated, a portion of the appropriation is transferred to a 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, 2012, 99 Chairs have been established with matching contributions received totaling $55,934,963. Total contributions to the COE Trust totaled $99,934,963 as of June 30, 2012. This includes $44,000,000 from the State, $10,321,300 from Colleges and Universities, and $45,613,663 from private contributions.

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

CRIMINAL INJURIES COMPENSATION FUND
INDEPENDENT AUDITOR'S REPORT

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

December 6, 2012

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

Ladies and Gentlemen:

We have audited the accompanying balance sheets of the Criminal Injuries Compensation Fund, a special revenue fund of the State of Tennessee, as of June 30, 2012, and June 30, 2011, and the related statements of revenues, expenditures, and changes in fund balances and revenues, expenditures, and changes in fund balances (budget and actual) for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

As discussed in Note A.1., the financial statements referred to above present only the Criminal Injuries Compensation Fund, a special revenue fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position and budgetary comparisons for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Criminal Injuries Compensation Fund of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position and budgetary comparisons for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 6, 2012, on our consideration of the Criminal Injuries Compensation Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

CRIMINAL INJURIES COMPENSATION FUND
BALANCE SHEETS
JUNE 30, 2012 AND JUNE 30, 2011

	June 30, 2012	June 30, 2011
ASSETS		
Cash	$14,197,651	$10,406,269
Accounts receivable	535,238	625,420
Due from federal government	0	3,848,000
TOTAL ASSETS	$14,732,889	$14,879,689
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 105,646	$ 113,574
Claims liability	5,805,571	5,620,078
TOTAL LIABILITIES	5,911,217	5,733,652
FUND BALANCES		
Committed for victims of drunk drivers (see Note B.2)	1,329,394	1,283,944
Committed for compensation under the Criminal Injuries Compensation Act	7,492,278	7,862,093
TOTAL FUND BALANCES	8,821,672	9,146,037
TOTAL LIABILITIES AND FUND BALANCES	$14,732,889	$14,879,689

See accompanying Notes to the Financial Statements.

CRIMINAL INJURIES COMPENSATION FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
REVENUES		
State		
Fines	$ 6,353,236	$ 6,369,594
Fees	2,321,596	2,353,382
Federal	4,991,000	3,848,000
Interest income	12,581	19,749
Other	577,132	472,102
TOTAL REVENUES	14,255,545	13,062,827
EXPENDITURES		
Claim payments	13,242,525	13,200,484
Victims' coalition grant	98,692	100,000
District Attorneys General grant	242,900	230,400
Administrative cost	995,793	1,082,823
TOTAL EXPENDITURES	14,579,910	14,613,707
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(324,365)	(1,550,880)
FUND BALANCES, BEGINNING OF YEAR	9,146,037	10,696,917
FUND BALANCES, END OF YEAR	$ 8,821,672	$ 9,146,037

See accompanying Notes to the Financial Statements.

CRIMINAL INJURIES COMPENSATION FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

	For the Year Ended June 30, 2012			For the Year Ended June 30, 2011		
	Original Budget	Final Budget	Actual (Budgetary Basis)	Original Budget	Final Budget	Actual (Budgetary Basis)
SOURCES OF FINANCIAL RESOURCES						
FUND BALANCES, BEGINNING OF YEAR	$ 9,146,037	$ 9,146,037	$ 9,146,037	$10,696,917	$10,696,917	$10,696,917
REVENUES						
Fines	7,674,500	7,674,500	6,353,236	6,600,000	6,600,000	6,369,594
Fees	2,353,400	2,353,400	2,321,596	3,000,000	3,000,000	2,353,382
Federal	5,020,000	5,020,000	4,991,000	3,700,000	3,700,000	3,848,000
Interest income	0	0	12,581	0	0	19,749
Other	472,100	472,100	577,132	900,000	900,000	472,102
TOTAL SOURCES OF FINANCIAL RESOURCES	24,666,037	24,666,037	23,401,582	24,896,917	24,896,917	23,759,744
USES OF FINANCIAL RESOURCES						
EXPENDITURES						
Claim payments	15,000,000	14,657,100	13,242,525	15,000,000	14,676,860	13,200,484
Victims' coalition grant	0	100,000	98,692	0	100,000	100,000
District Attorneys General grant	0	242,900	242,900	0	223,140	230,400
Administrative cost	960,000	960,000	995,793	900,000	900,000	1,082,823
TOTAL USES OF FINANCIAL RESOURCES	15,960,000	15,960,000	14,579,910	15,900,000	15,900,000	14,613,707
FUND BALANCES, END OF YEAR	$ 8,706,037	$ 8,706,037	$ 8,821,672	$ 8,996,917	$ 8,996,917	$ 9,146,037

See accompanying Notes to the Financial Statements.

CRIMINAL INJURIES COMPENSATION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

A. Summary of Significant Accounting Policies

1. **Reporting Entity –** The Criminal Injuries Compensation Fund (CICF) is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as a special revenue fund. The Criminal Injuries Compensation Program is funded through fines assessed in courts against certain criminal defendants upon conviction, fees levied against parolees and probationers, proceeds from bond forfeitures in felony cases, donations from individuals serving as jurors, interest income and a federal grant. Payments made under the CIC program are intended to defray the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either the victim of a crime or to the dependents of deceased victims.

2. **Measurement Focus and Basis of Accounting –** The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available, and expenditures are recognized at the time the fund liabilities are incurred. For revenue recognition purposes, fines and bond forfeitures are considered to be available if received in the first sixty days of the new fiscal year. Federal grants, departmental services, and interest associated with the current fiscal year are all considered to be available if received in six months. All other revenue items are considered to be measurable and available only when cash is received by the Criminal Injuries Compensation Fund.

   Generally, the CICF receives both restricted and committed resources. Restricted funds are those that are restricted for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Committed funds can only be used for specific purposes as a result of constraints imposed by the Tennessee General Assembly-the fund's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Tennessee General Assembly removes those constraints by taking the same type of action (i.e., legislation). When both the restricted and other fund balance resources are available for use, it is the policy for the fund to use the restricted resources first, followed by the committed amounts.

3. **Cash –** The Criminal Injuries Compensation Fund does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The State Pooled Investment Fund is not rated by a nationally recognized statistical ratings agency. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 91-97 of this report.

4. **Budgetary Process –** Legislation requires that annual budgets be adopted for special revenue funds. The CICF budget is included in the budget presented by the Governor to the General Assembly at the beginning of each annual legislative session. The CICF annual budget is prepared on the modified accrual basis of accounting. Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or administrative intradepartmental transfers, may be affected with certain executive and legislative branch approval. Only the legislature may transfer appropriations between departments.

CRIMINAL INJURIES COMPENSATION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

5. **Adoption of New Accounting Pronouncement –** During the year ended June 30, 2011, the fund adopted the provisions of Statement No. 54 of the Governmental Accounting Standards Board, *Fund Balance Reporting and Governmental Fund Type Definitions.* The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the fund is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.

B. <u>Other Accounting Disclosures</u>

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

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

FLEXIBLE BENEFITS PLAN
INDEPENDENT AUDITOR'S REPORT

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

December 6, 2012

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

Ladies and Gentlemen:

We have audited the accompanying statements of fiduciary net assets of the Flexible Benefits Plan, an employee benefit trust fund of the State of Tennessee, as of June 30, 2012, and June 30, 2011, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

As discussed in Note A.1., the financial statements referred to above present only the Flexible Benefits Plan, an employee benefit trust fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Flexible Benefits Plan of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 6, 2012, on our consideration of the Flexible Benefits Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

FLEXIBLE BENEFITS PLAN
STATEMENTS OF FIDUCIARY NET ASSETS
JUNE 30, 2012 AND JUNE 30, 2011

	June 30, 2012	June 30, 2011
ASSETS		
Cash	$ 947,492	$1,225,992
Contributions receivable	269,093	301,421
TOTAL ASSETS	1,216,585	1,527,413
LIABILITIES		
Accounts payable	3,077	52,066
TOTAL LIABILITIES	3,077	52,066
NET ASSETS		
Held in trust for employees' flexible benefits	$1,213,508	$1,475,347

See accompanying Notes to the Financial Statements.

FLEXIBLE BENEFITS PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

	June 30, 2012	June 30, 2011
ADDITIONS		
Employee contributions	$8,060,267	$ 8,555,379
TOTAL ADDITIONS	8,060,267	8,555,379
DEDUCTIONS		
Employee reimbursements	8,051,268	7,964,291
Administrative cost	270,838	164,338
TOTAL DEDUCTIONS	8,322,106	8,128,629
CHANGE IN NET ASSETS	(261,839)	426,750
NET ASSETS, BEGINNING OF YEAR	1,475,347	1,048,597
NET ASSETS, END OF YEAR	$1,213,508	$ 1,475,347

See accompanying Notes to the Financial Statements.

FLEXIBLE BENEFITS PLAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity –** The Flexible Benefits Plan is made available to state employees as an employee benefit. This plan is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the Flexible Benefits Plan is included in the *Tennessee Comprehensive Annual Financial Report (CAFR)* as an employee benefit trust fund. The state offers its employees a cafeteria plan created in accordance with *Internal Revenue Code Section 125*. The plan is available on an optional basis to all state employees. Through the plan, employees may elect to direct a portion of their salary to pay for certain benefits. Benefits which may be purchased through the plan include state group medical insurance, state group dental insurance, out-of-pocket medical expenses and/or dependent care expenses. Because elections must be filed before the salary or the benefits are received and because salary directed to the plan may not be withdrawn by participants for any other purpose, salary directed to the plan is exempt from federal income tax and social security tax. Elections made by employees may not be changed during the calendar plan year except in the event of a corresponding change in the participant's family status. Participants may claim expenses incurred through March 15th following the end of the plan year. Any contributions to the plan not withdrawn are forfeited to the state and are used for defraying administrative costs. In calendar year 2009, the state added reimbursement accounts for transportation and parking expenses in accordance with *Internal Revenue Code Section 132*. These plans operate in much the same manner as the *Section 125* plans in that employees may elect to direct a portion of their salary tax-exempt to pay for transportation or parking expenses. However, there are no restrictions on time of enrollment or account changes and any contributions not used will be rolled forward to the following year instead of forfeited.

2. **Measurement Focus and Basis of Accounting –** The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

3. **Cash –** The Flexible Benefits Plan does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The State Pooled Investment Fund is not rated by a nationally recognized statistical ratings agency. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 91-97 of this report.

4. **Participant Contribution Forfeitures and Plan Administration –** Participant contributions not reimbursed to participants and forfeited to the plan for the latest closed plan year are transferred to the Treasury Department and applied toward funding a portion of the plan administrative cost. The remaining administrative costs for the plan are recovered directly from funds of the participating employer agencies. The amount forfeited is reflected on the Statement of Changes in Fiduciary Net Assets as administrative cost.

RISK MANAGEMENT FUND
INDEPENDENT AUDITOR'S REPORT

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

December 6, 2012

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

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Risk Management Fund, an internal service fund of the State of Tennessee, as of June 30, 2012, and June 30, 2011, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the Board of Claims. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Risk Management Fund.

As discussed in Note A.1., the financial statements referred to above present only the Risk Management Fund, an internal service fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Risk Management Fund of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 6, 2012, on our consideration of the Risk Management Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

RISK MANAGEMENT FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND JUNE 30, 2011

	June 30, 2012	June 30, 2011
ASSETS		
Current assets		
Cash	$ 97,219,518	$ 107,638,216
Due from federal government	9,794,547	0
Accounts receivable	0	86,600
Total current assets	107,014,065	107,724,816
Noncurrent assets		
Due from federal government	901,336	10,372,508
TOTAL ASSETS	107,915,401	118,097,324
LIABILITIES		
Current liabilities		
Accounts payable	861,570	888,870
Deferred revenue	8,000	8,000
Claims liability	34,094,841	44,753,322
Total current liabilities	34,964,411	45,650,192
Noncurrent liabilities		
Claims liability	63,885,662	58,974,305
TOTAL LIABILITIES	98,850,073	104,624,497
NET ASSETS - UNRESTRICTED	$ 9,065,328	$ 13,472,827

See accompanying Notes to the Financial Statements.

RISK MANAGEMENT FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
OPERATING REVENUES		
Casualty premiums	$ 42,692,300	$ 41,045,900
Property premiums	8,280,300	6,735,700
TOTAL OPERATING REVENUES	50,972,600	47,781,600
OPERATING EXPENSES		
Torts		
Death	1,365,833	553,983
Bodily injury	4,825,608	3,278,126
Property damage	877,673	976,579
Total Torts	7,069,114	4,808,688
Workers' Compensation		
Death	188,932	367,109
Medical	15,642,340	14,206,183
Temporary disability	4,065,553	3,794,560
Permanent disability	7,201,501	8,012,299
Total Workers' Compensation	27,098,326	26,380,151
Property Damage		
Employee property	18,827	60,847
State owned property	9,010,276	12,517,066
Total Property Damage	9,029,103	12,577,913
Property insurance premiums	4,813,658	3,910,151
Professional/Administrative	9,542,107	9,354,811
Reduction of accrued liability	(1,732,301)	(4,838,772)
TOTAL OPERATING EXPENSES	55,820,007	52,192,942
OPERATING LOSS	(4,847,407)	(4,411,342)
NON-OPERATING REVENUES		
Grant revenue	323,375	1,374,426
Interest income	114,318	219,778
Taxes	2,215	2,225
TOTAL NON-OPERATING REVENUES	439,908	1,596,429
CHANGE IN NET ASSETS	(4,407,499)	(2,814,913)
NET ASSETS, BEGINNING OF YEAR	13,472,827	16,287,740
NET ASSETS, END OF YEAR	$ 9,065,328	$ 13,472,827

See accompanying Notes to the Financial Statements.

RISK MANAGEMENT FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from premiums	$ 51,059,200	$ 47,695,000
Receipts for insurance proceeds	296,308	7,500,000
Payments for claims	(47,827,151)	(48,838,442)
Payments for administrative expenses	(9,201,438)	(9,512,163)
Payments for insurance premiums	(4,862,150)	(3,929,600)
NET CASH FROM OPERATING ACTIVITIES	(10,535,231)	(7,085,205)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Taxes received	2,215	2,225
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	2,215	2,225
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	114,318	219,778
NET CASH FROM INVESTING ACTIVITIES	114,318	219,778
NET DECREASE IN CASH	(10,418,698)	(6,863,202)
CASH, BEGINNING OF YEAR	107,638,216	114,501,418
CASH, END OF YEAR	$ 97,219,518	$ 107,638,216
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
OPERATING LOSS	$ (4,847,407)	$ (4,411,342)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	86,600	(86,600)
Increase (decrease) in accounts payable	(27,300)	314,896
Decrease in claims liability	(5,747,124)	(2,902,159)
TOTAL ADJUSTMENTS	(5,687,824)	(2,673,863)
NET CASH FROM OPERATING ACTIVITIES	$ (10,535,231)	$ (7,085,205)

See accompanying Notes to the Financial Statements.

RISK MANAGEMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

A. Summary of Significant Accounting Policies

1. **Reporting Entity –** The Risk Management Fund (RMF) is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an internal service fund.

2. **Measurement Focus and Basis of Accounting –** The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The RMF generally follows private sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The RMF distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the services provided by the RMF. The principal operating revenue of the RMF consists of charges to its customers for insurance premiums. Operating expenses include claims expenses, insurance premiums, administrative expenses and the current charge to the accrued liability. Revenues and expenses not resulting from the services provided by the RMF are reported as nonoperating revenues and expenses.

3. **Cash –** The Risk Management Fund does not maintain its own bank accounts but utilizes the State Pooled Investment Fund for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The State Pooled Investment Fund is not rated by a nationally recognized ratings agency. The investment policy and required risk disclosures relative to the State Pooled Investment Fund are presented on pages 91-97 of this report.

B. Other Accounting Disclosures

1. **Risk Management –** It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice liability, and workers' compensation. By statute, the maximum liablilty for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1 million per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the RMF. The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012) and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, thus builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum

(CONTINUED)

RISK MANAGEMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

earthquake insurance coverage is $50 million per occurence. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the past three fiscal years. All agencies and authorities of the state participate in the RMF, except for the Dairy Promotion Board and the Certified Cotton Growers' Organization. The Tennessee Education Lottery Corporation participates in the RMF for general liability purposes but is responsible for its own worker's compensation coverage.

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was $90,030,000 (discounted at 1.5%) at June 30, 2012 and $86,167,698 (discounted at 2.0%) at June 30, 2011. The accrued liability for incurred property losses was $7,950,503 at June 30, 2012 and $17,559,929 at June 30, 2011. The changes in the balances of the claims liabilities during fiscal years 2011 and 2012 were as follows:

Fiscal Year	Beginning Claims Liability	Current Year Claims and Changes in Estimates	Claim Payments	Advance of Insurance Proceeds	Ending Claims Liability
2012	$103,727,627	$41,464,242	($47,211,366)	$ 0	$ 97,980,503
2011	106,629,786	38,927,980	($49,330,139)	7,500,000	103,727,627

The RMF held $97.2 million in cash at June 30, 2012 and $107.6 million in cash at June 30, 2011 that is designated for payment of these claims.

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

2. **Receivable –** The receivables shown on the Statement of Net Assets as due from federal government include funds to be received from the Federal Emergency Management Agency for property losses that were classified as a disaster.

3. **Insurance Proceeds –** The State suffered a large loss as the result of a flood in May 2010. The state's insurance company provided an advance payment of $7.5 million in fiscal year 2011 and $5 million in fiscal year 2010 to assist the State in its recovery efforts. The flood losses are estimated to be approximately $16.8 million and the insurance company is responsible for the flood losses exceeding the $5 million deductible. These proceeds will be passed on to state agencies as costs related to these losses are incurred. As of June 30, 2012, $8.5 million has been paid to state agencies for flood losses from insurance proceeds.

STATE POOLED INVESTMENT FUND
INDEPENDENT AUDITOR'S REPORT

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

December 6, 2012

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

Ladies and Gentlemen:

We have audited the accompanying statements of fiduciary net assets of the State Pooled Investment Fund as of June 30, 2012, and June 30, 2011, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the State Funding Board. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the State Pooled Investment Fund.

As discussed in Note A.1., the financial statements referred to above present only the State Pooled Investment Fund of the State of Tennessee and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State Pooled Investment Fund of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 6, 2012, on our consideration of the State Pooled Investment Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

STATE POOLED INVESTMENT FUND
STATEMENTS OF FIDUCIARY NET ASSETS
JUNE 30, 2012 AND JUNE 30, 2011

	June 30, 2012	June 30, 2011
ASSETS		
Cash and cash equivalents	$ 2,310,018,504	$ 2,261,170,913
Short-term investments, at amortized cost	5,793,426,563	4,987,592,606
Investment receivable	101,157,466	0
Accrued income receivable	21,849,832	2,629,975
TOTAL ASSETS	8,226,452,365	7,251,393,494
LIABILITIES AND NET ASSETS		
NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS	$ 8,226,452,365	$ 7,251,393,494

See accompanying Notes to the Financial Statements.

STATE POOLED INVESTMENT FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
OPERATIONS		
Investment income	$ 12,134,874	$ 17,939,345
Expenses		
Administrative fee	3,867,738	3,429,925
Custodian and banking services fees	49,193	100,968
Total expenses	3,916,931	3,530,893
NET INVESTMENT INCOME	8,217,943	14,408,452
CAPITAL SHARE TRANSACTIONS (DOLLAR AMOUNTS AND NUMBER OF SHARES ARE THE SAME)		
Shares sold	39,327,120,570	41,421,398,801
Less shares redeemed	38,360,279,642	41,090,379,860
INCREASE FROM CAPITAL SHARE TRANSACTIONS	966,840,928	331,018,941
TOTAL INCREASE IN NET ASSETS	975,058,871	345,427,393
NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS		
BEGINNING OF YEAR	7,251,393,494	6,905,966,101
END OF YEAR	$ 8,226,452,365	$ 7,251,393,494

See accompanying Notes to the Financial Statements.

STATE POOLED INVESTMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity –** The State Pooled Investment Fund (SPIF) is an external investment pool sponsored by the State of Tennessee. The external portion of the State Pooled Investment Fund, consisting of funds belonging to entities outside of the State of Tennessee Financial Reporting Entity, has been included as a separate investment trust fund in the Tennessee Comprehensive Annual Financial Report. The internal portion, consisting of funds belonging to the State and its component units, has been included in the various participating funds and component units in the Tennessee Comprehensive Annual Financial Report.

2. **Measurement Focus and Basis of Accounting –** The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

3. **Cash and Cash Equivalents –** This classification includes deposits in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by the State.

4. **Method Used to Report Investments and Participant Shares –** The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board of the State of Tennessee (Funding Board), operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal years ended June 30, 2012 and June 30, 2011, the State had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

B. DEPOSITS AND INVESTMENTS

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

At June 30, 2012 and June 30, 2011, the principal amount of certificates of deposit in state depositories was $606,560,000 and $689,105,000 respectively. Interest rates on certificates of deposit held at June 30, 2012 ranged from 0.20% to 0.30% and at June 30, 2011 ranged from 0.20% to 0.40%. The days to maturity on certificates of deposit ranged from 14 to 271 days at June 30, 2012, and from 7 to 275 days at June 30, 2011.

As of June 30, 2012 and June 30, 2011, the SPIF had the following investments:

(CONTINUED)

STATE POOLED INVESTMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

Investments
(Expressed in Thousands)

2012

Investment Type	Carrying Amount	Fair Value	Par Value	Interest Rate Range	Days to Maturity	U.S. Treasury(1)	Carrying Amount Credit Quality Ratings			
							AAA	AA	A1(2)	Not Rated (3)
Cash Equivalents and Short-term Investments:										
U.S. Government Agencies	$3,576,657,290	$3,576,432,226	$3,568,519,000	0.00% - 5.13%	32 - 397		$49,998,398	$2,032,893,472		$1,493,765,419
U.S. Government Treasuries	2,329,353,055	2,329,280,930	2,315,000,000	0.03% - 4.38%	27 - 397	$2,329,353,055				
Commercial Paper	777,982,873	777,984,650	778,000,000	0.04% - 0.20%	3 - 42				$777,982,873	
Total Cash Equivalents and Short-term Investments	$6,683,993,218	$6,683,697,806	$6,661,519,000			$2,329,353,055	$49,998,398	$2,032,893,472	$777,982,873	$1,493,765,419
Less: short-term investments classified as cash equivalents on Statement of Fiduciary Net Assets	(1,254,341,655)									
Add: certificates of deposit classified as short-term investments on Statement of Fiduciary Net Assets	363,775,000									
Short-term investments as shown on Statement of Fiduciary Net Assets	$5,793,426,563									

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

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

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

2011

Investment Type	Carrying Amount	Fair Value	Par Value	Interest Rate Range	Days to Maturity	U.S. Treasury(1)	Carrying Amount Credit Quality Ratings			
							AAA	AA	A1(2)	Not Rated (3)
Cash Equivalents and Short-term Investments:										
U.S. Government Agencies	$3,862,483,749	$3,862,720,440	$3,856,731,000	0.03% - 2.25%	25 - 410		$934,894,622			$2,927,589,127
U.S. Government Treasuries	1,105,065,549	1,105,682,080	1,106,000,000	0.02% - 1.00%	90 - 344	$1,105,065,549				
Commercial Paper	859,959,981	859,962,000	860,000,000	0.02% - 0.17%	1 - 45				$859,959,981	
Total Cash Equivalents and Short-term Investments	$5,827,509,279	$5,828,364,520	$5,822,731,000			$1,105,065,549	$934,894,622	$0	$859,959,981	$2,927,589,127
Less: short-term investments classified as cash equivalents on Statement of Fiduciary Net Assets	(1,214,671,673)									
Add: certificates of deposit classified as short-term investments on Statement of Fiduciary Net Assets	374,755,000									
Short-term investments as shown on Statement of Fiduciary Net Assets	$4,987,592,606									

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

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

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

(CONTINUED)

STATE POOLED INVESTMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the SPIF's investments in debt securities as of June 30, 2012 and June 30, 2011 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The SPIF's investment policy requires a AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

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

(CONTINUED)

STATE POOLED INVESTMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

June 30,2012		
Issuer Organization	**Carrying Amount**	**Percentage of Total Investments**
Federal Home Loan Banks	$ 1,444,171,300	21.60%
Federal Home Loan Mortgage Corporation	1,428,535,195	21.37%
BNP	349,996,500	5.24%

June 30,2011		
Issuer Organization	**Carrying Amount**	**Percentage of Total Investments**
Federal Farmers Credit Banks	$ 1,212,494,243	20.81%
Federal National Mortgage Association	1,152,389,012	19.77%
Federal Home Loan Mortgage Corporation	1,093,304,313	18.76%
Federal Home Loan Banks	404,296,181	6.94%

Interest Rate Risk – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the dollar weighted average maturity of the pool shall not exceed one hundred twenty (120) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety seven (397) calendar days. At June 30, 2012, the weighted average maturity of the pool was one hundred twenty four (124) days, which was in violation of the investment policy. The SPIF was in compliance with the policy at June 28, 2012 but was over the limit due to large outflows at year end. The weighted average maturity for the pool returned to one hundred twenty (120) days on July 5, 2012. At June 30, 2011, the SPIF held one security which was purchased with a remaining maturity of four hundred ten (410) days which is in violation of the investment policy; however the fair value ($50,046,000) was not material . The maximum weighted average maturity of the pool was ninety (90) days until an investment policy change on April 26, 2011. In addition, it is the intent of the Funding Board that the fair value of the SPIF not deviate more than one-half percent (0.5%) from amortized cost. If it does, actions may include, but not be limited to, selling securities whose fair value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Agency variable rate notes are permitted by investment policy provided they are indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates. Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days.

As of June 30, 2012 and June 30, 2011, the SPIF portfolio had the following weighted average maturities on debt investments:

(*CONTINUED*)

June 30, 2012		
Investment Type	**Carrying Amount**	**Weighted Average Maturity (Months)**
U.S. Government Agencies	$3,576,657,290	5.47
U.S. Government Treasuries	2,329,353,055	5.44
Commercial Paper	777,982,873	0.21
Total Debt Investments	$6,683,993,218	4.84
Total SPIF Portfolio	$8,213,012,133	4.13

June 30, 2011		
Investment Type	**Carrying Amount**	**Weighted Average Maturity (Months)**
U.S. Government Agencies	$3,862,483,749	5.11
U.S. Government Treasuries	1,105,065,549	5.47
Commercial Paper	859,959,981	0.45
Total Debt Investments	$5,827,509,279	4.48
Total SPIF Portfolio	$7,466,936,136	3.70

C. OTHER ACCOUNTING DISCLOSURES

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

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

An average rate of return is calculated on the investments made each month in the SPIF and is used to credit earnings to LGIP participants and the State departments and agencies required to earn interest. The State's general fund is credited with the residual earnings. Accordingly, participants' shares are sold and redeemed at a value equal to the amount of the principal plus accrued earnings while investments are reported at amortized cost. For the fiscal years ending June 30, 2012 and June 30, 2011, an administrative fee of .05 percent was charged against each participant's average daily balance to provide funding for administrative expenses to operate the SPIF.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM INDEPENDENT AUDITOR'S REPORT

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

November 30, 2012

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

Ladies and Gentlemen:

We have audited the accompanying statements of plan net assets of the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, as of June 30, 2012, and June 30, 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Tennessee Consolidated Retirement System's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Consolidated Retirement System.

As discussed in Note A.1., the financial statements present only the Tennessee Consolidated Retirement System, pension trust funds, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2012, and June 30, 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2012, and June 30, 2011, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

(CONTINUED)

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

November 30, 2012
Page Two

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions on pages 100 through 105 and 123 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The actuarial balance sheet on page 124 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 do not express an opinion or provide any assurance on it.

In accordance with generally accepted government auditing standards, we have also issued our report dated November 30, 2012, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes Jr.

Arthur A. Hayes, Jr., CPA
Director

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

The Management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal years ended June 30, 2012 and June 30, 2011. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

FINANCIAL HIGHLIGHTS

- The plan net assets (total assets minus total liabilities) of the TCRS at June 30, 2012 were $34.9 billion, increasing over $1.2 billion (3.7 percent) from the plan net assets at June 30, 2011. The net assets are held in trust to meet future benefit obligations.

- The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2011, the date of the latest actuarial valuation, the TCRS' funded ratio was 92.1 percent for the SETHEEPP group and 89.2 percent for the PSPP group.

- Contribution revenue for fiscal year 2012 totaled $1,266,468,685 an increase of 0.8 percent compared to fiscal year 2011.

- Net investment income for fiscal year 2012 was $1,800,063,989. During fiscal year 2012, the TCRS received an investment return on its portfolio of 5.6 percent, compared to 19.6 percent for fiscal year 2011.

- Total benefits and refunds paid for fiscal year 2012 were $1,809,901,340 – an increase of 7.2 percent over fiscal year 2011 total benefits and refunds paid of $1,688,410,469.

- Total administrative expenses for fiscal year 2012 were $7,166,606 – a slight increase from fiscal year 2011 administrative expenses of $7,156,822.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the *Statement of Plan Net Assets* (on pages 106 through 107), the *Statement of Changes in Plan Net Assets* (on pages 108 through 109), and the *Notes to the Financial Statements* (on pages 110 through 122). In addition, *Required Supplementary Information* is presented, which includes this *Management's Discussion and Analysis,* and the schedules on page 123.

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

(*CONTINUED*)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

In addition to the two basic financial statements, the reader should also review the *Schedules of Funding Progress* and the *Schedules of Employer Contributions* to gain an understanding of the funded status of the TCRS over time. This information provides an indication of the TCRS' ability to meet both current and future benefit payment obligations. The *Notes to the Financial Statements* are also essential to the reader's understanding of the financial statements and provide additional information regarding the TCRS, such as descriptions of the plans administered by the TCRS, including contribution and benefit provisions, and information about the accounting policies and investment activities.

ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET ASSETS

At June 30, 2012, the TCRS had plan net assets (total assets in excess of total liabilities) of $34.9 billion, an increase of over $1.2 billion (3.7 percent) from $33.7 billion at June 30, 2011, following the fiscal year 2011 increase of over $5.1 billion (17.8 percent) from the $28.6 billion of plan net assets as of June 30, 2010. The assets of the TCRS consist primarily of investments. The increase in plan assets is primarily the result of investment return for the year since contributions stayed at the same level. Condensed financial information comparing the TCRS' plan net assets for the past three fiscal years follows:

PLAN NET ASSETS

	June 30, 2012	June 30, 2011	FY12 - FY11 Percentage Change	June 30, 2010	FY11 - FY10 Percentage Change
ASSETS					
Cash and cash equivalents	$ 426,627,425	$ 414,134,562	3.0 %	$ 438,269,286	(5.5) %
Member and employer receivables	107,108,579	99,604,471	7.5 %	89,310,527	11.5 %
Investment receivables	1,044,714,969	1,431,331,905	(27.0) %	2,000,061,173	(28.4) %
Short-term securities	19,781,452	0	- %	0	0 %
Long-term investments	34,272,630,084	33,220,879,536	3.2 %	27,911,282,071	19.0 %
Capital assets	11,426,938	1,896,671	502.5 %	0	- %
TOTAL ASSETS	35,882,289,447	35,167,847,145	2.0 %	30,438,923,057	15.5 %
LIABILITIES					
Death benefits, refunds and other payables	10,193,417	8,544,407	19.3 %	8,205,512	4.1 %
Investment payables	959,323,058	1,495,994,494	(35.9) %	1,856,522,455	(19.4) %
TOTAL LIABILITIES	969,516,475	1,504,538,901	(35.6) %	1,864,727,967	(19.3) %
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 34,912,772,972	$ 33,663,308,244	3.7 %	$ 28,574,195,090	17.8 %

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

ANALYSIS OF REVENUES AND EXPENSES

Employer contribution rates for the TCRS did not change during fiscal year 2012; therefore, the slight change of 0.8 percent in contributions from fiscal year 2011 to fiscal year 2012 was due to changes in salary. Contributions to TCRS had a larger than normal increase of $164.1 million (15 percent) over contributions for fiscal year 2010 due to the change in employer contribution rates effective July 1, 2010. With the decrease of investment income of $3.8 billion (67.4 percent) for fiscal year 2012 compared to investment income for fiscal year 2011, the overall decrease in revenues for 2012 was 54.8 percent compared to revenues for fiscal year 2011.

Investment expenses for fiscal year 2012 increased a slight $166 thousand (0.5 percent). Although market conditions continued to show improvement in fiscal year 2012 which resulted in an overall gain to the TCRS investment portfolio of 5.61 percent and net investment income of $1.8 billion, the return was not as high as the prior fiscal year. The return for fiscal year 2012 decreased (67.4 percent) from fiscal year 2011. Net investment income for fiscal year 2011 was $5.5 billion due to the start of the improved market conditions in fiscal year 2010.

Total benefits and refunds paid during the year ended June 30, 2012 were $1,809,901,340, an increase of 7.2 percent over fiscal year 2011 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2011 were $1,688,410,470, an increase of 7.4 percent over fiscal year 2010 total benefits and refunds paid. The increase in benefit expenses for fiscal year 2012 is attributed to 1.5 percent in cost of living adjustments awarded to retirees on July 1, 2011, as well as more retirees being added to payroll than removed during this fiscal year. The increase in benefit expenses in fiscal year 2011 is attributed to 2.7 percent in cost of living adjustments awarded to retirees on July 1, 2010, as well as more retirees being added to payroll than removed during this fiscal year. Total refunds paid increased $4.5 million (12.81 percent) in fiscal year 2012 from fiscal year 2011 and could be attributed to the weak economy where more terminated members are choosing to withdraw from the system instead of leaving the funds invested. Total refunds paid had decreased $883,258 (2.4 percent) in fiscal year 2011 over fiscal year 2010.

Administrative expenses for the year ended June 30, 2012 were $7,166,606, a slight increase of 0.14 percent over fiscal year 2011 administrative expenses. Administrative expenses for the year ended June 30, 2011 were $7,156,822, a decrease of 5.1 percent from fiscal year 2010 administrative expenses. The decrease was primarily due to the additional expense of the biennial actuarial study performed in fiscal year 2010 and not being performed in fiscal year 2011.

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

(CONTINUED)

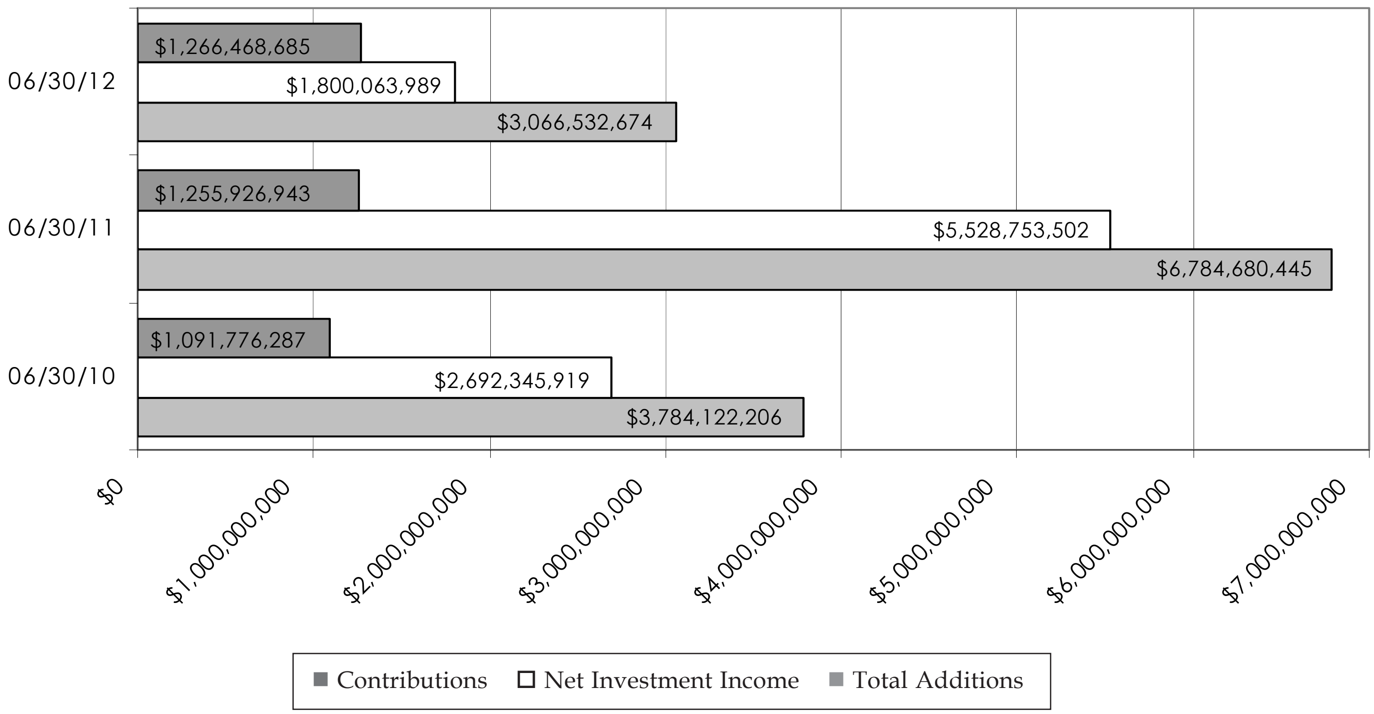
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

CHANGES IN PLAN NET ASSETS

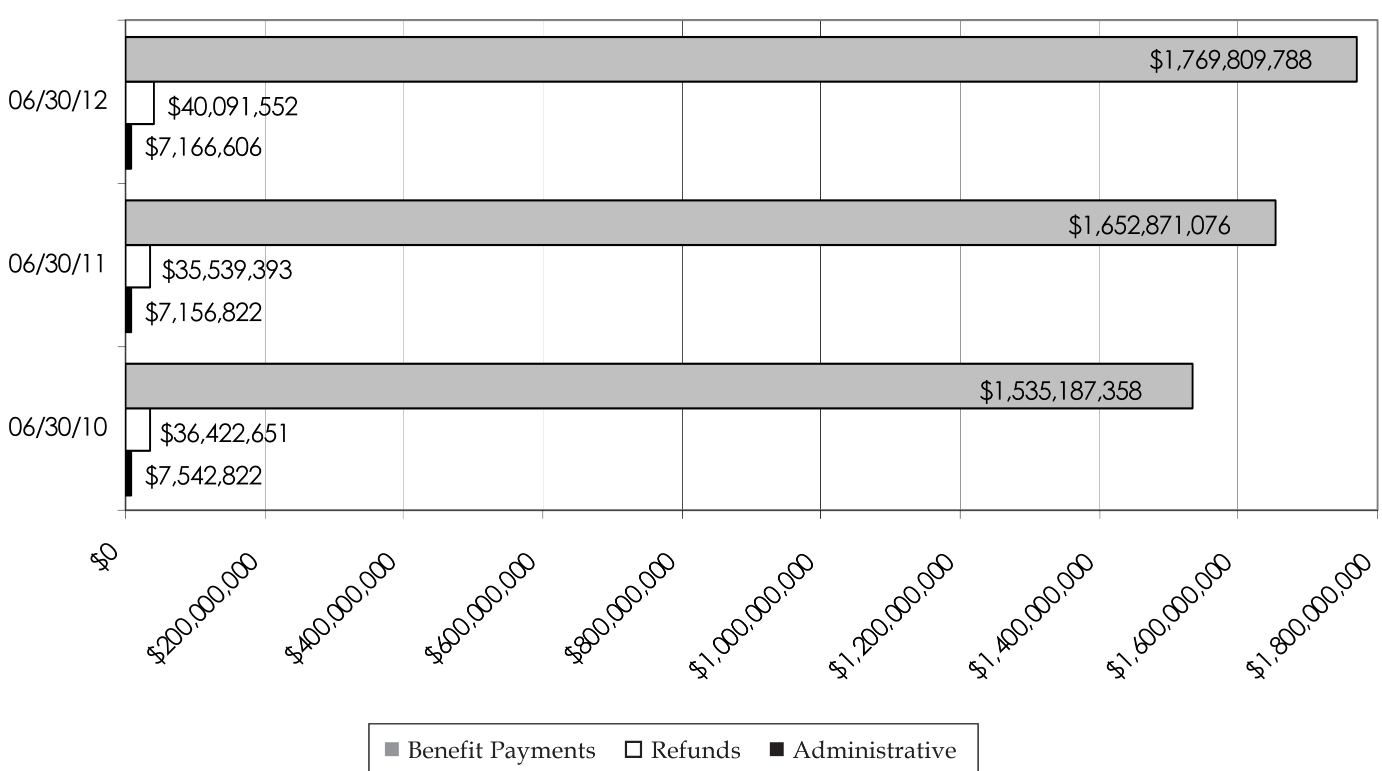
	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011	FY12 - FY11 Percentage Change	For the Year Ended June 30, 2010	FY11 - FY10 Percentage Change
ADDITIONS					
Contributions	$ 1,266,468,685	$ 1,255,926,943	0.8 %	$ 1,091,776,287	15.0 %
Investment income					
Net appreciation in fair value of investments	825,366,874	4,597,653,001	(82.0) %	1,802,314,559	155.1 %
Interest, dividends and other investment income	1,007,076,475	963,313,744	4.5 %	918,842,338	4.8 %
Less: Investment expense	(32,379,360)	(32,213,243)	0.5 %	(28,810,978)	11.8 %
Net investment income	1,800,063,989	5,528,753,502	(67.4) %	2,692,345,919	105.4 %
TOTAL ADDITIONS	3,066,532,674	6,784,680,445	(54.8) %	3,784,122,206	79.3 %
DEDUCTIONS					
Annuity benefits					
Retirement benefits	1,346,462,471	1,248,538,286	7.8 %	1,164,713,725	7.2 %
Survivor benefits	80,772,647	76,298,394	5.9 %	71,380,041	6.9 %
Disability benefits	33,906,448	32,140,006	5.5 %	30,500,247	5.4 %
Cost of living	302,464,015	290,396,251	4.2 %	261,479,337	11.1 %
Death benefits	6,204,207	5,498,139	12.8 %	7,114,008	(22.7) %
Refunds	40,091,552	35,539,393	12.8 %	36,422,651	(2.4) %
Administrative expenses	7,166,606	7,156,822	0.1 %	7,542,822	(5.1) %
TOTAL DEDUCTIONS	1,817,067,946	1,695,567,291	7.2 %	1,579,152,831	7.4 %
NET INCREASE	1,249,464,728	5,089,113,154	(75.4) %	2,204,969,375	130.8 %
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
BEGINNING OF YEAR	33,663,308,244	28,574,195,090	17.8 %	26,369,225,715	8.4 %
END OF YEAR	$ 34,912,772,972	$ 33,663,308,244	3.7 %	$ 28,574,195,090	17.8 %

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

REVENUES BY TYPE



EXPENSES BY TYPE



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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

For the year ended June 30, 2012, the portfolio delivered a return of 5.61 percent; an exceptional result which beat 98 percent of comparable funds. The long duration fixed income portfolio was primarily responsible for the result.

The domestic equity portfolio generated 5.03 percent building on a 33.71 percent increase from the prior year. The S&P 1500 index reported a gain of 4.63 percent for the fiscal year ended June 30, 2012. The international stock portfolio lost 10.79 percent for the year following the gain of 33.01 percent for the year ended June 30, 2011. The international equity market, as represented by the EAFE IMI index, lost 13.97 percent for the fiscal year ended June 30, 2012. Domestic fixed income returned 15.63 percent which followed a return of 6 percent for the prior year. The real estate portfolio gained 10.01 percent for the 2012 fiscal year which followed a gain of 15.5 percent in fiscal year 2011.

The investment environment in the 2012 fiscal year was characterized by continued world-wide economic weakness which was countered somewhat by aggressive monetary stimulus provided by global central banks. Dramatic declines in interest rates led to sizeable returns from long duration fixed income portfolios. These strong returns were countered by weak global equity returns.

An actuarial valuation was performed as of July 1, 2011. The employer contribution rates determined in this valuation will be effective July 1, 2012. The required contributions to the plan increased primarily due to investment returns and mortality improvements.

In December 2010, TCRS contracted with Deloitte Consulting, LLC, to provide a new pension administration system to replace the retirement information system. The new pension administration system, referred to as Concord, will replace five separate operating systems with one integrated web-based system that will greatly improve the level of service we provide to our members and employers. The multi-year Concord project will be implemented in three major phases: document imaging, retired payroll, and active member. The first phase of Concord was implemented during fiscal year 2012. Software development costs have been capitalized and are being amortized over the useful life of the system as each phase is implemented.

CONTACTING THE TCRS

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

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2012 AND JUNE 30, 2011

Expressed in Thousands	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ASSETS		
Cash and cash equivalents	$ 348,330	$ 78,297
Receivables		
Member receivable	21,313	6,001
Employer receivable	56,430	23,364
Accrued interest receivable	79,795	17,936
Accrued dividends receivable	42,658	9,588
Real estate income receivable	680	153
Derivative instruments receivable	319,335	71,779
Investments sold	410,516	92,275
Total receivables	930,727	221,096
Investments, at fair value		
Short-term securities	16,152	3,630
Government securities	6,736,847	1,514,288
Corporate securities	4,627,801	1,040,222
Corporate stocks	15,374,082	3,455,739
Derivative instruments	531	119
Private equities	142,025	31,924
Real estate	1,101,467	247,585
Total investments	27,998,905	6,293,507
Capital assets (net)	9,330	2,097
TOTAL ASSETS	29,287,292	6,594,997
LIABILITIES		
Accounts payable		
Death benefits and refunds payable	1,475	1,537
Retiree insurance premium payable	5,678	1,276
Other	227	0
Investments purchased	467,947	105,184
Derivative instruments payable	308,316	69,303
Other investment payables	7,000	1,573
TOTAL LIABILITIES	790,643	178,873
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$28,496,649	$6,416,124

See accompanying Notes to the Financial Statements.

(CONTINUED)

June 30, 2012 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2011 Total
$ 426,627	$ 340,115	$ 74,019	$ 414,134
27,314	19,570	5,266	24,836
79,794	53,975	20,793	74,768
97,731	84,099	18,302	102,401
52,246	39,371	8,569	47,940
833	50	11	61
391,114	319,386	69,508	388,894
502,791	732,599	159,437	892,036
1,151,823	1,249,050	281,886	1,530,936
19,782	0	0	0
8,251,135	7,135,403	1,552,887	8,688,290
5,668,023	4,554,482	991,198	5,545,680
18,829,821	14,640,474	3,186,225	17,826,699
650	9	2	11
173,949	61,296	13,340	74,636
1,349,052	891,538	194,026	1,085,564
34,292,412	27,283,202	5,937,678	33,220,880
11,427	1,558	339	1,897
35,882,289	28,873,925	6,293,922	35,167,847
3,012	1,108	899	2,007
6,954	5,290	1,151	6,441
227	97	0	97
573,131	904,384	196,823	1,101,207
377,619	318,780	69,376	388,156
8,573	5,446	1,185	6,631
969,516	1,235,105	269,434	1,504,539
$34,912,773	$27,638,820	$6,024,488	$33,663,308

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011

Expressed in Thousands	**State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)**	**Political Subdivisions Pension Plan (PSPP)**
ADDITIONS		
Contributions		
Member contributions	$ 194,180	$ 69,576
Employer contributions	731,352	271,361
Total contributions	925,532	340,937
Investment income		
Net appreciation in fair value of investments	675,639	149,728
Interest	414,344	91,816
Dividends	353,064	78,237
Real estate income, net of operating expenses	56,987	12,628
Total investment income	1,500,034	332,409
Less: Investment expense	(26,384)	(5,995)
Net investment income	1,473,650	326,414
TOTAL ADDITIONS	2,399,182	667,351
DEDUCTIONS		
Annuity benefits		
Retirement benefits	1,145,293	201,169
Survivor benefits	68,705	12,068
Disability benefits	28,840	5,066
Cost of living	266,674	35,790
Death benefits	4,515	1,689
Refunds	22,575	17,517
Administrative expense	4,751	2,416
TOTAL DEDUCTIONS	1,541,353	275,715
NET INCREASE	857,829	391,636
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	27,638,820	6,024,488
END OF YEAR	$28,496,649	$6,416,124

See accompanying Notes to the Financial Statements.

(CONTINUED)

For the Year Ended June 30, 2012 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2011 Total
$ 263,756	$ 192,467	$ 67,920	$ 260,387
1,002,713	721,759	273,781	995,540
1,266,469	914,226	341,701	1,255,927
825,367	3,785,947	811,706	4,597,653
506,160	462,425	99,143	561,568
431,301	277,650	59,528	337,178
69,615	53,168	11,399	64,567
1,832,443	4,579,190	981,776	5,560,966
(32,379)	(26,453)	(5,760)	(32,213)
1,800,064	4,552,737	976,016	5,528,753
3,066,533	5,466,963	1,317,717	6,784,680
1,346,462	1,062,838	185,700	1,248,538
80,773	64,950	11,348	76,298
33,906	27,360	4,780	32,140
302,464	256,137	34,259	290,396
6,204	4,054	1,444	5,498
40,092	18,957	16,583	35,540
7,167	3,525	3,632	7,157
1,817,068	1,437,821	257,746	1,695,567
1,249,465	4,029,142	1,059,971	5,089,113
33,663,308	23,609,678	4,964,517	28,574,195
$34,912,773	$27,638,820	$6,024,488	$33,663,308

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity –** The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report.*

2. **Measurement Focus and Basis of Accounting –** The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

3. **Cash and Cash Equivalents –** Cash and cash equivalents include cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.

4. **Method Used to Value Investments –** Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of private equity investments is determined by the fund managers using various methodologies as applicable under Generally Accepted Accounting Principles. In many cases, these valuations are additionally reviewed by advisory boards comprised of a subgroup of the fund's investors. These valuations are audited on an annual basis by independent accounting firms engaged by the private equity fund managers. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.

5. **Capital Assets –** Capital assets consist of internally generated computer software in development and the first phase of internally generated computer software, which are reported at historical cost, less any applicable amortization. Capital assets are defined by the state as assets with an initial individual cost of $5,000 or more and an estimated useful life in excess of two years. Software in development at June 30, 2011 was valued at $1,896,671 and at June 30, 2012 $9,749,457. Software in development will be amortized using the straight line method over the ten year estimated life of the system once a phase is

(*CONTINUED*)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

implemented. The first phase of the computer software was implemented during the fiscal year ended June 30, 2012 and amortization was initiated. The computer software was valued at zero at June 30, 2011 and $1,677,480 at June 30, 2012. Amortization expense was zero in fiscal year 2011 and $43,012 in fiscal year 2012.

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2011, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	83,041	33,544
Terminated members entitled to but not receiving benefits	22,867	9,758
Current active members	135,588	79,488
Total	241,496	122,790
Number of participating employers	140	503

State Employees, Teachers and Higher Education Employees Pension Plan

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

Superseded Systems and Certain Employment Classifications - Members of superseded systems who 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, 2012 AND JUNE 30, 2011 (CONTINUED)

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, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of $3.75 billion and $24.75 billion, respectively. At June 30, 2011, the plan's Member Reserve and Employer Reserve were fully funded with balances of $3.7 billion and $23.93 billion, respectively.

Political Subdivisions Pension Plan

Plan Description - PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the state of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by 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, 2012, the plan's Member Reserve and Employer Reserve were fully funded with balances of $1.15 billion and $5.27 billion, respectively. At June 30, 2011, the plan's Member Reserve and Employer Reserve were fully funded with balances of $1.1 billion and $4.92 billion, respectively.

C. DEPOSITS AND INVESTMENTS

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

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

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

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

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

c. Within the restrictions in (a) and (b) above, an amount not to exceed twenty-five percent (25 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.

d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.

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

f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.

g. The total sum invested in private equities shall not exceed five percent (5 percent) of the market value of total assets.

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

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

As of June 30, 2012 and June 30, 2011, the TCRS had the following investments:

(*CONTINUED*)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

Investments
(Expressed in Thousands)

2012

Investment Type	Fair Value as of June 30, 2012	U.S. Treasury/ Agency (1)	Credit Quality Ratings										
			AAA	AA	A	BBB	BB	B	CCC	CC	D	A1(3)	Not Rated
Debt Investments													
U.S. Govt. Agencies	$ 188,455		$ 19,332	$169,123									
U.S. Govt. Inflation Indexed	2,654,938	$2,654,938											
U.S. Govt. Treasuries, Notes and Bonds	1,558,334	1,558,334											
U.S. Govt. Asset Backed	76,372	76,372											
Municipal Bonds	155,316		2,336	99,328	$ 53,652								
Govt. Mortgage Backed	3,291,737	271,967		13,277									$3,006,493 (2)
Comm. Mortgage Backed	268,585		176,255	92,330									
Corporate CMO's	232,639		33,643					$43,223	$121,425	$24,197	$10,151		
Corporate Bonds	4,349,054		109,541	95,364	1,182,495	$2,675,562	$211,398	26,616		738			47,340
Corporate Asset Backed	782,669		573,571	98,607	35,353	24,745	1,291		8,020				41,082
Non-U.S. Govt./Sovereign	325,983		113,408	212,575									
Short-Term Comm. Paper	113,853											$113,853	
Short-Term Bills and Notes	304,269												304,269
Total Debt Investments	$14,302,204	$4,561,611	$1,028,086	$780,604	$1,271,500	$2,700,307	$212,689	$69,839	$129,445	$24,935	$10,151	$113,853	$3,399,184
Other Investments													
U.S. Equity	$12,887,225												
Non-U.S. Equity	5,974,207												
Derivatives	650												
Real Estate	1,349,052												
Private Equities	173,949												
Money Market Funds (not rated)	4,375												
Escrow Claim	3,468												
Total Other Investments	$20,392,926												
Total Investments	$34,695,130												
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(402,718)												
Total Investments as Shown on Statements of Plan Net Assets	$34,292,412												

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

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

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

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

Investments
(Expressed in Thousands)

2011

Investment Type	Fair Value as of June 30, 2012	U.S. Treasury/ Agency (1)	Credit Quality Ratings										
			AAA	AA	A	BBB	BB	B	CCC	CC	D	A1(3)	Not Rated
Debt Investments													
U.S. Govt. Agencies	$ 311,472	$ 102,034	$164,431	$ 16,960									$ 28,047 (2)
U.S. Govt. Inflation Indexed	2,475,914	2,475,914											
U.S. Govt. Treasuries, Notes and Bonds	1,355,666	1,345,642	10,024										
U.S. Govt. Asset Backed	117,625	117,625											
Municipal Bonds	149,480		32,649	55,086	$ 61,745								
Govt. Mortgage Backed	3,667,503	437,001	26,576										3,203,926 (2)
Comm. Mortgage Backed	381,608		306,660	64,905	10,043								
Corporate CMO's	313,391		56,374				$ 2,021	$68,922	$156,593	$15,529	$10,077		3,875
Corporate Bonds	3,764,808		138,541	290,304	1,117,282	$1,967,171	168,915	28,325		1,201			53,069
Corporate Asset Backed	1,015,712		769,168	123,431	70,559	41,765			9,152				1,637
Non-U.S. Govt./Sovereign	610,630		290,256	320,374									
Short-Term Comm. Paper	388,064											$388,064	
Total Debt Investments	$14,551,873	$4,478,216	$1,794,679	$871,060	$1,259,629	$2,008,936	$170,936	$97,247	$165,745	$16,730	$10,077	$388,064	$3,290,554
Other Investments													
U.S. Equity	$11,399,485												
Non-U.S. Equity	6,497,376												
Derivatives	11												
Real Estate	1,085,564												
Private Equities	74,636												
Money Market Funds (not rated)	113,893												
Total Other Investments	$19,170,965												
Total Investments	$33,722,838												
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(501,958)												
Total Investments as Shown on Statements of Plan Net Assets	$33,220,880												

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

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

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

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2012 and June 30, 2011 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

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

As noted above, the TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the S*tate of Tennessee Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury/.

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

	June 30, 2012		June 30, 2011	
Issuer Organization	**Fair Value**	**Percentage**	**Fair Value**	**Percentage**
Federal National Mortgage Association	$1,932,517,086	5.54%	$2,029,898,227	6.03%

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

Interest Rate Risk – Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2012 and June 30, 2011.

(*CONTINUED*)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

Debt Investments
(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2012	Effective Duration (years)
Debt Investments		
Government Agencies	$ 215,919	8.63
Government Bonds	1,856,853	12.08
Government Inflation Indexed	2,654,938	8.82
Government Mortgage Backed	3,291,737	1.38
Government Asset Backed	76,372	5.06
Municipal Bonds	155,316	10.97
Collateralized Mortgage Obligations (CMO)	232,639	3.40
Commercial Mortgage Backed	268,585	2.22
Corporate Asset Backed Securities	782,669	1.52
Corporate Bonds	4,349,054	6.91
Short-Term Commercial Paper	113,853	0.19
Short-Term Bills & Notes	304,269	0.13
Total Debt Investments	$14,302,204	6.09

Investment Type	Fair Value as of June 30, 2011	Effective Duration (years)
Debt Investments		
Government Agencies	$ 397,214	5.50
Government Bonds	1,870,530	9.25
Government Inflation Indexed	2,475,914	3.80
Government Mortgage Backed	3,667,503	2.89
Government Asset Backed	117,625	6.31
Municipal Bonds	149,480	10.56
Collateralized Mortgage Obligations (CMO)	313,391	3.82
Commercial Mortgage Backed	381,608	2.21
Corporate Asset Backed Securities	1,015,712	0.71
Corporate Bonds	3,764,808	6.83
Guaranteed Fixed Income	10,024	0.25
Short-Term Commercial Paper	388,064	0.01
Total Debt Investments	$14,551,873	4.83

Asset-Backed Securities – The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2012 was $501,224,120 of which $341,027,671 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2011 was $694,999,254 of which $427,338,919 were CMOs that are generally more sensitive to interest rate changes.

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2012 and June 30, 2011 was as follows:

Foreign Currency-Denominated Investments
(Expressed in Thousands)

Currency	Total Fair Value June 30, 2012	Fixed Income	Equity	Cash
Australian Dollar	$ 285,935	$ 0	$ 285,556	$ 379
British Pound Sterling	945,058	36,073	908,427	558
Canadian Dollar	1,543,638	8,430	1,535,028	180
Danish Krone	76,389	0	76,373	16
Euro Currency	1,066,157	63,906	968,412	33,839
Hong Kong Dollar	106,932	0	106,775	157
Japanese Yen	1,145,912	212,575	927,031	6,306
New Israeli Shekel	14,916	0	14,819	97
New Zealand Dollar	6,410	0	6,337	73
Norwegian Krone	46,034	13,429	32,603	2
Singapore Dollar	67,835	0	67,753	82
Swedish Krona	93,496	0	93,286	210
Swiss Franc	318,426	0	317,464	962
Total	$5,717,138	$ 334,413	$5,339,864	$42,861

Currency	Total Fair Value June 30, 2011	Fixed Income	Equity	Cash
Australian Dollar	$ 284,181	$ 0	$ 284,011	$ 170
British Pound Sterling	1,042,358	67,057	975,026	275
Canadian Dollar	1,831,495	112,936	1,717,840	719
Danish Krone	69,323	0	69,163	160
Euro Currency	1,397,786	99,868	1,287,817	10,101
Hong Kong Dollar	134,900	0	134,886	14
Japanese Yen	1,308,285	320,374	984,129	3,782
New Israeli Shekel	11,348	0	11,348	0
New Zealand Dollar	4,964	0	4,945	19
Norwegian Krone	89,807	23,985	65,639	183
Singapore Dollar	76,919	0	76,899	20
Swedish Krona	111,190	0	110,983	207
Swiss Franc	321,680	0	321,112	568
Total	$6,684,236	$ 624,220	$6,043,798	$16,218

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

Custodial Credit Risk – Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2012 and June 30, 2011, the TCRS had uninsured and uncollateralized cash deposits of $42,861,324 and $16,218,307, respectively in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

Derivatives – The TCRS may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on futures hedge losses (gains) produced by any deviation from the TCRS' target allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. At year end, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

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

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

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included in investment income in the financial statements. At year end, the TCRS was under contract for options and the resulting payable is reflected in the financial statements at fair value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012 and June 30, 2011, classified by type, and the changes in fair value of derivative instrument types for the year ended as reported in the financial statements are as follows:

(*CONTINUED*)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

Derivative Summary
(Expressed in Thousands)

	Changes in Fair Value		Fair Value at June 30, 2012			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts		$ (360)		$ (360)	11,210	AUD
		(248)		(248)	18,710	EUR
		120		120	1,489,342	JPY
	Investment Income	$ (488)	Derivative Instruments Payable	$ (488)		
Futures Contracts	Investment Income	$ (5,479)	Derivative Instruments Payable	$ (2,393)	$1,520,747	
Options Contracts	Investment Income	$ (9)	Derivative Instruments	$ 2	$ 2	
TBA Mortgage Backed Securities	Investment Income	$ 648	Derivative Instruments	$ 648	$ 324,377	

	Changes in Fair Value		Fair Value at June 30, 2011			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts		$ (121)		$ (121)	4,450	AUD
		(1,304)		(1,304)	65,000	CAD
		(953)		(953)	37,260	EUR
	Investment Income	$ (2,378)	Derivative Instruments Payable	$ (2,378)		
Futures Contracts	Investment Income	$ 123,632	Derivative Instruments Receivable	$ 3,883	$1,585,441	
Options Contracts	Investment Income	$ (17)	Derivative Instruments	$ 11	$ 11	
TBA Mortgage Backed Securities	Investment Income	$ (767)	Derivative Instruments Payable	$ (767)	$ 260,632	

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

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

D. COMMITMENTS

Standby Commercial Paper Purchase Agreement – The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 37 basis points on the $350 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, 75 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 100 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

Pending Real Estate Items – At June 30, 2012 the TCRS had unfunded commitments of $113,088,500 for pending real estate purchases. Subsequent to that time, the TCRS decided to not close on $74,588,500 of the June 30, 2012 commitment amount. At June 30, 2011 the TCRS did not have any commitments for pending real estate purchases.

Alternative Investments – The TCRS had unfunded commitments of $581.3 million and $324.1 million in limited partnerships as of June 30, 2012 and June 30, 2011, respectively.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of July 1, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

SCHEDULES OF FUNDING PROGRESS
(Expressed in Thousands)

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	$30,118,178	$32,707,625	$2,589,447	92.08%	$6,058,348	42.74%
PSPP	$ 6,562,604	$ 7,361,707	$ 799,103	89.15%	$2,354,939	33.93%

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2011, the TCRS reestablished unfunded accrued liabilities for all groups.

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

(CONTINUED)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND JUNE 30, 2011 (CONTINUED)

Additional information as of the latest actuarial valuation follows:

	SETHEEPP	**PSPP**
Valuation Date	July 1, 2011	July 1, 2011
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	Teachers - 6 years; State - 9 years; closed period	9 years weighted average; (1) closed period
Asset valuation method	5-year moving market average for FYE on or before June 30, 2007	5-year moving market average for FYE on or before June 30, 2007
	10-year moving market average for FYE after June 30, 2007	10-year moving market average for FYE after June 30, 2007
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	2.50%	2.50%
Increase in Social Security wage base	3.50%	3.50%

(1) An actuarial valuation is performed on each political subdivision participating in the Political Subdivision Pension Plan. Each political subdivision selects the period over which their unfunded accrued liability is amortized, not to exceed 30 years. The weighted average amortization period for all plans is presented above.

(2) Uniform rate that approximates the effect of a graded salary scale.

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

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	7/1/2011	$30,118,178	$32,707,625	$2,589,447	92.08%	$6,058,348	42.74%
	7/1/2009	$26,335,199	$29,054,966	$2,719,767	90.64%	$6,054,528	44.92%
	7/1/2007	$26,214,995	$27,240,151	$1,025,156	96.24%	$5,742,866	17.85%
PSPP	7/1/2011	$ 6,562,604	$ 7,361,707	$ 799,103	89.15%	$2,354,939	33.93%
	7/1/2009	$ 5,304,455	$ 6,143,775	$ 839,320	86.34%	$2,282,082	36.78%
	7/1/2007	$ 4,897,974	$ 5,475,620	$ 577,646	89.45%	$2,081,964	27.75%

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

SCHEDULES OF EMPLOYER CONTRIBUTIONS
Expressed in Thousands

	SETHEEPP		PSPP	
Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2012	$731,352	100.00%	$271,361	100.00%
2011	721,759	100.00%	273,781	100.00%
2010	578,403	100.00%	258,324	100.00%
2009	583,985	100.00%	252,926	100.00%
2008	593,412	100.00%	244,847	100.00%
2007	562,729	100.00%	231,699	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2013.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
ACTUARIAL BALANCE SHEET

ACTUARIAL BALANCE SHEET
as of July 1, 2011

	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEEPP)	Political Subdivision Pension Plan (PSPP)	Total
ASSETS			
Present assets creditable to			
Employer accumulation fund	$ 26,411,200,293	$ 5,461,751,471	$ 31,872,951,764
Members' accumulation fund	3,706,978,263	1,100,852,325	4,807,830,588
Total present assets	30,118,178,556	6,562,603,796	36,680,782,352
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	2,179,663,929	886,440,557	3,066,104,486
Accrued liability	2,589,446,292	799,102,966	3,388,549,258
Total employer accumulation	4,769,110,221	1,685,543,523	6,454,653,744
Member's accumulation fund	1,836,350,124	582,617,580	2,418,967,704
Total prospective contributions	6,605,460,345	2,268,161,103	8,873,621,448
TOTAL ASSETS	$ 36,723,638,901	$ 8,830,764,899	$ 45,554,403,800
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	15,941,291,810	2,560,587,467	18,501,879,277
Present active members	20,028,868,907	6,013,575,239	26,042,444,146
Former members	753,478,184	256,602,193	1,010,080,377
TOTAL LIABILITIES	$ 36,723,638,901	$ 8,830,764,899	$ 45,554,403,800

ARCHIVES

PERCY PRIEST LAKE
AMANDA STAGGS
RETIREMENT ADVISOR
CONCORD

REPORT

OF THE

TREASURER OF TENNESSEE,

PRESENTED TO THE

HOUSE OF REPRESENTATIVES,

On the 4th of October, 1843.

NASHVILLE:
W. F. BANG & B. R. McKENNIE, PRINTERS.
1843.

TREASURER'S OFFICE, NASHVILLE, TENN.
4th October, 1843.

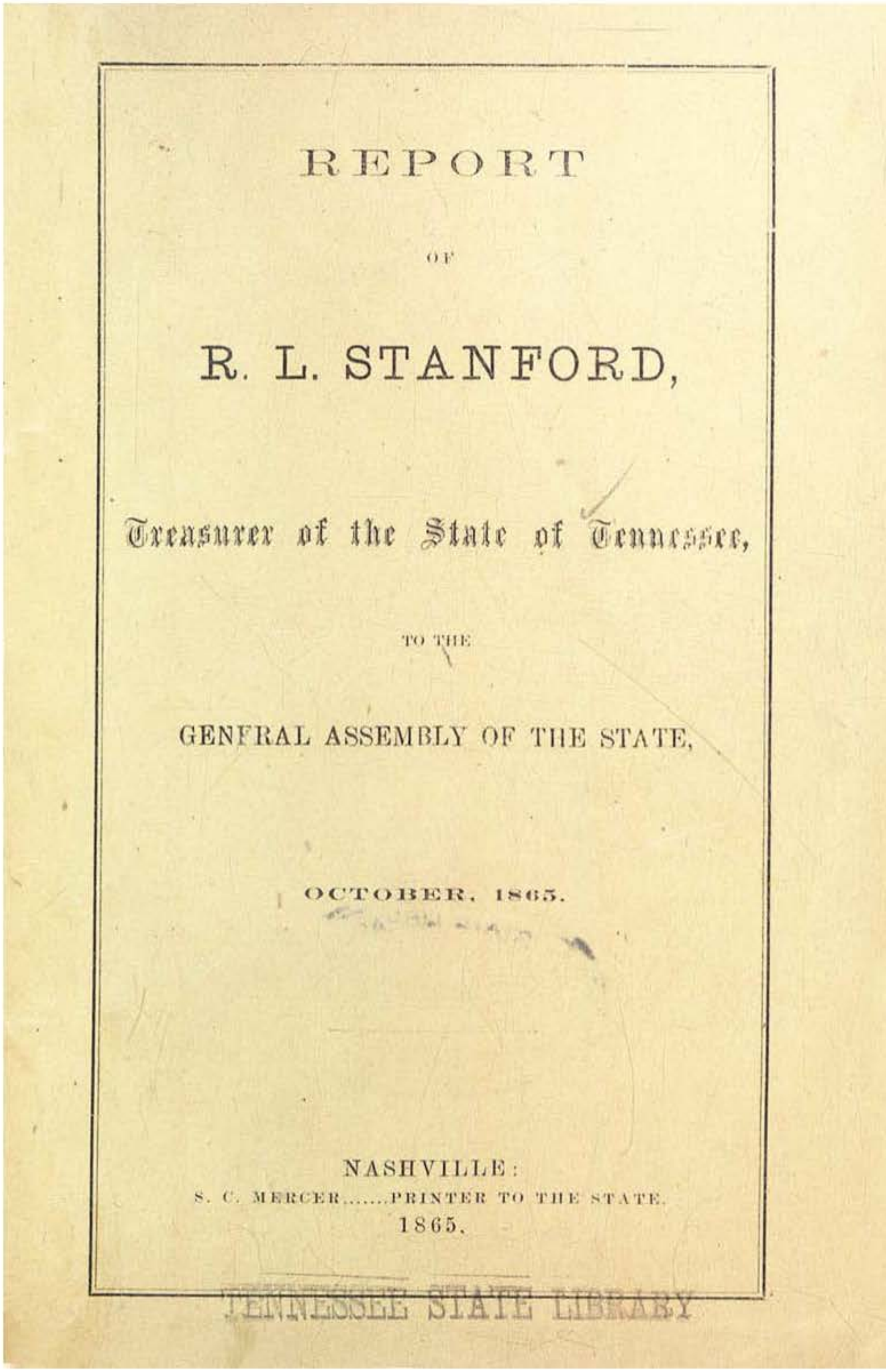
To the General Assembly
of the State of Tennessee,

Pursuant to the provisions of the Ninth Section of an Act passed on the Second day of February, 1836, entitled an Act to provide for electing a Treasurer for the State of Tennessee, and to define his duties, I have the honor to report, that the receipts into the Treasury since the first Monday of October, 1841, have been four hundred seventy-three thousand, twenty-two dollars and one cent $473,022 01

In the Treasury on said first Monday of October, 1841, one hundred eighty-nine thousand, five hundred and ninety dollars and forty-seven cents	189,590 47
Making a total of	662,612 48
Disbursements during the same period, six hundred twenty-three thousand, seven hundred and thirty-seven dollars and twenty-seven cents	623,737 27
Leaving in the Treasury on the 2d inst.	38,875 21

Respectfully submitted,

M. FRANCIS, *Treasurer*.



REPORT

OF

R. L. STANFORD,

Treasurer of the State of Tennessee,

TO THE

GENFRAL ASSEMBLY OF THE STATE,

OCTOBER, 1865.

NASHVILLE:
S. C. MERCER......PRINTER TO THE STATE.
1865.

REPORT

OF

R. L. STANFORD,

Treasurer of the State of Tennessee,

TO THE

GENERAL ASSEMBLY OF THE STATE,

OCTOBER, 1865.

NASHVILLE:
S. C. MERCER,........................PRINTER TO THE STATE.
1865.

TREASURER'S REPORT.

TREASURER'S OFFICE,
Nashville, Tenn., Oct. 1, 1865.

To the General Assembly of the State of Tennessee:

In compliance with the law regulating the Treasury Department of the State, the Treasurer has the honor to submit the following Special Report, ending the 30th day of September, 1865:

When the Treasurer entered upon his duties in May last, he was unable to find any monies deposited to the credit of the Treasurer who immediately preceded him as the civil Treasurer of the State; nor could he find, from any record in his office, the management of the Treasury subsequent to the commencement of the rebellion.

The Treasurer's office was found to have been robbed of all its books, blank forms, and all its papers of every kind, except some very old files, and in consequence of which your present Treasurer is utterly unable to give you any information touching the state of the Treasury at the commencement of the rebellion, or during its existence until crushed out. The ruthless hand of the rebellion ceased not at robbing the Treasurer's office of its books of record, blank forms and file records, but seized upon and carried away every species of furniture belonging to the office, except a case built in the wall.

The office is now pretty well furnished; new and suitable books have been made, blank forms have been printed and furnished, so that the business of the Treasury is advancing regularly and properly.

The Treasurer would call the attention of your honorable body to the important and deeply lamentable fact that no tabular statement exhibiting a distribution of the School Fund will be found in this report. The School Fund entire was placed in the Bank of Tennessee, and has all been lost to the State by the deep corruption and dishonesty of those who had control of it.

The Treasurer would most earnestly recommend that your honorable body take immediate steps to replace this Fund. He would suggest the propriety of appropriating every dollar of the assets of the Bank returned to the State, and all other means belonging to the Bank which may hereafter be discovered, where manifest injustice would not be done to individuals. The Constitution, and the laws in harmony with it, have been violated by laying wicked hands upon this sacred Fund. The Constitution declares that it shall never be appropriated or diverted to any other purpose than that of Common Schools. Those who had control of this Fund not only violated the Constitution and the laws, but the sacred trust reposed in them, and should meet with exemplary punishment.

The whole people of the State are anxiously awaiting your action on the subject of Common Schools. Their children have been deprived of the means of public education for more than four years. During this long period of fearful human strife, more wicked in its origin and prosecution than any other civil war known to the annals of history, in this or any other section of the globe, from Adam to the present hour. Deeply do they feel the loss of the amount of money heretofore distributed to Common Schools, and loudly will they rejoice on learning that your action has resulted in creating a fund to be distributed among the several counties of the State, at least as large as that distributed before the rebellion, for Common School purposes. The appalling fact that the native faculties of the minds of the children of the State have not received the slightest polish from education for more than four years, calls on the Legislature, bedewed with the weeping of parents numbered by thousands, to make some provision for lighting up once more the orb of knowledge in the minds of the youth of the State.

It is well known to you, as to all lovers of republican government, that the safety and stability of free government must, for its security, rest on the basis of virtue and intelligence; and if this or any other form of free government ever becomes so strong as to remain a perpetuity, it must educate its citizens and teach them virtue. If a few years shall pass without provisions being made for the education of the children of the State, they will pass into a hopeless state of ignorance, and it is feared that they will not be much better off in morals.

This urges for immediate action on the part of the Legislature. Knowing that you are fresh from the people, the Treasurer will make no suggestions as to how money may be raised, but will leave the subject to be managed by your wisdom and good judgment.

The Common School law should be amended, or repealed—and if repealed, another should be passed in its stead that will give better satisfaction. The present law is a very lengthy and loose one, and never did, I believe, give general satisfaction. But in the space allotted for this report, the Treasurer cannot give the particular changes that should be made or suggest the main features or minutiæ of a new system, but would leave the whole matter to your better qualifications and judgment. Below you will find the disbursements and receipts from May 9th to October, 1865, in monthly tabular statements;

RECEIPTS—MAY, 1865.

From Clerks of County Courts,	*$ 71,000 00

DISBURSEMENTS—MAY, 1865.

Legislative Expenses,	$ 8,111 56
Capitol Expenses,	1,417 40
Executive Expenses,	792 22
Tennessee Hospital for the Insane,	1,983 87
Expenses of Governor's Staff,	449 00
State Printing,	1,391 15
Judicial Salaries,	1,075 00
Enrolling Male Inhabitants,	52 75
Conveying Convicts to the Penitentiary,	50 20
	$15,323 15

* The amount of the Comptroller's Warrant of money to be paid into the Treasury of the County Court Clerk of Shelby county, was $60,000. The Clerk was compelled to get Exchange, the cost of which was $300, consequently the amount actually paid into the Treasury was $59,700.

RECEIPTS—JUNE, 1865.

DISBURSEMENTS—JUNE, 1865.

Executive Expenses,	$ 1,084 22
Executive Salaries,	487 85
Legislative Expenses,	25,498 14
Capitol Expenses,	4,507 20
Tennessee Hospital for the Insane,	2,658 52
State Printing,	3,290 53
Conveying Convicts to Penitentiary,	277 13
Penitentiary Appropriation,	3,000 00
Judicial Salaries,	2,900 00
Expenses of Governor's Staff,	1,291 00
Costs and Prosecutions,	945 75
Adjutant General's Office,	437 45
Salary of Road Commissioner,	333 33
Services of Elector,	8 00
	$46,719 12

RECEIPTS—JULY, 1865.

From State Tax on Insurance Company,.........	$ 2,500 00
" Clerks of County Courts,......................	15,000 00
" Sale of Old Carpet,..................	15 00
	$17,515 00

DISBURSEMENTS—JULY, 1865.

Judicial Salaries,...	$ 6,880 00
Capitol Expenses,..	19,847 69
Executive Salaries,...	1,398 33
Penitentiary Appropriation,.............................	1,000 00
Expenses of Governor's Staff,...........................	1,079 50
Tennessee Hospital for the Insane,....................	2,636 57
Conveying Convicts to Penitentiary,..................	339 65
Adjutant General's Office,................................	490 00
Legislative Expenses,.....	385 00
State Printing,..........................	2,337 93
Executive Expenses,......	250 05
State Library,..	266 66
Guarding State Bank Funds,.	45 00
Costs and Prosecutions,.....................	483 26
	$37,439 64

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RECEIPTS—AUGUST, 1865.

From County Court Clerks	$11,250 00
From State Tax on Express Company	1,000 00
From sale of old Carpet	50 00
	$12,300 00

DISBURSEMENTS—AUGUST, 1865.

Judicial Salaries	$ 936 75
Expenses of Governor's Staff	1,608 00
Expenses of Adjutant General's Office	426 00
Expenses of Capitol	1,576 85
Tennessee Hospital Insane	3,317 31
Conveying Convicts to Penitentiary	758 55
Costs and Prosecutions	62 00
State Printing	702 50
State Library	415 11
Bank Commissioners	563 50
Guarding State Bank Funds	75 00
Refitting Supreme Court Room, Knoxville	144 30
Blind School of Tennessee	1,100 00
Legislative Expenses	147 40
Executive Expenses	474 62
Salary Bank Supervisor	750 00
	$13,057 79

RECEIPTS—SEPTEMBER, 1865.

From County Court Clerks	$29,044 66
" Chancery " "	28 77
" Circuit " "	102 95
	$29,176 38

DISBURSEMENTS—1865.

Insane Hospital	$ 2,492 99
Penitentiary Appropriation	4,000 00
Adjutant General's Office	843 88
State Printing	2,048 69
Executive Expenses	802 09
Capitol "	2,267 65
Expenses of Governor's Staff	476 00
Convicts to Penitentiary	423 78
Judicial Salaries.	1,875 00
Superior Court Expenses	803 33
Safe for Treasurer, per Appropriation	1,117 50
Bank Commissioners	491 32
Commissioner of Roads	444 44
Costs and Prosecutions	2,070 30
Countersigning Licenses	28 75
Making Tax Aggregates	18 75
Governor's Requisition	151 03
	$20,355 50

RECAPITULATION—RECEIPTS.

May	$ 71,000 00	
June		
July	17,515 00	
August	12,300 00	
September	34,045 03	
	$134,860 03	
Less Warrants not paid in	4,868 65	
		$129,991 38

RECAPITULATION—DISBURSEMENTS.

May	$ 15,323 15	
June	46,719 12	
July	37,439 64	
August	13,057 79	
September	20,355 50	
	$132,895 20	
Less outstanding Warrants	2,225 05	
		$130,670 15

FINAL RECAPITULATION.

Total Receipts	$129,991 38
Total Disbursements	130,670 15
Amount overdrawn, October 1, 1865	$678 77

It became manifest very soon after the adjournment of the Legislature in June last, that the sources whence revenue is derived would not furnish an amount equal to the demand upon the Treasury. No provision having been made to replenish the Treasury in case the demand should overreach the amount paid in under the opeartion of the Revenue Law, your Treasurer plainly saw that the machinery of the State could not be kept in motion without additional means. He therefore determined to borrow if possible, an amount sufficient to meet all demands that would come upon the Treasury until your honorable body should meet according to adjournment, on the first Monday in October, 1865. For this purpose he consulted Mr. Nelson, President of the Second National Bank in this city, and succeeded in making arrangements with him to honor the Treasurer's check, by paying it when there was no money on deposit to his credit in the Bank. In this way the Treasurer met all demands as presented. You will see by examining the monthly Receipts and Disbursements that considerable loans were made by the Bank to the Treasurer. Through the accommodation of Mr. Nelson this favor was extended without cost to the Treasury. The Treasurer did this believing that necessity required it, and that it would meet your approbation. Not being authorized to make such arrangement, he therefore asks that you approve it. The Treasurer has deposited all monies which have come into his hands belonging to the State in this Bank, has found it strictly correct in business and very accommodating, and he will continue to deposit in it until the Legislature designates the Bank or Banks in which the funds of the Treasury shall be deposited. It may be necessary to continue the foregoing arrangement with the Bank, if it can be done, for some time to come, as the revenue comes in slowly and not in sufficient amounts to meet the demands upon the Treasury. If you so direct, the Treasurer will continue, if possible, this arrangement until necessity no longer requires it.

The County Court Clerks and Tax Collectors are now, by law, only bound to pay into the Treasury once in twelve (12) months, at the end of which two (2) months are given, in which to make payment. In consequence of this they can, if they choose, hold large amounts of revenue during the year in their hands, which should be paid into the Treasury, to be used in meeting the demands upon it. The Clerks at Memphis and Nashville will receive, during the present year, several hundred thousand Dollars. The Clerks at Shelbyville, Murfreesboro and Knoxville will also receive large amounts. At many other points considerable amounts of money will be received, which, if paid into the Treasury quarterly or semi-annually, would certainly better enable the Treasury to meet at all times the demands made upon it. If these shall be compelled to pay quarterly or semi-annually, the other revenue collectors, less conveniently situated to the Capital, might be allowed to pay annually, as they now do, if such distinction can be made.

Present necessities urge the immediate action of the Legislature upon this subject.

All of which is respectfully submitted.

R. L. STANFORD,
State Treasurer.

APPENDED REPORT.

The Treasurer, as Superintendent of Public Instruction, has the honor herewith to transmit the following statement showing whence the School Fund was derived before the rebellion. The sum total of this Fund was made up as follows:

Of One Million Five Hundred Thousand Dollars ($1,500,000) deposited in the Bank of Tennessee.

Of the proceeds of sales or rents of escheated lands, or such as were bought in favor of taxes.

Of Property given by Will, Deed or otherwise, for the use of Common Schools, to be paid by the person having charge of it, if given for the use of the State, to the Treasurer, if for the use of the County, to the County Trustee.

Of the personal effects of intestates having no kindred entitled by the laws of distribution thereto.

The Fund for Annual Distribution of Two Thousand Dollars ($2,000) in lieu of land tax.

A Tax of twenty-five (25) cents on polls.

A Tax of Two and one-half ($2\frac{1}{2}$) cents on the Hundred Dollars ($100) of all taxable property of the State.

All Taxes on capital employed or to be employed in any mineral lands in this State, to be used for Common School purposes

One-fourth ($\frac{1}{4}$) of the annual State Tax to go to Common Schools.

All private Banks of the State, organized under the Banking Law, paid Twenty-five (25) cents to the Hundred Dollars ($100) capital for School purposes.

Monies derived from Taxes on Privileges, Specific Taxes, Fines and Penalties, to be used for School purposes.
Bonuses of Banks, except the Union Bank, otherwise directed.
Bonuses of Companies incorporated by the State.
One Hundred Thousand Dollars ($100,000) of the Dividend of the Bank of Tennessee.

You will see by examining the subjoined Tabular Statements that all the items set forth above for distribution to Schools may be collected now, as before the rebellion, and applied now, as then, for Schools.

The Treasurer would most earnestly recommend that the Bonuses of Banks, Taxes on Incorporated Companies, and every other item, as set forth in the foregoing statement, be collected for each year since the commencement of the rebellion, and be paid into the Treasury, as a Fund for distribution to Common Schools hereafter, as before the rebellion.

All of which is respectfully submitted.

TABULAR STATEMENT.

COMMON SCHOOL FUND AS FORMERLY DISTRIBUTED.

From the State Treasury	$100,000 00
In lieu of Land Taxes	2,000 00
Bonuses from Banks and Insurance Companies	17,779 76
Tax on Polls	25,255 75
Tax on Property	78,656 42
	$223,691 93

Common Schools are entitled to this amount annually from the commencement of the rebellion, which multiplied by four (4) gives about the average amount $894,767 72, to which Common Schools are now entitled, in consequence of the proper annual distribution not having been made during the war.