

# 2000 Treasurer's Report

**Steve Adams, Treasurer  
State of Tennessee**

# 2000 Treasurer's Report



*Memphis in May*  
*Memphis, Tennessee*

**Steve Adams, Treasurer**  
**State of Tennessee**

Fiscal Year Ended June 30, 2000

## **Celebrating Tennessee Festivals**

Tennessee's festivals celebrate its diverse people, culture, geography, history, and music, attracting people from all over the country. Several festivals are featured in this report.

Fun Fest, a nine-day Kingsport community festival held in mid-July, provides family fun for the entire community. Fun Fest includes more than 100 events for all ages and interests. The festival starts with an opening parade and includes evening concerts, athletic events, plays, and children's activities throughout the week. An early morning hot air balloon launch and a nighttime fireworks display highlight the final day.

Memphis in May International Festival is a celebration of business and fun held during the month of May. The festival consists of colorful public events, visual and performing arts exhibitions and business and educational activities featuring the cultural life of a selected honored country.

Selected as one of the "Top 20 Tourist Favorites" by the Southeast Tourism Society, the Smithville Fiddlers' Jamboree and Crafts Festival has entertained people for over 20 years. The festival includes 24 dance and musical instrument categories plus National Championship categories for country music beginners. More than 250 craft exhibitors sell and display authentic pioneer and contemporary crafts.

The Iroquois Steeplechase is an annual event traditionally held the second Saturday in May. The Iroquois Steeplechase is a "rite of spring" for the "horsey" and the social set in Nashville. Horse people and spectators from all over the world congregate to witness the race named after Iroquois, the only American-bred racehorse to win the English Derby.

The Jonesborough National Storytelling Festival is one of the nation's oldest and most dynamic events showcasing over 30 storytellers under big festival tents. It is storytelling at its most magical.

Mule Day is an annual event held in Columbia. The Festival features a flea market, arts & crafts, knife show, clogging, square dancing, liars' contest, mule pulling, mule show, mule driving show, western mule show, donkey softball, country and gospel music, a parade, and lots of food!

October brings many colorful fall festivals to Tennessee, including the annual Harvest Celebration in Pigeon Forge, the Smith County Fall Heritage Festival, the Autumn Gold Festival in Coker Creek, and the Oktober Heritage Festival in Hohenwald.

For more information about Tennessee Festivals, visit Tennessee on the Internet at [www.tourism.state.tn.us](http://www.tourism.state.tn.us).

*Photos furnished by State of Tennessee Photographic Services.*

**This report is available in its entirety on the Internet at: [www.treasury.state.tn.us/ann-report.htm](http://www.treasury.state.tn.us/ann-report.htm).**

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# LETTER OF TRANSMITTAL

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State of Tennessee  
Treasury Department  
State Capitol  
Nashville, Tennessee 37243

December 31, 2000

To the Governor, Members of the General Assembly, and Citizens of the State of Tennessee:

In accordance with TCA 4-4-114, I am pleased to transmit a report of the activity of the Treasury Department for the fiscal year ending June 30, 2000. While the challenges of this time have been numerous, I think you will find that we have performed the duties of this office in an exemplary manner. Because of your continued support and the commitment of an outstanding Treasury staff, we have continued to excel in the administration of the programs for which we are responsible.

The Treasury website, [www.treasury.state.tn.us](http://www.treasury.state.tn.us), continues to be the vehicle that enhances and promotes in a cost effective and efficient manner our programs to the citizens of Tennessee. Our 401(k) site has been enhanced to allow participants to make changes as well as inquire on their accounts on line. The TCRS benefits calculator and the Unclaimed Property search feature continue to be among our most popular sites. Over 28% of the property returned to owners of unclaimed property was located from inquiries to this site. This represents over 22% of the dollars returned during this fiscal year. In addition, we successfully launched the BEST Savings Plan program. This program joins our BEST Prepaid program and provides parents with another option to save for higher education. The Treasurer's Report as well as our other publications are located on our website for the convenience and viewing by the public.

The next year is sure to bring even more requests for the professional services we provide public employees and the citizens of our state. We look forward to working with you to meet those challenges.

Sincerely,

A handwritten signature in cursive script that reads "Steve Adams".

Steve Adams

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## EXECUTIVE SUMMARY

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The 2000 Treasurer's Report contains reports on various programs administered by the Treasury Department, including Investments, the Tennessee Consolidated Retirement System, the Deferred Compensation Program, the Flexible Benefits Plan, Claims Administration, the Tennessee Claims Commission, Risk Management, the Unclaimed Property Program, the Chairs of Excellence Program, the Baccalaureate Education System Trust, and the Careers Now Program. The following comments represent a brief recap of the purpose and operations of each program administered by the department. The remainder of this report gives detailed data regarding these programs' activities during the 1999-2000 fiscal year.

### INTRODUCTION

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

### INVESTMENTS

*State Cash Management* - This section manages the State Pooled Investment Fund which includes the state's cash, the various dedicated reserves and trust funds of the state, and the Local Government Investment Pool. Investments during 1999-2000 averaged \$3.52 billion, producing \$201.5 million in income for an average rate of return of 5.66%. The Local Government Investment Pool received \$109.1 million in interest at a rate averaging 5.73%. The State Trust of Tennessee allows the department to use the Federal Reserve Wire Transfer System to transfer funds on a limited basis.

*Pension Fund Investments* - This section manages the investments of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 2000 totaled \$24.1 billion at fair value. For the year, investments produced \$1.8 billion in income for a rate of return of 7.91% on a fair value basis. This section also manages investments for the Chairs of Excellence Trust which at June 30, 2000 totaled \$235.5 million at fair value.

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, 2000, there were 190,344 active TCRS members: 41,902 state employees; 63,974 K-12 teachers; 66,036 political subdivision employees; and 18,432 higher education employees. As of June 30, 2000, there were 74,790 retirees. TCRS paid out \$692.7 million in benefits during fiscal year 1999-2000. 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.

### TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

The State of Tennessee Deferred Compensation Program offers state employees the opportunity to accumulate supplemental retirement income on a tax deferred basis. Participants may direct the investment of their deferred salary into a variety of investment products contracted for the program. During the 1999-2000 fiscal year, the state, the University of Tennessee and Board of Regents each matched their employees' contributions to the 401(k) plan at \$20 per month. As of June 30, 2000, a total of 52,068 state and higher education employees had accounts in the program. The market value of accumulated account balances totaled \$634.9 million, an increase of \$94.5 million during the year.

### DEFERRED COMPENSATION PROGRAM

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## EXECUTIVE SUMMARY

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### **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, 2000, 37,944 state employees were using the plan: 37,469 paid group medical premiums, 14,266 paid group dental premiums, 2,657 used the medical expense reimbursement account and 365 used the dependent care reimbursement account. The plan generated over \$2.4 million in F.I.C.A. savings for the state during the 1999-2000 fiscal year. Employees realized similar savings. The state's F.I.C.A. savings are used to fund the state wellness program and to help fund part of the 401(k) match for state employees.

### **CLAIMS ADMINISTRATION**

The Division of Claims Administration is responsible for investigating and making determinations on claims made against the state for workers' compensation by state employees, employee property damage, tort liability and criminal injury compensation. Staff support from the Division of Claims Administration also assists the Board of Claims. The Division of Claims Administration received 5,672 claims for tort, employee property damage and workers' compensation. Payments made during the year for workers' compensation, tort, and employee property damage claims totaled \$22.5 million. During the year, 1,424 victims of criminal injury and drunk driver claims were approved for payment. Payments made to victims of criminal injuries and drunk drivers totaled \$6.5 million. Since the first payments were issued in 1982, over \$103.5 million has been paid to crime victims.

### **TENNESSEE CLAIMS COMMISSION**

The Tennessee Claims Commission is an administrative tribunal created to determine monetary claims against the State of Tennessee. There are three commissioners, one from each grand division of the state. Claims are payable from the Claims Award Fund by the Division of Claims Administration after adjudication by a commissioner. At June 30, 2000, the commission had 1,074 open claims (including claims transferred to administrative law judges). This represented a 12% reduction from cases open at June 30, 1999.

### **DIVISION OF RISK MANAGEMENT**

The Division of Risk Management is responsible for administering the state's Property/Casualty Insurance Program, including the procurement of boiler insurance and employee fidelity bond coverage. All state-owned buildings and contents are provided all-risk, replacement cost coverage for the limits of liability listed in the state's Property Insurance Schedule. On July 1, 1999, the total scheduled values were \$9.2 billion. The State Reserve for Casualty Losses, in the amount of \$5 million, provides an annual aggregate retention for the payment of property claims. Excess property coverage is procured from an independent insurance carrier to provide claim payments in excess of the retention, should losses exceed \$5 million in a given fiscal year. In fiscal year 1999-2000, the premium cost for total property coverage without the \$5 million retention was estimated to be \$11.1 million. The actual cost of the program for the same period was \$1.2 million, providing a savings to the state of approximately \$9.9 million.

### **UNCLAIMED PROPERTY DIVISION**

The Unclaimed Property Division administers the state's Uniform Disposition of Unclaimed Property Act. Under this act, the state provides one centralized location for the owners of abandoned property, or their heirs, to turn to when searching for forgotten assets. The types of property covered by this act are primarily cash property such as bank accounts, insurance policies, utility deposits, etc. During the fiscal year, \$23 million of unclaimed property was turned over to the Treasurer and \$5.2 million was returned to owners or their heirs. Since the program began operations in 1979, over \$185.7 million

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## EXECUTIVE SUMMARY

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in unclaimed property has been reported to the Treasurer and over \$53.1 million (29%) of that property has been returned to owners or their heirs.

The Chairs of Excellence Trust is a non-expendable trust fund authorized in 1984 to further the cause of education in Tennessee. The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus, creating a chair. Income from the chair is used to offset the cost of retaining a nationally or regionally recognized scholar at a state college or university who teaches in a specified academic area. During the 2000 fiscal year, one chair was created and private contributions of \$.67 million were received. Since 1984, a total of 98 chairs have been created. The Trust totaled \$238.2 million fair value at June 30, 2000 and produced income of \$12.3 million during the year.

### CHAIRS OF EXCELLENCE

The Baccalaureate Education System Trust, or BEST, is a program that allows anyone to pay for higher education costs in advance on behalf of a beneficiary. BEST provides two tax-favored savings vehicles: The Prepaid College Tuition Plan and the Savings Plan. The Prepaid College Tuition Plan (Educational Services Plan), introduced in 1997, is based on the average tuition inflation at Tennessee public colleges and universities. Through the purchase of affordable tuition units, Tennesseans can pay for future tuition at today's price and ease their concerns about whether they will have enough funds to pay for their children's higher education. The Savings Plan, which began in March 2000, is a new addition to Tennessee's BEST program. Contributions to the Savings Plan are invested in portfolios that change asset allocation over time based on the age of the beneficiary. During the year, the program received a total of \$6.1 million in new contributions. At June 30, 2000, the Prepaid College Tuition Plan held 6,221 contracts and the new Savings Plan held 145 contracts.

### BACCALAUREATE EDUCATION SYSTEM TRUST (BEST)

The Careers NOW Program provides Tennessee college students the opportunity to learn more about the operations of state government and career opportunities therein by working in one of the three constitutional offices for a semester. The program has had 104 students since it began in January 1996. Since the program's inception, 28% of participants have accepted job offers from the state.

### CAREERS NOW PROGRAM

The Treasurer has been appointed Refunding Trustee for the Tennessee Local Development Authority (TLDA), for the Tennessee State School Bond Authority, and for the Funding Board of the State of Tennessee in connection with the sale of bonds issued to refund, in advance of maturity, bonds and notes previously issued by the TLDA, School Bond Authority, and Funding Board. The Treasurer has established a Refunding Trust Fund for the benefit of the holders of the refunded bonds and notes. A portion of the proceeds of the refunding bonds were used to acquire direct general obligations of the United States of America or obligations which are unconditionally guaranteed by the United States of America as to principal and interest. The assets of the Refunding Trust Fund totaled \$72.8 million at fair value on June 30, 2000.

### BOND REFUNDING TRUST

# TREASURY NUMBERS AT A GLANCE

## FISCAL YEAR 1999-2000

<b>ADMINISTRATIVE</b>	Number of Filled Positions	183
	Payroll Expenditures	\$ 8,182,476
	Other Expenditures	\$ 3,854,157
	Total Administrative Expenditures	\$ 12,036,633
<b>CASH MANAGEMENT PROGRAM</b>	General Fund Earnings	\$ 41,538,687
	LGIP Earnings	\$ 109,122,054
	Restricted Fund Earnings	\$ 50,837,012
	Total Cash Management Earnings	\$ 201,497,753
<b>RETIREMENT PROGRAM</b>	Retirement Benefits	\$ 692,734,038
	Number of Retirees	74,790
	Number of Active Members	190,344
	Retirement Contributions	\$ 504,742,112
	Retirement Investment Earnings	\$ 1,761,074,099
<b>CLAIMS ADMINISTRATION PROGRAM</b>	Workers' Compensation Payments	\$ 17,489,284
	Workers' Compensation Claims Filed	3,646
	Employee Property Damage Payments	\$ 27,155
	Employee Property Damage Claims Filed	211
	Tort Claims Payments	\$ 5,005,655
	Tort Claims Filed	1,815
	Criminal Injury Payments	\$ 6,544,647
	Criminal Injury Number of Payments Made	1,424
<b>RISK MANAGEMENT PROGRAM</b>	Property Values Insured	\$ 9,274,022,400
	Total Cost of Program	\$ 1,142,517
	Savings to the State over Private Insurance Rates	\$ 9,986,310
<b>CHAIRS OF EXCELLENCE PROGRAM</b>	Chairs of Excellence Contributions	\$ 667,919
	Chairs Of Excellence Investment Earnings	\$ 12,335,710
	Chairs of Excellence Expenses	\$ 7,057,645
	Total Number of Chairs of Excellence	98
<b>OTHER PROGRAMS</b>	Deferred Compensation Contributions	\$ 60,668,055
	Deferred Compensation Participants	52,068
	Flexible Benefits Plan Payments	\$ 3,642,004
	FICA Savings Generated from Flex Plan	\$ 2,442,467
	Unclaimed Property Revenues	\$ 27,112,447
	Unclaimed Property Payments	\$ 5,178,183
	BEST Accounts	6,366
	BEST Contributions (net of fees)	\$ 6,124,671
<b>FAIR (MARKET) VALUE OF ASSETS UNDER MANAGEMENT AT JUNE 30, 2000</b>	Retirement Trust Fund	\$ 24,407,139,468
	Chairs of Excellence Trust Fund	\$ 238,157,282
	State Pooled Investment Fund Investments	\$ 3,897,997,723
	Deferred Compensation (outside managers)	\$ 634,923,073
	BEST Educational Services Plan	\$ 22,185,957
	BEST Educational Savings Plan (outside manager)	\$ 345,000
	Total Assets Under Management	\$ 29,200,748,503

# Program Administration



**Mule Day**  
**Columbia, Tennessee**

**Funfest**  
**Kingsport, Tennessee**



## STATE CASH MANAGEMENT

### STATE CASH MANAGEMENT

The State of Tennessee receives revenues from many sources such as taxes, licenses, fees, and the federal government. As these monies are collected, they are deposited into one of the 165 financial institutions in Tennessee that have contracted with the state to serve as depositories. Under the state Constitution, the state may not spend more money on its programs than it has collected in revenues. Consequently, at any point in time the state has a sizable sum of money collected but not yet spent. These monies are invested by the Treasury Department until needed to pay for state expenses, payroll, or benefit program disbursements.

During the 1999-2000 fiscal year, the average balance of short term investments in the Treasurer's Cash Management program was \$3,520,662,167 per month and interest income of \$201,497,753 was earned. This includes deposits in the Local Government Investment Pool administered by the Treasury Department.

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

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

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

At June 30, 2000, investments had an average maturity of 61 days, and an average weighted yield of 6.48%. The total balance in the State Pooled Investment Fund at June 30, 2000 (\$3,897,997,723 fair value) was allocated as follows: U.S. Treasury government and agency securities, 23.31%; repurchase agreements, 2.30%; collateralized certificates of deposit, 40.32%; and commercial paper, 34.07%.

### STATE CASH MANAGEMENT COMPARATIVE RETURNS

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

Fiscal Year	<sup>1</sup> Total Pool Funds	<sup>2</sup> Merrill Lynch Institutional Fund	<sup>3</sup> New Pool Funds	<sup>4</sup> 90 Day Treasury (CD Equivalent Yield)
1999-00	5.66%	5.53%	5.73%	5.37%
1998-99	5.22	5.02	5.03	4.59
1997-98	5.64	5.44	5.59	5.17
1996-97	5.50	5.25	5.40	5.17
1995-96	5.69	5.49	5.60	5.29

<sup>1</sup>Investment return on total portfolio.

<sup>2</sup>This index most closely resembles the structures and objectives of the total cash portfolio.

<sup>3</sup>Investment return on funds invested during the year.

<sup>4</sup>This approximates the reinvestment period for new funds.

## STATE CASH MANAGEMENT

### 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 Trust to meet liquidity and investment needs. Account balances are drawn to the floor and concentrated by Fed wire or Automated Clearinghouse (ACH) transactions. The account floor is the minimum amount required by the financial institution for that particular account to earn interest. All of these state accounts are interest bearing.

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

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

automatically compared to the balances entered to calculate ACH transaction amounts.

### STATE COLLATERAL PROGRAM

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

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

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

### 8-5-110 COLLATERAL

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

Cash Management personnel work directly with the personnel of the state agencies to accept and release collateral held in accordance with their specific instructions. Other state agencies cooperating with the

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## STATE CASH MANAGEMENT

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Treasurer in this regard include the Department of Health, the Department of Environment and Conservation, the Department of Commerce and Insurance, the Department of Transportation, and the Department of Financial Institutions. Reports of collateral transactions, holdings, and maturities are regularly shared with these departments.

### COLLATERAL POOL

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

While participation in the Collateral Pool is voluntary, participation is subject to application to and approval by the Collateral Pool Board. The Board has established minimum financial performance levels for applicants which must be met to ensure that only healthy institutions are permitted to participate.

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

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

All collateral transactions for the pool are monitored and processed through the Treasury Department

using uniform state-wide procedures. In addition, Treasury Department staff monitors all pool activity through the monthly, quarterly, and annual reports required to be submitted by pool participants.

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

The Collateral Pool provides collateral for both state funds and local government funds for those institutions participating in the pool. The Collateral Pool serves as a significant administrative advantage for local governments. Under the Collateral Pool, the Treasurer, rather than the local government, is responsible for monitoring the pledge level; pricing collateral daily; reconciling collateral monthly with the trustee custodian; monitoring collateral; pledging, releasing and substituting collateral; and maintaining a trustee custodian relationship.

Currently, the Collateral Pool has 45 participant institutions collateralizing public funds in excess of \$3.4 billion.

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# STATE CASH MANAGEMENT

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## SECURITIES ACCEPTABLE AS COLLATERAL FOR STATE DEPOSITS

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

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

# STATE CASH MANAGEMENT

## HISTORICAL ANALYSIS OF STATE CASH INVESTMENTS

### *Collateralized Time Deposits*

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
1999-00	\$ 1,648,537,750	\$ 91,795,728	5.58%
1998-99	1,403,271,417	73,497,837	5.25%
1997-98	1,055,776,333	59,831,252	5.66%
1996-97	848,697,167	46,917,097	5.53%
1995-96	835,888,333	49,605,934	5.89%

### *Repurchase Agreements and Overnight Deposit Accounts*

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
1999-00	\$ 79,427,917	\$ 4,429,822	5.62%
1998-99	139,544,000	6,971,489	5.05%
1997-98	164,851,917	9,136,064	5.56%
1996-97	180,228,167	9,743,171	5.37%
1995-96	176,878,167	9,988,181	5.62%

### *Commercial Paper*

Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
1999-00	\$ 1,144,931,750	\$ 66,980,997	5.81%
1998-99	1,113,779,417	58,565,097	5.26%
1997-98	890,313,583	50,659,421	5.69%
1996-97	739,561,917	41,056,244	5.55%
1995-96	591,118,167	33,556,447	5.65%

### *U.S. Government Securities*

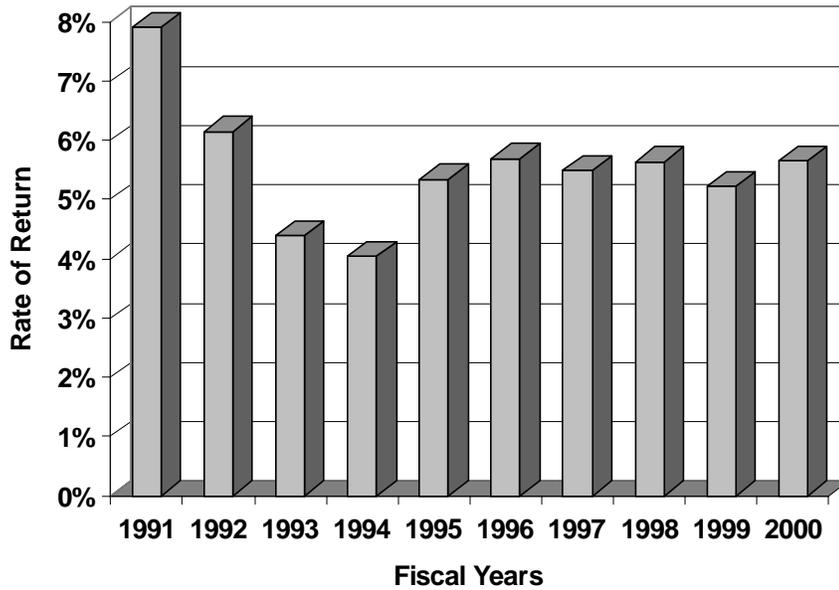
Fiscal Year	Average Amount Invested	Amount Earned	Rate of Return
1999-00	\$ 647,764,750	\$ 38,291,206	5.58%
1998-99	680,657,333	34,017,497	5.14%
1997-98	652,920,833	36,098,337	5.52%
1996-97	622,375,583	34,547,557	5.45%
1995-96	655,638,667	35,684,775	5.46%

### *Total Funds*

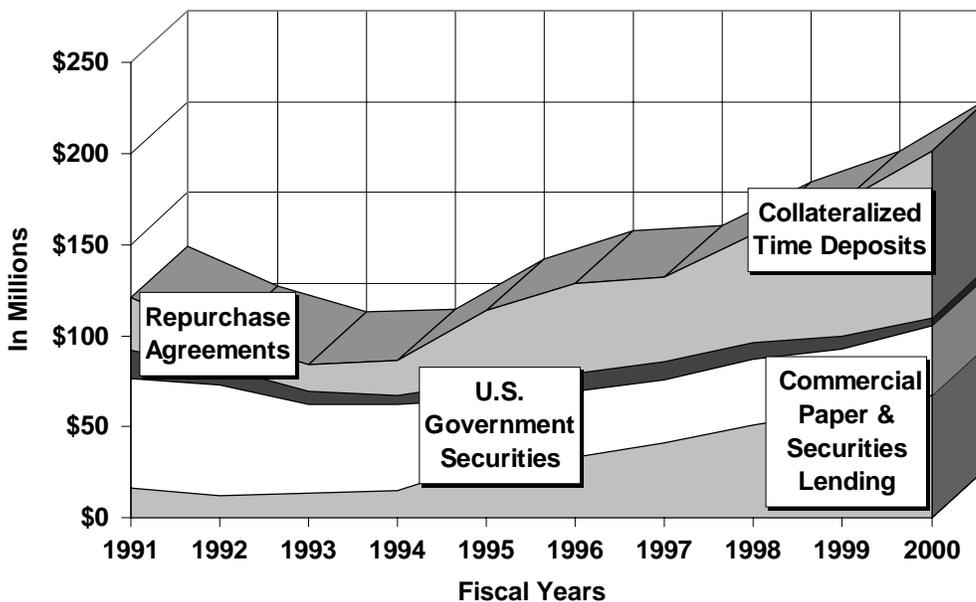
Fiscal Year	Average Total Funds Invested	Cash Management Investment Earnings	Composite Weighted Average Rate of Return
1999-00	\$ 3,520,662,167	\$ 201,497,753	5.66%
1998-99	3,337,252,167	173,051,920	5.22%
1997-98	2,763,862,666	155,725,074	5.64%
1996-97	2,390,862,834	132,264,069	5.50%
1995-96	2,259,523,334	128,835,337	5.69%

# STATE CASH MANAGEMENT

## CASH MANAGEMENT INVESTMENTS COMPOSITE WEIGHTED AVERAGE RATE OF RETURN *Fiscal Years 1991-2000*



## ANALYSIS OF STATE CASH EARNINGS *Fiscal Years 1991-2000*



# STATE CASH MANAGEMENT

## CASH MANAGEMENT PORTFOLIO ANALYSIS Fiscal Year Ended June 30, 2000

Date	Current Investment Yield	Total Portfolio Yield	Avg. Days to Maturity	Portfolio Composition				
				Certificates of Deposit	Repurchase Agreements	U.S. Treasury Notes	U.S. Agency	Commercial Paper
Jul-99	5.07%	5.03%	62	48.36%	3.42%	1.40%	13.97%	32.85%
Aug-99	5.32%	5.11%	62	49.47%	3.17%	1.46%	15.57%	30.34%
Sep-99	5.38%	5.27%	76	50.96%	2.33%	1.51%	13.81%	31.39%
Oct-99	5.31%	5.36%	76	52.58%	2.21%	1.55%	12.97%	30.70%
Nov-99	5.48%	5.43%	66	53.93%	3.24%	1.57%	13.77%	27.49%
Dec-99	5.58%	5.58%	55	55.45%	2.13%	1.61%	13.16%	27.65%
Jan-00	5.66%	5.67%	43	53.11%	2.33%	1.53%	11.36%	31.67%
Feb-00	5.84%	5.75%	43	49.67%	2.86%	1.43%	11.99%	34.05%
Mar-00	5.99%	5.94%	61	41.06%	1.87%	0.00%	21.27%	35.80%
Apr-00	6.13%	6.07%	64	36.98%	1.75%	0.00%	26.42%	34.85%
May-00	6.34%	6.22%	68	37.21%	1.13%	0.00%	27.99%	33.67%
Jun-00	6.62%	6.44%	67	39.22%	1.08%	0.00%	22.23%	37.47%
<b>Dollar Weighted Avg.</b>	<b>5.73%</b>	<b>5.66%</b>	<b>62</b>	<b>47.33%</b>	<b>2.29%</b>	<b>1.00%</b>	<b>17.04%</b>	<b>32.33%</b>

Date	General Fund		LGIP		Other Restricted		Total Average Invested
	Average	Percent	Average	Percent	Average	Percent	
Jul-99	\$ 984,174,978	27.14%	\$ 1,780,738,003	49.11%	\$ 860,876,019	23.75%	\$ 3,625,789,000
Aug-99	948,614,428	27.32%	1,675,562,619	48.25%	848,223,953	24.43%	3,472,401,000
Sep-99	821,789,816	24.51%	1,682,091,399	50.18%	848,466,785	25.31%	3,352,348,000
Oct-99	799,477,388	24.50%	1,609,385,604	49.33%	854,029,008	26.17%	3,262,892,000
Nov-99	646,618,384	20.15%	1,672,877,428	52.14%	889,000,188	27.71%	3,208,496,000
Dec-99	545,497,893	17.41%	1,680,742,710	53.66%	906,086,397	28.93%	3,132,327,000
Jan-00	528,756,767	16.12%	1,882,641,358	57.39%	868,976,875	26.49%	3,280,375,000
Feb-00	479,827,409	14.14%	2,030,684,981	59.84%	883,002,610	26.02%	3,393,515,000
Mar-00	443,223,972	12.07%	2,238,398,733	60.99%	988,785,295	26.94%	3,670,408,000
Apr-00	713,913,531	18.55%	2,227,484,867	57.86%	908,108,602	23.59%	3,849,507,000
May-00	973,506,355	24.15%	2,156,853,125	53.50%	901,078,520	22.35%	4,031,438,000
Jun-00	979,847,140	24.69%	2,022,649,286	50.97%	965,953,574	24.34%	3,968,450,000
<b>Avg.</b>	<b>\$ 738,770,672</b>	<b>20.98%</b>	<b>\$ 1,888,342,509</b>	<b>53.64%</b>	<b>\$ 893,548,986</b>	<b>25.38%</b>	<b>\$ 3,520,662,167</b>

## STATE CASH MANAGEMENT

### LOCAL GOVERNMENT INVESTMENT POOL

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

The Local Government Investment Pool began operations in November of 1980. Participation in the LGIP program currently stands at 957 active accounts, representing 306 local government units. In addition, 449 accounts are active in the Department of Transportation (DOT) program.

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.

The Treasurer's Office has installed a facsimile copy machine to assist participants of the LGIP in communicating their instructions regarding deposits, transfers or withdrawals of funds. Thus, participants have the choice of communicating these instructions by telephone or telecopier.

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

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

Participants earn interest on LGIP deposits based on the average rate of interest earned on the investments acquired for the entire cash management pool each month. This average earnings rate is reduced each month by six one hundredths of one percent (.06%) as an administrative fee for participating in the LGIP program. During the 1999-2000 fiscal year, the average rate participants earned on their deposits after the fee reduction was 5.67%. 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, 2000*

	Account Balance 7/1/99	Net Deposits/ (Withdrawals) FY 1999-2000	Net Interest Credited FY 1999-2000	Account Balance 6/30/00
Cities	\$ 280,265,401	\$ (2,390,425)	\$ 16,135,532	\$ 294,010,508
Counties	766,692,616	(20,405,593)	44,408,909	790,695,932
Commitments to D.O.T.	50,619,768	(3,074,527)	2,888,550	50,433,791
Educational Institutions	446,614,578	(18,479,880)	30,065,889	458,200,587
Community Health Agencies	10,870,186	(3,414,888)	410,259	7,865,557
Restricted Accounts	947,874	(96,962)	50,585	901,497
Other	244,683,399	(5,025,127)	14,026,774	253,685,046
<b>Total</b>	<b>\$ 1,800,693,822</b>	<b>\$ (52,887,402)</b>	<b>\$ 107,986,498</b>	<b>\$ 1,855,792,918</b>

## STATE CASH MANAGEMENT

### STATE TRUST OF TENNESSEE

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

Due to restrictions imposed upon state-owned trust companies by the Federal Reserve Board, the State

Trust of Tennessee is limited in the number of daily outgoing wire transfers and can no longer settle ACH transactions through its account at the Federal Reserve.

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

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

### STATE TRUST OF TENNESSEE FEDERAL RESERVE BANK TRANSACTIONS *Fiscal Year 1999-2000*

Transaction Type	Number	Amount
(1) Wire Disbursements	8,363	\$ 5,074,654,111
(2) Wire Receipts	7,647	12,892,094,556
(3) Security Disbursements	585	19,792,918,483
(4) Security Receipts	622	19,779,630,227
(5) Check Redemptions	6,586,744	7,621,849,413
<b>Total</b>	<b>6,603,961</b>	<b>\$ 65,161,146,790</b>

#### Explanation of Transaction Types:

- (1) Disbursements of cash for the purpose of non-Fed eligible securities, settlement wires to agent bank, and other non-recurring wires.
- (2) Receipt of cash for payment of interest and principal for non-Fed eligible securities, concentration of cash deposited in local banks, drawdown of Federal funds, and Local Government Investment Pool (LGIP) deposits.
- (3) Disbursement of cash against the receipt of Fed eligible securities (U.S. Government securities held in book-entry form by the Federal Reserve Bank).
- (4) Receipt of cash against the disbursement of Fed eligible securities.
- (5) Redemption of warrants, drafts, and checks issued by the state.

## TCRS INVESTMENTS

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### TCRS INVESTMENTS

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

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

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

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

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

Effective January 1, 1998, State Street Bank began providing Master Trust Custodial services to TCRS. The master custodian provides safekeeping and accounting services.

### INITIATIVES

Since the Tennessee General Assembly enacted legislation to authorize TCRS to further diversify its portfolio by allowing investments in real estate, the system has been active in establishing the necessary infrastructure to manage this asset class. The system hired an experienced real estate portfolio manager, employed the services of a real estate investment consultant, adopted internal operating procedures to carry out the provisions of the real estate policy as adopted by the TCRS Board of Trustees, and employed the services of real estate investment advisors. The first purchase of real estate occurred in September 1999.

### EXTERNAL MANAGERS FOR INTERNATIONAL EQUITY

TCRS utilizes external managers for the investment management of the international equity asset class. The use of external managers for this asset class began in November 1995 when the number of countries in which stock purchases could be made was increased from seven to 39. Pursuant to *T.C.A. Section 8-3-113*, the initial selection of external managers included one emerging investment manager. The initial allocation included \$10 million for emerging managers. Subsequent allocations in April 1997 and November 1998 included \$40 million for emerging managers.

# TCRS INVESTMENTS

## INVESTMENT SUMMARY

*As of June 30, 2000*

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
<b>Fixed Income</b>						
Government Bonds	\$ 8,648,027,023	35.84%	\$ 797,689,926	3.31%	\$ 9,445,716,949	39.15%
Corporate Bonds	3,186,022,678	13.20%	398,673,741	1.65%	3,584,696,419	14.85%
Convertible Bonds	0	0.00%	3,292,871	0.01%	3,292,871	0.01%
<b>Total Bonds</b>	<b>\$ 11,834,049,701</b>	<b>49.04%</b>	<b>\$ 1,199,656,538</b>	<b>4.97%</b>	<b>\$ 13,033,706,239</b>	<b>54.01%</b>
Preferred Stock	0	0.00%	16,305,575	0.07%	16,305,575	0.07%
<b>Total Fixed Income</b>	<b>\$ 11,834,049,701</b>	<b>49.04%</b>	<b>\$ 1,215,962,113</b>	<b>5.04%</b>	<b>\$ 13,050,011,814</b>	<b>54.08%</b>
<b>Common Stock</b>						
Commingled Fund	\$ 0	0.00%	\$ 8,470,501	0.04%	\$ 8,470,501	0.04%
Consumer Discretionary	837,139,786	3.47%	379,809,430	1.57%	1,216,949,216	5.04%
Consumer Staples	466,527,507	1.93%	117,803,650	0.49%	584,331,157	2.42%
Energy	486,995,766	2.02%	140,675,710	0.58%	627,671,476	2.60%
Financial Service	931,478,443	3.86%	353,890,992	1.47%	1,285,369,435	5.33%
Health Care	997,909,782	4.14%	119,440,093	0.49%	1,117,349,875	4.63%
Industrials	720,984,993	2.99%	297,165,634	1.23%	1,018,150,627	4.22%
Information Technology	2,320,309,063	9.62%	336,916,590	1.40%	2,657,225,653	11.02%
Materials	144,597,875	0.59%	146,648,486	0.61%	291,246,361	1.20%
Private Placement	534,375	0.00%	30,439,565	0.13%	30,973,940	0.13%
Rights/Warrants	0	0.00%	38,363	0.00%	38,363	0.00%
Telecommunication Svc.	645,620,311	2.68%	227,342,777	0.94%	872,963,088	3.62%
Unclassified	3,111,188	0.01%	7,439,105	0.03%	10,550,293	0.04%
Utilities	192,745,867	0.79%	55,073,249	0.23%	247,819,116	1.02%
<b>Total Common Stock</b>	<b>\$ 7,747,954,956</b>	<b>32.10%</b>	<b>\$ 2,221,154,145</b>	<b>9.21%</b>	<b>\$ 9,969,109,101</b>	<b>41.31%</b>
<b>Short-term Investments</b>						
Commercial Paper	\$ 468,259,685	1.94%	\$ 0	0.00%	\$ 468,259,685	1.94%
Corporate Bonds	58,021,123	0.24%	0	0.00%	58,021,123	0.24%
U.S. Gov't Securities	431,257,085	1.79%	0	0.00%	431,257,085	1.79%
<b>Total Short-term Investments</b>	<b>\$ 957,537,893</b>	<b>3.97%</b>	<b>\$ 0</b>	<b>0.00%</b>	<b>\$ 957,537,893</b>	<b>3.97%</b>
Real Estate	\$ 153,279,781	0.64%	\$ 0	0.00%	\$ 153,279,781	0.64%
<b>Total Investments</b>	<b>\$ 20,692,822,331</b>	<b>85.75%</b>	<b>\$ 3,437,116,258</b>	<b>14.25%</b>	<b>\$ 24,129,938,589</b>	<b>100.00%</b>

This schedule classifies 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	<sup>1</sup> Public Fund Index Median Total Return	<sup>2</sup> TCRS Total Return
1999-00	9.5%	7.9%
1998-99	10.0	9.5
1997-98	17.9	15.1
1996-97	18.9	15.7
1995-96	15.8	12.8
1994-95	15.4	12.8
1993-94	1.6	0.5
1992-93	13.2	15.1
1991-92	12.1	13.7
1990-91	7.9	7.8

<sup>1</sup>This index most closely resembles the structure and objectives of TCRS.

<sup>2</sup>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 1995-1996 through 1999-2000*

Fiscal Year	TCRS Portfolio Earnings <sup>1</sup>
1999-00	\$ 1,761,074,099
1998-99	1,932,716,042
1997-98	2,758,267,944
1996-97	2,514,952,816
1995-96	1,806,673,555

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

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

### MEMBERSHIP

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

bership pamphlet outlining various aspects of retirement membership.

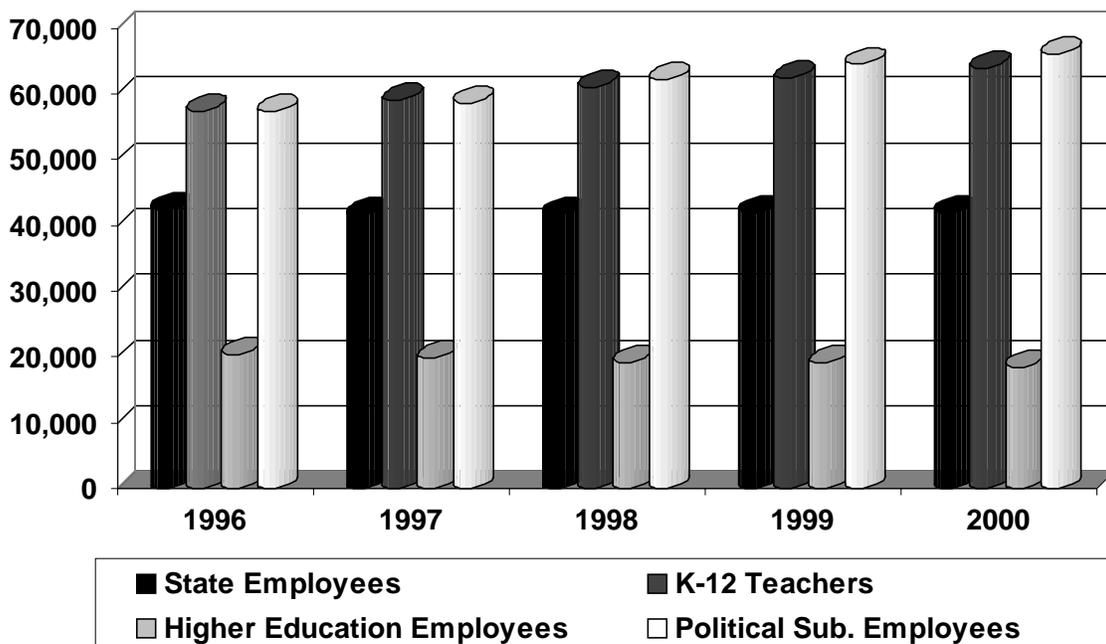
State employees and teachers become vested after five years of service. Political subdivision members attain vested status upon completion of 10 years unless five year vesting has been authorized. A vested member is guaranteed a retirement benefit once the age requirements are met.

As of June 30, 2000, there were 190,344 active members of TCRS and 10,921 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 1996-2000*



# 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 1999-2000 fiscal year, 5,029 refunds totaling \$28.6 million were issued.

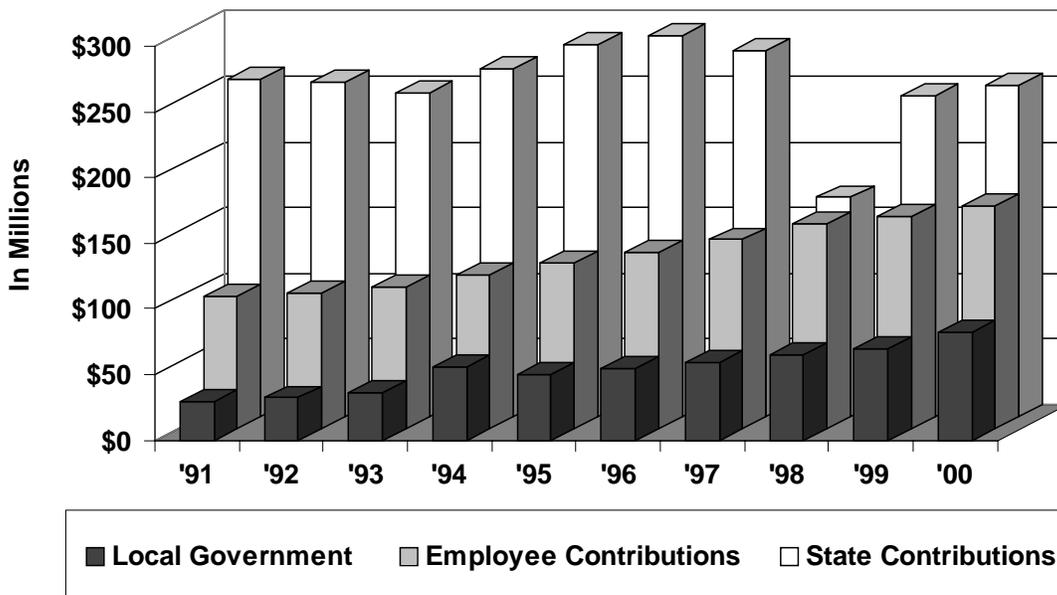
The contribution rate for the employers participating in the retirement system is determined by a biennial actuarial valuation performed by an independent actuarial firm. The contribution rates include funding for the basic benefit, the cost-of-living increase provisions, and amortization of the accrued liability over a 40 year period which began in July of 1975. The employer contribution rates for the year ending June 30, 2000 were as follows:

Noncontributory State and Higher Education Employees	5.43%
K-12 Teachers	5.47%
Political Subdivisions	Individually Determined
Faculty Members Electing to Participate in the ORP	10.00%*

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

## RETIREMENT CONTRIBUTIONS

*Fiscal Years 1999-2000  
(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, 2000, 74,790 retirees were receiving monthly benefit payments. This represents a 4.39% increase over the previous year.

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

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

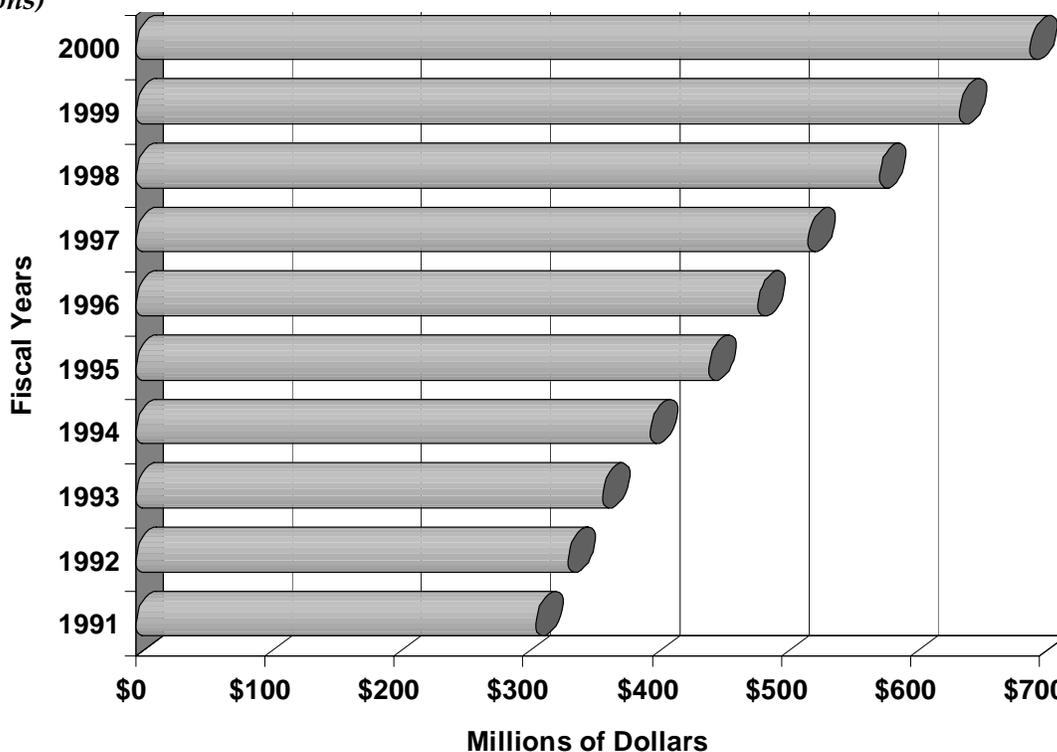
Cost-of-living adjustments after retirement are based on the Consumer Price Index (CPI). If there is an increase in the CPI of as much as .5% in any calendar year, the retired member's benefit will be adjusted by an amount equal to the increase in the CPI, not to exceed 3% nor be less than 1%.

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

Benefits paid in fiscal year 1999-2000 totaled \$692.7 million, an increase of \$55.0 million over 1998-1999 benefit payments.

## ANNUAL BENEFIT PAYMENTS

*Fiscal Years 1991-2000  
(in Millions)*



# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

## TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS for Calendar Year 2000

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
\$15,000	TCRS	\$ 3,544		\$ 4,725		\$ 5,906		\$ 7,088		\$ 8,269	
	Social Security	8,004		8,004		8,004		8,004		8,004	
	Total	\$ 11,548	77.0%	\$ 12,729	84.9%	\$ 13,910	92.7%	\$ 15,092	100.6%	\$ 16,273	108.5%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$ 11,025	
	Social Security	9,552		9,552		9,552		9,552		9,552	
	Total	\$ 14,277	71.4%	\$ 15,852	79.3%	\$ 17,427	87.1%	\$ 19,002	95.0%	\$ 20,577	102.9%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$ 11,813		\$ 13,781	
	Social Security	11,112		11,112		11,112		11,112		11,112	
	Total	\$ 17,018	68.1%	\$ 18,987	75.9%	\$ 20,956	83.8%	\$ 22,925	91.7%	\$ 24,893	99.6%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$ 11,813		\$ 14,175		\$ 16,538	
	Social Security	12,660		12,660		12,660		12,660		12,660	
	Total	\$ 19,748	65.8%	\$ 22,110	73.7%	\$ 24,473	81.6%	\$ 26,835	89.5%	\$ 29,198	97.3%
\$35,000	TCRS	\$ 8,348		\$ 11,130		\$ 13,913		\$ 16,695		\$ 19,478	
	Social Security	14,184		14,184		14,184		14,184		14,184	
	Total	\$ 22,532	64.4%	\$ 25,314	72.3%	\$ 28,097	80.3%	\$ 30,879	88.2%	\$ 33,662	96.2%
\$40,000	TCRS	\$ 9,726		\$ 12,968		\$ 16,209		\$ 19,451		\$ 22,693	
	Social Security	14,928		14,928		14,928		14,928		14,928	
	Total	\$ 24,654	61.6%	\$ 27,896	69.7%	\$ 31,137	77.8%	\$ 34,379	85.9%	\$ 37,621	94.1%
\$45,000	TCRS	\$ 11,104		\$ 14,805		\$ 18,506		\$ 22,208		\$ 25,909	
	Social Security	15,468		15,468		15,468		15,468		15,468	
	Total	\$ 26,572	59.0%	\$ 30,273	67.3%	\$ 33,974	75.5%	\$ 37,676	83.7%	\$ 41,377	91.9%
\$50,000	TCRS	\$ 12,482		\$ 16,643		\$ 20,803		\$ 24,964		\$ 29,124	
	Social Security	15,924		15,924		15,924		15,924		15,924	
	Total	\$ 28,406	56.8%	\$ 32,567	65.1%	\$ 36,727	73.5%	\$ 40,888	81.8%	\$ 45,048	90.1%
\$55,000	TCRS	\$ 13,860		\$ 18,480		\$ 23,100		\$ 27,720		\$ 32,340	
	Social Security	16,368		16,368		16,368		16,368		16,368	
	Total	\$ 30,228	55.0%	\$ 34,848	63.4%	\$ 39,468	71.8%	\$ 44,088	80.2%	\$ 48,708	88.6%
\$60,000	TCRS	\$ 15,238		\$ 20,318		\$ 25,397		\$ 30,476		\$ 35,556	
	Social Security	16,764		16,764		16,764		16,764		16,764	
	Total	\$ 32,002	53.3%	\$ 37,082	61.8%	\$ 42,161	70.3%	\$ 47,240	78.7%	\$ 52,320	87.2%

\* 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 2000. 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 2000;
- (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.

An on-line benefits calculator has been added to our web site to allow members to receive an immediate estimate.  
[www.treasury.state.tn.us/tcrs/](http://www.treasury.state.tn.us/tcrs/)

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

## ACTUARIAL VALUATION

An actuarial valuation of the TCRS is performed by an independent actuarial firm every two years. The purpose of the valuation is to determine the funding requirements for the employers participating in the TCRS. The latest valuation was performed July 1, 1999 to establish employer contribution rates. The system's accrued liability at July 1, 1999 was \$293.2 million. The accrued liability is being amortized over a 40 year period which began in 1975.

In addition to the biennial actuarial valuation, an experience study is conducted every four years for the purpose of establishing actuarial and economic assumptions to be used in the actuarial valuation process. Following are the assumptions used in the July 1, 1999 actuarial valuation of the plan:

### *Economic Assumptions*

- (1) 7.5% annual return on investments
- (2) 5.5% salary increases annually
- (3) 4.5% annual increase in social security wage base

### *Actuarial Assumptions*

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

## POLITICAL SUBDIVISIONS

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

### POLITICAL SUBDIVISION PARTICIPATION *as of June 30, 2000*

Cities	151
Counties	88
Utility Districts	35
Special School Districts	21
Joint Ventures	25
Development Agencies	13
Housing Authorities	10
911 Emergency Communication Districts	26
Miscellaneous Authorities	<u>21</u>
Total	390

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

## MAJOR LEGISLATIVE IMPROVEMENTS

### 1980-2000

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

**1981** Non-contributory retirement for state employees and higher education employees was adopted. The employees' contributions—up to 5%—were assumed by the state. Salaries of employees in active service on the date these provisions were adopted were indexed by 3.6%. Subsequent legislation has continued this indexing each year since.

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

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

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

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

Retirement credit for armed conflict military service was approved.

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

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

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

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

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

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

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

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

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

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

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

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

A 5% benefit improvement was authorized effective January 1, 1994.

**1996** An installment payment plan for prior service was authorized.

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

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

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

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

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

**1999** Group I benefit limitation increased to 90%.

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

## SOCIAL SECURITY

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

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

The Tennessee Master Agreement was executed on August 16, 1951. It provided full social security coverage (retirement, survivors, disability, and hospital insurance) to public employees who were not covered by an employer-sponsored retirement plan. A modification to the agreement, effective January 1,

1956, provided social security coverage to employees serving in positions which were then covered by the Tennessee State Retirement System and the Tennessee Teachers' Retirement System. After the Tennessee Consolidated Retirement System was established July 1, 1972, a state-wide social security coverage referendum was held among eligible employees.

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

Effective in 1991, separate wage bases were implemented for social security and Medicare and separate reporting of withholding was required. Since 1991, the social security tax rate has been 6.20% each for employers and employees and the Medicare (hospital insurance) rate has been 1.45% each.

## SCHEDULE OF HISTORICAL SOCIAL SECURITY CONTRIBUTION RATES

Calendar Year	Employee Rate	Employer Rate	Social Security Wage Base	Medicare Wage Base
2001	7.65%	7.65%	\$ 80,400	No Limit
2000	7.65	7.65	76,200	No Limit
1999	7.65	7.65	72,600	No Limit
1998	7.65	7.65	68,400	No Limit
1997	7.65	7.65	65,400	No Limit
1996	7.65	7.65	62,700	No Limit
1995	7.65	7.65	61,200	No Limit
1994	7.65	7.65	60,600	No Limit
1993	7.65	7.65	57,600	\$ 135,000
1992	7.65	7.65	55,500	130,200

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## DEFERRED COMPENSATION PROGRAM

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### DEFERRED COMPENSATION PROGRAM

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

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

As of June 30, 2000, accounts were held by 48,269 individuals in the 401(k) plan and 3,799 individuals in the 457 plan. At June 30, 24,086 state employees, 8,038 University of Tennessee employees, and 8,090 Tennessee Board of Regents employees were actively contributing to the 401(k) plan and 1,171 state employees, 105 University of Tennessee employees, and four Tennessee Board of Regents employees were actively contributing to the 457 plan.

The program is used by state employees of all ages and salary levels. The majority are under age 50 and earn below \$35,000 per year.

IRS regulations for 2000 allow a maximum deferral in the 457 plan of 25% of taxable salary up to the maximum annual contribution of \$8,000. The maximum deferral in the 401(k) plan is 20% of taxable salary for most members, up to the maximum annual contribution of \$10,500. Participants who use more than one tax-deferred savings plan are subject to additional limits.

During the 1999-2000 fiscal year, the state, the Tennessee Board of Regents and the University of Tennessee each matched their employees' contributions to the 401(k) plan at \$20 per month as authorized by the General Assembly. The amount contributed by the state during the year was \$5,465,766.

Participants in the program may direct the investment of their deferred salary to Union Planters Time Deposit Account, Aetna's Fixed Account, Calvert's Income Fund, State Street Bank & Trust's S&P 500 Index Fund, Fidelity Investments' Magellan Fund, Puritan Fund, OTC Portfolio, Contrafund, International Growth and Income Fund, Asset Manager, and Government Money Market Portfolio.

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

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

The Internet site, [www.treasury.state.tn.us/dc/](http://www.treasury.state.tn.us/dc/), provides full information about the program. Information available through the site includes forms, participation information and illustrations, descriptions of the investment choices and historical performance figures, an interactive benefit calculator, complete information for participants who may be approaching retirement age or considering with-

## DEFERRED COMPENSATION PROGRAM

drawing funds from the program, an e-mail address for participants to request additional personalized information and full account activity access.

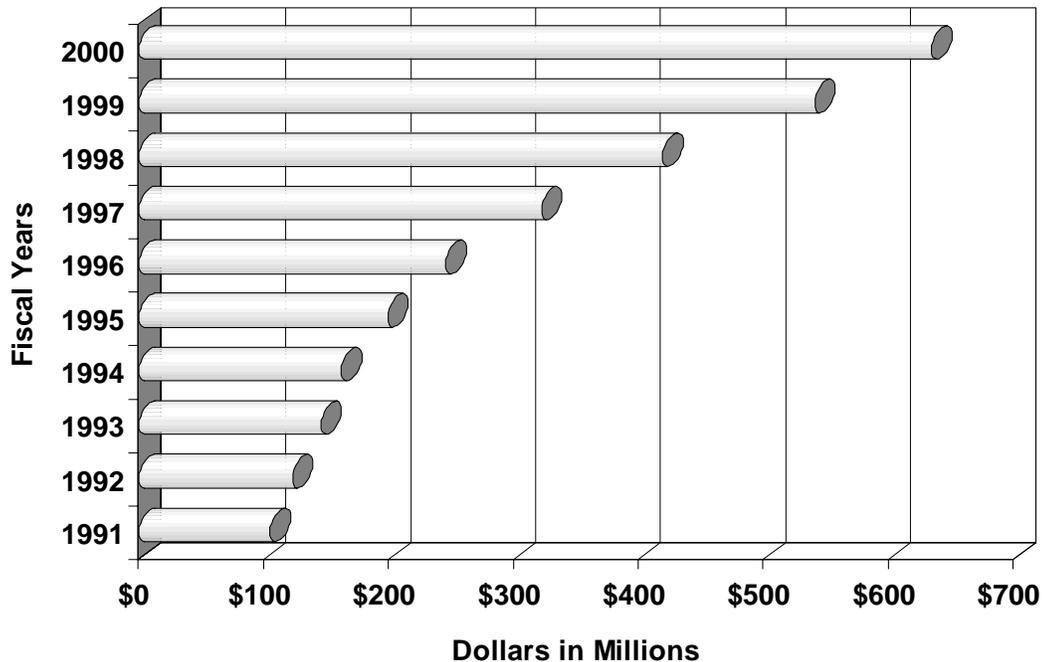
For the year ending June 30, 2000, contributions to the program totaled \$60,668,055. Contributions are wired through the State Trust of Tennessee for immediate crediting.

At June 30, 2000, accumulated account balances totaled \$634,923,073. At June 30, 2000, the program's assets were invested as follows: 82% in variable mutual funds, 3% in variable annuity products, 10% in insurance companies' fixed accounts, and 5% in a federally insured bank account. Distribution of the program's assets among the program's six investment providers is shown on the following page.

Under the loan program offered in the 401(k) plan, active employees who have accumulated \$4,000 or more in their 401(k) account may borrow up to half of their account value. Participants repay principal and interest to their 401(k) account through salary deduction. Taxes continue to be deferred while funds accumulated in the plan are in loan status. As of June 30, 2000, there were 926 loans outstanding from the 401(k) plan. Outstanding loan balances totaled \$3.8 million.

Benefits from the program may be distributed in periodic payments, in an annuity, or in a lump sum. At June 30, 2000, there were 821 individuals receiving periodic payments and 145 individuals receiving annuity payments from the program. In addition, a total of 3,603 lump sum distributions were issued during 1999-2000.

**DEFERRED COMPENSATION PROGRAM ASSETS**  
*(Market Value in Millions)*  
*Fiscal Years 1991-2000*



## DEFERRED COMPENSATION PROGRAM

### DEFERRED COMPENSATION CONTRIBUTIONS AND MARKET VALUE

	<b>Contributions FY 1999-2000</b>	<b>Market Value June 30, 2000</b>
<b>PLAN I [457]</b>		
AEtna (closed)	\$ 0	\$ 19,272,907
AEtna (open)	302,535	17,303,956
American General	38,564	797,302
Calvert Group	38,309	1,187,074
Fidelity Investments	1,909,534	108,196,271
Great West	0	513,827
State Street	70,124	2,445,873
Union Planters	257,921	13,801,286
Total	<u>\$ 2,616,987</u>	<u>\$ 163,518,496</u>
<b>PLAN II [401(k)]</b>		
AEtna (closed)	\$ 0	\$ 8,638,244
AEtna (open)	3,866,553	32,828,436
Calvert Group	742,366	4,614,405
Fidelity Investments	49,186,657	399,904,949
Great West	0	447,038
State Street	1,899,976	6,851,744
Union Planters	2,355,516	18,119,761
Total	<u>\$ 58,051,068</u>	<u>\$ 471,404,577</u>
Total for both plans	<u>\$ 60,668,055</u>	<u>\$ 634,923,073</u>

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## FLEXIBLE BENEFITS PLAN

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### FLEXIBLE BENEFITS PLAN

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

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

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

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

At June 30, 2000, a total of 37,944 state employees were enrolled in one or more of the plan's four options: 37,469 employees used the plan to pay medical insurance premiums, 14,266 paid dental insurance premi-

ums, 2,657 used the medical expense reimbursement account, and 365 used the dependent care reimbursement account.

Since contributions to the plan are exempt from both employee and employer F.I.C.A. (social security) tax, employees' use of the plan creates F.I.C.A. savings for the state. In fiscal year 1999-2000, the state's F.I.C.A. savings totaled \$2.4 million. Employees realize similar savings. Since the program began operation in January 1989, the state's F.I.C.A. savings have totaled \$22.0 million. Savings exceeding the costs of administering the plan have been designated for offsetting costs of the state's wellness program, providing assistance for day care programs, and funding matching contributions to the 401(k) plan. As of June 30, 2000, \$18.5 million had been transferred to offset costs of other benefit programs.

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## CLAIMS AGAINST THE STATE

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### CLAIMS AGAINST THE STATE

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

The Division of Claims Administration contracts with a third party administrator for the processing of workers' compensation claims. The division's staff monitors the work done by the third party administrator and acts as a liaison between state employees and the third party administrator.

The division contracts with a managed care organization which has established a workers' compensation preferred provider network for medical treatment for injured state employees. Currently, all state employees have access to this network. The managed care organization also provides case management services such as pre-certification for inpatient hospital care, bill review, large case management and other services to manage the costs of workers' compensation claims. The use of a preferred provider network has enabled the state to obtain approximately 33% savings off billed charges on workers' compensation medical bills.

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

During fiscal year 1999-2000, the Division of Claims Administration received 5,672 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 1999-2000 fiscal year, the Board took action on a total of two matters regarding claims and insurance. The Board also reviews and approves the purchase of insurance policies by the state and makes recommendations to the Commissioner of Finance and Administration and the General Assembly regarding the required funding for the Claims Award Fund.

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

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## CLAIMS AGAINST THE STATE

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**CLAIMS AND PAYMENT ACTIVITY***Fiscal Year 1999-2000*

	<b>Claims Filed</b>	<b>Payments Made</b>
Workers' Compensation Claims	3,646	
Death Payments		\$ 279,058
Medical Payments		8,329,811
Temporary Disability (Lost Time)		1,695,147
Permanent Disability		7,185,268
Subtotal		\$ 17,489,284
Employee Property Damage	211	\$ 27,155
Tort Claims	1,815	
Death Payments		\$ 1,210,255
Bodily Injury Payments		2,959,662
Property Damage Payments		835,738
Subtotal		\$ 5,005,655
Total	5,672	\$ 22,522,094

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## VICTIMS' COMPENSATION PROGRAM

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### VICTIMS' COMPENSATION PROGRAM

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

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

During the 1999-2000 fiscal year, the Division of Claims Administration made payments on 1,424 criminal injury claims for a total of \$6,544,647. Payments are issued promptly to the victim and, if appropriate, his or her attorney. Federal funding assistance for the program has aided in allowing prompt claim payment.

Victims of drunk drivers are also paid from the Criminal Injury Compensation Fund. Identical mone-

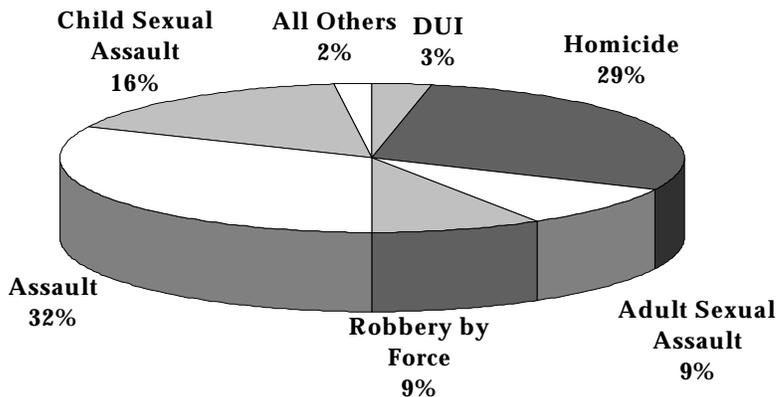
tary benefits are available to both drunk driver and criminal injury victims. When the proximate cause of a death or injury is the operator's intoxication as prohibited by T.C.A. Section 55-10-401, the victim's death or injury is eligible for compensation in the same manner as criminal injury compensation, not to exceed a maximum award of \$12,000 per claim plus attorney fees for injuries occurring on or after July 1, 1999. A supplemental award of up to \$8,000 was available for crimes occurring during the 1999-2000 fiscal year.

Since the first claims were paid in 1982, the program has awarded a total of over \$103.5 million to crime victims. The Division of Claims Administration has made an effort to educate members of the public of the existence and benefits of the Criminal Injury Compensation Program by printing and distributing informative brochures explaining the program. Public awareness efforts and the use of victim assistance coordinators in each judicial district have also aided in providing the public with information about the availability of criminal injury compensation. The program also provides various information and resources on its web page: [www.treasury.state.tn.us/injury](http://www.treasury.state.tn.us/injury).

In the spring of 2000, the Tennessee General Assembly enacted Public Chapter 975 to increase compensation to victims. The maximum compensation available was increased from \$12,000 to \$18,000 and the supplemental award was increased from \$8,000 to \$12,000. These changes are effective for crimes occurring on or after July 1, 2000.

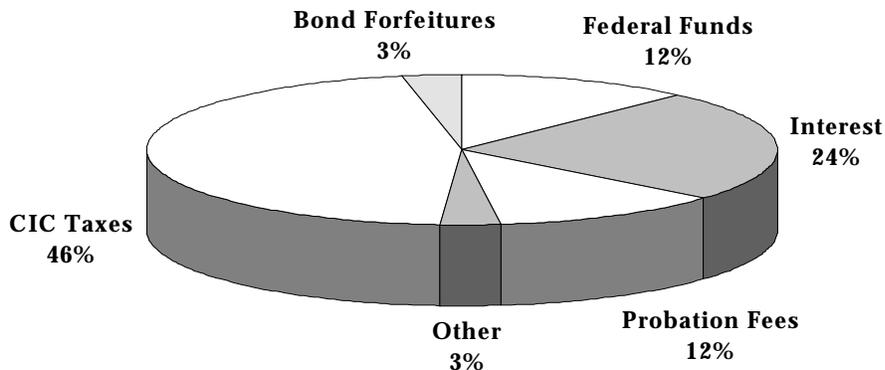
## VICTIMS' COMPENSATION PROGRAM

**VICTIMS' COMPENSATION AWARDS PAID**  
*Percentage of Awards Based on Crime Classification*  
*Fiscal Year 1999-2000*



During fiscal year 1999-2000, 1,424 awards totaling \$6,544,647 were made. Of that amount, \$212,499 can be attributed to claims involving DUI with the remaining \$6,332,148 related to all other crime types. The average award for all types was \$4,596. Nine percent of all claims were the result of domestic violence.

**CRIMINAL INJURIES COMPENSATION FUND SOURCES OF FUNDS**  
*Fiscal Year 1999-2000*



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## CLAIMS COMMISSION

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### CLAIMS COMMISSION

Chapter 972 of the 1984 Public Acts (codified as *Tennessee Code Annotated*, Section 9-8-301 et seq.) created the Tennessee Claims Commission as the administrative tribunal to determine monetary claims against the state. The commission has three commissioners, one from each grand division of the state. The three commissioners, who are appointed by the Governor and confirmed by the General Assembly, serve staggered six-year terms.

The commission has a central office in Nashville with an administrative clerk and an administrative services assistant. For administrative purposes, the commission is attached to the Department of the Treasury. (Prior to July 1, 1997, the commission was attached to the Department of Commerce and Insurance.)

The commission adjudicates claims involving tax recovery, state workers' compensation, and alleged negligence by state officials or agencies (e.g., negligent care, custody, or control of persons, personal property, or animals; professional malpractice; negligent operation or maintenance of a motor vehicle; and dangerous conditions on state-maintained highways or state controlled real property). These claims are payable from the Claims Award Fund. Damages are limited to \$300,000 per claimant and \$1,000,000 per occurrence. In addition, the commission awards compensation to victims of crime through the Criminal Injuries Compensation Fund. The Department of the Treasury's Division of Claims Administration is responsible for paying all claims.

### CLAIMS PROCESSING

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

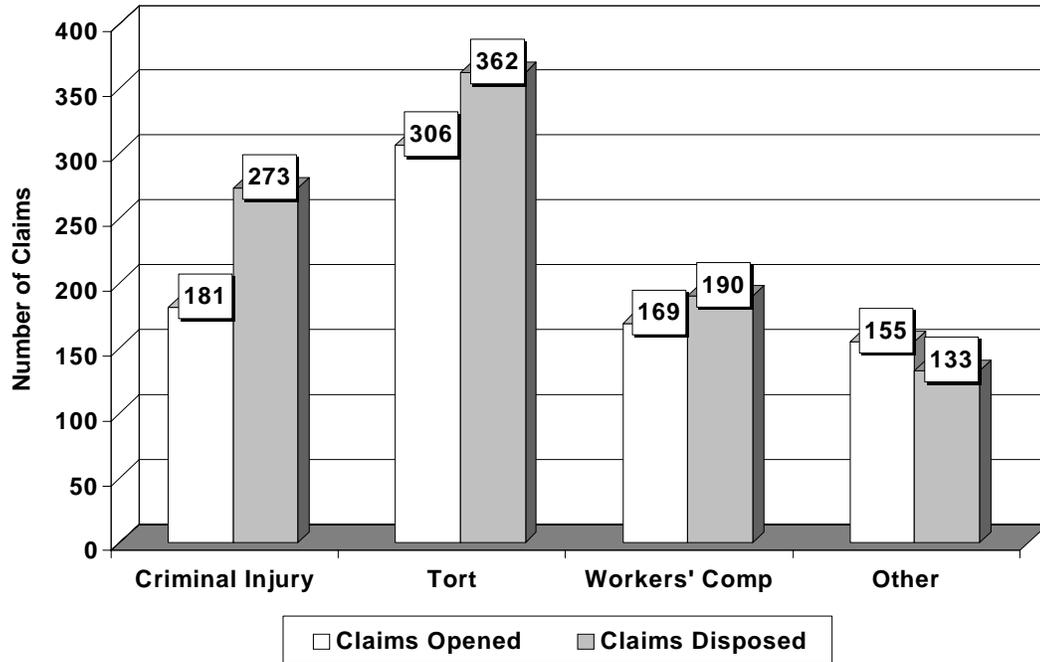
Both the Division of Claims Administration and the third party administrator have 90 days to accept or deny a claim before the claim is automatically transferred to the commission. Claimants can appeal both entities' decisions to the Claims Commission.

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

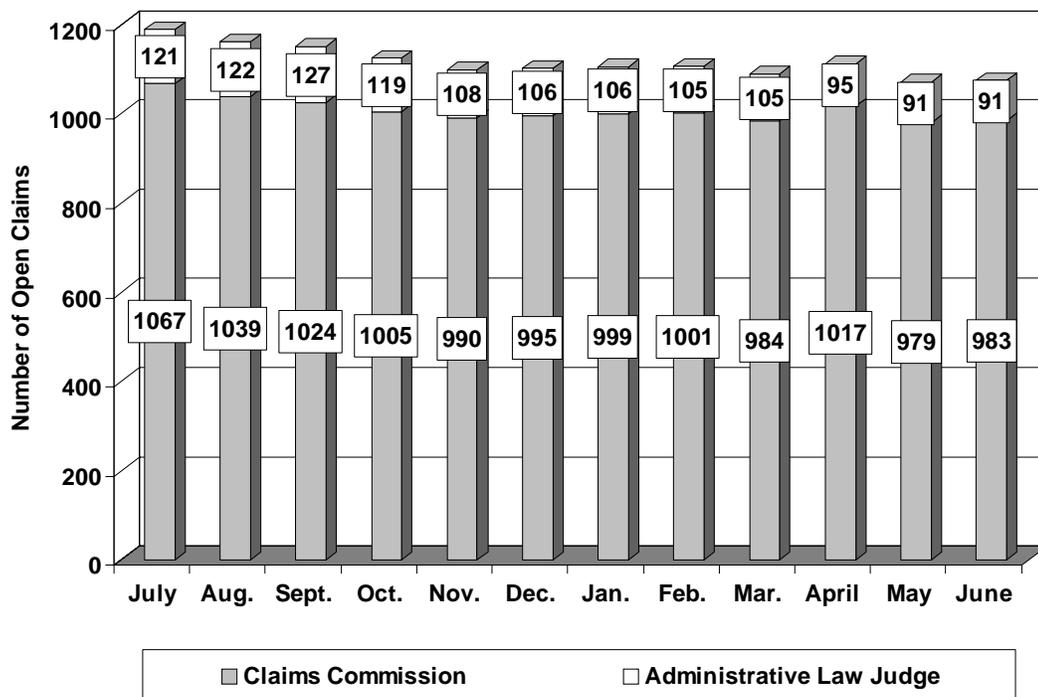
As of July 1, 1997, upon request by the Governor, by an individual claims commissioner, or by the majority of the claims commissioners, the Secretary of State may assign administrative law judges to "assist in the removal of unacceptable congestion or delay on the claims commission docket." In adjudicating claims, the administrative law judges have the same powers as commissioners.

# CLAIMS COMMISSION

**NUMBER OF CLAIMS OPENED AND NUMBER OF DISPOSITIONS BY CLAIM TYPE**  
*(Including Dispositions by Administrative Law Judges)*  
 Fiscal Year 1999-2000



**CLAIMS COMMISSION AND ADMINISTRATIVE LAW JUDGE OPEN CLAIMS**  
 Fiscal Year 1999-2000



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## DIVISION OF RISK MANAGEMENT

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### DIVISION OF RISK MANAGEMENT

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

All property exposures are thoroughly inspected and evaluated to determine appropriate rates for premium development and allocation of premium costs to the various departments. As of July 1, 1999, the state's property values exceeded \$9.2 billion. The premium cost for excess property coverage and fidelity bond amounted to \$562,005. This translates to an annual rate of .00606 cents per \$100 of coverage.

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

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

In order to protect the state from financial loss due to employee dishonesty, the Division of Risk Management procures an Honesty Blanket Position and Faithful Performance Blanket Position Bond. This bond is provided by the excess property insurance carrier and

is negotiated as part of the property insurance package. Fidelity coverage is provided in the amount of \$1 million per incident for 29 scheduled employees and \$100,000 per incident for all remaining state employees.

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

During fiscal year 1999-2000, a total of 101 claims were reported. Of this number, 78 did not exceed the \$5,000 deductible and were closed with no payment. The remaining 23 incurred losses amounted to \$647,733, with resulting net losses of \$532,733. Considering actual losses of \$532,733 and a manual premium for first dollar coverage of \$11.1 million, the state's pure property loss ratio would be 4.8%. Since the generally expected standard in the insurance industry for loss ratio break-even is approximately 48%, the state's property loss experience remains at an excellent level.

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

## DIVISION OF RISK MANAGEMENT

### COST OF PROPERTY/CASUALTY PROGRAM VERSUS PRIVATE INSURANCE

*Fiscal Year 1999-2000*

<sup>1</sup> Premium - Excess Property & Bond Coverage	\$ 562,005
Premium - Boiler Insurance Coverage	47,779
<b>Total Premium</b>	<b>609,784</b>
Total Net Incurred Losses	532,733
<b>Total Cost of State Program</b>	<b>1,142,517</b>
<sup>2</sup> Private Insurance Premium Cost at Manual Rates with No State Retention	11,128,827
<b>Net Savings to State</b>	<b>\$ 9,986,310</b>

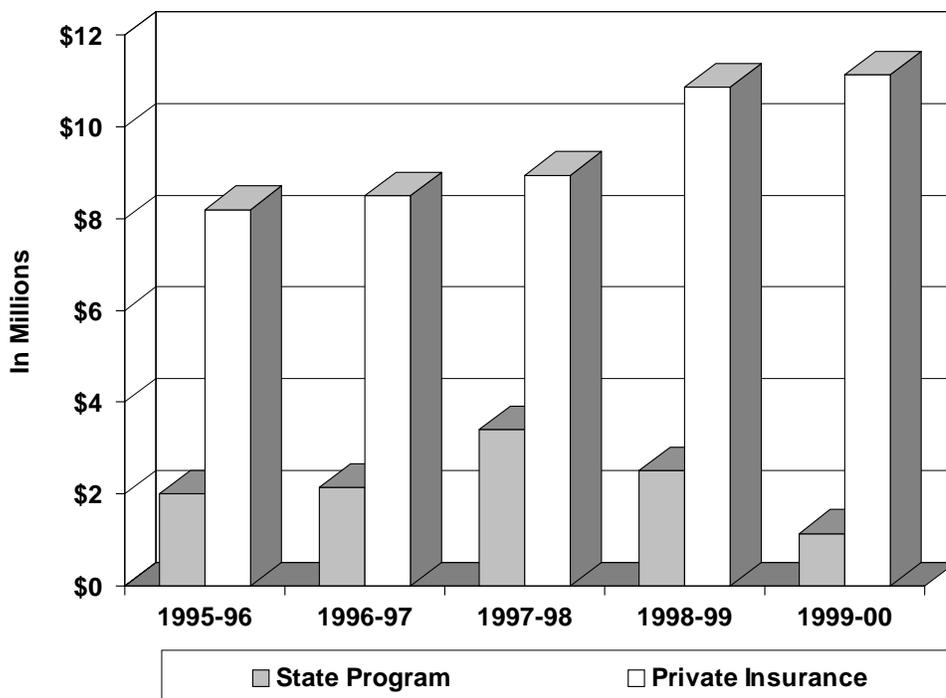
<sup>1</sup> Based on July 1, 1999 values totaling \$9,274,022,400

<sup>2</sup> Estimated based on July 1, 1999 values at 12 cents per \$100 of coverage

Rates provided by Royal & SunAlliance Insurance Company

### COST OF PROPERTY/CASUALTY PROGRAM VERSUS PRIVATE INSURANCE

*Fiscal Years 1996-2000*



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## UNCLAIMED PROPERTY DIVISION

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

The Unclaimed Property Act provides that cash property which an organization or individual is holding for another person will be delivered to the Treasurer for custody if the holder of the property has had no contact with the owner for a period of time, normally five years, and if the holder cannot locate the owner. Once property is delivered, the Treasurer advertises the owner's name and last known address in order to locate the owners. Since the program began operations in 1979, \$185.7 million in unclaimed property has been reported to the Treasurer and \$53.1 million (29%) has been returned to owners or heirs.

During the period July 1, 1999 through June 30, 2000, \$23 million of cash property was turned over to the Treasurer. This includes \$3.4 million in cash and stock remitted by third party audit organizations from out-of-state non-reporting holders for Tennessee residents. An additional \$4.1 million in proceeds from stock sale was recognized as revenue. The chart on the following page illustrates the sources of cash collections for fiscal year 1999-2000.

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

Further, a searchable database of the owners' names and addresses is available on the division's Internet site: [www.treasury.state.tn.us/unclaim](http://www.treasury.state.tn.us/unclaim). This site logged 246,877 visitors at June 30, 2000, an increase of 162,877 for the fiscal year. The records of unclaimed property owners are also available for viewing by the public in the Unclaimed Property office.

All property turned over to the Treasurer is held in trust for the rightful owner or his heirs in perpetuity,

thereby allowing the owners or their heirs to make claims on it at anytime.

During the period July 1, 1999 through June 30, 2000, more than \$5 million of cash property was returned by the Unclaimed Property Division to the owners or their heirs. During 1999-2000, a new computer system was implemented and data converted.

Any local government in Tennessee which turns over unclaimed property to the state may request that the property be returned to the local government for safekeeping after it has been held by the state for 18 months. This fiscal year, \$445,197 was refunded to 17 local governments.

Tennessee has reciprocal agreements with other states' unclaimed property programs to exchange property held by one state for owners with a last known address in the other state. During this fiscal year, Tennessee received \$804,831 for residents or former residents and paid \$454,175 to 30 other states' unclaimed property offices.

## UNCLAIMED PROPERTY DIVISION

### METHODS USED TO RETURN PROPERTY

*July 1, 1999 - June 30, 2000*

Location Method	# of Accounts	Value of Claims	% of Claim Value
Post cards	2,881	\$ 1,168,116	27%
Web site inquiries and other	1,819	932,781	22%
Advertisement and television	929	222,498	6%
Holder referral	265	397,929	9%
Independent locator	164	333,747	8%
Reimburse holder	151	355,141	8%
Telephone directory	86	466,390	11%
Labor and workforce	56	8,558	0%
UCP staff outreach	40	350,863	8%
Legislator listing	12	42,788	1%
<b>Total claim payments</b>	<b>6,403</b>	<b>\$ 4,278,811</b>	<b>100%</b>
Refunds to local governments	17	\$ 445,197	
Interstate exchanges	30	454,175	
<b>Total payments</b>	<b>6,450</b>	<b>\$ 5,178,183</b>	

### SOURCES OF UNCLAIMED PROPERTY

*Fiscal Years 1996 - 2000*

	2000	1999	1998	1997	1996
Hospitals and health care	3%	1%	1%	6%	10%
Financial institutions	29%	33%	35%	28%	31%
Corporations, transportation, colleges, retailers	11%	14%	12%	14%	9%
Escheat and other	5%	7%	6%	9%	10%
Insurance companies	17%	22%	23%	16%	17%
Cities and counties	3%	6%	6%	8%	4%
Utilities	3%	6%	6%	6%	4%
Securities	25%	6%	5%	4%	8%
Other states	4%	5%	6%	9%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### CLAIMS PAID BY SOURCE

*Fiscal Years 1996 - 2000*

	2000	1999	1998	1997	1996
Post cards	27%	14%	26%	26%	24%
Web site inquiries and other	22%	60%	8%	10%	12%
Advertisement and television	5%	9%	26%	14%	23%
Holder referral	9%	5%	11%	11%	7%
Independent locator	8%	7%	16%	19%	16%
Reimburse holder	8%	0%	0%	0%	0%
Telephone directory	11%	2%	4%	12%	6%
Labor and workforce	0%	2%	3%	7%	10%
UCP staff outreach	8%	0%	0%	0%	0%
Legislator listing	1%	1%	6%	1%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## CHAIRS OF EXCELLENCE TRUST

### CHAIRS OF EXCELLENCE TRUST

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

The funding of the program is provided through contributions made by a private donor and a matching amount by the state, thus, creating a chair. Interest and

dividends on the trust are used to fund expenditures for the chair. Gains and losses must be reinvested in the corpus of the fund for use in supporting the trust in future years.

Since the start of the program in 1984, there have been 98 chairs created, with state appropriations totaling \$44,000,000 and matching contributions totaling \$54,898,375. For the year ending June 30, 2000, investment income totaled \$12,335,710 with expenses of \$7,057,645.

### THE UNIVERSITY OF TENNESSEE

#### *Chattanooga*

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

#### *Knoxville*

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

#### *Martin*

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

#### *Memphis*

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

#### *Space Institute*

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

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## CHAIRS OF EXCELLENCE TRUST

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**TENNESSEE BOARD OF REGENTS*****Austin Peay State University***

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

***East Tennessee State University***

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

***Middle Tennessee State University***

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

***Tennessee State University***

Frist COE in Business Administration  
 COE in Banking & Finance

***Tennessee Technological University***

Owen Chair of Business Administration  
 Mayberry Chair of Business Administration

***University of Memphis***

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

\* Chair established during fiscal year 1999-2000.

## BACCALAUREATE EDUCATION SYSTEM TRUST

*Tennessee Code Annotated*, Title 49, Chapter 7, Part 8 sets forth the Tennessee Baccalaureate Education System Trust (BEST) Act. The Act creates a tuition program, as an agency and instrumentality of the State of Tennessee, under which parents and other interested persons may assist students in saving for tuition cost of attending colleges and universities. The tuition program is known as the BEST Program and is comprised of two types of tuition plans: The BEST Savings Plan and the BEST Prepaid College Tuition Plan. The requirements for participation and administration of the Prepaid College Tuition Plan are contained in *Chapter 1700-5-1 of the Official Compilation of the Rules and Regulations of the State of Tennessee*. The requirements for participation and administration of the Savings Plan are contained in *Chapter 1700-5-2 of the Official Compilation of the Rules and Regulations of the State of Tennessee*.

### BEST PREPAID COLLEGE TUITION PLAN

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

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

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

The BEST program also offers favorable tax benefits to its participants. Federal income tax on the appreciation of tuition units is deferred until the units are used. In addition, the tax is assessed at the child's rate, rather than the parent's rate. BEST contracts are exempt from all state and local taxes.

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

The Baccalaureate Education System Trust began accepting contracts and contributions in June 1997. At June 30, 2000, BEST had 6,221 contracts with contributions totaling \$21.2 million. Unit prices were \$30.25.

### BEST SAVINGS PLAN

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

Contributions are placed in a mix of investments, with the objective of growing to meet the future cost of

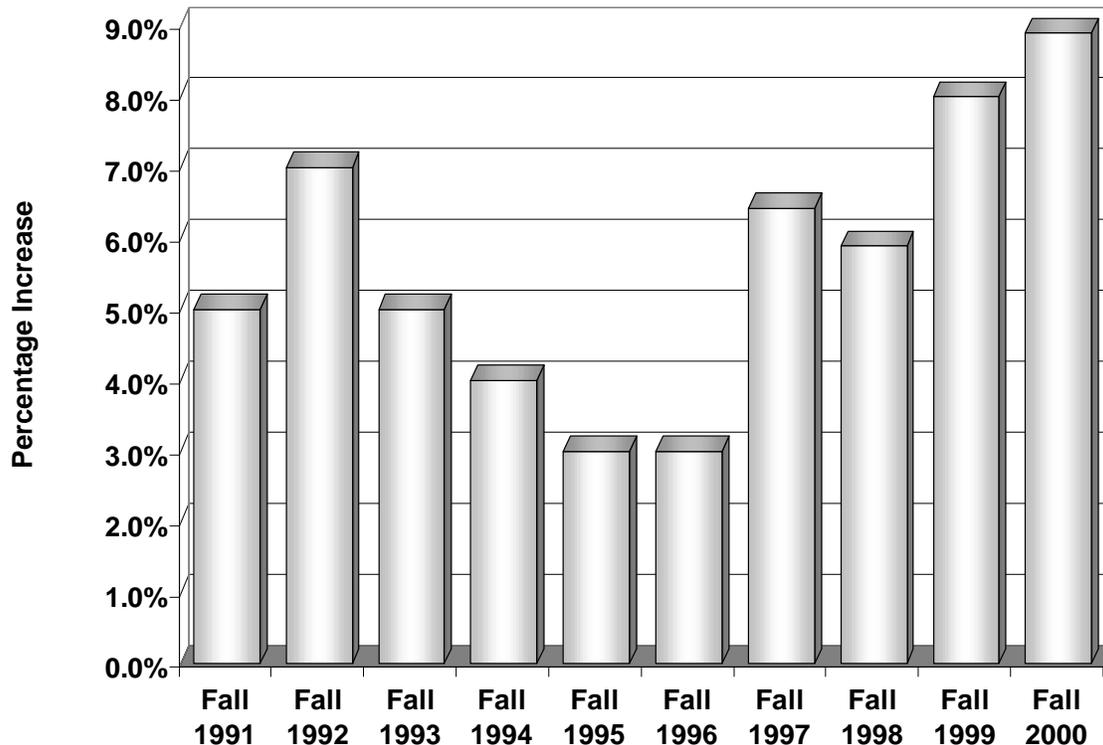
## BACCALAUREATE EDUCATION SYSTEM TRUST

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

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

The Savings Plan began accepting contracts and contributions in March 2000. At June 30, 2000, there were 145 contracts with contributions totaling \$345,000.

### AVERAGE TUITION INCREASES FOR TENNESSEE PUBLIC INSTITUTIONS 1991-2000



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## CAREERS NOW PROGRAM

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### CAREERS NOW PROGRAM

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

The Careers NOW Program's first class of 12 students began in January 1996. Since the program's inception, 104 students have been selected to participate. New classes begin each fall, spring, and summer semester.

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

The goal of the program is to develop a pool of students who, upon graduation, will be candidates for career positions in one of the three constitutional offices. The students receive hands on work experience and the participating institutions and constitutional offices jointly facilitate the development of a detailed curriculum to meet the academic commitment made to higher education institutions.

Careers NOW is designed to offer students a combination of practical work experience and formal training, while giving them the opportunity to see the

challenges of public service. In addition to their daily work responsibilities, students attend seminars, visit state agencies, complete written work assignments, engage in opportunities to increase their overall understanding and knowledge of Tennessee state government, and research a current government issue for their special project. Past projects selected by students have included state income tax proposals, voter registration and election issues, Internet voting, prisons and capital punishment, and higher education issues.

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

During the upcoming fiscal year, the Careers NOW Program will also encourage Tennessee residents who are attending out-of-state colleges and universities to participate in the program. The expectation is that the program will benefit from a broadened base of experience and that the students will benefit from the opportunity to gain experience in state government leading to permanent employment opportunities in their home state of Tennessee.

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

**TREASURY INTERNET SERVICES**

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

# STATUTORY DUTIES OF THE STATE TREASURER

## BOARDS AND COMMISSIONS

### Tennessee Code Annotated Section

Baccalaureate Education System Trust Board	49-7-801, et seq.
Bank Collateral Pool Board	9-4-501, et seq.
Board of Claims	9-8-101, et seq.
Board of Equalization	4-3-5101
Board of Trustees of the Tennessee Consolidated Retirement System	8-34-301 - 8-34-319
Chairs of Excellence Trust	49-7-501 - 49-7-502
Commission to Purchase Federal Property	12-1-103
Council on Pensions and Insurance	3-9-101
Funding Board	9-9-101
National Resources Trust Fund	11-14-304
Public Records Commission	10-7-302
Sick Leave Bank Board	8-50-903
State Building Commission	4-15-101
State Capitol Commission	4-8-301, et seq.
State Insurance Committee	8-27-101
State Library and Archives Management Board	10-1-101, et seq.
State School Bond Authority	49-3-1204
State Teacher Insurance Comm.	8-27-301
State Trust of Tennessee	9-4-801, et seq.
Tennessee Child Care Loan Guarantee Board	4-37-101, et seq.
Tennessee Competitive Export Corp.	13-27-104
Tennessee Higher Education Commission	49-7-201, et seq.
Tennessee Housing Development Agency	13-23-106
Tennessee Local Development Authority	4-31-103
Tennessee Sports Hall of Fame	4-3-5402
Tennessee Student Assistance Corp.	49-4-202
Tennessee Tomorrow	4-17-405
Tuition Guaranty Fund Board	49-7-2018
Volunteer Public Education Trust	49-3-401, et seq.
Workers Compensation Fund Board	50-6-604

## ADMINISTRATION

Baccalaureate Education System Trust	49-7-801, et seq.
Board of Claims	9-8-101, et seq.
Chairs of Excellence Trust	49-7-501 - 49-7-502
Collateral Pool	9-4-501 - 9-4-523
Collateral Program	9-4-101 - 9-4-105
Council on Pensions and Insurance	3-9-101
Criminal Injuries Compensation Fund	29-13-101, et seq.
Deferred Compensation	8-25-101, et seq.
Escheat	31-6-101, et seq.
Flexible Benefits Plan	8-25-501
Investment Advisory Council	8-37-108
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Pooled Investment Fund	9-4-704
Receipt and Disbursement of Public Funds	8-5-106 - 8-5-111; 9-4-301, et seq.
State Cash Management	9-4-106 - 9-4-108; 9-4-401 - 9-4-409
State Treasurer's Office	8-5-101, et seq.
State Trust of Tennessee	9-4-801, et seq.
Tennessee Claims Commission	9-8-301, et seq.
Tennessee Consolidated Retirement System and Miscellaneous Systems	Title 8, Chptrs. 34, 35, 36, 37 & 39
Unclaimed Property	66-29-101, et seq.
Victims of Drunk Drivers Compensation Fund	40-24-107

**EXECUTIVE STAFF DIRECTORY*****Treasurer's Office***

Treasurer	Steve Adams, CPA	(615) 741-2956
Executive Assistant	Dale Sims	(615) 741-2956
Executive Assistant	Janice Cunningham	(615) 741-2956
Assistant to the Treasurer	Steve Curry, CPA, CEBS, CCM	(615) 532-1167
Human Resource Director/ Careers Now Coordinator	Ann Taylor-Tharpe	(615) 532-9912

***Investments***

Chief Investment Officer	Thomas Milne, CFA	(615) 532-1157
Director of Equity	Michael Keeler, CFA	(615) 532-1165
Senior Equity Portfolio Manager	Jeremy Conlin, CLU, ChFC, CFA	(615) 532-1152
Senior Equity Portfolio Manager	Jim Robinson, CFA	(615) 532-1177
Senior International Equity Portfolio Manager	Roy Wellington, CFA	(615) 532-1151
Director of Fixed Income	Jeff Bronnenburg, CFA, CPA	(615) 532-1182
Senior Fixed Income International Portfolio Manager	Leighton Shantz, CFA	(615) 532-1183
Senior Short-Term Portfolio Manager	Randy Graves, CPA	(615) 532-1154
Director of Real Estate	Peter Katseff	(615) 532-1160

***Retirement Administration***

Director of TCRS	Ed Hennessee, CFP	(615) 741-7063
Assistant Director of TCRS	Jill Bachus, CPA	(615) 741-7063
Director of Deferred Compensation, Research and Publications	Deana Reed Hannah, CRC, CRA	(615) 741-7063
Publications Editor/ Web Designer	Janice Reilly	(615) 741-7063
General Counsel	Mary Roberts-Krause, JD	(615) 741-7063
Counsel	Vernon Bush, JD	(615) 741-7063
Director of Old Age and Survivors Insurance	Mary E. Smith	(615) 741-7902
Manager of Counseling Services	Donna Finley	(615) 741-1971
Manager of Member Services	Velva Booker	(615) 741-1971
Manager of Financial Services	Connie Gibson, CPA	(615) 741-4913

***Other Divisions***

Director of Accounting	Rick DuBray, CPA	(615) 532-3840
Accounting Manager	Kim Morrow, CPA	(615) 532-8051
Director of Administrative Services	Rhonda Hicks, CPA	(615) 532-8552
Director of Baccalaureate Education System Trust	Diana Collins	(615) 532-8045
Director of Computer Operations	Sam Baker, CCP, CDP	(615) 532-8026
Director of Information Systems	Newton Molloy, III, CDP	(615) 532-8035
Director of Internal Audit	Jamie Wayman, CPA	(615) 532-1164
Director of Risk Management	Steve Gregory	(615) 741-9076
Director of Unclaimed Property	Beth Chapman, CPA	(615) 741-6499
Manager of Treasury Operations	Gaylon Bandy	(615) 741-4985
Manager of Workers' Comp and Tort Claims	Anne Adams	(615) 741-2734
Manager of Criminal Injury Claims	Amy Dunlap	(615) 741-2734
East Tennessee Claims Commissioner	Michael Lacy, JD	(423) 854-5330
Middle Tennessee Claims Commissioner	William Baker, JD	(615) 792-7471
West Tennessee Claims Commissioner	Randy Camp, JD	(901) 696-5581
Administrative Clerk, Claims Commission	Marsha Richeson	(615) 532-5385
Budget Officer	Wendy Padgett	(615) 741-4985

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

# TREASURY STAFF

<sup>20</sup> Anne Adams	Bridget Corley	Barbara Greene	Kimberly Otts
Steve Adams	Liddy Cotter	Steve Gregory	Veronica Oxford
Muriel Agnew	Janie Couch	Delores Griffin	Wendy Padgett
Rhonda Akins	Daniel Crews	Leslie Hall	Renee Page
Mary Alexander	Janice Cunningham	Deana Hannah	Yvonne Parlow
Patti Allison	<sup>25</sup> Steve Curry	Tamara Hanserd	Floyd Parton
Roger Amos	Shawn Curtis	Kathy Hargrove	Marian Porter
Sandra Anderson	Chris Daniel	<sup>20</sup> Sharon Harris	William Redmond
Kelly Armes	Ted Daniel	David Head	Janice Reilly
Sandra Arnold	Ruth Daniels	<sup>25</sup> Ed Hennessee	Randy Renfrow
Janice Atkins	Pat Darrell	<sup>10</sup> Debbie Hickman	Marsha Richeson
Ron Aymett	<sup>20</sup> Mary Sue Davidson	Rhonda Hicks	Carla Riley
Jill Bachus	<sup>10</sup> Vivian Davidson	Ellen Hoffmann	Mary Roberts-Krause
Laura Bailey	<sup>5</sup> Jim Dawson	John Holloway	Rachel Roberts
Taurus Bailey	Brian Derrick	Malinda Hudson	Jim Robinson
Linda Baker	Larissa Dills	Cheryl Jackson	Stephanie Sabin
Sam Baker	Rick DuBray	Tom Jordan	<sup>15</sup> Tammie Scott
Sherry Baker	Aimee Duffey	Peter Katseff	Sandra Sewell
William Baker	Amy Dunlap	Michael Keeler	Leighton Shantz
Gaylon Bandy	Robin Edwards	Jenny King	<sup>20</sup> Dale Sims
Karen Baumgartel	<sup>10</sup> Sharon Farmer	<sup>15</sup> George Ladd	David Singleton
Peggy Birthrong	Donna Finley	Mike Lacy	Anita Smith
Velva Booker	Peggy Fisher	Liren Li	Mary Smith
Milkia Brady	Delcinia Fitzpatrick	Wanda Mackey	Robert Smith
Kim Brickles	Jamie Fohl	<sup>5</sup> Vallie Majors	Rebecca Stapleton
Jeff Bronnenberg	Noy Fongnaly	Fred Marshall	Sandy Strickland
Buffy Brown	Eddy Fonseca	Grady Martin	Ann Taylor-Tharpe
Bobby Burns	Diego Fua	Petress McBride	George Thomas
Vernon Bush	Charlotte Fuller	Tim McClure	Elanya Tracy
Randy Camp	Monica Fuqua	Rick McCutcheon	Katrina Tucker
Jeremy Carney	John Gabriel	LaKesha McEwen	Marcus Tunstall
Brenda Carr	Doug Gaines	<sup>10</sup> Lonnie McWhorter	Christie Vaughn
<sup>15</sup> William Cavender	Angela Gasser	Brenda Mercier	Johnny Veach
Beth Chapman	Ann Gatewood	Henry Miller	Maxine Vinson
Shirley Chatman	Bernard Gentry	Tiffany Milliken	Malinda Wagner
Autumn Chumley	Cleveland Gibbs	Tom Milne	Mark Wakefield
Kimberly Clark	Connie Gibson	Newt Molloy	Tracey Washington
<sup>5</sup> Barbara Cole	Teresa Gibson	Linda Moore	Susanna Wassom
Alva Coleman	Kellie Givens	Carrie Morgan	<sup>5</sup> Jamie Wayman
<sup>5</sup> Diana Collins	Doris Goodson	Prentice Morgan	<sup>15</sup> Roy Wellington
Jeremy Conlin	Randy Graves	Kim Morrow	<sup>25</sup> Shirley Wheeler
Jamie Cope	<sup>15</sup> Janice Green	Gail Moses	Lucy White
		Tempra Mosley	Teresa Williams
		Michael Moulder	Kellie Williamson
		Sareatha Murphy	Dianne Willocks
		Alicia Myles	<sup>20</sup> Shirley Wilson
		Mandy Nicholson	Genera Wimmer
		Candy O'Leary	Angela Woodrum
		<sup>5</sup> Glenda Oshop	Dawn Young

<sup>5</sup> Received 5-year service award in 2000  
<sup>10</sup> Received 10-year service award in 2000  
<sup>15</sup> Received 15-year service award in 2000  
<sup>20</sup> Received 20-year service award in 2000  
<sup>25</sup> Received 25-year service award in 2000

# Investment Portfolios



**Fiddlers' Jamboree  
Smithville, Tennessee**



**Pumpkin Patch Fall Festival  
Fayetteville, Tennessee**

## STATE CASH PORTFOLIO

### AS OF JUNE 30, 2000

	Rating	Maturity	Yield to Maturity	Par Value	Fair Value
<b>U.S. TREASURY AND AGENCY OBLIGATIONS</b>					
FED HOME LOAN MORTGAGE CORP DISCOUNT NOTES	Aaa	08/24/00	6.63%	\$50,000,000	\$49,530,000
FED HOME LOAN MORTGAGE CORP DISCOUNT NOTES	Aaa	08/31/00	6.54%	100,000,000	98,930,000
FED HOME LOAN MORTGAGE CORP DISCOUNT NOTES	Aaa	09/07/00	6.56%	50,000,000	49,405,000
FED HOME LOAN MORTGAGE CORP DISCOUNT NOTES	Aaa	07/06/00	6.13%	23,746,000	23,734,127
FED HOME LOAN MORTGAGE CORP DISCOUNT NOTES	Aaa	07/18/00	6.49%	50,000,000	49,865,000
FED HOME LOAN MORTGAGE CORP DISCOUNT NOTES	Aaa	07/27/00	6.31%	100,000,000	99,560,000
FEDERAL HOME LOAN BANK BONDS	Aaa	09/07/00	5.91%	50,000,000	49,920,000
FEDERAL HOME LOAN BANK BONDS	Aaa	09/01/00	6.04%	50,000,000	49,935,000
FEDERAL HOME LOAN BANK BONDS	Aaa	02/22/01	6.60%	30,000,000	29,934,000
FEDERAL HOME LOAN BANK BONDS	Aaa	03/01/01	6.70%	30,000,000	29,943,000
FEDERAL HOME LOAN BANK BONDS	Aaa	03/06/01	6.76%	50,000,000	49,920,000
FEDERAL HOME LOAN BANK BONDS	Aaa	04/17/01	6.80%	30,000,000	29,943,000
FEDERAL HOME LOAN BANK BONDS	Aaa	04/19/01	6.88%	20,000,000	19,974,000
FEDERAL HOME LOAN BANK DISCOUNT NOTES	Aaa	07/19/00	6.45%	11,000,000	10,968,100
FEDERAL NATL MORTGAGE ASSOC DISCOUNT NOTES	Aaa	08/03/00	6.46%	50,000,000	49,720,000
FEDERAL NATL MORTGAGE ASSOC DISCOUNT NOTES	Aaa	08/31/00	6.64%	50,000,000	49,465,000
FEDERAL NATL MORTGAGE ASSOC DISCOUNT NOTES	Aaa	09/07/00	6.56%	105,000,000	103,750,500
FEDERAL NATL MORTGAGE ASSOC DISCOUNT NOTES	Aaa	09/28/00	6.59%	40,000,000	39,376,000
FEDERAL NATL MORTGAGE ASSOC DISCOUNT NOTES	Aaa	07/20/00	6.18%	25,000,000	24,922,500
<b>TOTAL U.S. TREASURY AND OBLIGATIONS</b>				<b>\$914,746,000</b>	<b>\$908,795,227</b>

	Maturity	Yield to Maturity	Par Value	Fair Value
<b>CERTIFICATES OF DEPOSIT</b>				
THE BANK OF ALAMO	07/18/00	5.80%	\$2,000,000	\$2,000,000
THE BANK OF ALAMO	10/27/00	6.25%	3,000,000	3,000,000
THE BANK OF ALAMO	11/20/00	6.70%	1,000,000	1,000,000
PEOPLES BANK, BARRETVILLE	07/24/00	6.10%	10,000,000	10,000,000
PEOPLES BANK, BARRETVILLE	09/15/00	6.50%	10,000,000	10,000,000
BANK OF CROCKETT, BELLS	07/03/00	5.80%	200,000	200,000
BANK OF CROCKETT, BELLS	07/24/00	5.80%	300,000	300,000
PEOPLES BANK OF POLK COUNTY, BENTON	07/26/00	6.10%	200,000	200,000
PEOPLES BANK OF POLK COUNTY, BENTON	08/02/00	6.10%	200,000	200,000
PEOPLES BANK OF POLK COUNTY, BENTON	08/25/00	6.50%	200,000	200,000
BANK OF BOLIVAR	09/18/00	6.00%	500,000	500,000
FIRST SOUTH BANK, BOLIVAR	10/30/00	6.25%	2,142,700	2,142,700
BANK OF BRADFORD	09/22/00	6.25%	100,000	100,000
TWIN CITY FEDERAL SAVINGS BANK, BRISTOL	09/12/00	6.00%	1,000,000	1,000,000
TWIN CITY FEDERAL SAVINGS BANK, BRISTOL	08/15/00	6.00%	500,000	500,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	07/07/00	5.80%	500,000	500,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	11/07/00	6.55%	100,000	100,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	09/08/00	6.00%	100,000	100,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	09/26/00	6.25%	100,000	100,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	09/29/00	6.25%	200,000	200,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	10/06/00	6.25%	100,000	100,000
PEOPLES BANK & TRUST COMPANY, BYRDSTOWN	10/17/00	6.25%	200,000	200,000
CUMBERLAND BANK, CARTHAGE	07/28/00	5.80%	500,000	500,000
CUMBERLAND BANK, CARTHAGE	07/03/00	5.80%	1,000,000	1,000,000
CUMBERLAND BANK, CARTHAGE	07/03/00	5.80%	90,000	90,000
FIRST STATE BANK, CHAPEL HILL	08/04/00	6.00%	200,000	200,000
SUNTRUST BANK, CHATTANOOGA	07/18/00	5.80%	15,000,000	15,000,000
SUNTRUST BANK, CHATTANOOGA	10/16/00	6.25%	15,000,000	15,000,000
SUNTRUST BANK, CHATTANOOGA	11/17/00	6.70%	25,000,000	25,000,000
SUNTRUST BANK, CHATTANOOGA	08/02/00	6.10%	20,000,000	20,000,000
FIRST FEDERAL SAVINGS BANK, CLARKSVILLE	08/04/00	6.00%	3,000,000	3,000,000
FIRST FEDERAL SAVINGS BANK, CLARKSVILLE	08/11/00	6.00%	100,000	100,000
FIRST FEDERAL SAVINGS BANK, CLARKSVILLE	10/13/00	6.25%	2,000,000	2,000,000
HERITAGE BANK, CLARKSVILLE	09/12/00	6.00%	1,900,000	1,900,000

(continued)

**STATE CASH PORTFOLIO****AS OF JUNE 30, 2000**

	<b>Maturity</b>	<b>Yield to Maturity</b>	<b>Par Value</b>	<b>Fair Value</b>
HERITAGE BANK, CLARKSVILLE	09/25/00	6.25%	1,000,000	1,000,000
THE BANK/FIRST CITIZENS BANK, CLEVELAND	10/27/00	6.25%	5,500,000	5,500,000
PEOPLES BANK, CLIFTON	12/22/00	6.70%	500,000	500,000
FIRST FARMERS & MERCHANTS NATL BANK, COLUMBIA	08/15/00	6.50%	5,000,000	5,000,000
FIRST BANK OF POLK COUNTY, COPPERHILL	08/30/00	6.50%	4,300,000	4,300,000
EFS FEDERAL SAVINGS BANK, CORDOVA	07/24/00	5.80%	2,500,000	2,500,000
EFS FEDERAL SAVINGS BANK, CORDOVA	08/01/00	6.00%	2,500,000	2,500,000
EFS FEDERAL SAVINGS BANK, CORDOVA	10/27/00	6.25%	1,500,000	1,500,000
EFS FEDERAL SAVINGS BANK, CORDOVA	10/06/00	6.25%	2,500,000	2,500,000
EFS FEDERAL SAVINGS BANK, CORDOVA	10/13/00	6.25%	1,500,000	1,500,000
RHEA COUNTY NATIONAL BANK, DAYTON	07/14/00	5.80%	1,000,000	1,000,000
RHEA COUNTY NATIONAL BANK, DAYTON	10/20/00	6.25%	950,000	950,000
RHEA COUNTY NATIONAL BANK, DAYTON	09/08/00	6.00%	1,200,000	1,200,000
THE WEAKLEY COUNTY BANK, DRESDEN	07/24/00	5.80%	1,000,000	1,000,000
THE HOME BANK, DUCKTOWN	07/25/00	5.80%	500,000	500,000
THE HOME BANK, DUCKTOWN	07/25/00	5.80%	1,000,000	1,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	07/25/00	5.80%	3,000,000	3,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	07/28/00	5.80%	6,000,000	6,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	11/09/00	6.55%	1,500,000	1,500,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	08/25/00	6.00%	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	08/29/00	6.00%	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	09/01/00	6.25%	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	09/06/00	6.50%	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	09/06/00	6.50%	1,000,000	1,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	09/08/00	6.00%	3,000,000	3,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	12/26/00	6.70%	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	12/26/00	6.70%	2,000,000	2,000,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	08/14/00	6.35%	1,500,000	1,500,000
FIRST CITIZENS NATIONAL BANK, DYERSBURG	08/15/00	6.00%	2,425,000	2,425,000
SECURITY BANK, DYERSBURG	07/18/00	5.80%	250,000	250,000
SECURITY BANK, DYERSBURG	07/25/00	5.80%	1,000,000	1,000,000
SECURITY BANK, DYERSBURG	09/26/00	6.25%	300,000	300,000
SECURITY BANK, DYERSBURG	10/03/00	6.25%	300,000	300,000
BANK OF FRIENDSHIP	07/28/00	5.80%	90,000	90,000
BANK OF FRIENDSHIP	08/04/00	6.00%	5,000,000	5,000,000
BANK OF FRIENDSHIP	08/09/00	6.25%	525,000	525,000
BANK OF FRIENDSHIP	08/09/00	6.25%	1,550,000	1,550,000
JACKSON BANK & TRUST, GAINESBORO	07/25/00	5.80%	750,000	750,000
JACKSON BANK & TRUST, GAINESBORO	07/28/00	5.80%	500,000	500,000
JACKSON BANK & TRUST, GAINESBORO	07/28/00	5.80%	500,000	500,000
JACKSON BANK & TRUST, GAINESBORO	08/15/00	6.00%	2,000,000	2,000,000
JACKSON BANK & TRUST, GAINESBORO	08/22/00	6.00%	250,000	250,000
JACKSON BANK & TRUST, GAINESBORO	09/08/00	6.00%	1,000,000	1,000,000
JACKSON BANK & TRUST, GAINESBORO	09/15/00	6.00%	500,000	500,000
GATES BANKING & TRUST COMPANY	10/24/00	6.25%	350,000	350,000
GATES BANKING & TRUST COMPANY	11/14/00	6.70%	500,000	500,000
GATES BANKING & TRUST COMPANY	10/17/00	6.25%	450,000	450,000
TENNESSEE STATE BANK, GATLINBURG	08/10/00	6.50%	4,000,000	4,000,000
TENNESSEE STATE BANK, GATLINBURG	08/29/00	6.70%	5,000,000	5,000,000
TENNESSEE STATE BANK, GATLINBURG	08/09/00	6.50%	1,300,000	1,300,000
TENNESSEE STATE BANK, GATLINBURG	08/09/00	6.50%	700,000	700,000
TENNESSEE STATE BANK, GATLINBURG	07/06/00	6.50%	5,500,000	5,500,000
TRUST ONE BANK, GERMANTOWN	07/11/00	6.35%	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	07/11/00	6.10%	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	07/11/00	6.35%	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	07/11/00	6.10%	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	08/10/00	6.35%	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	08/10/00	6.35%	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	08/10/00	6.35%	2,000,000	2,000,000

*(continued)*

## STATE CASH PORTFOLIO

### AS OF JUNE 30, 2000

	Maturity	Yield to Maturity	Par Value	Fair Value
TRUST ONE BANK, GERMANTOWN	07/11/00	6.35%	3,000,000	3,000,000
TRUST ONE BANK, GERMANTOWN	07/11/00	6.10%	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	08/10/00	6.50%	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	08/10/00	6.35%	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	09/12/00	6.50%	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	09/12/00	6.50%	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	09/12/00	6.50%	1,000,000	1,000,000
TRUST ONE BANK, GERMANTOWN	09/12/00	6.50%	3,000,000	3,000,000
TRUST ONE BANK, GERMANTOWN	08/10/00	6.50%	2,000,000	2,000,000
TRUST ONE BANK, GERMANTOWN	08/10/00	6.50%	2,000,000	2,000,000
BANK OF GLEASON	12/12/00	6.70%	300,000	300,000
BANK OF GLEASON	12/26/00	6.70%	1,000,000	1,000,000
BANK OF GLEASON	08/08/00	6.00%	350,000	350,000
BANK OF GLEASON	10/03/00	6.25%	200,000	200,000
BANK OF HALLS	07/28/00	5.80%	200,000	200,000
BANK OF HALLS	08/04/00	6.00%	300,000	300,000
BANK OF HALLS	08/11/00	6.00%	400,000	400,000
BANK OF HALLS	09/22/00	6.25%	700,000	700,000
BANK OF HALLS	10/10/00	6.25%	200,000	200,000
CITIZENS BANK, HARTSVILLE	07/07/00	6.50%	2,000,000	2,000,000
BANCORP SOUTH BANK, JACKSON	07/17/00	5.80%	2,500,000	2,500,000
BANCORP SOUTH BANK, JACKSON	07/24/00	5.80%	2,500,000	2,500,000
BANCORP SOUTH BANK, JACKSON	08/16/00	6.50%	2,500,000	2,500,000
BANCORP SOUTH BANK, JACKSON	08/18/00	6.50%	2,500,000	2,500,000
BANCORP SOUTH BANK, JACKSON	09/01/00	6.50%	3,000,000	3,000,000
BANCORP SOUTH BANK, JACKSON	09/08/00	6.00%	5,000,000	5,000,000
BANCORP SOUTH BANK, JACKSON	09/12/00	6.00%	5,000,000	5,000,000
THE BANK OF JACKSON	07/07/00	5.80%	500,000	500,000
THE BANK OF JACKSON	07/25/00	5.80%	500,000	500,000
FIRST VOLUNTEER BANK OF THE UPPER CUMBERLANDS, JAMESTOWN	10/06/00	6.25%	200,000	200,000
FIRST VOLUNTEER BANK OF THE UPPER CUMBERLANDS, JAMESTOWN	10/06/00	6.25%	450,000	450,000
FIRST VOLUNTEER BANK OF THE UPPER CUMBERLANDS, JAMESTOWN	09/01/00	6.00%	500,000	500,000
FIRST VOLUNTEER BANK OF THE UPPER CUMBERLANDS, JAMESTOWN	09/26/00	6.25%	500,000	500,000
FIRST VOLUNTEER BANK OF THE UPPER CUMBERLANDS, JAMESTOWN	10/17/00	6.25%	300,000	300,000
FIRST VOLUNTEER BANK OF THE UPPER CUMBERLANDS, JAMESTOWN	11/07/00	6.55%	500,000	500,000
PROGRESSIVE SAVINGS BANK, JAMESTOWN	08/22/00	6.00%	300,000	300,000
CITIZENS STATE BANK, JASPER	12/22/00	6.70%	100,000	100,000
CITIZENS STATE BANK, JASPER	12/22/00	6.70%	200,000	200,000
CITIZENS STATE BANK, JASPER	10/06/00	6.25%	200,000	200,000
FIRST STATE BANK, KENTON	07/11/00	5.80%	5,000,000	5,000,000
FIRST STATE BANK, KENTON	11/09/00	6.55%	8,000,000	8,000,000
FIRST STATE BANK, KENTON	10/17/00	6.25%	7,000,000	7,000,000
NATIONAL BANK OF COMMERCE, KNOXVILLE	08/02/00	6.10%	10,000,000	10,000,000
NATIONAL BANK OF COMMERCE, KNOXVILLE	08/22/00	6.50%	2,000,000	2,000,000
SUNTRUST BANK, KNOXVILLE	08/04/00	6.00%	15,000,000	15,000,000
SUNTRUST BANK, KNOXVILLE	08/25/00	6.00%	50,000,000	50,000,000
SUNTRUST BANK, KNOXVILLE	09/01/00	6.00%	15,000,000	15,000,000
SUNTRUST BANK, KNOXVILLE	09/01/00	6.00%	10,000,000	10,000,000
SUNTRUST BANK, KNOXVILLE	09/01/00	6.00%	25,000,000	25,000,000
SUNTRUST BANK, KNOXVILLE	09/08/00	6.00%	40,000,000	40,000,000
SUNTRUST BANK, KNOXVILLE	04/10/00	5.60%	10,000,000	10,000,000
CITIZENS BANK OF LAFAYETTE	07/25/00	5.80%	500,000	500,000
CITIZENS BANK OF LAFAYETTE	07/28/00	5.80%	100,000	100,000

(continued)

**STATE CASH PORTFOLIO****AS OF JUNE 30, 2000**

	<b>Maturity</b>	<b>Yield to Maturity</b>	<b>Par Value</b>	<b>Fair Value</b>
CITIZENS BANK OF LAFAYETTE	08/29/00	6.00%	100,000	100,000
CITIZENS BANK OF LAFAYETTE	09/19/00	6.25%	250,000	250,000
FIRST CENTRAL BANK, LENOIR CITY	05/12/00	5.85%	500,000	500,000
FIRST CENTRAL BANK, LENOIR CITY	09/29/00	6.25%	500,000	500,000
FIRST NATIONAL BANK, LENOIR CITY	07/21/00	5.80%	300,000	300,000
THE FARMERS BANK LYNCHBURG	08/07/00	6.00%	1,000,000	1,000,000
THE FARMERS BANK LYNCHBURG	09/15/00	6.00%	1,000,000	1,000,000
THE FARMERS BANK LYNCHBURG	09/22/00	6.25%	1,000,000	1,000,000
FIRST NATIONAL BANK OF MANCHESTER	07/21/00	5.80%	2,000,000	2,000,000
FIRST NATIONAL BANK OF MANCHESTER	11/07/00	6.55%	2,000,000	2,000,000
FIRST NATIONAL BANK OF MANCHESTER	12/12/00	6.70%	3,000,000	3,000,000
THE COFFEE COUNTY BANK, MANCHESTER	07/28/00	5.80%	95,000	95,000
THE COFFEE COUNTY BANK, MANCHESTER	12/01/00	6.70%	95,000	95,000
CITY STATE BANK, MARTIN	07/14/00	5.80%	2,000,000	2,000,000
CITY STATE BANK, MARTIN	07/24/00	5.80%	1,500,000	1,500,000
CITY STATE BANK, MARTIN	10/20/00	6.25%	1,500,000	1,500,000
CITY STATE BANK, MARTIN	10/20/00	6.25%	1,500,000	1,500,000
CITY STATE BANK, MARTIN	10/10/00	6.25%	500,000	500,000
CITIZENS BANK OF BLOUNT COUNTY, MARYVILLE	07/28/00	5.80%	2,000,000	2,000,000
PLANTERS BANK OF MAURY CITY	07/06/00	6.10%	200,000	200,000
THE FIRST NATIONAL BANK OF MCMINNVILLE	09/12/00	6.00%	5,000,000	5,000,000
BANK OF AMERICA, MEMPHIS	08/01/00	6.00%	10,000,000	10,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	11/09/00	6.55%	1,000,000	1,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	12/19/00	6.70%	1,000,000	1,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	08/18/00	6.00%	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	09/12/00	6.00%	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	09/12/00	6.00%	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	09/15/00	6.00%	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	09/22/00	6.25%	500,000	500,000
ENTERPRISE NATIONAL BANK, MEMPHIS	10/13/00	6.25%	1,000,000	1,000,000
ENTERPRISE NATIONAL BANK, MEMPHIS	10/13/00	6.25%	500,000	500,000
INDEPENDENT BANK, MEMPHIS	11/17/00	6.70%	2,000,000	2,000,000
INDEPENDENT BANK, MEMPHIS	12/12/00	6.70%	2,000,000	2,000,000
INDEPENDENT BANK, MEMPHIS	12/12/00	6.70%	5,000,000	5,000,000
INDEPENDENT BANK, MEMPHIS	09/15/00	6.50%	500,000	500,000
INDEPENDENT BANK, MEMPHIS	12/15/00	6.70%	1,500,000	1,500,000
INDEPENDENT BANK, MEMPHIS	09/12/00	6.00%	1,000,000	1,000,000
MEMPHIS FIRST COMMUNITY BANK	07/07/00	5.80%	2,000,000	2,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	08/23/00	6.50%	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	08/02/00	6.10%	20,000,000	20,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	08/02/00	6.10%	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	11/06/00	6.55%	30,000,000	30,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	11/06/00	6.55%	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	08/16/00	6.50%	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	08/16/00	6.50%	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	08/16/00	6.50%	30,000,000	30,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	11/24/00	6.70%	50,000,000	50,000,000
NATIONAL BANK OF COMMERCE, MEMPHIS	11/28/00	6.70%	50,000,000	50,000,000
SOUTHTRUST BANK, MEMPHIS	07/24/00	5.80%	2,000,000	2,000,000
SOUTHTRUST BANK, MEMPHIS	08/16/00	6.00%	25,000,000	25,000,000
SOUTHTRUST BANK, MEMPHIS	08/30/00	6.00%	1,000,000	1,000,000
SOUTHTRUST BANK, MEMPHIS	09/11/00	6.00%	25,000,000	25,000,000
SOUTHTRUST BANK, MEMPHIS	10/10/00	6.25%	1,000,000	1,000,000
BANK OF MURFREESBORO	10/20/00	6.25%	2,000,000	2,000,000
BANK OF MURFREESBORO	07/03/00	5.80%	2,000,000	2,000,000
BANK OF MURFREESBORO	07/03/00	5.80%	3,000,000	3,000,000
AMSOUTH BANK, NASHVILLE	10/10/00	6.25%	50,000,000	50,000,000
AMSOUTH BANK, NASHVILLE	10/10/00	6.25%	100,000,000	100,000,000
AMSOUTH BANK, NASHVILLE	10/24/00	6.25%	50,000,000	50,000,000

*(continued)*

## STATE CASH PORTFOLIO

### AS OF JUNE 30, 2000

	Maturity	Yield to Maturity	Par Value	Fair Value
AMSOUTH BANK, NASHVILLE	09/18/00	6.00%	50,000,000	50,000,000
AMSOUTH BANK, NASHVILLE	09/26/00	6.25%	50,000,000	50,000,000
CAPITAL BANK & TRUST COMPANY, NASHVILLE	08/29/00	6.00%	1,000,000	1,000,000
CAPITAL BANK & TRUST COMPANY, NASHVILLE	08/29/00	6.00%	2,000,000	2,000,000
NATIONAL BANK OF COMMERCE, NASHVILLE	08/09/00	6.35%	50,000,000	50,000,000
SOUTHTRUST BANK, NASHVILLE	08/04/00	6.00%	50,000,000	50,000,000
SOUTHTRUST BANK, NASHVILLE	08/04/00	6.00%	10,000,000	10,000,000
SOUTHTRUST BANK, NASHVILLE	10/20/00	6.25%	4,000,000	4,000,000
SOUTHTRUST BANK, NASHVILLE	10/24/00	6.25%	3,500,000	3,500,000
SOUTHTRUST BANK, NASHVILLE	10/27/00	6.25%	30,000,000	30,000,000
SOUTHTRUST BANK, NASHVILLE	09/01/00	6.00%	6,000,000	6,000,000
SOUTHTRUST BANK, NASHVILLE	09/01/00	6.00%	40,000,000	40,000,000
SOUTHTRUST BANK, NASHVILLE	09/15/00	6.25%	3,000,000	3,000,000
SOUTHTRUST BANK, NASHVILLE	09/15/00	6.25%	2,800,000	2,800,000
SOUTHTRUST BANK, NASHVILLE	10/06/00	6.25%	4,000,000	4,000,000
THE BANK OF NASHVILLE	08/04/00	6.00%	5,000,000	5,000,000
THE BANK OF NASHVILLE	07/28/00	5.80%	5,000,000	5,000,000
NEWPORT FEDERAL BANK	12/08/00	6.70%	95,000	95,000
NEWPORT FEDERAL BANK	12/08/00	6.70%	300,000	300,000
NEWPORT FEDERAL BANK	09/19/00	6.25%	500,000	500,000
THE FIRST NATIONAL BANK OF ONEIDA	08/18/00	6.00%	500,000	500,000
THE FIRST NATIONAL BANK OF ONEIDA	09/12/00	6.00%	2,500,000	2,500,000
THE FIRST NATIONAL BANK OF ONEIDA	09/19/00	6.25%	500,000	500,000
FIRST NATIONAL BANK OF PIKEVILLE	08/25/00	6.00%	300,000	300,000
FIRST NATIONAL BANK OF PULASKI	07/28/00	5.80%	700,000	700,000
FIRST NATIONAL BANK OF PULASKI	07/28/00	5.80%	300,000	300,000
FIRST NATIONAL BANK OF PULASKI	08/01/00	6.00%	500,000	500,000
FIRST NATIONAL BANK OF PULASKI	08/01/00	6.00%	300,000	300,000
FIRST NATIONAL BANK OF PULASKI	02/08/00	5.40%	1,000,000	1,000,000
FIRST NATIONAL BANK OF PULASKI	02/08/00	5.40%	300,000	300,000
FIRST NATIONAL BANK OF PULASKI	02/15/00	5.40%	1,000,000	1,000,000
FIRST NATIONAL BANK OF PULASKI	02/15/00	5.40%	1,000,000	1,000,000
BANK OF RIPLEY	07/31/00	6.10%	100,000	100,000
BANK OF RIPLEY	07/31/00	6.10%	150,000	150,000
BANK OF RIPLEY	09/08/00	6.50%	200,000	200,000
BANK OF RIPLEY	09/25/00	6.50%	100,000	100,000
BANK OF RIPLEY	07/05/00	6.10%	100,000	100,000
FIRST UNION NATIONAL BANK, ROGERSVILLE	07/28/00	6.25%	1,600,000	1,600,000
FIRST UNION NATIONAL BANK, ROGERSVILLE	07/28/00	6.25%	1,650,000	1,650,000
THE HARDIN COUNTY BANK, SAVANNAH	09/15/00	6.00%	1,000,000	1,000,000
CITIZENS NATIONAL BANK, SEVIERVILLE	09/08/00	6.50%	3,500,000	3,500,000
CITIZENS NATIONAL BANK, SEVIERVILLE	08/15/00	6.00%	2,000,000	2,000,000
CITIZENS NATIONAL BANK, SEVIERVILLE	08/15/00	6.00%	3,000,000	3,000,000
THE BANK OF SHARON	11/28/00	6.70%	1,000,000	1,000,000
THE BANK OF SHARON	12/26/00	6.70%	1,000,000	1,000,000
THE BANK OF SHARON	08/11/00	6.00%	1,000,000	1,000,000
THE BANK OF SHARON	08/18/00	6.00%	1,000,000	1,000,000
THE BANK OF SHARON	10/06/00	6.25%	1,500,000	1,500,000
THE BANK OF SHARON	10/13/00	6.25%	1,000,000	1,000,000
SOMMERVILLE BANK AND TRUST COMPANY	08/11/00	6.00%	200,000	200,000
MERCHANTS & PLANTERS BANK, TOONE	08/01/00	6.00%	200,000	200,000
MERCHANTS & PLANTERS BANK, TOONE	08/04/00	6.00%	200,000	200,000
MERCHANTS & PLANTERS BANK, TOONE	11/14/00	6.70%	100,000	100,000
MERCHANTS & PLANTERS BANK, TOONE	09/15/00	6.00%	100,000	100,000
FIRST NATIONAL BANK OF TULLAHOMA	09/05/00	6.00%	500,000	500,000
FIRST STATE BANK, UNION CITY	07/12/00	6.10%	5,000,000	5,000,000
WAYNE COUNTY BANK, WAYNESBORO	07/24/00	6.10%	900,000	900,000
WAYNE COUNTY BANK, WAYNESBORO	09/22/00	6.25%	500,000	500,000
<b>TOTAL CERTIFICATES OF DEPOSIT</b>			<b>\$1,571,857,700</b>	<b>\$1,571,857,700</b>

**STATE CASH PORTFOLIO****AS OF JUNE 30, 2000**

	Maturity	Yield to Maturity	Par Value	Fair Value
<b>REPURCHASE AGREEMENTS AND OVERNIGHT DEPOSIT ACCOUNTS</b>				
BANK OF AMERICA - OVERNIGHT	07/03/00	6.50%	\$24,500,000	\$24,500,000
NATIONAL BANK OF COMMERCE - OVERNIGHT	07/03/00	6.63%	22,635,000	22,635,000
NATIONAL BANK OF COMMERCE - OVERNIGHT	07/03/00	6.63%	14,675,000	14,675,000
NATIONAL BANK OF COMMERCE - OVERNIGHT	07/03/00	6.63%	12,690,000	12,690,000
AMSOUTH BANK - OVERNIGHT DEPOSIT ACCOUNT	07/03/00	5.78%	15,000,000	15,000,000
<b>TOTAL REPURCHASE AGREEMENTS AND OVERNIGHT DEPOSIT ACCOUNTS</b>			<b>\$89,500,000</b>	<b>\$89,500,000</b>

	Maturity	Yield to Maturity	Par Value	Fair Value
<b>COMMERCIAL PAPER</b>				
ASSOCIATES CAPITAL	07/05/00	6.58%	\$50,000,000	\$49,963,778
ASSOCIATES CAPITAL	07/03/00	6.20%	75,000,000	74,974,500
ASSOCIATES CAPITAL	07/31/00	6.62%	55,000,000	54,699,833
ASSOCIATES CAPITAL	08/08/00	6.63%	2,500,000	2,482,689
ASSOCIATES CAPITAL	09/05/00	6.68%	50,000,000	49,396,833
ASSOCIATES CAPITAL	09/18/00	6.73%	3,000,000	2,956,550
BRITISH AEROSPACE	08/15/00	6.76%	50,000,000	49,584,375
BRITISH TELECOMMUNICATIONS	07/05/00	6.47%	50,000,000	49,964,444
BRITISH TELECOMMUNICATIONS	07/10/00	6.22%	50,000,000	49,923,375
CARDINAL HEALTH, INC.	07/03/00	7.10%	13,020,000	13,014,864
EQUITABLE RESOURCE	07/07/00	6.56%	20,000,000	19,978,233
EXXON MOBIL AUSTRALIA, INC.	07/03/00	6.95%	50,000,000	49,980,694
GENERAL ELECTRIC CAPITAL CO	08/07/00	6.63%	50,000,000	49,663,403
GENERAL ELECTRIC CAPITAL CO	09/05/00	6.62%	50,000,000	49,400,500
GENERAL ELECTRIC CAPITAL CO	09/06/00	6.62%	50,000,000	49,391,417
GENERAL MOTORS ACCEPTANCE CORPORATION	07/31/00	6.68%	50,000,000	49,725,000
GENERAL MOTORS ACCEPTANCE CORPORATION	08/07/00	6.69%	90,000,000	89,389,500
GENERAL MOTORS ACCEPTANCE CORPORATION	09/05/00	6.67%	50,000,000	49,397,750
GOLDMAN SACHS	07/10/00	6.25%	50,000,000	49,923,000
GOLDMAN SACHS	08/08/00	6.69%	50,000,000	49,651,139
INVENSYS	07/11/00	6.67%	50,000,000	49,907,917
INVENSYS	08/03/00	6.74%	30,000,000	29,817,125
INVENSYS	08/15/00	6.74%	50,000,000	49,585,625
MERRILL LYNCH	07/05/00	6.19%	50,000,000	49,966,056
MERRILL LYNCH	07/14/00	6.26%	45,000,000	44,899,738
MORGAN STANLEY	08/07/00	6.67%	50,000,000	49,661,347
PRUDENTIAL FUNDING	07/31/00	6.69%	50,000,000	49,724,167
RECEIVABLES CAPITAL CORP.	07/10/00	6.24%	75,000,000	74,884,688
VATTENFALL TREASURY, INC.	07/10/00	6.22%	25,976,000	25,936,256
<b>TOTAL COMMERCIAL PAPER</b>			<b>\$ 1,334,496,000</b>	<b>\$1,327,844,796</b>

<b>TOTAL PORTFOLIO</b>			<b>\$ 3,910,599,700</b>	<b>\$3,897,997,723</b>
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## BACCALAUREATE EDUCATION SYSTEM TRUST PORTFOLIO

### AS OF JUNE 30, 2000

	Moody's Rating	Maturity	Yield to Maturity	Par Value	Fair Value
<b>U.S. TREASURY AND AGENCY OBLIGATIONS</b>					
FEDERAL HOME LN MTG CORP	Aaa	01/27/2005	7.04%	\$ 450,000	\$ 467,510
FEDERAL HOME LN MTG CORP	Aaa	06/24/2008	7.41%	225,000	207,000
FEDERAL HOME LN MTG CORP	Aaa	09/15/2009	7.14%	200,000	193,094
FEDERAL NATL MTG ASSN	Aaa	11/12/2002	6.98%	1,100,000	1,100,000
FEDERAL NATL MTG ASSN MTN	Aaa	06/19/2003	7.05%	650,000	628,466
STUDENT LN MARKETING ASSN	Aaa	09/14/2000	6.25%	450,000	449,577
UNITED STATES TREAS BONDS	Aaa	11/15/2009	6.50%	1,325,000	1,518,371
UNITED STATES TREAS BONDS	Aaa	11/15/2012	6.42%	700,000	861,000
UNITED STATES TREAS NOTES	Aaa	07/31/2002	6.40%	875,000	868,026
UNITED STATES TREAS NOTES	Aaa	03/31/2003	6.39%	725,000	708,912
UNITED STATES TREAS NOTES	Aaa	11/15/2004	6.31%	875,000	926,546
UNITED STATES TREAS NOTES	Aaa	07/15/2006	6.27%	1,375,000	1,424,843
<b>TOTAL U.S. TREASURY AND AGENCY OBLIGATIONS</b>				<b>\$ 8,950,000</b>	<b>\$ 9,353,345</b>

	Moody's Rating	Maturity	Yield to Maturity	Par Value	Fair Value
<b>CORPORATE BONDS</b>					
ACE INA HLDG INCORPORATED	A2	08/15/2004	8.01%	\$ 400,000	\$ 403,280
CALIFORNIA INFRASTRUCTURE	Aaa	06/25/2004	7.53%	200,000	197,080
CIT GROUP INCORPORATED	A1	11/08/2002	7.42%	400,000	384,832
DEUTSCHE TELEKOM INTL FIN BV	A2	06/15/2005	7.57%	200,000	201,480
DUKE CAPITAL CORPORATION	A3	07/15/2005	7.55%	200,000	188,786
ELECTRONIC DATA SYS CORPORATION	A1	10/15/2004	7.35%	500,000	488,965
FORD MOTOR COMPANY DEL	A2	10/01/2008	7.65%	500,000	481,415
GENERAL ELEC CAP CORPORATION	Aaa	02/15/2003	7.26%	350,000	362,432
GENERAL MTRS ACCEP CORPORATION	A2	06/17/2004	7.48%	200,000	195,198
HEWLETT PACKARD COMPANY	Aa2	06/15/2005	7.05%	100,000	100,183
MCI COMMUNICATIONS CORPORATION	A3	08/15/2006	7.65%	150,000	144,153
MERRILL LYNCH & CO INCORPORATED	Aa3	03/15/2006	7.71%	100,000	97,498
MORGAN STANLEY GROUP INCORPORATED	Aa3	01/20/2004	7.53%	500,000	471,510
PP & L TRANSITION BD LLC	Aaa	06/25/2009	7.38%	150,000	148,031
PUBLIC SVC CO COLO	A3	04/15/2003	7.64%	350,000	335,979
TELE COMMUNICATIONS INCORPORATED	A2	08/01/2005	7.54%	300,000	296,937
TEXTRON INCORPORATED	A2	07/15/2004	7.30%	100,000	95,372
UNION TEX PETE HLDGS INCORPORATED	A2	03/15/2005	7.30%	200,000	208,230
VIRGINIA ELEC & PWR COMPANY	A2	07/01/2007	7.54%	250,000	249,432
WAL MART STORES INC PASS THRU	Aa2	07/01/2004	7.67%	67,868	69,635
<b>TOTAL CORPORATE BONDS</b>				<b>\$ 5,217,868</b>	<b>\$ 5,120,428</b>

	Units	Fair Value
<b>MUTUAL FUND</b>		
S & P 500	105,568	\$ 6,669,898
<b>TOTAL MUTUAL FUND</b>		<b>\$ 6,669,898</b>

<b>TOTAL PORTFOLIO</b>	<b>\$21,143,671</b>
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## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

### LARGEST HOLDINGS BY FAIR VALUE

#### LARGEST STOCK HOLDINGS

*(By Fair Value) June 30, 2000*

Shares	Security Name	Fair Value
6,217,000	GENERAL ELECTRIC COMPANY	\$329,501,000
2,165,000	INTEL CORPORATION	289,433,438
4,319,000	CISCO SYSTEMS INCORPORATED	274,526,438
3,157,000	MICROSOFT CORPORATION	252,560,000
4,389,625	PFIZER INCORPORATED	210,702,000
2,238,297	EXXON MOBIL CORPORATION	175,706,315
2,765,000	WALMART STORES INCORPORATED	159,333,125
1,886,000	ORACLE CORPORATION	158,541,875
2,097,307	CITIGROUP INCORPORATED	126,362,747
1,142,000	INTERNATIONAL BUSINESS MACHINES	125,120,375

#### LARGEST BOND HOLDINGS

*(By Fair Value) June 30, 2000*

Par Value	Security Name	Yield	Maturity	Moody's Quality Rating	Fair Value
358,790,000	U.S. TREASURY BONDS	6.42%	11/15/2012	Aaa	\$441,311,700
330,000,000	U.S. TREASURY BONDS	6.26%	02/15/2019	Aaa	424,462,500
300,000,000	U.S. TREASURY BONDS	6.26%	05/15/2017	Aaa	377,436,000
310,000,000	U.S. TREASURY BONDS	6.26%	08/15/2019	Aaa	374,517,200
292,000,000	U.S. TREASURY NOTES	6.40%	01/31/2003	Aaa	285,748,280
244,740,210	GNMA POOL 781089	7.71%	09/15/2029	Aaa	242,980,528
230,000,000	U.S. TREASURY NOTES	6.47%	11/15/2001	Aaa	232,911,800
223,000,000	U.S. TREASURY NOTES	6.27%	07/15/2006	Aaa	231,083,750
188,128,304	GNMA POOL 781074	7.71%	07/15/2029	Aaa	186,835,863
193,705,294	GNMA II POOL 002767	7.47%	06/20/2029	Aaa	182,931,406

*A complete portfolio listing is available upon request.*

**CHAIRS OF EXCELLENCE**  
**LARGEST HOLDINGS BY FAIR VALUE**

**LARGEST STOCK HOLDINGS***(By Fair Value) June 30, 2000*

Shares	Security Name	Fair Value
100,800	GENERAL ELEC COMPANY	\$ 5,342,400
57,000	MICROSOFT CORPORATION	4,560,000
34,000	INTEL CORPORATION	4,545,375
68,000	CISCO SYSTEMS INCORPORATED	4,322,250
66,500	PFIZER INCORPORATED	3,192,000
50,000	WAL MART STORES INCORPORATED	2,881,250
34,841	EXXON MOBIL CORPORATION	2,735,019
30,000	ORACLE CORPORATION	2,521,875
29,000	MERCK & CO INCORPORATED	2,222,125
34,000	CITIGROUP INCORPORATED	2,048,500

**LARGEST BOND HOLDINGS***(By Fair Value) June 30, 2000*

Par Value	Security Name	Yield to Maturity	Maturity	Moody's Quality Rating	Fair Value
7,150,000	CALIFORNIA INFRA & ECONOMIC	7.32%	09/25/2005	Aaa	\$ 7,002,496
7,000,000	FEDERAL NATL MTG ASSN	7.03%	05/14/2004	Aaa	6,668,620
6,500,000	UNITED STATES TREAS NOTES	6.23%	08/15/2007	Aaa	6,458,335
6,000,000	UNITED STATES TREAS NOTES	6.26%	08/15/2005	Aaa	6,060,960
6,000,000	FEDERAL NATL MTG ASSN	7.13%	06/15/2009	Aaa	5,701,860
5,000,009	GNMA II POOL 2909	7.92%	04/20/2030	Aaa	5,028,109
5,000,000	INTL LEASE FIN CORP MTN	7.32%	08/01/2001	A1	4,965,850
5,000,000	MERRILL LYNCH & CO INCORPORATED	7.45%	05/15/2006	Aa3	4,956,500
5,000,000	AESOP FDG II LLC	7.50%	10/20/2003	Aaa	4,920,000
5,000,000	UNITED STATES TREAS NOTES	6.39%	03/31/2003	Aaa	4,889,050

***A complete portfolio listing is available upon request.***

## KEY TO RATINGS

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All ratings presented are from Moody's Investors Service. 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

Moody's applies numerical modifiers in each rating classification as follows:

- 1 ..... Higher End
- 2 ..... Mid-range
- 3 ..... Lower End

NR indicates the security is not rated by Moody's.

# Financial Statements



**Iroquois Memorial Steeplechase  
Nashville, Tennessee**



**National Storytelling Festival  
Jonesborough, Tennessee**

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

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**STATE OF TENNESSEE**

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

November 29, 2000

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

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the State Pooled Investment Fund as of June 30, 2000, and June 30, 1999, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Pooled Investment Fund as of June 30, 2000, and June 30, 1999, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the State Pooled Investment Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

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

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**STATE POOLED INVESTMENT FUND**  
**COMPARATIVE STATEMENTS OF NET ASSETS**  
**JUNE 30, 2000 AND JUNE 30, 1999**


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	June 30, 2000	June 30, 1999
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,293,854,013	\$ 1,996,757,469
Short-term investments, at amortized cost	1,694,048,173	1,716,248,368
Accrued income receivable	27,599,517	31,262,138
<b>TOTAL ASSETS</b>	<u>\$ 4,015,501,703</u>	<u>\$ 3,744,267,975</u>

**LIABILITIES AND NET ASSETS**

<b>NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS</b>	<u>\$ 4,015,501,703</u>	<u>\$ 3,744,267,975</u>
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*See accompanying Notes to the Financial Statements*

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**STATE POOLED INVESTMENT FUND**  
**COMPARATIVE STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999**


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	For the Year Ended June 30, 2000	For the Year Ended June 30, 1999
<b>OPERATIONS</b>		
Investment income	<u>\$ 201,497,753</u>	<u>\$ 172,917,203</u>
Expenses		
Administrative fee	1,897,329	1,525,729
Custodian and banking services fees	34,054	37,741
Total expenses	<u>1,931,383</u>	<u>1,563,470</u>
<b>NET INVESTMENT INCOME</b>	<u>199,566,370</u>	<u>171,353,733</u>
<b>CAPITAL SHARE TRANSACTIONS (DOLLAR AMOUNTS AND NUMBER OF SHARES ARE THE SAME)</b>		
Shares sold	22,085,429,395	22,090,043,617
Less shares redeemed	<u>22,013,762,037</u>	<u>21,887,507,944</u>
<b>INCREASE FROM CAPITAL SHARE TRANSACTIONS</b>	<u>71,667,358</u>	<u>202,535,673</u>
<b>TOTAL INCREASE IN NET ASSETS</b>	271,233,728	373,889,406
<b>NET ASSETS HELD IN TRUST FOR POOL PARTICIPANTS BEGINNING OF YEAR</b>	<u>3,744,267,975</u>	<u>3,370,378,569</u>
<b>END OF YEAR</b>	<u>\$ 4,015,501,703</u>	<u>\$ 3,744,267,975</u>

*See accompanying Notes to the Financial Statements*

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**STATE POOLED INVESTMENT FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Reporting Entity**

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

**2. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The SPIF follows all applicable GASB pronouncements, as well as applicable private sector pronouncements issued on or before November 30, 1989. The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**3. Cash and Cash Equivalents**

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

**4. Method Used to Report Investments and Participant Shares**

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board of the State of Tennessee (Funding Board), operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal years ended June 30, 2000 and June 30, 1999, the State had not obtained or provided any legally binding guarantees to support the value of participant shares.

**B. DEPOSITS AND INVESTMENTS**

**1. Investment Policy**

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and in certain obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). Investment in derivative type securities and investments of high risk is prohibited.

This resolution further states that the dollar weighted average maturity of the State Pooled Investment Fund shall not exceed 90 days and that no investment may be purchased with a remaining maturity of greater than 397 calendar days. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than 0.5 percent from amortized cost. If it does, actions may include but not be limited to selling securities whose market value substantially deviates from amortized cost and investing in securities with 90 days or less to maturity.

The State Pooled Investment Fund is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that the fund loan specific securities from its holdings to the broker in return for collateral securities. Statute requires that the loaned securities be collateralized at 102% of their market value. There were no securities on loan from the State Pooled Investment Fund during the years ended June 30, 2000 and June 30, 1999.

*(continued)*

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**STATE POOLED INVESTMENT FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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

Certificates of deposit are not placed or renewed with a financial institution until adequate collateral is pledged. Open accounts maintained for deposit of state revenues are collateralized on an estimate of the average daily balance in the account based on previous balances and monitored for variation to actual balances. The Treasurer is required, by statute, to evaluate the market value of required collateral monthly, and more frequently if market conditions require. Statutes provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All repurchases are done with primary dealers in government securities which have executed a master repurchase agreement with the State which provides for securities underlying repurchase agreements to have a market value of not less than 100 percent (100%) nor more than 102 percent (102%) of the cost of the repurchase agreement plus accrued interest. Prime commercial paper may be acquired from authorized broker dealers or directly from the issuer. There is no collateral requirement for prime commercial paper.

**2. Deposits**

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

As of June 30, 2000 and June 30, 1999, the carrying amounts of the State Pooled Investment Fund deposits were \$1,676,507,040 and \$1,753,396,924 respectively. The bank balance, including accrued interest, was \$1,700,475,814 as of June 30, 2000 and \$1,783,453,845 as of June 30, 1999. Of the bank balance, \$1,700,298,334 at June 30, 2000 and \$1,783,274,895 at June 30, 1999 was considered category 1, covered by insurance or collateral (at fair value) held in the state's name by independent custodial banks or in the state's account at the Federal Reserve Bank. At June 30, 2000, \$177,480 (at fair value) and at June 30, 1999, \$178,950 (at fair value) was considered category 3, uninsured and uncollateralized. There were no material amounts uncollateralized during the years ended June 30, 2000 and June 30, 1999.

At June 30, 2000 and June 30, 1999, the principal amount of certificates of deposit in state depositories was \$1,571,857,700 and \$1,705,987,700 respectively. Interest rates on certificates of deposit held at June 30, 2000 ranged from 5.40% to 6.70% and at June 30, 1999 ranged from 4.60% to 5.55%. The days to maturity ranged from 7 to 182 days at June 30, 2000 and 27 to 365 days at June 30, 1999.

**3. Investments**

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

*(continued)*

**STATE POOLED INVESTMENT FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

June 30, 2000					
	Carrying Amount	Fair Value	Par Value	Interest Rate Range	Days to Maturity
Cash Equivalents and Short-term Investments:					
Repurchase Agreements	\$ 74,500,000	\$ 74,500,000	\$ 74,500,000	6.50% to 6.63%	3 days
U.S. Government and Agency Obligations	909,050,350	908,795,227	914,746,000	5.91% to 6.88%	28 to 366 days
Commercial Paper	<u>1,327,844,796</u>	<u>1,327,844,796</u>	<u>1,334,496,000</u>	6.19% to 7.10%	3 to 103 days
Total Cash Equivalents and Short-term Investments	2,311,395,146	<u>\$ 2,311,140,023</u>	<u>\$ 2,323,742,000</u>		
Less: short-term investments classified as cash equivalents on Statement of Net Assets	(1,761,054,673)				
Add: certificates of deposit classified as short-term investments on Statement of Net Assets	<u>1,143,707,700</u>				
Short-term investments as shown on Statement of Net Assets	<u>\$ 1,694,048,173</u>				

June 30, 1999					
	Carrying Amount	Fair Value	Par Value	Interest Rate Range	Days to Maturity
Cash Equivalents and Short-term Investments:					
Repurchase Agreements	\$ 214,000,000	\$ 214,000,000	\$ 214,000,000	4.75% to 4.75%	1 to 30 days
U.S. Government and Agency Obligations	773,682,306	773,064,475	774,603,000	4.74% to 7.13%	28 to 369 days
Commercial Paper	<u>971,926,607</u>	<u>971,926,607</u>	<u>977,410,000</u>	4.85% to 5.62%	26 to 104 days
Total Cash Equivalents and Short-term Investments	1,959,608,913	<u>\$ 1,958,991,082</u>	<u>\$ 1,966,013,000</u>		
Less: short-term investments classified as cash equivalents on Statement of Net Assets	(1,513,123,245)				
Add: certificates of deposit classified as short-term investments on Statement of Net Assets	<u>1,269,762,700</u>				
Short-term investments as shown on Statement of Net Assets	<u>\$ 1,716,248,368</u>				

The State Pooled Investment Fund's investments, shown above as of June 30, 2000 and June 30, 1999, are all considered category 1. All securities, whether owned outright or pledged as collateral against repurchases, are held in the State's account in the Federal Reserve Bank or at a third party trustee custodian in the State's name.

(continued)

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**STATE POOLED INVESTMENT FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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**C. OTHER ACCOUNTING DISCLOSURES****Description of the State Pooled Investment Fund**

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

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

An average rate of return is calculated on the investments made each month in the SPIF and is used to credit earnings to LGIP participants and the State departments and agencies required to earn interest. The State's general fund is credited with the residual earnings. Accordingly, participants' shares are sold and redeemed at a value equal to the amount of the principal plus accrued earnings while investments are reported at amortized cost. An administrative fee of .06 percent for LGIP and .08 percent for the State's departments and agencies was charged against each participant's average daily balance to provide funding for administrative expenses to operate the SPIF.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
INDEPENDENT AUDITOR'S REPORT**

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**STATE OF TENNESSEE**

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

November 29, 2000

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

Dear Mr. Morgan:

We have audited the accompanying statements of plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2000, and June 30, 1999, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Consolidated Retirement System as of June 30, 2000, and June 30, 1999, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of actuarial balances on page 82 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the system's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

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

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**COMPARATIVE STATEMENTS OF PLAN NET ASSETS**  
**AS OF JUNE 30, 2000 AND JUNE 30, 1999**

<i>Expressed in Thousands</i>	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
<b>ASSETS</b>		
Cash	\$ 14,078	\$ 2,112
Receivables		
Member contributions receivable	13,565	3,361
Employer contributions receivable	19,970	6,346
Accrued interest receivable	164,199	24,632
Accrued dividends receivable	8,710	1,307
Investments sold	16,453	2,468
Total receivables	<u>222,897</u>	<u>38,114</u>
Investments, at fair value		
Short-term securities	832,630	124,908
Government bonds	8,213,549	1,232,168
Corporate bonds	3,119,945	468,044
Corporate stocks	8,682,844	1,302,570
Real estate	133,285	19,995
Total investments	<u>20,982,253</u>	<u>3,147,685</u>
<b>TOTAL ASSETS</b>	<u>21,219,228</u>	<u>3,187,911</u>
<b>LIABILITIES</b>		
Retired payroll payable	12,276	1,793
Warrants payable	513	418
Accounts payable		
Death benefits and refunds payable	1,385	583
Other	13	1
Investments purchased	41,966	6,296
Other investment payables	3,666	550
<b>TOTAL LIABILITIES</b>	<u>59,819</u>	<u>9,641</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION</b>		
BENEFITS (Schedules of funding progress for the plans are presented on page 80)	<u>\$ 21,159,409</u>	<u>\$ 3,178,270</u>

*See accompanying Notes to the Financial Statements*

*(continued)*

(CONTINUED)

June 30, 2000 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 1999 Total
\$ 16,190	\$ 10,024	\$ 1,478	\$ 11,502
16,926	13,467	2,911	16,378
26,316	20,131	5,230	25,361
188,831	159,933	23,581	183,514
10,017	9,299	1,371	10,670
18,921	75,993	11,205	87,198
<u>261,011</u>	<u>278,823</u>	<u>44,298</u>	<u>323,121</u>
957,538	638,904	94,204	733,108
9,445,717	8,024,674	1,183,208	9,207,882
3,587,989	2,982,213	439,716	3,421,929
9,985,414	8,156,485	1,202,642	9,359,127
153,280	0	0	0
<u>24,129,938</u>	<u>19,802,276</u>	<u>2,919,770</u>	<u>22,722,046</u>
<u>24,407,139</u>	<u>20,091,123</u>	<u>2,965,546</u>	<u>23,056,669</u>
14,069	12,207	1,774	13,981
931	599	533	1,132
1,968	851	655	1,506
14	13	1	14
48,262	206,994	30,520	237,514
4,216	4,366	644	5,010
<u>69,460</u>	<u>225,030</u>	<u>34,127</u>	<u>259,157</u>
<u>\$ 24,337,679</u>	<u>\$ 19,866,093</u>	<u>\$ 2,931,419</u>	<u>\$ 22,797,512</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999**

*Expressed in Thousands*

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
<b>ADDITIONS</b>		
Contributions		
Member contributions	\$ 129,925	\$ 39,906
Employer contributions	252,162	82,749
Total contributions	<u>382,087</u>	<u>122,655</u>
Investment income		
Net appreciation in fair value of investments	666,115	99,049
Interest	768,033	114,203
Dividends	108,596	16,148
Real estate income, net of operating expenses	3,567	530
Total investment income	<u>1,546,311</u>	<u>229,930</u>
Less: Investment expense	<u>13,198</u>	<u>1,969</u>
Net income from investing activities	<u>1,533,113</u>	<u>227,961</u>
<b>TOTAL ADDITIONS</b>	<u><u>1,915,200</u></u>	<u><u>350,616</u></u>
<b>DEDUCTIONS</b>		
Annuity benefits		
Retirement benefits	450,919	69,164
Survivor benefits	28,839	4,423
Disability benefits	15,089	2,315
Cost of living	106,542	11,933
Death benefits	2,658	852
Refunds	15,474	13,088
Administrative expense	2,363	1,990
<b>TOTAL DEDUCTIONS</b>	<u><u>621,884</u></u>	<u><u>103,765</u></u>
<b>NET INCREASE</b>	1,293,316	246,851
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
BEGINNING OF YEAR	<u>19,866,093</u>	<u>2,931,419</u>
END OF YEAR	<u><u>\$ 21,159,409</u></u>	<u><u>\$ 3,178,270</u></u>

*See accompanying Notes to the Financial Statements*

*(continued)*

(CONTINUED)

For the Year Ended June 30, 2000 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 1999 Total
\$ 169,831	\$ 122,564	\$ 38,618	\$ 161,182
334,911	244,453	69,230	313,683
<u>504,742</u>	<u>367,017</u>	<u>107,848</u>	<u>474,865</u>
765,164	883,577	129,430	1,013,007
882,236	705,107	103,288	808,395
124,744	106,778	15,641	122,419
4,097	0	0	0
<u>1,776,241</u>	<u>1,695,462</u>	<u>248,359</u>	<u>1,943,821</u>
15,167	9,682	1,423	11,105
<u>1,761,074</u>	<u>1,685,780</u>	<u>246,936</u>	<u>1,932,716</u>
<u>2,265,816</u>	<u>2,052,797</u>	<u>354,784</u>	<u>2,407,581</u>
520,083	414,149	60,182	474,331
33,262	25,934	3,769	29,703
17,404	13,948	2,027	15,975
118,475	99,823	14,506	114,329
3,510	2,616	778	3,394
28,562	13,491	12,143	25,634
4,353	2,350	1,840	4,190
<u>725,649</u>	<u>572,311</u>	<u>95,245</u>	<u>667,556</u>
1,540,167	1,480,486	259,539	1,740,025
22,797,512	18,385,607	2,671,880	21,057,487
<u>\$ 24,337,679</u>	<u>\$ 19,866,093</u>	<u>\$ 2,931,419</u>	<u>\$ 22,797,512</u>

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- 1. Reporting Entity** - The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.
- 2. Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The TCRS follows all applicable GASB pronouncements, as well as applicable private sector pronouncements issued on or before November 30, 1989. The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

- 3. Cash** - Cash and cash equivalents, by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. In addition, under the policy, short-term securities otherwise defined as cash equivalents, that are in portfolios where the primary purpose is to facilitate the placement of funds in long-term investments, are classified as investments.

Cash received by the TCRS that cannot be invested immediately in securities is invested in the State Pooled Investment Fund administered by the State Treasurer. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned to brokers for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2000 and June 30, 1999. The classification of Cash also includes cash held in a custody account under a contractual arrangement for master custody services. Cash balances with the custodial agent are not classified into the credit risk categories established by Statement Number 3 of the Governmental Accounting Standards Board as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security.

- 4. Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments that do not have an established market are reported at cost plus accrued interest which approximates fair value. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000 AND JUNE 30, 1999**

- 5. **Receivables** - Receivables primarily consist of interest which is recorded when earned. The receivables for contributions as of June 30, 2000 consist of \$33.5 million due from other funds within the state and \$9.7 million due from other governments. The receivables for contributions as of June 30, 1999, consist of \$33.6 million due from other funds within the state and \$8.1 million due from other governments.
  
- 6. **Reclassifications** - Investment securities previously reported on the June 30, 1999 Statement of Plan Net Assets as Domestic or International have been consolidated for comparative purposes.

**B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION**

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

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

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

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

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

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

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

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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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, 2000, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$2,521.5 million and \$18,637.9 million, respectively. At June 30, 1999, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$2,396.9 million and \$17,469.2 million, respectively.

**Political Subdivisions Pension Plan**

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

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

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2000, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$541.8 million and \$2,636.5 million, respectively. At June 30, 1999, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$502.0 million and \$2,429.4 million, respectively.

**C. INVESTMENTS**

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

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75%) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75%) of the total funds of the retirement system. Private Placements are limited to 15% of the total fixed income portfolio.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000 AND JUNE 30, 1999**

- c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15%) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries.
- d. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30%) of total assets.
- e. The total sum invested in real estate shall not exceed five percent (5%) of the total of the funds of the retirement system.

The TCRS maintains a portfolio of short-term investments in order to actively manage all funds waiting to be placed in a more permanent investment. These short-term investments may include U.S. Treasury and Agency obligations, commercial paper, medium-term corporate notes, promissory notes and repurchase agreements.

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

<i><b>Expressed in Thousands</b></i>	<u><b>Fair Value June 30, 2000</b></u>	<u><b>Fair Value June 30, 1999</b></u>
<b>INVESTMENTS - CATEGORY 1</b>		
Short-term securities		
Commercial paper	\$ 468,260	\$ 537,039
Corporate notes	58,021	0
Government bonds	431,257	196,069
Long-term investments		
Government bonds	9,434,325	9,040,985
Corporate bonds	3,567,843	3,369,177
Corporate stocks	9,956,951	9,331,615
<b>TOTAL INVESTMENTS - CATEGORY 1</b>	<u><b>23,916,657</b></u>	<u><b>22,474,885</b></u>
<b>INVESTMENTS - CATEGORY 2</b>	<u><b>0</b></u>	<u><b>0</b></u>
<b>INVESTMENTS - CATEGORY 3</b>		
Margin deposit on futures contracts		
Government bonds	<u>11,392</u>	<u>11,319</u>
<b>INVESTMENTS - NOT CATEGORIZED</b>		
Real estate	153,280	0
Unsettled investment acquisitions		
Government bonds	0	155,578
Corporate bonds	20,146	52,752
Corporate stocks	28,463	27,512
<b>TOTAL INVESTMENTS - NOT CATEGORIZED</b>	<u><b>201,889</b></u>	<u><b>235,842</b></u>
<b>TOTAL INVESTMENTS</b>	<u><u><b>\$ 24,129,938</b></u></u>	<u><u><b>\$ 22,722,046</b></u></u>

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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As of June 30, 2000 and June 30, 1999, the TCRS had no concentrations of investments, other than those issued or guaranteed by the U.S. government, in any one organization that represents five percent or more of plan net assets.

*Securities Lending* - The TCRS is authorized by its investment policy, as adopted by the Board of Trustees, to enter into collateralized securities lending agreements whereby the TCRS loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the TCRS' assets. The TCRS' custodian bank manages the lending program and maintains the collateral on behalf of the TCRS. The borrower may deliver collateral to the lending agent in the form of cash or 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 or by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association and other United States government sponsored corporations or enterprises. Cash received as collateral may be reinvested by the lending agent in accordance with the investment policy, as further restricted under the TCRS securities lending agreement. Collateral securities cannot be pledged or sold unless the borrower defaults.

The loaned securities are initially collateralized at 102 percent of their fair value for domestic securities and 105 percent for international. Collateral is marked-to-market daily and additional collateral is pledged by the borrower if the fair value of the collateral subsequently falls below 100 percent for domestic securities and 105 percent for international. Although there is no specific policy for matching the maturities of collateral investments and the securities loans, the securities on loan can be terminated on demand by either the TCRS or the borrower. For the years ending June 30, 2000 and June 30, 1999, the TCRS had no securities on loan.

*Financial Instruments with Off-Balance Sheet Risk* - The TCRS is a party to financial instruments with off-balance sheet risk used in the normal course of business to generate earnings and reduce its own exposure to fluctuations in market conditions. The TCRS is authorized by statute to engage in forward contracts to exchange different currencies at a specified future date and rate and in domestic stock index futures contracts. These contracts involve elements of custodial credit, market and legal risk in excess of amounts recognized in the Statements of Plan Net Assets as of June 30, 2000 and June 30, 1999. The TCRS may purchase or sell domestic stock index futures contracts for the purposes of making asset allocation changes and improving liquidity. Futures contracts are limited to the S&P 500 Index, the S&P Midcap 400 Index and the Russell 2000 Index. The contractual or notional amounts express the extent of the TCRS' involvement in these instruments and do not represent exposure to credit loss. The credit risk on forward and futures contracts is controlled through limits and monitoring procedures. Market risk, the risk that changing market conditions may make a financial instrument less valuable, is controlled through limitations on the use of such instruments. Legal risk is controlled through the use of only authorized instruments and brokers. The allowable currencies for hedging purposes are limited by policy of the Board of Trustees to the currencies of those countries otherwise authorized for investment.

At June 30, 2000, there were forward exchange contracts outstanding at a total net notional amount of \$118,673,979 and a fair value of \$89,933,176. At June 30, 1999, there were forward exchange contracts outstanding at a total net notional amount of \$589,694,318 and a fair value of \$569,519,506.

At June 30, 2000, the notional amount of futures contracts was \$185,518,750 at a fair value of \$183,512,500. At June 30, 1999, the notional amount of futures contracts was \$165,256,250 at a fair value of \$172,712,500. The changes in fair value of outstanding futures contracts are settled daily.

The TCRS is also authorized by investment policy to engage in the issuance of options. Activity is limited to selling covered call options. The TCRS had no options outstanding at June 30, 2000 and June 30, 1999.

*Asset-Backed Securities* - The TCRS invests in collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The CMOs held were issued by quasi-U.S. governmental agencies. The fair value of these securities was \$50,366,466 at June 30, 2000, and \$65,145,109 at June 30, 1999. The TCRS also invests in various asset-backed securities, representing own-

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000 AND JUNE 30, 1999**

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ership interests in trusts consisting of credit card or auto loan receivables. These securities are issued by organizations with AAA or AA credit ratings. TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets.

**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 7.5 basis points on the \$250 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, and 12 basis points during times when either Moody's or Standard and Poor's has assigned ratings other than Aaa and AAA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

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

UNAUDITED

**SCHEDULES OF FUNDING PROGRESS***Expressed in Thousands*

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial 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)
<b>SETHEEPP</b>	7/1/99	\$ 18,327,133	\$ 18,420,156	\$ 93,023	99.49%	\$ 4,132,409	2.25%
	6/30/97	15,671,678	15,782,850	111,172	99.30%	3,810,231	2.92%
<b>PSPP</b>	7/1/99	2,690,781	2,890,942	200,161	93.08%	1,341,363	14.92%
	6/30/97	2,226,891	2,287,904	61,013	97.33%	1,130,585	5.40%

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

*See accompanying Notes to Required Supplementary Information*

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

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

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

*See accompanying Notes to Required Supplementary Information*

UNAUDITED

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 As of JUNE 30, 2000 AND JUNE 30, 1999

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

	<u>SETHEEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 1999	July 1, 1999
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	16 years closed period	(1) closed period
Asset valuation method	5-year Moving Market Average	5-year Moving Market Average
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.5%	5.5%
Includes inflation at	(2)	(2)
Cost-of-living adjustments	3%	3%
Increase in Social Security wage base	4.5%	4.5%

- (1) The length of the amortization period varies by political subdivision. For political subdivisions entering the plan on or after July 1, 1994, the amortization period does not exceed 20 years.
- (2) No explicit assumption is made regarding the portion attributable to the effect of inflation on salaries.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**ACTUARIAL BALANCE SHEET**  
**AS OF JULY 1, 1999**

UNAUDITED

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

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**FLEXIBLE BENEFITS PLAN  
INDEPENDENT AUDITOR'S REPORT**

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**STATE OF TENNESSEE**

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

November 29, 2000

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Flexible Benefits Plan as of June 30, 2000, and June 30, 1999, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Flexible Benefits Plan as of June 30, 2000, and June 30, 1999, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the Flexible Benefits Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

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**FLEXIBLE BENEFITS PLAN**  
**COMPARATIVE BALANCE SHEETS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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	June 30, 2000	June 30, 1999
ASSETS		
Cash	\$ 422,301	\$ 367,025
Due from other funds	<u>129,308</u>	<u>58,074</u>
TOTAL ASSETS	<u>\$ 551,609</u>	<u>\$ 425,099</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Warrants payable	\$ 2,689	\$ 5,038
Accounts payable	96,850	107,459
Dependent care deposits	147,256	141,270
Medical reimbursement deposits	90,693	102,477
Due to other funds	<u>63,153</u>	<u>389</u>
TOTAL LIABILITIES	400,641	356,633
FUND BALANCES RESERVED FOR EMPLOYEE BENEFITS	<u>150,968</u>	<u>68,466</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 551,609</u>	<u>\$ 425,099</u>

*See accompanying Notes to the Financial Statements*

**FLEXIBLE BENEFITS PLAN**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999**

	<b>For the Year Ended June 30, 2000</b>	<b>For the Year Ended June 30, 1999</b>
<b>REVENUES</b>		
FICA savings	\$ 2,442,467	\$ 2,379,874
Flexible benefit forfeiture	<u>20,303</u>	<u>6,699</u>
<b>TOTAL REVENUES</b>	<u>2,462,770</u>	<u>2,386,573</u>
<b>EXPENDITURES</b>		
Deferred compensation match	1,639,730	1,508,802
Administrative fees	198,507	200,789
Employee benefit program	<u>52,592</u>	<u>71,909</u>
<b>TOTAL EXPENDITURES</b>	<u>1,890,829</u>	<u>1,781,500</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>571,941</u>	<u>605,073</u>
<b>OTHER FINANCING USES</b>		
Operating transfer to State General Fund	(179,623)	(182,122)
Operating transfer to State Internal Service Fund	<u>(309,816)</u>	<u>(354,485)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<u>82,502</u>	<u>68,466</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>68,466</u>	<u>0</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 150,968</u>	<u>\$ 68,466</u>

*See accompanying Notes to the Financial Statements*

**FLEXIBLE BENEFITS PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Reporting Entity**

The Flexible Benefits Plan is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an expendable trust fund. The state offers its employees a cafeteria plan created in accordance with *Internal Revenue Code Section 125*. The plan is available on an optional basis to all state employees. Through the plan, employees may elect to direct a portion of their salary to pay for certain benefits. Benefits which may be purchased through the plan include state group medical insurance, state group dental insurance, out-of-pocket medical expenses and/or dependent care expenses. Because elections must be filed before the salary or the benefits are received and because salary directed to the plan may not be withdrawn by participants for any other purpose, salary directed to the plan is exempt from federal income tax and social security tax. Elections made by employees may not be changed during the calendar plan year except in the event of a corresponding change in the participant's family status. Contributions to the plan not withdrawn by the end of the plan year are forfeited to the state and are used for defraying administrative costs, in accordance with *IRS Proposed Regulation 1.125-2 (Q7)*.

**2. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recorded when they become both measurable and available, and expenditures are recognized at the time the fund liabilities are incurred.

**3. Cash**

Cash deposited in the Flexible Benefits Plan is pooled with the State Pooled Investment Fund, administered by the State Treasurer, which is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated, Section 9-4-602(b)*. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2000, and June 30, 1999.

**B. OTHER ACCOUNTING DISCLOSURES**

1. The FICA savings generated by the Flexible Benefits Fund are used by the State for other employee benefit programs. During the years ended June 30, 2000 and June 30, 1999 the following amounts were paid or transferred to other State funds for these employee benefit programs:

Program	FY 2000	FY 1999
Deferred Compensation Contribution Match	\$1,639,730	\$1,508,802
State Wellness Program	309,816	354,485
State Day Care	179,623	182,122
Automated Teller Machines in State Buildings	52,592	71,909

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**CLAIMS AWARD FUND  
INDEPENDENT AUDITOR'S REPORT**

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**STATE OF TENNESSEE**

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

November 29, 2000

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Claims Award Fund as of June 30, 2000, and June 30, 1999, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Claims Award Fund as of June 30, 2000, and June 30, 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the Claims Award Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr.".

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

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**CLAIMS AWARD FUND**  
**COMPARATIVE BALANCE SHEETS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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	<b>June 30, 2000</b>	<b>June 30, 1999</b>
<b>ASSETS</b>		
Cash	\$ 72,171,233	\$ 72,309,967
Accounts receivable	<u>0</u>	<u>27,600</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 72,171,233</u></u>	<u><u>\$ 72,337,567</u></u>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Warrants payable	\$ 109,205	\$ 125,832
Checks payable	401,133	710,119
Accounts payable	785,476	170,080
Claims liability	<u>63,106,969</u>	<u>61,560,925</u>
<b>TOTAL LIABILITIES</b>	64,402,783	62,566,956
<b>EQUITY</b>		
Retained earnings, reserved for claims	<u>7,768,450</u>	<u>9,770,611</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u><u>\$ 72,171,233</u></u>	<u><u>\$ 72,337,567</u></u>

*See accompanying Notes to the Financial Statements*

**CLAIMS AWARD FUND**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999**

	<b>For the Year Ended June 30, 2000</b>	<b>For the Year Ended June 30, 1999</b>
OPERATING REVENUES		
Insurance premiums	\$ 24,929,400	\$ 10,689,200
OPERATING EXPENSES		
Torts		
Death	1,210,255	927,750
Bodily injury	2,959,662	3,014,917
Property damage	835,738	998,617
Total Torts	<u>5,005,655</u>	<u>4,941,284</u>
Workers' Compensation		
Death	279,058	435,731
Medical	8,329,811	7,087,668
Temporary disability	1,695,147	1,474,693
Permanent disability	7,185,268	5,070,165
Total Workers' Compensation	<u>17,489,284</u>	<u>14,068,257</u>
Employee property damage	27,155	33,990
Professional/administrative	7,161,271	7,135,779
Addition to actuarial liability	<u>1,546,044</u>	<u>5,897,291</u>
TOTAL OPERATING EXPENSES	<u>31,229,409</u>	<u>32,076,601</u>
OPERATING LOSS	<u>(6,300,009)</u>	<u>(21,387,401)</u>
NON-OPERATING REVENUES		
Interest income	4,294,467	3,855,517
Taxes	3,381	2,695
TOTAL NON-OPERATING REVENUES	<u>4,297,848</u>	<u>3,858,212</u>
NET LOSS	(2,002,161)	(17,529,189)
RETAINED EARNINGS, BEGINNING OF YEAR	<u>9,770,611</u>	<u>27,299,800</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 7,768,450</u>	<u>\$ 9,770,611</u>

*See accompanying Notes to the Financial Statements*

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**CLAIMS AWARD FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999**


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	For the Year Ended June 30, 2000	For the Year Ended June 30, 1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (6,300,009)	\$ (21,387,401)
Adjustments to reconcile operating loss to net cash used by operating activities		
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	27,600	(27,600)
Decrease in warrants payable	(16,627)	(35,282)
Increase (decrease) in checks payable	(308,986)	370,772
Increase (decrease) in accounts payable	615,396	(69,681)
Increase in claims liability	1,546,044	5,897,291
Total adjustments	<u>1,863,427</u>	<u>6,135,500</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(4,436,582)</u>	<u>(15,251,901)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Taxes	<u>3,381</u>	<u>2,695</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>3,381</u>	<u>2,695</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on State Pooled Investment Fund	<u>4,294,467</u>	<u>3,855,517</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>4,294,467</u>	<u>3,855,517</u>
<b>NET DECREASE IN CASH</b>	(138,734)	(11,393,689)
<b>CASH, BEGINNING OF YEAR</b>	<u>72,309,967</u>	<u>83,703,656</u>
<b>CASH, END OF YEAR</b>	<u>\$ 72,171,233</u>	<u>\$ 72,309,967</u>

*See accompanying Notes to the Financial Statements*

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**CLAIMS AWARD FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Reporting Entity**

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

**2. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Claims Award Fund follows all applicable GASB pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989. The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**3. Cash**

Cash deposited in the Claims Award Fund is pooled with the State Pooled Investment Fund, administered by the State Treasurer, which is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2000, and June 30, 1999.

**B. OTHER ACCOUNTING DISCLOSURES**

**1. Risk Management**

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Claims Award Fund (CAF).

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

CAF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2000, the present value of these liabilities discounted at 5.07% was \$63,106,969. Changes in the balances of claims liabilities during fiscal years 2000 and 1999 were as follows:

(continued)

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**CLAIMS AWARD FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**


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	<b>Beginning of Fiscal Year Liability</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balance at Fiscal Year End</b>
1999-2000	\$ 61,560,925	\$ 24,068,138	\$ (22,522,094)	\$ 63,106,969
1998-1999	55,663,634	24,940,823	(19,043,532)	61,560,925

At June 30, 2000, CAF held \$72.2 million in cash reserved for payment of these claims.

**2. Transfer of University of Tennessee Memorial Research Center**

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

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**CRIMINAL INJURIES COMPENSATION FUND  
INDEPENDENT AUDITOR'S REPORT**

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**STATE OF TENNESSEE**

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

November 29, 2000

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Criminal Injuries Compensation Fund as of June 30, 2000, and June 30, 1999, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Criminal Injuries Compensation Fund as of June 30, 2000, and June 30, 1999, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the Criminal Injuries Compensation Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

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

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**CRIMINAL INJURIES COMPENSATION FUND**  
**COMPARATIVE BALANCE SHEETS**  
**JUNE 30, 2000 AND JUNE 30, 1999**


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	<b>June 30, 2000</b>	<b>June 30, 1999</b>
<b>ASSETS</b>		
Cash	\$ 79,462,882	\$ 68,949,350
Accounts receivable	<u>596,115</u>	<u>775,032</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 80,058,997</u></u>	<u><u>\$ 69,724,382</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Warrants payable	\$ 766,393	\$ 552,336
Accounts payable	372,306	150,140
Claims liability	<u>4,436,500</u>	<u>4,471,817</u>
<b>TOTAL LIABILITIES</b>	5,575,199	5,174,293
<b>FUND BALANCES</b>		
Reserved for future benefits	73,846,300	63,899,447
Reserved for victims of drunk drivers	<u>637,498</u>	<u>650,642</u>
<b>TOTAL FUND BALANCES</b>	<u><u>74,483,798</u></u>	<u><u>64,550,089</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 80,058,997</u></u>	<u><u>\$ 69,724,382</u></u>

*See accompanying Notes to the Financial Statements*

**CRIMINAL INJURIES COMPENSATION FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999**

	<b>For the Year Ended June 30, 2000</b>	<b>For the Year Ended June 30, 1999</b>
<b>REVENUES</b>		
State		
Taxes	\$ 8,138,511	\$ 8,089,079
Fines	2,400,137	2,344,259
Federal	1,959,000	1,855,000
Interest income	<u>4,045,391</u>	<u>3,204,462</u>
<b>TOTAL REVENUES</b>	<b>16,543,039</b>	<b>15,492,800</b>
<b>EXPENDITURES</b>		
Claim payments	6,509,330	5,072,168
Victim's coalition grant	<u>100,000</u>	<u>100,000</u>
<b>TOTAL EXPENDITURES</b>	<b><u>6,609,330</u></b>	<b><u>5,172,168</u></b>
Excess of revenues over expenditures	9,933,709	10,320,632
FUND BALANCES, BEGINNING OF YEAR	<u>64,550,089</u>	<u>54,229,457</u>
FUND BALANCES, END OF YEAR	<u>\$ 74,483,798</u>	<u>\$ 64,550,089</u>

*See accompanying Notes to the Financial Statements*

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**CRIMINAL INJURIES COMPENSATION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****1. Reporting Entity**

The Criminal Injuries Compensation Fund is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as a special revenue fund. The Criminal Injuries Compensation Program (CIC) is funded through privilege taxes assessed in courts against certain criminal defendants upon conviction, fees levied against parolees, probationers and employed releasees, proceeds from sales of illegal contraband and bond forfeitures in felony cases, donations from individuals serving as jurors, and a federal grant. Payments made under the CIC program are intended to defray the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to either the victim of a crime or to the dependents of deceased victims. According to state statute, the CIC program can only compensate victims to the extent funds are available within the program. State funds cannot be utilized for claim payments.

**2. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recorded when they become both measurable and available, and expenditures are recognized at the time the fund liabilities are incurred.

**3. Cash**

Cash deposited in the Criminal Injuries Compensation Fund is pooled with the State Pooled Investment Fund, administered by the State Treasurer, which is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2000, and June 30, 1999.

**B. OTHER ACCOUNTING DISCLOSURES****1. Reserves**

The Victims of Drunk Drivers Compensation Fund (VDDC) is a part of the Criminal Injuries Compensation Fund. A requirement of the CIC and VDDC combination is that a reserve be established annually for an amount equal to three times the awards paid for VDDC during the fiscal year. *Chapter 761 of the Public Acts of 1992* discusses the fund combination as well as the VDDC reserve requirement.

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

---

**STATE OF TENNESSEE**

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

November 29, 2000

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Baccalaureate Education System Trust, Educational Services Plan as of June 30, 2000, and June 30, 1999, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Baccalaureate Education System Trust, Educational Services Plan as of June 30, 2000, and June 30, 1999, and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the Baccalaureate Education System Trust, Educational Services Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

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

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**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN**  
**COMPARATIVE BALANCE SHEETS**  
**JUNE 30, 2000 AND JUNE 30, 1999**


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	<b>June 30, 2000</b>	<b>June 30, 1999</b>
<b>ASSETS</b>		
Cash	\$ 0	\$ 78,016
Contributions receivable	6,914	8,716
Investment income receivable	254,762	175,016
Investments, at fair value		
Short-term investments	1,118,043	542,870
Long-term investments		
Government bonds	9,353,345	7,851,533
Corporate bonds	5,120,428	2,464,201
Investment in equity mutual fund	6,669,898	4,058,015
<b>TOTAL ASSETS</b>	<u>\$ 22,523,390</u>	<u>\$ 15,178,367</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Due to State General Fund	\$ 79,543	\$ 0
Accounts payable	54,000	0
Warrants payable	2,822	0
Investments purchased	201,068	0
<b>TOTAL LIABILITIES</b>	<u>337,433</u>	<u>0</u>
<b>FUND BALANCES</b>		
Fund balances reserved for plan participants	21,747,797	14,514,560
Fund balances, unreserved	438,160	663,807
<b>TOTAL FUND BALANCES</b>	<u>22,185,957</u>	<u>15,178,367</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 22,523,390</u>	<u>\$ 15,178,367</u>

*See accompanying Notes to the Financial Statements*

**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999**

	<b>For the Year Ended June 30, 2000</b>	<b>For the Year Ended June 30, 1999</b>
REVENUES:		
Contributions	\$ 6,124,671	\$ 7,409,891
Investment income		
Net increase (decrease) in fair value of investments	(80,313)	351,615
Interest and dividend income	1,016,892	608,703
Administrative fees	<u>463,046</u>	<u>693,062</u>
<b>TOTAL REVENUES</b>	<u>7,524,296</u>	<u>9,063,271</u>
EXPENDITURES		
Refunds	50,723	2,359
Tuition payments	45,326	0
Administrative cost	<u>420,657</u>	<u>962,435</u>
<b>TOTAL EXPENDITURES</b>	<u>516,706</u>	<u>964,794</u>
Excess of revenues over expenditures	7,007,590	8,098,477
OTHER FINANCING SOURCES		
Operating transfer from State General Fund	<u>0</u>	<u>940,000</u>
Excess of Revenues and other financing sources over expenditures	7,007,590	9,038,477
FUND BALANCES, BEGINNING OF YEAR	<u>15,178,367</u>	<u>6,139,890</u>
FUND BALANCES, END OF YEAR	<u>\$ 22,185,957</u>	<u>\$ 15,178,367</u>

*See accompanying Notes to the Financial Statements*

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**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****1. Reporting Entity**

The Tennessee Baccalaureate Education System Trust Fund (BEST) Educational Services Plan (ESEP) is an integral part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an expendable trust fund.

**2. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recorded when they become both measurable and available, and expenditures are recognized at the time the fund liabilities are incurred.

**3. Cash**

The classification of Cash and Cash Equivalents, by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The primary government's policy regarding the definition of Cash and Cash Equivalents includes cash management pools as cash. In addition, short-term securities in portfolios where the primary purpose is to facilitate the placement of funds in long-term investments are classified as investments. Cash received by the ESEP that cannot be invested immediately in securities is invested in the State Pooled Investment Fund administered by the State Treasurer. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned to brokers for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The Pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2000 and June 30, 1999.

**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. Short-term investments are reported at cost plus accrued interest which approximates fair value. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

**5. Fund Balance, Reserved for Plan Participants**

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

**B. INVESTMENTS**

The authority for investing the assets of the ESEP is vested in its Board of Trustees and the responsibility for implementing the investment policy established by the Board is delegated to the State Treasurer. In accordance with the investment policy, the ESEP assets may be invested in any instrument, obligation, security or property that constitutes a legal investment for assets of the Tennessee Consolidated Retirement System.

The classification of Short-term Investments includes funds invested in a portfolio of short-term securities maintained by the Tennessee Consolidated Retirement System. These short-term securities may include U.S. Treasury and Agency obligations, commercial paper, medium-term corporate notes, promissory notes and repurchase agreements.

(continued)

**BACCALAUREATE EDUCATION SYSTEM TRUST, EDUCATIONAL SERVICES PLAN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000 AND JUNE 30, 1999**

The ESEP investments included SEC-registered open-end mutual funds of \$6,669,898 as of June 30, 2000 and \$4,058,015 as of June 30, 1999.

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

	<b>June 30, 2000</b>	<b>June 30, 1999</b>
	<b>Fair Value</b>	<b>Fair Value</b>
<b>INVESTMENTS - CATEGORY 1</b>		
Short-term investments		
Commercial paper	\$ 546,751	\$ 397,680
Corporate notes	67,747	0
Government bonds	503,545	145,190
Long-term investments		
Government bonds	9,353,345	7,851,533
Corporate bonds	5,120,428	2,464,201
<b>TOTAL INVESTMENTS - CATEGORY 1</b>	<b>15,591,816</b>	<b>10,858,604</b>
<b>INVESTMENTS - CATEGORY 2</b>	<b>0</b>	<b>0</b>
<b>INVESTMENTS - CATEGORY 3</b>	<b>0</b>	<b>0</b>
<b>INVESTMENTS - NOT CATEGORIZED</b>		
Investment in open-end mutual fund	6,669,898	4,058,015
<b>TOTAL INVESTMENTS</b>	<b>\$ 22,261,714</b>	<b>\$ 14,916,619</b>

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

The Tennessee Baccalaureate Education System Trust Educational Services Plan, administered by the State Treasurer, is created under *Tennessee Code Annotated*, Title 49, Chapter 7, Part 8 for the purpose of improving higher education in the State of Tennessee by assisting students or their families to pay in advance, a portion of the tuition and other costs of attending colleges and universities. Under the program, a purchaser may enter into a contract with the BEST Board of Trustees to purchase tuition units on behalf of a beneficiary. Each tuition unit purchased entitles the beneficiary to an amount no greater than one percent of the weighted average tuition of Tennessee's four-year public universities during the academic term in which it is used, however, the tuition unit or equivalent funds may be used at any accredited public or private, in-state or out-of-state institution. The price of the tuition unit is determined annually by the BEST Board of Trustees. 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.

**D. OTHER ACCOUNTING DISCLOSURES**

**Operating Transfer from State General Fund**

An advance from the State General Fund to the ESEP was authorized by Chapter 1083 of the *Public Acts of the 99th General Assembly* for the purpose of covering implementation and other costs for the ESEP program. The ESEP's obligation to repay the advance was forgiven by provision of the *Public Acts of 1999* (Chapter 539, Section 41, Item 25) and recorded as an operating transfer to the ESEP during fiscal year 1999.

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

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**STATE OF TENNESSEE**



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

November 29, 2000

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Chairs of Excellence as of June 30, 2000, and June 30, 1999, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chairs of Excellence as of June 30, 2000, and June 30, 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the Chairs of Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

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

**CHAIRS OF EXCELLENCE  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 2000 AND JUNE 30, 1999**

	<b>June 30, 2000</b>	<b>June 30, 1999</b>
<b>ASSETS</b>		
Cash	\$ 0	\$ 0
Investments, at fair value		
Short-term investments	14,035,139	12,176,332
Government bonds	69,158,737	66,243,892
Corporate bonds	31,581,509	32,496,953
Corporate stocks	120,706,955	120,150,161
Total investments	<u>235,482,340</u>	<u>231,067,338</u>
Receivables		
Due from College and University Fund	669,063	460,000
Investment income receivable	1,021,943	1,547,313
Investments sold	983,936	519,946
Total receivables	<u>2,674,942</u>	<u>2,527,259</u>
<b>TOTAL ASSETS</b>	<u>\$ 238,157,282</u>	<u>\$ 233,594,597</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Due to College and University Fund	\$ 1,989,476	\$ 2,638,557
Due to the Academic Scholars Fund	3,516,950	3,621,389
Due to State General Fund	47,566	58,765
Investments purchased	242,345	860,925
<b>TOTAL LIABILITIES</b>	<u>5,796,337</u>	<u>7,179,636</u>
<b>FUND BALANCES</b>		
Endowment reserve	223,047,354	219,007,482
Special reserve	9,313,591	7,407,479
<b>TOTAL FUND BALANCES</b>	<u>232,360,945</u>	<u>226,414,961</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 238,157,282</u>	<u>\$ 233,594,597</u>

*See accompanying Notes to the Financial Statements*

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**CHAIRS OF EXCELLENCE**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999**

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	<b>For the Year Ended June 30, 2000</b>	<b>For the Year Ended June 30, 1999</b>
<b>OPERATING REVENUES</b>		
Investment income	\$ 12,335,710	\$ 26,856,551
Contributions from private sources	<u>667,919</u>	<u>304,250</u>
<b>TOTAL OPERATING REVENUES</b>	<u>13,003,629</u>	<u>27,160,801</u>
<b>OPERATING EXPENSES</b>		
Payments to the University of Tennessee	3,145,840	3,595,830
Payments to the Tennessee Board of Regents	3,486,719	4,103,766
Interest payments to the Academic Scholars Fund	240,261	300,246
Administrative cost	<u>184,825</u>	<u>173,634</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>7,057,645</u>	<u>8,173,476</u>
<b>NET INCOME</b>	5,945,984	18,987,325
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>226,414,961</u>	<u>207,427,636</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 232,360,945</u>	<u>\$ 226,414,961</u>

*See accompanying Notes to the Financial Statements*

**CHAIRS OF EXCELLENCE  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999**

	<b>For the Year Ended June 30, 2000</b>	<b>For the Year Ended June 30, 1999</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
NET INCOME	\$ 5,945,984	\$ 18,987,325
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Investment income	(12,335,710)	(26,856,551)
Interest paid to the Academic Scholars Fund	240,261	300,246
Changes in assets and liabilities		
Increase in due from College and University Fund	(209,063)	(50,000)
Increase(decrease) in due to College and University Fund	(649,081)	855,398
Decrease in due to Academic Scholars Fund	(104,439)	(52,502)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(7,112,048)</b>	<b>(6,816,084)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Negative cash balance implicitly financed(repaid)	(11,199)	58,765
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income received	9,489,450	8,739,153
Proceeds from sales and maturities of investments	159,753,452	142,729,741
Purchase of investments	(161,879,394)	(144,446,556)
Interest paid to the Academic Scholars Fund	(240,261)	(300,246)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>7,123,247</b>	<b>6,722,092</b>
<b>NET INCREASE(DECREASE) IN CASH</b>	<b>0</b>	<b>(35,227)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>0</b>	<b>35,227</b>
<b>CASH, END OF YEAR</b>	<b>\$ 0</b>	<b>\$ 0</b>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

The Chairs of Excellence Trust had \$242,345 of unsettled investment purchases and \$983,936 of unsettled investment sales at June 30, 2000. There were \$860,925 of unsettled investment purchases and \$519,946 of unsettled investment sales at June 30, 1999.

*See accompanying Notes to the Financial Statements*

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**CHAIRS OF EXCELLENCE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000 AND JUNE 30, 1999**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Reporting Entity**

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

**2. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The COE Trust follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**3. Cash**

Cash and cash equivalents, by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. In addition, under the policy, short-term securities otherwise defined as cash equivalents, that are in portfolios where the primary purpose is to facilitate the placement of funds in long-term investments, are classified as investments.

Cash received by the COE Trust that cannot be immediately invested in securities is invested in the State Pooled Investment Fund administered by the State Treasurer. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government securities may be loaned to brokers for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2000, and June 30, 1999. The classification of Cash also includes cash held in a custody account under a contractual arrangement for master custody services. Cash balances with the custodial agent are not classified into the credit risk categories established by Statement Number 3 of the Governmental Accounting Standards Board as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security.

**4. Method Used to Value Investments**

Investments are reported at fair value. For fair value reporting, securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are reported at cost plus accrued interest, which approximates fair value. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments, and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

**5. Fund Balance**

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

**6. Reclassifications and Restatements**

Investment securities previously reported on the June 30, 1999 Balance Sheet as Domestic or International have been consolidated for comparative purposes. The adjustment to Net Income relating to the increase in "Due to

(continued)

**CHAIRS OF EXCELLENCE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2000 AND JUNE 30, 1999**

State General Fund" previously reported on the Statement of Cash Flows for the year ended June 30, 1999, has been restated as "Negative cash balance implicitly financed" for comparative purposes.

**B. INVESTMENTS**

The investment policy of the COE Trust requires that public funds, capital gains on public funds, and all current income exceeding withdrawals be invested in fixed income securities. Private contributions may be invested in equity securities, including domestic and foreign common stocks, preferred stocks and convertible bonds. Subsequent to the initial funding of a chair, funds may be transferred from the equity corpus to the fixed income corpus but not from the fixed income corpus to the equity corpus.

The classification of Short-term Investments includes funds invested in a portfolio of short-term investments maintained by the Tennessee Consolidated Retirement System. These short-term investments may include U.S. Treasury and Agency obligations, commercial paper, medium-term corporate notes, promissory notes and repurchase agreements.

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

	<b>June 30, 2000 Fair Value</b>	<b>June 30, 1999 Fair Value</b>
<b>INVESTMENTS - CATEGORY 1</b>		
Short-term investments		
Commercial paper	\$ 6,863,530	\$ 8,919,783
Government bonds	6,321,163	3,256,549
Corporate notes	850,446	0
Long-term investments		
Government bonds	69,158,737	66,243,892
Corporate bonds	31,581,509	32,496,953
Corporate stocks	120,454,142	119,275,661
<b>TOTAL INVESTMENTS - CATEGORY 1</b>	<b>235,229,527</b>	<b>230,192,838</b>
<b>INVESTMENTS - CATEGORY 2</b>	<b>0</b>	<b>0</b>
<b>INVESTMENTS - CATEGORY 3</b>	<b>0</b>	<b>0</b>
<b>INVESTMENTS - NOT CATEGORIZED</b>		
Unsettled investment acquisitions		
Corporate stocks	252,813	874,500
<b>TOTAL INVESTMENTS</b>	<b>\$ 235,482,340</b>	<b>\$ 231,067,338</b>

*(continued)*

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**CHAIRS OF EXCELLENCE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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The COE Trust is authorized by its investment policy, as adopted by the Board of Trustees of the COE Trust, to enter into collateralized securities lending agreements whereby the Trust loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the Trust's assets. The borrower may deliver collateral to the lending agent in the form of cash or 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 or by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association and other United States government sponsored corporations or enterprises. Cash received as collateral may be reinvested by the lending agent in accordance with the investment policy, as further restricted under the COE securities lending agreement. Collateral securities cannot be pledged or sold unless the borrower defaults.

The loaned securities are initially collateralized at 102 percent of their fair value for domestic securities and 105 percent for international. Collateral is marked-to-market daily and additional collateral is pledged by the borrower if the fair value of the collateral subsequently falls below 100 percent for domestic securities and 105 percent for international. Although there is no specific policy for matching the maturities of collateral investments and the securities loans, the securities on loan can be terminated on demand by either the COE Trust or the borrower.

During the years ended June 30, 2000 and June 30, 1999, the COE Trust had no securities on loan.

**C. OTHER ACCOUNTING DISCLOSURES****1. Chairs of Excellence Endowment Trust**

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

As of June 30, 2000, 98 Chairs have been established with matching contributions received totaling \$54,898,375. This is an increase of 1 Chair and \$667,919 since June 30, 1999. Total contributions to the COE Trust totaled \$98,898,375 as of June 30, 2000. This includes \$44,000,000 from the State, \$10,321,300 from Colleges and Universities, and \$44,577,075 from private contributions.

**2. Academic Scholars Fund**

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

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**BOND REFUNDING TRUST  
INDEPENDENT AUDITOR'S REPORT**

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**STATE OF TENNESSEE**

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

November 29, 2000

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Bond Refunding Trust as of June 30, 2000, and June 30, 1999, and the related statement of changes in assets and liabilities for the year ended June 30, 2000. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Refunding Trust as of June 30, 2000, and June 30, 1999, and the changes in assets and liabilities for the year ended June 30, 2000, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the Bond Refunding Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

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

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**BOND REFUNDING TRUST**  
**COMPARATIVE BALANCE SHEETS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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	<b>June 30, 2000</b>	<b>June 30, 1999</b>
<b>ASSETS</b>		
Cash	\$ 54,403,397	\$ 430
Investments, (see Note C)	18,048,814	72,249,005
Accrued interest receivable	<u>303,996</u>	<u>331,660</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 72,756,207</u></b>	<b><u>\$ 72,581,095</u></b>
 <b>LIABILITIES</b>		
Amounts held in custody for others	<u>\$ 72,756,207</u>	<u>\$ 72,581,095</u>

*See accompanying Notes to the Financial Statements*

**BOND REFUNDING TRUST**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FOR THE YEAR ENDED JUNE 30, 2000**

	<b>Balance July 1, 1999</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2000</b>
<b>ASSETS</b>				
Cash	\$ 430	\$ 116,169,231	\$ 61,766,264	\$ 54,403,397
Investments, (See Note C)	72,249,005	55,256,499	109,456,690	18,048,814
Accrued interest receivable	<u>331,660</u>	<u>303,996</u>	<u>331,660</u>	<u>303,996</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 72,581,095</u></b>	<b><u>\$ 171,729,726</u></b>	<b><u>\$ 171,554,614</u></b>	<b><u>\$ 72,756,207</u></b>
<b>LIABILITIES</b>				
Amounts held in custody for others	<u>\$ 72,581,095</u>	<u>\$ 1,229,734</u>	<u>\$ 1,054,622</u>	<u>\$ 72,756,207</u>

*See accompanying Notes to the Financial Statements*

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**BOND REFUNDING TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2000 AND JUNE 30, 1999**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****1. Reporting Entity**

The Bond Refunding Trust forms an integral part of the primary government and has been included as an agency fund in the *Tennessee Comprehensive Annual Financial Report*.

**2. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency fund is custodial in nature and does not measure results of operations or have a measurement focus.

**3. Method Used to Value Investments**

Investments are reported at fair value. For fair value reporting, U.S. Government Securities are valued at the last reported price and State and Local Government Series Securities are valued at cost.

**B. CASH**

Cash held by the trustee is pooled with the State Pooled Investment Fund administered by the State Treasurer which is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee (Funding Board). The current resolution of the Funding Board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The State Pooled Investment Fund's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2000 and June 30, 1999.

**C. INVESTMENTS**

The investments held by the trustee at June 30, 2000 consisted of State and Local Government Series Securities reported at cost of \$18,048,814. As of June 30, 1999, investments consisted of U.S. Government Securities at a fair value of \$53,162,625 and State and Local Government Series Securities reported at cost of \$19,086,380. The trust is restricted by the Tennessee Local Development Authority's and the Funding Board's Bond Resolutions to investing in direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America, which are non-callable at the option of the issuer. All securities are held in accounts with the Federal Reserve Bank or the Bureau of Public Debt in the state's name.

**D. OTHER ACCOUNTING DISCLOSURES**

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

In March 1996, the 1980 refunded bonds were redeemed and in April 1996, the 1986 refunded bonds were redeemed. The 1989 refunded bonds were redeemed in June 1999 and the 1991 refunded bonds will be redeemed in June 2001.

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