

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
PENSION TRUST FUNDS OF THE STATE OF TENNESSEE

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



Featuring Photos From

Chattanooga Zoo

Knoxville Zoo

Memphis Zoo

Nashville Zoo

**Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2007
Pension Trust Funds of the State of Tennessee**

**Prepared by: State of Tennessee Treasury Department
10th Floor Andrew Jackson Building
Nashville, Tennessee 37243-0230
(615) 741-7063
www.treasury.state.tn.us/tcrs
Dale Sims, State Treasurer
Jill Bachus, TCRS Director**

The cover features two Hyacinth Macaws at the Nashville Zoo.

*The photograph was taken by
Amycity Nichols, Treasury Department.*

**This report is available in its entirety on the Internet at:
www.treasury.state.tn.us/tcrs/TCRS-AnnualReport.pdf**



The Tennessee Department of Treasury operates all programs and activities free from discrimination on the basis of sex, race, or any other classification protected by federal or Tennessee state law. Individuals with disabilities who may require an alternative communication format for this or other Treasury Department publications, please contact the Treasury ADA coordinator at 615-741-2956.

Treasury Department, December 2007, Authorization #309209, 225 copies.
This public document was printed at a cost of \$14.73 each.

TABLE OF CONTENTS

INTRODUCTORY SECTION

GFOA Certificate of Achievement	1
Public Pension Standards Award	2
Chairman of the Board's Letter	3
Letter of Transmittal	4
Administration and Mission	6
The Council on Pensions and Insurance	7
The Board of Trustees	9
Professional Consultants	11
Treasury Department Executive Staff	13
Organization Chart	14

FINANCIAL SECTION

Independent Auditor's Report	15
Management's Discussion and Analysis	17
Financial Statements:	
Comparative Statements of Plan Net Assets	22
Comparative Statements of Changes in Plan Net Assets	24
Notes to the Financial Statements	26
Required Supplementary Information:	
Schedules of Funding Progress	35
Schedules of Employer Contributions	36
Notes to Required Supplementary Information	37
Supporting Schedules:	
Schedules of Administrative Expenses	38
Schedules of Investment Expenses	40
Schedules of Expenses for Consultants	42

INVESTMENT SECTION

Report by Investment Consultant	43
Letter from TCRS Chief Investment Officer	44
Statutory Investment Authority	45
Investment Performance Review	46
Asset Allocation	47
Largest Holdings	48
Investment Summary	49
Schedules of Investment Fees and Commissions	50

(continued)

TABLE OF CONTENTS (CONTINUED)

ACTUARIAL SECTION

Actuarial Introduction	51
Actuary's Certification Letter	52
Summary of Actuarial Assumptions and Methods	54
Actuarial Data	56
Actuarial Balance Sheet	57
Short-Term Solvency Test	58
Summary of Accrued and Unfunded Accrued Liabilities	59
Selected Actuarial Funding Information	60
Analysis of Financial Experience	61
Plan Summary	62
Services for Active and Retired Members	64
Sample Benefit Calculations	65
Major Legislative Improvements	66

STATISTICAL SECTION

Membership:

Schedules of Active Members	67
Schedules of Retired Members	70
Retired Members by Geographical Distribution	74
Retired Members on Payroll and Prior Service Established	75
Treasury Retirement Installment Plan	76
Refund Activity and Political Subdivision Participation	77

Actuarial:

Historical Employer Contribution Rates	78
--	----

Financial:

Historical Fair Value	79
Analysis of Member and Employer Reserves	80
Average Benefit Payments Schedule	81
Schedules of Benefit Expenses	82
Annual Benefit Payments	82
Schedules of Changes in Net Assets	83
Schedules of Principal Participating Employers	84

Political Subdivision Participation:

Introduction to Political Subdivision Participation	85
Optional Provisions for Political Subdivisions	86
Political Subdivision Participants	87

INTRODUCTORY SECTION



GFOA CERTIFICATE OF ACHIEVEMENT

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Tennessee Consolidated
Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

PUBLIC PENSION COORDINATING COUNCIL AWARD



**Public Pension Coordinating Council
Public Pension Standards
2007 Award**

Presented to

Tennessee Consolidated Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle". The signature is written in black ink and is positioned above the printed name and title.

Alan H. Winkle
Program Administrator

CHAIRMAN OF THE BOARD'S LETTER

STATE OF TENNESSEE



TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243

December 14, 2007

Dear Members of the Tennessee Consolidated Retirement System:

It is my pleasure to submit this annual financial report of the Tennessee Consolidated Retirement System. This is the twentieth consecutive year that the financial report is being submitted to the Government Finance Officers Association for review. All previous reports have received the Certificate of Achievement for Excellence in Financial Reporting.

Administration: To better serve our members, the TCRS web site (located at www.treasury.state.tn.us/tcrs) includes a benefit calculation module, which allows members to input a limited amount of data to obtain a retirement benefit estimate. Further, TCRS forms and up-to-date information are available on-line to assist our members and participating employers. Information systems are continuing to be enhanced to allow for additional user-friendly access for members.

Investments: The return on TCRS investments during the fiscal year ended June 30, 2007 was 13.15%, a welcomed cushion over the plan's assumed rate of return of 7.5%. The TCRS investment strategy has been somewhat conservative by favoring higher quality securities that mitigate some of the risks. A highly diversified portfolio is also used to minimize exposure to unpredictable events.

Financial Soundness of the Plan: Members of the retirement system should be assured that the benefits promised will be paid. TCRS is considered one of the strongest funded pension plans in the nation. TCRS has received an AAA long-term rating and an A-1(+) short-term rating by Standard and Poor's (S&P), the highest possible ratings issued by this nationally recognized rating agency. The actuarial valuation for July 1, 2005 offered significant challenges when considering the difficult investment environment we have experienced.

The Legislature, the Board of Trustees and the TCRS staff have worked diligently to provide the best possible management of the system, to invest the system assets in a prudent manner without undue risk, to fund the system on an actuarially strong basis, and to provide the best possible services to the members in the system.

Sincerely,

A handwritten signature in cursive script that reads "Dale Sims".

Dale Sims, State Treasurer
Chairman of the Board

LETTER OF TRANSMITTAL

STATE OF TENNESSEE



TREASURY DEPARTMENT
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
10TH FLOOR ANDREW JACKSON STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243

December 14, 2007

Board of Trustees
Tennessee Consolidated Retirement System
Nashville, TN 37243

Ladies and Gentlemen:

We are pleased to present to you the Tennessee Consolidated Retirement System (TCRS) comprehensive annual financial report for the fiscal year ended June 30, 2007. Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the management of TCRS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a precise representation of the financial position and results of operations of the system.

This report has been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Government Accounting Standards Board and the American Institute of Certified Public Accountants. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report. Management is responsible for establishing and maintaining internal controls for TCRS. The accounting systems are designed to include internal controls to provide reasonable assurances regarding safekeeping of assets and the reliability of financial records. By statute, the Comptroller of the Treasury serves as the independent auditor for the system.

For additional discussion regarding financial information, please review Management's Discussion and Analysis located in the Financial Section of this report.

PROFILE OF TCRS

TCRS was established in 1972 with the consolidation of seven separate retirement systems for state employees, public higher education institution employees, public school teachers, and employees of political subdivisions electing to participate in TCRS. The state of Tennessee is responsible for the pension benefits of state employees and higher education employees, and funds a significant portion of the retirement liability for teachers through the Basic Education Program. Each of the 467 participating political subdivisions are responsible for the pension benefits of its employees. The TCRS is a qualified pension plan under Section 401(a) of the Internal Revenue Code. As such, the system is exempt from federal income taxation on its investment earnings. Since January 1, 1987, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

(continued)

**LETTER OF TRANSMITTAL
(CONTINUED)**

The TCRS was established as a retirement program for the public employees of Tennessee. A variety of services are provided for the membership including: investing assets; counseling of rights and benefits; publishing newsletters, booklets, pamphlets, and financial statements; processing deductions for retiree insurance programs and federal income tax; calculating death, disability, and retirement benefits; and processing refund and prior service requests.

ECONOMIC CONDITION

Funding of TCRS is provided through employee and employer contributions plus earnings from the invested assets. A standard actuarial "advanced funding" method is used to provide for the accumulation of assets to fund the cost of retirement, disability, and death benefits provided by the system. The funding objective of TCRS is being met as the state and political subdivisions continue to make contributions to the plan at the rate established by the Board of Trustees. The Board is utilizing a strong actuarial method and has adopted reasonable actuarial assumptions for the determination of the appropriate employer contribution rates.

An actuarial valuation of TCRS is performed by an independent actuarial firm every two years to determine the funding requirements for the employers participating in TCRS. At July 1, 2005, the latest valuation date, the plan had an overall funding ratio of approximately 97%. The July 1, 2005 actuarial valuation utilized the assumptions generated from the June 30, 2004 experience study. The next actuarial valuation will be performed as of July 1, 2007, with the resulting employer contributions becoming effective July 1, 2008.

Because TCRS is a strongly funded pension plan, volatility in investment income will cause employer contribution rates to fluctuate. Investment strategies have been adopted that somewhat reduce, but do not eliminate, this volatility. As part of this strategy, TCRS is in the final phase of absorbing investment losses accumulated several years ago.

The investment market outlook continues to create significant challenges in meeting the 7.5% investment return assumed by TCRS. A premium will continue to be placed on security selection.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Tennessee Consolidated Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the nineteenth consecutive year that the System has achieved this prestigious award.

The TCRS is a recipient of the Public Pension Principles Achievement Award. This program, administered by the Public Pension Coordinating Council, recognizes the professional achievements of public employee retirement systems.

The dedicated effort of the Treasury Department team to assemble the information contained in this publication is hereby acknowledged with our sincerest appreciation. The report will be provided to state legislators, members of the Board of Trustees, state officials, participating employers, and other interested parties.



Jill Bachus, TCRS Director



Ed Hennessee, Assistant to the Treasurer

ADMINISTRATION AND MISSION

ADMINISTRATION

The State Treasurer is a constitutional officer elected every two years by a joint session of the General Assembly. He serves as the Chief Executive Officer of the Treasury Department, a part of the legislative branch of state government. The administration and operation of TCRS is one of the primary responsibilities of the State Treasurer. In order to meet the statutory requirements and fiduciary responsibilities of administering TCRS, the Treasurer appoints two executive officers: the Director of TCRS and the Chief Investment Officer.

The Director of TCRS is responsible for the daily operation of the retirement system which includes providing counseling services for the active and retired members; issuance of payments to retired members, disabled members, beneficiaries of deceased members, and refunds to terminated employees; enrollment of members; maintenance of member account balances and records; establishment of service credit; and issuance of various publications to inform members of their rights and benefits.

The Chief Investment Officer is responsible for the investment and oversight of TCRS assets in accordance with statutory guidelines and the investment policies and strategies established by the Board of Trustees.

Other divisions within the Treasury Department which support the operations of TCRS include Information Systems, Accounting, Management Services, Internal Audit and Human Resources. Through these divisions, data processing services, accounting services, records maintenance, control reviews and personnel services are provided.

The administrative budget of TCRS is subject to approval by the General Assembly and is part of the overall annual budget process of the state of Tennessee. Funding for the operation of TCRS is provided by two sources. The state of Tennessee is responsible for the operation cost associated with state employees and higher education employees; the state and local education agencies share the cost related to K-12 teachers; political subdivisions are responsible for the operation cost associated with their employees.

MISSION

The mission of the Tennessee Consolidated Retirement System is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The mission will be accomplished by TCRS in cooperation with the Board of Trustees, the Council on Pensions and Insurance, and the TCRS membership through the following objectives:

- ❖ *Exemplary Service* – To provide accurate, courteous and prompt service to members of TCRS.
- ❖ *Benefit Standards* – To provide retirement coverage through TCRS, social security and personal savings vehicles which will allow public employees to maintain their standard of living after retirement.
- ❖ *Funding Standards* – To provide for the long-term funding of TCRS on an actuarial basis which will ensure that sufficient assets will be accumulated to pay the statutory benefits of current and future retirees.
- ❖ *Staffing* – To attract and retain professional, highly-trained staff in an atmosphere conducive to innovation, challenges and a high level of performance.
- ❖ *Research* – To continuously perform studies on pension issues and to compare the TCRS plan with other public and private pension systems.
- ❖ *Management* – To manage by leading, planning, organizing and controlling the operation of TCRS in a cost-effective manner for the benefit of members and Tennessee taxpayers utilizing personnel, technology and capital efficiently, while providing the highest level of service.
- ❖ *Ethical Standards* – To maintain the highest ethical standards.
- ❖ *Investment Return* – 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 benefits when due.

THE COUNCIL ON PENSIONS AND INSURANCE

THE COUNCIL ON PENSIONS AND INSURANCE

Created as a legislative oversight committee, the Council on Pensions and Insurance develops, recommends, and establishes pension and retirement standards and maintains a progressive state policy on retirement. Additionally, the Council reviews legislation affecting state provided insurance programs for both active and retired members of the Tennessee Consolidated Retirement System.

The Council periodically reviews Tennessee’s retirement and state provided insurance provisions and recommends changes in state law as deemed necessary. Since its creation, the Council has continuously performed studies and comparisons of other pension systems including those of other states and private industry and the federal government’s social security program. All proposed legislation affecting Tennessee’s retirement laws must be reviewed by the Council before the legislature may take action. The Council is authorized to prepare and

propose amendments which are then forwarded to the standing committees to which the bills are referred. Information regarding the actuarial cost or impact of proposed legislation is provided by the Council to the other members of the legislature. The staff of the TCRS director also serves as staff to the Council.

The voting membership of the Council consists of the Speaker of each house of the General Assembly; the officers of the House and the Senate Committees on Finance, Ways and Means; and three additional members of each finance committee. The Speaker of the Senate may designate a member of the Senate and the Speaker of the House of Representatives may designate a member of the House to serve as alternates to vote or otherwise act at Council meetings in absence of the respective speaker. Nonvoting members include the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer, and the Director of TCRS.

VOTING MEMBERS - SENATORS



Tim Burchett
*Finance, Ways
& Means Secretary*



Douglas Henry
*Finance, Ways
& Means Vice-Chair*



James Kyle



Randy McNally
*Council Vice-Chair
Finance, Ways
& Means Chair*



Mark Norris



Ron Ramsey
*Speaker of
the Senate*



Bo Watson

(continued)

**THE COUNCIL ON PENSIONS AND INSURANCE
(CONTINUED)**

VOTING MEMBERS – REPRESENTATIVES



Stratton Bone



Tommie Brown



Craig Fitzhugh
*Council Chair
Finance, Ways
& Means Chair*



Steve McDaniel



Jimmy Naifeh
Speaker of the House



Charles Sargent



Johnny Shaw
*Finance, Ways
& Means Secretary*



Harry Tindell
*Finance, Ways
& Means Vice-Chair*

NON-VOTING MEMBERS



Jill Bachus
TCRS Director



Dave Goetz
*Commissioner of Finance
& Administration*



John Morgan
Comptroller of the Treasury



Dale Sims
State Treasurer



Deborah E. Story
Commissioner of Human Resources

THE BOARD OF TRUSTEES

THE BOARD OF TRUSTEES

The Tennessee Consolidated Retirement System Board of Trustees is responsible for the general administration and proper operation of TCRS within the requirements and provisions of state statute (*T.C.A.*, Title 8, Chapters 34-37). The 20-member Board meets quarterly and is subject to the call of the chair for special meetings. Nine voting members constitute a quorum, and nine affirmative votes are needed for decision making.

The Board consists of nine ex-officio members, nine representatives of the active TCRS membership, and two representatives for retirees. Ex-officio members include the chair and vice-chair of the Legislative Council on Pensions and Insurance as nonvoting members, the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State, and the Administrative Director of the Courts. In addition, the State Treasurer sits as Chair of the Board, and the Director of TCRS serves as Secretary.

Employee representation consists of three teachers, one from each grand division of the state, two state employees from departments other than those represented by ex-officio members, one public safety officer and three representatives of local governments. The three teachers are elected for three-year terms by the Representative Assembly of the Tennessee Education Association; state employees elect two representatives who also serve three-year terms.

One representative is appointed for a two-year term by each of the following organizations: The Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association.

All employee representatives must be vested members of TCRS. The public safety representative and the state retiree representative are appointed by the Governor. A retired teacher, selected by the Tennessee Retired Teachers Association, serves on the board in a non-voting capacity.

ELECTED MEMBERS



Michael Barker
*Tennessee Retired
Teacher Association*
Term Expires: June 30, 2010



Greg Elliott
*Tennessee Bureau
of Investigation*
Term Expires: June 30, 2010



Erick Huth
Middle Tennessee Teacher
Term Expires: June 30, 2009



Traci Jefferson
East Tennessee Teacher
Term Expires: June 30, 2010



Sammy Jobe
West Tennessee Teacher
Term Expires: June 30, 2008



Paula Shaw
Department of Transportation
Term Expires: June 30, 2010

(continued)

THE BOARD OF TRUSTEES
(CONTINUED)

APPOINTED MEMBERS



James Crumley
TN Municipal League
Term Expires: June 30, 2009



Bill Kemp
TN County Officials Assoc.
Term Expires: June 30, 2009



Patsy Matthews
Retired Member
Term Expires: June 30, 2008



David Seivers
TN County Services Assoc.
Term Expires: June 30, 2009

EX-OFFICIO MEMBERS



Jill Bachus
TCRS Director



Riley Darnell
Secretary of State



Craig Fitzhugh
Council Chair



Dave Goetz
Commissioner of Finance
& Administration



Randy McNally
Council Vice-Chair



John Morgan
Comptroller of the Treasury



Dale Sims
State Treasurer



Deborah E. Story
Commissioner of
Human Resources



Libby Sykes
Administrative Director
of the Courts

PROFESSIONAL CONSULTANTS**PROFESSIONAL CONSULTANTS**

Independent professional consultants are appointed by the Board of Trustees to advise the Board and the TCRS staff on investment, medical and actuarial issues. Service fees related to investment professionals may be found on page 50.

INVESTMENT ADVISORY COUNCIL

The Investment Advisory Council (IAC) was established to assist both the Board of Trustees and the TCRS investment staff. The investment professionals on the IAC serve five-year terms, meet quarterly and are available to the TCRS staff for consultation. IAC members include:

Frederick S. Crown, CFA
Regions Bank
Nashville, Tennessee

Henry Delicata
Vendis Investment Management
West Conshohocken, Pennsylvania

Susan Logan Huffman, CFA
Reliant Investment Management, LLC
Memphis, Tennessee

George B. Stadler, CFA
SunTrust Bank, Nashville
Nashville, Tennessee

Chuck Webb, CFA
Weaver C. Barksdale & Associates
Brentwood, Tennessee

INTERNATIONAL EQUITY INVESTMENT MANAGERS

The international investment managers are responsible for purchasing stock of companies domiciled in foreign countries as set out in the investment policy.

Marilyn Harrison
Walter Scott & Partners Ltd.
One Charlotte Square
Edinburgh EH2 4DZ
Scotland

Robert Job
Putnam Advisory Company
One Post Office Square
Boston, Massachusetts 02109

Wilson Phillips
Marathon Asset Management
Orion House
5 Upper St. Martin's Lane
London WC2H 9EA
England

Gerald Paolini
SG Asset Management (Singapore)
c/o Trust Co. of the West
200 Park Avenue, 22nd Floor
New York, New York 10166

GENERAL INVESTMENT CONSULTANT

An investment consultant is employed to assist in the long-term financial planning process, to evaluate various investment strategies, to measure investment performance, to determine whether the system's objectives are being met, to research investment proposals regarding the use of new asset classes or variations of existing asset classes and to provide investment information on various issues which may arise.

Pete Keliuotis
Strategic Investment Solutions, Inc.
333 Bush Street
Suite 2000
San Francisco, CA 94104

REAL ESTATE INVESTMENT CONSULTANT

The real estate consultant provides general market advice relative to real estate, measures performance of real estate properties, assists in the formulation of policy and assists in the selection of real estate advisors.

Anthony Frammartino
The Townsend Group
Skylight Office Tower
1660 West Second Street
Suite 450
Cleveland, Ohio 44113

(continued)

**PROFESSIONAL CONSULTANTS
(CONTINUED)**

REAL ESTATE INVESTMENT ADVISORS

The real estate investment advisors identify potential co-investors as well as prospective real estate transactions.

Kevin Faxon
J.P. Morgan Fleming Asset Management, Inc.
522 Fifth Avenue, 9th Floor
New York, New York 10036

Stephen J. Furnary
Clarion Partners
335 Madison Avenue
New York, New York 10017

Randall C. Mundt, President & CIO
Principal Global Investors
801 Grand Avenue
Des Moines, Iowa 50392

Michael A. Ruane
TA Associates Realty
28 State Street, 10th Floor
Boston, Massachusetts 02109

Steve Wallace
Cornerstone Real Estate Advisers LLC
One Financial Plaza, Suite 1700
Hartford, Connecticut 06103

MASTER CUSTODIAN BANK

The Master Custodian bank settles all financial investment transactions and provides custody services for TCRS assets.

Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60603

THE MEDICAL BOARD

The physicians serving on the Medical Board evaluate applications for disability retirement to determine whether the applicants are totally and permanently disabled and unable to engage in gainful employment. Additionally, the panel reviews medical data submitted by disabled retirees who are subject to periodic evaluation. The Medical Board consists of the following:

Suzanne Fletcher, M.D.
Brentwood, Tennessee

Barry R. Siegel, M.D.
Memphis, Tennessee

Jeffrey Summers, M.D.
Knoxville, Tennessee

CONSULTING ACTUARY

An independent consulting actuarial firm performs an actuarial valuation every two years to determine the funding status of the system and recommend employer contribution rates. The actuary also conducts an experience study every four years to evaluate and adjust actuarial assumptions and methods.

Justin Thacker
Bryan, Pendleton, Swats & McAllister, LLC
5301 Virginia Way
Suite 400
Brentwood, Tennessee 37027

OTHER PROFESSIONAL SERVICES

State statute provides that the state Attorney General and Reporter will be the legal advisor of the Board and that the Office of the Comptroller of the Treasury will conduct an annual audit of the TCRS. These government officers are as follows:

Robert E. Cooper, Jr.
Attorney General/Reporter
Nashville, Tennessee

John G. Morgan
Comptroller of the Treasury
Nashville, Tennessee

TREASURY DEPARTMENT EXECUTIVE STAFF

TREASURER'S OFFICE

Treasurer	Dale Sims	(615) 741-2956
Executive Assistant	Janice H. Cunningham	(615) 741-2956
Staff Assistant to the Treasurer	Nathan Burton	(615) 741-2956
Human Resources Director	Ann Taylor-Tharpe	(615) 741-2956

TCRS INVESTMENTS

Assistant to the Treasurer	Ed Hennessee, CFP	(615) 532-1167
Chief Investment Officer	Thomas Milne, CFA	(615) 532-1157
Equity Director	Michael Keeler, CFA	(615) 532-1165
Real Estate Director	Peter Katseff	(615) 532-1160
Fixed Income Director	Andrew Palmer, CFA	(615) 532-1183
Cash Management and Short-Term Portfolio Manager	Tim McClure, CCM	(615) 532-1166

RETIREMENT ADMINISTRATION

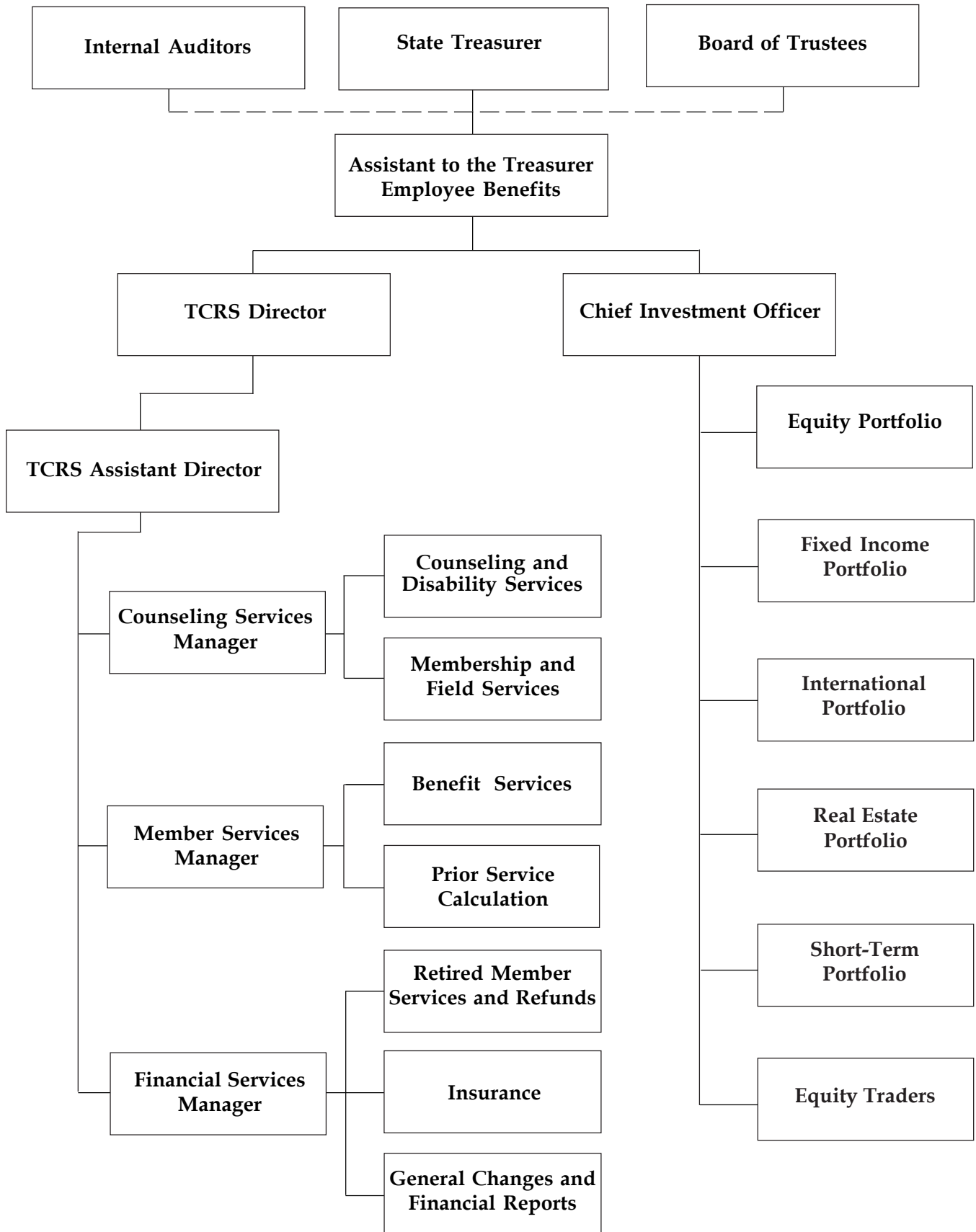
TCRS Director	Jill Bachus, CPA	(615) 741-7063
TCRS Assistant Director	Velva Booker	(615) 741-7063
Director of Deferred Compensation	Beth Chapman, CPA	(615) 741-7063
Publications Editor/Web Developer	Amycity Nichols	(615) 741-7063
Publications Officer	Shirley Chatman	(615) 741-7063
General Counsel	Mary Roberts-Krause, JD	(615) 741-7063
Counsel	Vernon G. Bush, JD	(615) 741-7063
Director of Old Age and Survivors Insurance	Mary E. Smith	(615) 741-7902
Counseling Services Manager	Sandra Sewell	(615) 741-1971
Member Services Manager	Fred Marshall, CPA	(615) 741-1971
Financial Services Manager	Jamie Wayman, CPA	(615) 741-4913

OTHER DIVISIONS

Assistant to the Treasurer	Steven Curry, CPA-inactive, CEBS, CCM	(615) 532-8045
Assistant to the Treasurer	Rick DuBray, CPA	(615) 253-5764
Assistant to the Treasurer	Newton Molloy III, CDP	(615) 532-8035
Director of Accounting	Kim Morrow, CPA	(615) 532-3840
Assistant Director of Accounting	Connie Gibson, CPA	(615) 532-8051
Director of Claims Administration	Anne Adams	(615) 741-9957
Director of Computer Operations	Sam Baker, CCP, CDP	(615) 532-8026
Director of Management Services	Brian Derrick, CPA	(615) 532-8552
Director of Internal Audit	Britt Wood, CPA	(615) 253-2018
Director of Risk Management	Steve Gregory	(615) 741-1009
Director of Unclaimed Property	John Gabriel	(615) 253-5354
East Tennessee Claims Commissioner	Bill Shults, JD	(423) 623-9270
Middle Tennessee Claims Commissioner	Stephanie Reeves, JD	(615) 253-1626
West Tennessee Claims Commissioner	Nancy Miller-Herron, JD	(731) 364-2440
Administrative Clerk, Claims Commission	Marsha Richeson	(615) 532-5385

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

ORGANIZATION CHART



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

December 7, 2007

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, 2007, and June 30, 2006, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Tennessee Consolidated Retirement System's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; and participating in the negotiation and procurement of services for the state.

As discussed in Note A.1., the financial statements present only the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2007, and June 30, 2006, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2007, and June 30, 2006, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

(continued)

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

The Honorable John G. Morgan

December 7, 2007

Page 2

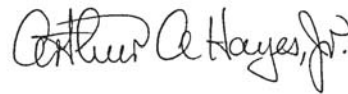
The management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA
Director

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2007 & JUNE 30, 2006**

The Management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal years ended June 30, 2007 and June 30, 2006. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

FINANCIAL HIGHLIGHTS

- ◆ The plan net assets (total assets minus total liabilities) of the TCRS at June 30, 2007 were \$32.4 billion, increasing over \$3.5 billion (12.3 percent) from the plan net assets at June 30, 2006. The net assets are held in trust to meet future benefit obligations.
- ◆ The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2005, the date of the latest actuarial valuation, the TCRS' funded ratio was 99.8 percent for the SETHEEPP group and 92.7 percent for the PSPP group.
- ◆ Contribution revenue for fiscal year 2007 totaled \$1,027,174,038 – an increase of 15.1 percent compared to fiscal year 2006.
- ◆ Net investment income for fiscal year 2007 was \$3,791,403,651. During fiscal year 2007, the TCRS received an investment return on its portfolio of 13.1 percent, compared to 6.9 percent for fiscal year 2006.
- ◆ Total benefits and refunds paid for fiscal year 2007 were \$1,266,775,568 – an increase of 9.3 percent over fiscal year 2006 total benefits and refunds paid of \$1,158,901,860.
- ◆ Total administrative expenses for fiscal year 2007 were \$6,468,558 – an increase of 4.1 percent over fiscal year 2006 administrative expenses of \$6,213,597.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the *Statement of Plan Net Assets* (on pages 22 through 23), the *Statement of Changes in Plan Net Assets* (on pages 24 through 25), and the *Notes to the Financial Statements* (on pages 26 through 34). In addition, *Required Supplementary Information* is presented, which includes this *Management's Discussion and Analysis*, as well as the schedules and notes on pages 35 through 37.

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

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

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2007 & JUNE 30, 2006 (CONTINUED)**

ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET ASSETS

At June 30, 2007, the TCRS had plan net assets (total assets in excess of total liabilities) of \$32.4 billion, an increase of over \$3.5 billion (12.3 percent) from \$28.8 billion at June 30, 2006. The assets of the TCRS consist primarily of investments. During fiscal year 2007, the domestic and international equity portfolios realized positive returns, thus contributing to \$3.8 billion in net investment income. Condensed financial information comparing the TCRS' plan net assets for the past three fiscal years follows.

PLAN NET ASSETS

			FY07 - FY06		FY06 - FY05	
	June 30, 2007	June 30, 2006	Percentage	June 30, 2005	Percentage	
			Change		Change	
ASSETS						
Cash and cash equivalents	\$ 569,035,627	\$ 826,611,111	(31.2) %	\$ 804,694,718	2.7 %	
Member and employer receivables	86,352,774	71,671,617	20.5 %	59,611,297	20.2 %	
Investment income receivables	169,973,211	172,541,678	(1.5) %	168,791,063	2.2 %	
Investments sold	16,256,391	33,287,736	(51.2) %	28,751,524	15.8 %	
Foreign currency receivable	5,796,800	19,732,929	(70.6) %	177,749,703	(88.9) %	
Short-term securities	527,594,750	503,846,988	4.7 %	231,988,352	117.2 %	
Long-term investments	31,014,634,498	27,255,904,731	13.8 %	25,968,351,692	5.0 %	
TOTAL ASSETS	<u>32,389,644,051</u>	<u>28,883,596,790</u>	12.1 %	<u>27,439,938,349</u>	5.3 %	
LIABILITIES						
Death benefits, refunds and other payables	2,750,418	2,319,549	18.6 %	6,721,778	(65.5) %	
Investments purchased	10,520,944	38,344,946	(72.6) %	41,541,888	(7.7) %	
Other investment payables	4,606,919	2,563,959	79.7 %	2,295,936	11.7 %	
Foreign currency payable	5,796,800	19,732,929	(70.6) %	173,116,862	(88.6) %	
TOTAL LIABILITIES	<u>23,675,081</u>	<u>62,961,383</u>	(62.4) %	<u>223,676,464</u>	(71.9) %	
NET ASSETS HELD IN TRUST						
FOR PENSION BENEFITS	<u>\$ 32,365,968,970</u>	<u>\$ 28,820,635,407</u>	12.3 %	<u>\$ 27,216,261,885</u>	5.9 %	

ANALYSIS OF REVENUES AND EXPENSES

Employer contribution rates changed effective for fiscal year 2007 resulting in a \$135 million (15.1 percent) increase in contributions over fiscal year 2006. The increase in contributions for fiscal year 2006 of \$47 million (5.6 percent) is attributable to increased covered payroll. As mentioned in the Analysis of Assets, Liabilities and Plan Net Assets section above, the continued market progress contributed to positive net investment income. Net investment income for the year ended June 30, 2007 totaled \$3,791,403,651, an increase of \$1,914.1 million versus fiscal year 2006. Net investment income for the year ended June 30, 2006 totaled \$1,877,298,490, an increase of \$26.9 million versus fiscal year 2005. The TCRS portfolio earned 13.15 percent during fiscal year 2007 and 6.94 percent during fiscal year 2006.

Total benefits and refunds paid during the year ended June 30, 2007 were \$1,266,775,568, an increase of 9.3 percent over fiscal year 2006 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2006 were \$1,158,901,860 an increase of 9.4 percent over fiscal year 2005 total benefits and refunds paid. The increase in benefit expenses can be attributed to 3.0 percent cost of living adjustments awarded to retirees on both July 1, 2006 and July 1, 2005. In addition, more retirees were added to payroll than removed during these fiscal years.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2007 & JUNE 30, 2006 (CONTINUED)**

In addition, administrative expenses for the year ended June 30, 2007 were \$6,468,558, an increase of 4.1 percent over fiscal year 2006 administrative expenses. Administrative expenses for the year ended June 30, 2006 were \$6,213,597, an increase of 8.1 percent over fiscal year 2005 administrative expenses. This increase was primarily due to the additional expense of the biennial actuarial study performed in fiscal year 2006.

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

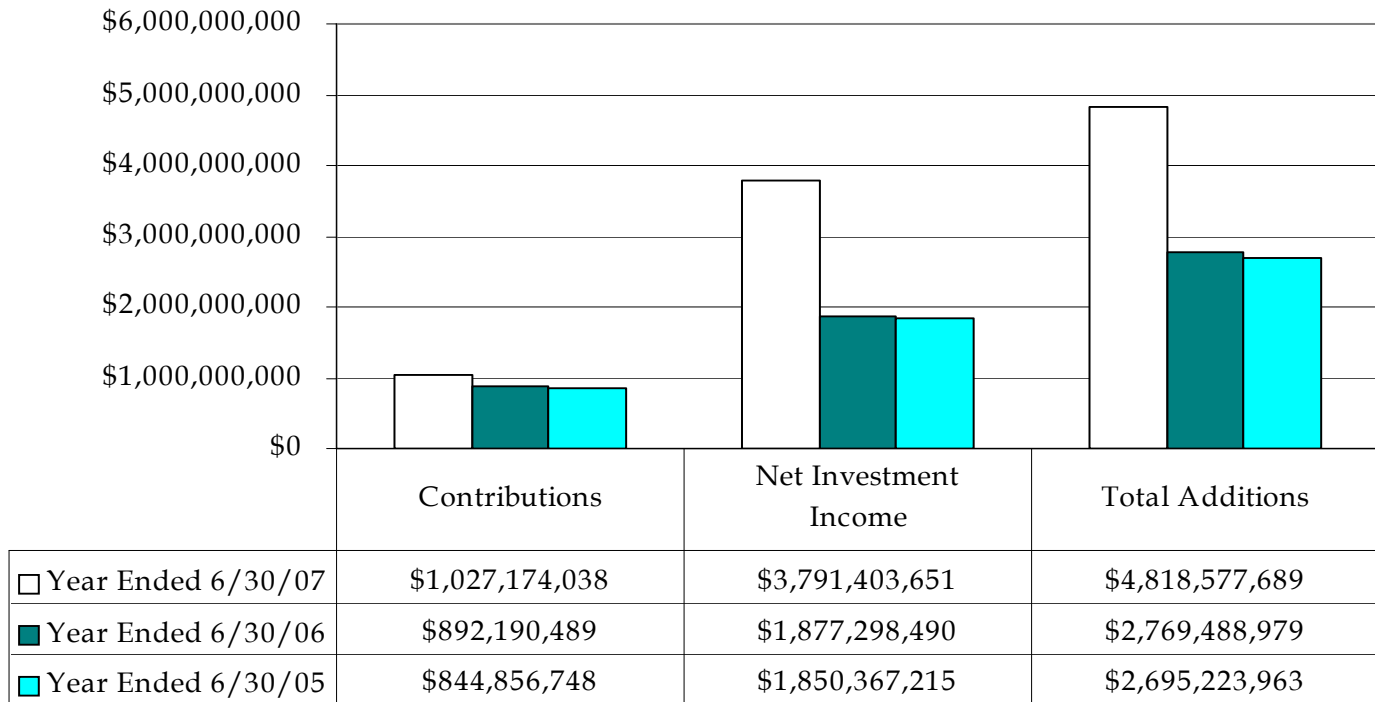
CHANGES IN PLAN NET ASSETS

	For the Year Ended June 30, 2007	For the Year Ended June 30, 2006	FY07 - FY06 Percentage Change	For the Year Ended June 30, 2005	FY06 - FY05 Percentage Change
ADDITIONS					
Contributions	\$ 1,027,174,038	\$ 892,190,489	15.1 %	\$ 844,856,748	5.6 %
Investment income					
Net appreciation in fair value of investments	2,717,644,583	893,530,576	204.1 %	938,346,880	(4.8) %
Interest, dividends and other investment income	1,097,511,473	1,002,725,069	9.5 %	927,714,221	8.1 %
Less: Investment expense	(23,752,405)	(18,957,155)	25.3 %	(15,693,886)	20.8 %
Net investment income	3,791,403,651	1,877,298,490	102.0 %	1,850,367,215	1.5 %
TOTAL ADDITIONS	4,818,577,689	2,769,488,979	74.0 %	2,695,223,963	2.8 %
DEDUCTIONS					
Annuity benefits					
Retirement benefits	918,540,446	843,183,130	8.9 %	775,283,016	8.8 %
Survivor benefits	58,202,209	53,991,908	7.8 %	50,388,267	7.2 %
Disability benefits	26,722,134	25,808,859	3.5 %	24,626,014	4.8 %
Cost of living	221,463,825	195,538,793	13.3 %	173,707,939	12.6 %
Death benefits	5,502,982	5,668,204	(2.9) %	4,911,365	15.4 %
Refunds	36,343,972	34,710,966	4.7 %	30,815,699	12.6 %
Administrative expenses	6,468,558	6,213,597	4.1 %	5,746,030	8.1 %
TOTAL DEDUCTIONS	1,273,244,126	1,165,115,457	9.3 %	1,065,478,330	9.4 %
NET INCREASE	3,545,333,563	1,604,373,522	121.0 %	1,629,745,633	(1.6) %
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
BEGINNING OF YEAR	28,820,635,407	27,216,261,885	5.9 %	25,586,516,252	6.4 %
END OF YEAR	\$ 32,365,968,970	\$ 28,820,635,407	12.3 %	\$ 27,216,261,885	5.9 %

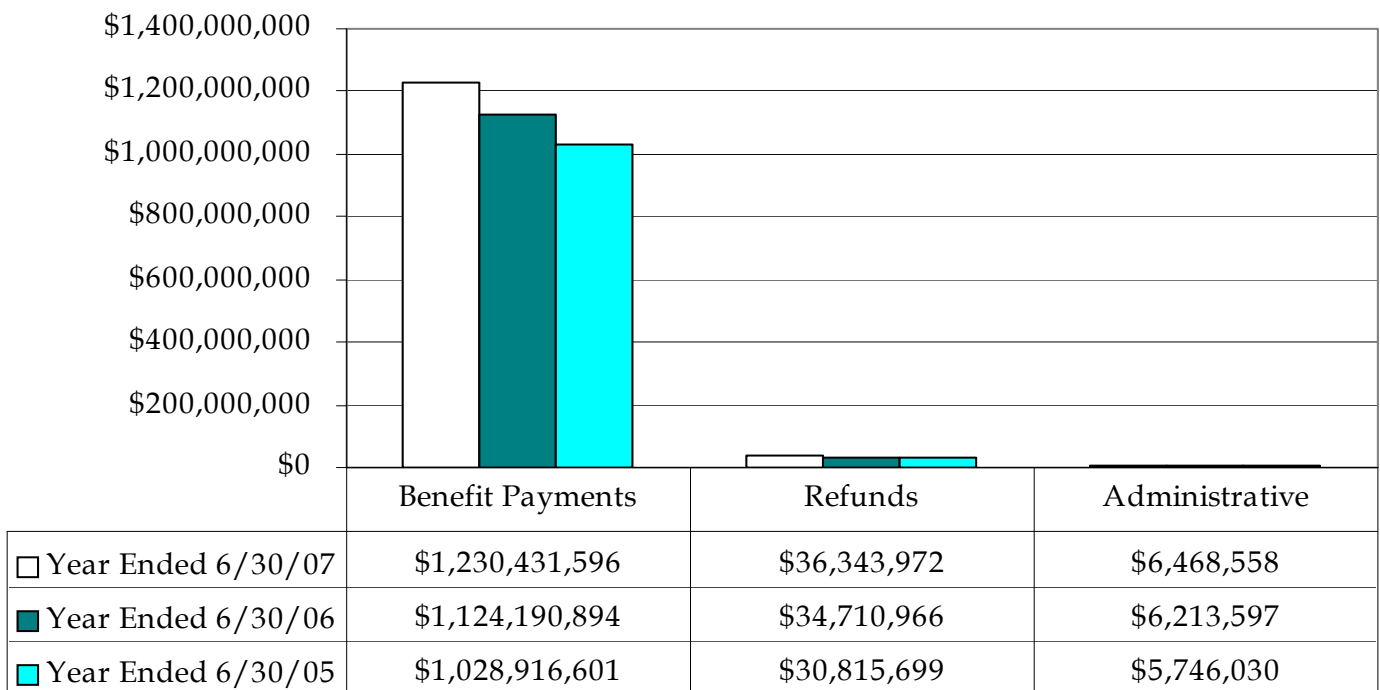
(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2007 & JUNE 30, 2006 (CONTINUED)**

REVENUES BY TYPE



EXPENSES BY TYPE



(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2007 & JUNE 30, 2006 (CONTINUED)**

ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

For the year ended June 30, 2007, the domestic and international stock portfolios remained strong with 20.58% and 27.19% returns respectively. The S&P 1500 index, TCRS' domestic equity benchmark, reported a 20.23% increase for the fiscal year ended June 30, 2007. This followed a domestic equity return during fiscal year 2006 for TCRS of 9.33%, which closely matched the 9.23% growth in the index. The international equity market, as represented by the EAFE index, grew 27% in fiscal year 2007 preceded by a 26.56% growth in fiscal year 2006. The domestic core bond portfolio earned 6.17% measured by the Citigroup Broad Investment Grade index return of 6.06% for the year ended June 30, 2007. This represented an improvement on domestic fixed income performance from the negative .5% return during fiscal year 2006. The real estate portfolio earned 10.43% for the year ended June 30, 2007 which lagged the NCREIF index benchmark of 16.59%. The real estate return for the fiscal year 2006 was 24.59% which exceeded the NCREIF index of 20.19%.

Broad equity market strength was realized during 2006 and 2007. The strong domestic and international stock markets, coupled with a rebounding bond market provided substantial excess return over the investment assumption of 7.5%.

The employer contribution rate increased July 1, 2006 for most of the employers participating in TCRS. Since the actuarial valuations are conducted every two years, the higher contribution levels will continue through the fiscal year ended June 30, 2008. With the asset smoothing method utilized for valuation purposes that recognized only a portion of the underperformance of investment income, continued upward pressure on the employer rate was realized in the actuarial valuation performed effective July 1, 2005. With strong returns for the 2007 fiscal year, an easing of the upward pressure on employer contribution rates is expected from the actuarial valuation to be conducted as of July 1, 2007.

CONTACTING THE TCRS

This report is designed to provide a financial overview of the TCRS to state legislators, members of the Board of Trustees of the TCRS, state officials, participating employers and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
COMPARATIVE STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2007 AND JUNE 30, 2006

Expressed in Thousands

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ASSETS		
Cash and cash equivalents	\$ 479,656	\$ 89,379
Receivables		
Member receivable	20,405	5,023
Employer receivable	40,814	20,111
Accrued interest receivable	122,665	22,857
Accrued dividends receivable	19,480	3,630
Real estate income receivable	1,131	211
Foreign currency receivable	4,886	910
Investments sold	13,703	2,553
Total receivables	<u>223,084</u>	<u>55,295</u>
Investments, at fair value		
Short-term securities	444,725	82,870
Government securities	7,643,081	1,424,212
Corporate securities	4,476,732	834,194
Corporate stocks	13,110,008	2,442,920
Real estate	913,303	170,185
Total investments	<u>26,587,849</u>	<u>4,954,381</u>
TOTAL ASSETS	<u>27,290,589</u>	<u>5,099,055</u>
LIABILITIES		
Accounts payable		
Death benefits and refunds payable	1,396	1,063
Other	291	0
Investments purchased	8,869	1,653
Foreign currency payable	4,886	910
Other investment payables	3,883	724
TOTAL LIABILITIES	<u>19,325</u>	<u>4,350</u>
NET ASSETS HELD IN TRUST FOR PENSION		
BENEFITS (Schedules of funding progress for the plan are presented on page 35.)	<u>\$27,271,264</u>	<u>\$ 5,094,705</u>

See accompanying Notes to the Financial Statements

(continued)

(CONTINUED)

June 30, 2007 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2006 Total
<u>\$ 569,035</u>	<u>\$ 700,553</u>	<u>\$ 126,058</u>	<u>\$ 826,611</u>
25,428	18,553	4,800	23,353
60,925	31,931	16,388	48,319
145,522	127,526	22,947	150,473
23,110	17,536	3,156	20,692
1,342	1,166	210	1,376
5,796	16,724	3,009	19,733
16,256	28,212	5,076	33,288
<u>278,379</u>	<u>241,648</u>	<u>55,586</u>	<u>297,234</u>
527,595	427,010	76,837	503,847
9,067,293	9,072,529	1,632,519	10,705,048
5,310,926	2,652,679	477,326	3,130,005
15,552,928	10,580,082	1,903,790	12,483,872
1,083,488	794,090	142,890	936,980
<u>31,542,230</u>	<u>23,526,390</u>	<u>4,233,362</u>	<u>27,759,752</u>
<u>32,389,644</u>	<u>24,468,591</u>	<u>4,415,006</u>	<u>28,883,597</u>
2,459	1,646	589	2,235
291	85	0	85
10,522	32,498	5,848	38,346
5,796	16,723	3,009	19,732
4,607	2,173	391	2,564
<u>23,675</u>	<u>53,125</u>	<u>9,837</u>	<u>62,962</u>
<u>\$32,365,969</u>	<u>\$24,415,466</u>	<u>\$ 4,405,169</u>	<u>\$28,820,635</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006

Expressed in Thousands

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEPP)	Political Subdivisions Pension Plan (PSPP)
ADDITIONS		
Contributions		
Member contributions	\$ 175,743	\$ 57,003
Employer contributions	562,729	231,699
Total contributions	<u>738,472</u>	<u>288,702</u>
Investment income		
Net appreciation in fair value of investments	2,295,671	421,974
Interest	618,197	113,632
Dividends	258,925	47,594
Real estate income, net of operating expenses	49,977	9,186
Total investment income	<u>3,222,770</u>	<u>592,386</u>
Less: Investment expense	(20,064)	(3,688)
Net investment income	<u>3,202,706</u>	<u>588,698</u>
TOTAL ADDITIONS	<u>3,941,178</u>	<u>877,400</u>
DEDUCTIONS		
Annuity benefits		
Retirement benefits	789,603	128,937
Survivor benefits	50,032	8,170
Disability benefits	22,971	3,751
Cost of living	196,439	25,025
Death benefits	3,719	1,784
Refunds	19,231	17,113
Administrative expense	3,385	3,084
TOTAL DEDUCTIONS	<u>1,085,380</u>	<u>187,864</u>
NET INCREASE	2,855,798	689,536
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	<u>24,415,466</u>	<u>4,405,169</u>
END OF YEAR	<u>\$27,271,264</u>	<u>\$ 5,094,705</u>

See accompanying Notes to the Financial Statements

(continued)

(CONTINUED)

For the Year Ended June 30, 2007 TOTAL	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2006 TOTAL
\$ 232,746	\$ 166,984	\$ 59,327	\$ 226,311
794,428	474,879	191,000	665,879
<u>1,027,174</u>	<u>641,863</u>	<u>250,327</u>	<u>892,190</u>
2,717,645	758,789	134,741	893,530
731,829	594,856	105,627	700,483
306,519	223,813	39,742	263,555
59,163	32,854	5,833	38,687
<u>3,815,156</u>	<u>1,610,312</u>	<u>285,943</u>	<u>1,896,255</u>
(23,752)	(16,098)	(2,859)	(18,957)
<u>3,791,404</u>	<u>1,594,214</u>	<u>283,084</u>	<u>1,877,298</u>
<u>4,818,578</u>	<u>2,236,077</u>	<u>533,411</u>	<u>2,769,488</u>
918,540	726,109	117,074	843,183
58,202	46,495	7,497	53,992
26,722	22,225	3,584	25,809
221,464	173,624	21,915	195,539
5,503	4,227	1,441	5,668
36,344	17,751	16,960	34,711
6,469	3,336	2,877	6,213
<u>1,273,244</u>	<u>993,767</u>	<u>171,348</u>	<u>1,165,115</u>
3,545,334	1,242,310	362,063	1,604,373
28,820,635	23,173,156	4,043,106	27,216,262
<u>\$32,365,969</u>	<u>\$24,415,466</u>	<u>\$ 4,405,169</u>	<u>\$28,820,635</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

3. **Cash and Cash Equivalents** - Cash and cash equivalents by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
4. **Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. Investment income 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. Real estate transactions are recorded in the financial statements at the time of closing.

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2005, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	65,094	24,799
Terminated members entitled to but not receiving benefits	19,468	7,129
Current active members	<u>132,026</u>	<u>74,124</u>
Total	216,588	106,052
Number of participating employers	140	444

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006 (CONTINUED)

State Employees, Teachers and Higher Education Employees Pension Plan

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

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

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

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2007, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3,386.5 million and \$23,884.7 million, respectively. At June 30, 2006, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3,274.9 million and \$21,140.6 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

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006 (CONTINUED)

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, 2007, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$896.1 million and \$4,198.6 million, respectively. At June 30, 2006, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$848.9 million and \$3,556.3 million, respectively.

C. DEPOSITS AND INVESTMENTS

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

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

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006 (CONTINUED)

those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.

- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed five percent (5 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic stock index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed five percent (5 percent) of the market value of total assets.

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

As of June 30, 2007 and June 30, 2006, the TCRS had investments as shown on the following page.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006 (CONTINUED)

Investments
(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2007	U.S. Treasury/ Agency (1)	Credit Quality Ratings							(2)	(3)
			AAA	AA	A	BBB	BB	B	A1		
Debt Investments											
U.S. Govt. Treasuries, Notes, Bonds	\$ 825,413	\$ 825,413									
U.S. Govt. STRIPS	264,838	264,838									
U.S. Govt. TIPS	1,959,797	1,959,797									
U.S. Govt. Agencies	1,252,600		\$ 1,252,600								
Mortg.-Backed Govt. Pass-Through	3,923,008	217,693									\$ 3,705,315
Mortg.-Backed Corporate Pass-Through	1,524,326		1,504,335	\$ 19,991							
Govt. CMO's	117,568		117,568								
Corporate CMO's	23,933		23,933								
Corporate Bonds	2,294,723		49,523	300,677	\$ 818,312	\$ 1,097,950	\$ 9,782	\$ 18,479			
Corporate Asset-Backed	772,069		652,730	20,035	9,019	90,285					
Private Placements	399,024		77,963	108,899	69,798	142,364					
Yankee Bonds	18,369				9,122	9,247					
Supranationals	41,217		41,217								
Non-U.S. Govt./Sovereign	724,069		359,185	100,506	264,378						
Non-U.S. Corporate	237,265		237,265								
Short-Term Commercial Paper	566,543								\$ 566,543		
Short-Term Certificate of Deposit	9,982			9,982							
Short-Term Agencies	517,613										517,613
Total Debt Investments	\$ 15,472,357	\$ 3,267,741	\$ 4,316,319	\$ 560,090	\$ 1,170,629	\$ 1,339,846	\$ 9,782	\$ 18,479	\$ 566,543	\$ 4,222,928	
Other Investments											
U.S. Equity	10,765,940										
Non-U.S. Equity	4,786,988										
Real Estate	1,083,488										
Commingled Money Market Funds	9										
Total Other Investments	16,636,425										
Total Investments	32,108,782										
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(566,552)										
Total Investments as Shown on Statements of Plan Net Assets	31,542,230										

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.

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

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

Investment Type	Fair Value as of June 30, 2006	U.S. Treasury/ Agency (1)	Credit Quality Ratings							(2)	(3)
			AAA	AA	A	BBB	BB	B	A1		
Debt Investments											
U.S. Govt. Treasuries, Notes, Bonds	\$ 2,178,187	\$ 2,178,187									
U.S. Govt. TIPS	2,206,484	2,206,484									
U.S. Govt. Agencies	1,949,366		\$ 1,949,366								
Mortg.-Backed Govt. Pass-Through	3,554,902	376,348									\$ 3,178,554
Mortg.-Backed Corporate Pass-Through	291,774		291,774								
Govt. CMO's	24,922		24,922								
Corporate CMO's	78,291		78,291								
Corporate Bonds	1,869,589		47,475	\$ 244,534	\$ 851,741	\$ 712,725	\$ 13,114				
Corporate Asset-Backed	103,095		59,040			44,055					
Private Placements	209,510		14,608	74,267	24,182	96,453					
Yankee Bonds	61,113				8,968	52,145					
Supranationals	154,220		154,220								
Non-U.S. Govt./Sovereign	791,186		406,126	75,682	309,378						
Non-U.S. Corporate	362,414		282,100	9,566	31,579	39,169					
Short-Term Commercial Paper	645,358								\$ 645,358		
Short-Term Agencies	674,053										674,053
Total Debt Investments	\$ 15,154,464	\$ 4,761,019	\$ 3,307,922	\$ 404,049	\$ 1,225,848	\$ 944,547	\$ 13,114	\$ 0	\$ 645,358	\$ 3,852,607	
Other Investments											
U.S. Equity	\$ 8,266,427										
Non-U.S. Equity	4,217,445										
Real Estate	936,980										
Commingled Money Market Funds	42										
Total Other Investments	\$ 13,420,894										
Total Investments	\$ 28,575,358										
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(815,606)										
Total Investments as Shown on Statements of Plan Net Assets	\$ 27,759,752										

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006 (CONTINUED)

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2007 and June 30, 2006 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

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

As noted above, the TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298.

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

Issuer Organization	June 30, 2007		June 30, 2006	
	Fair Value	Percentage	Fair Value	Percentage
Federal Home Loan Mortgage Corp.	\$2,043,123,831	6.31%	\$2,279,598,268	7.91%
Federal National Mortgage Assoc.	2,865,385,846	8.85%	2,899,810,512	10.06%

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

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006 (CONTINUED)

Interest Rate Risk - Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2007 and June 30, 2006.

Debt Investments

(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2007	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$1,256,788	2.87
Government Bonds	1,500,391	8.04
Government STRIPS	264,838	12.77
Government Notes	40,648	0.27
Government Inflation Indexed	1,959,797	3.57
Government State and Local Obligations	4,255	0.19
Government National Mortgage Association (GNMA)	217,693	3.47
Federal Home Loan Mortgage Corporation (FHLMC)	1,390,664	4.69
Federal National Mortgage Association (FNMA)	2,314,651	4.60
Government Collateralized Mortgage Obligations (CMO)	117,568	7.49
Corporate Collateralized Mortgage Obligations (CMO)	23,933	13.44
Asset Backed Securities	2,296,395	5.16
Corporate Bonds	2,586,646	6.13
Private Placements	399,024	7.38
Miscellaneous Other Fixed Income	4,928	6.93
Short-Term Commercial Paper	566,543	0.03
Short-Term Certificate of Deposit	9,982	0.00
Short-Term Agencies	517,613	0.43
Total Debt Investments	\$15,472,357	4.99

Investment Type	Fair Value as of June 30, 2006	Effective Duration (years)
<u>Debt Investments</u>		
U.S. Government Treasuries, Notes, Bonds	\$2,178,187	7.96
U.S. Government TIPS	2,206,484	8.14
U.S. Government Agencies	1,949,366	2.32
Mortgage-Backed Government Pass-through	3,554,902	4.15
Mortgage-Backed Corporate Pass-through	291,774	7.03
Government CMO's	24,922	3.44
Corporate CMO's	78,291	0.95
Corporate Bonds	1,869,589	5.53
Corporate Asset Backed	103,095	4.02
Private Placements	209,510	5.45
Yankee Bonds	61,113	8.04
Supranationals	154,220	2.69
Non-U.S. Government/Sovereign	791,186	7.18
Non-U.S. Corporate	362,414	4.63
Short-Term Commercial Paper	645,358	0.03
Short-Term Agencies	674,053	0.45
Total Debt Investments	\$15,154,464	5.10

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006 (CONTINUED)

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2007 and June 30, 2006 was as follows:

Foreign Currency-Denominated Investments

(Expressed in Thousands)

Currency	Total Fair Value June 30, 2007	Fixed Income	Equity	Cash
Australian Dollar	\$ 259,144	\$ 8,443	\$ 250,425	\$ 276
British Pound Sterling	1,263,570	77,543	1,183,999	2,028
Canadian Dollar	49,779	67	49,571	141
Danish Krone	62,477		62,475	2
Euro Currency	1,806,669	312,885	1,493,692	92
Hong Kong Dollar	134,801		134,750	51
Japanese Yen	1,569,152	569,953	995,983	3,216
New Zealand Dollar	10,640		10,606	34
Norwegian Krone	82,993	33,727	49,171	95
Singapore Dollar	84,307		84,119	188
Swedish Krona	164,588		164,150	438
Swiss Franc	302,380		302,334	46
Total	\$ 5,790,500	\$ 1,002,618	\$ 4,781,275	\$ 6,607

Currency	Total Fair Value June 30, 2006	Fixed Income	Equity	Cash
Australian Dollar	\$ 205,373	\$ 19,017	\$ 186,007	\$ 349
British Pound Sterling	1,043,531	77,253	956,063	10,215
Canadian Dollar	20,916		20,916	
Danish Krone	58,116		58,116	
Euro Currency	1,579,366	309,856	1,269,504	6
Hong Kong Dollar	137,048		137,048	
Japanese Yen	1,652,118	636,366	1,013,653	2,099
New Zealand Dollar	8,714		8,714	
Norwegian Krone	28,692		28,692	
Singapore Dollar	41,624		41,509	115
Swedish Krona	150,111		150,111	
Swiss Franc	238,851		238,851	
Total	\$ 5,164,460	\$ 1,042,492	\$ 4,109,184	\$ 12,784

Derivatives - The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. The fair value of foreign currency forward contracts outstanding as of June 30, 2007 and June 30, 2006 has been reflected in the financial statements.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND JUNE 30, 2006 (CONTINUED)

Asset-Backed Securities - The TCRS invests in collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets. The fair value of CMOs at June 30, 2007 was \$141,501,440. The fair value of CMOs at June 30, 2006 was \$103,212,549.

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.

Pending Real Estate Items - At June 30, 2007 the TCRS had unfunded commitments of \$32,777,459 for pending real estate purchases. At June 30, 2006 the TCRS had unfunded commitments of \$131,460,280 for pending real estate purchases.

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

SCHEDULES OF FUNDING PROGRESS*Expressed in Thousands*

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	07/01/05	\$ 23,627,161	\$ 23,666,967	\$ 39,806	99.83%	\$ 5,245,989	0.76%
	07/01/03	22,099,252	22,151,745	52,493	99.76%	4,773,297	1.10%
	07/01/01	20,760,989	20,842,216	81,227	99.61%	4,451,452	1.82%
PSPP	07/01/05	4,124,013	4,450,127	326,114	92.67%	1,890,968	17.25%
	07/01/03	3,605,529	3,923,475	317,946	91.90%	1,731,135	18.37%
	07/01/01	3,187,990	3,528,137	340,147	90.36%	1,545,593	22.01%

The SETHEEPP is comprised of a number of employee groups. However, the unfunded liability of \$39.8 million at July 1, 2005 is attributable to one employee group: State Judges and Attorneys General employed prior to July 1, 1972. The PSPP represents 444 participating entities at July 1, 2005. The unfunded liability of \$326.1 million is attributable to 369 of the 444 entities.

See accompanying Notes to Required Supplementary Information

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

SCHEDULES OF EMPLOYER CONTRIBUTIONS

Expressed in Thousands

Year Ended June 30	SETHEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2007	\$ 562,729	100.00%	\$ 231,699	100.00%
2006	474,879	100.00%	191,000	100.00%
2005	448,154	100.00%	181,096	100.00%
2004	271,298	100.00%	139,808	100.00%
2003	264,320	100.00%	134,014	100.00%
2002	243,498	100.00%	103,374	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2007.

See accompanying Notes to Required Supplementary Information

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2007 AND JUNE 30, 2006

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the July 1, 2005 actuarial valuation follows.

	<u>SETHEEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 2005	July 1, 2005
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	10 years closed period	(1) closed period
Asset valuation method	5-year Moving Market Average	5-year Moving Market Average
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (3)	4.75% (3)
Included inflation at	(2)	(2)
Cost-of-living adjustments	3.00%	3.00%
Increase in Social Security wage base	3.50%	3.50%

(1) The length of the amortization period varies by political subdivision, not to exceed 30 years.

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

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

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$1,173,320	\$1,069,200	\$2,242,520
Employee benefits	427,207	389,297	816,504
TOTAL PERSONNEL SERVICES	<u>1,600,527</u>	<u>1,458,497</u>	<u>3,059,024</u>
PROFESSIONAL SERVICES			
Accounting	135,433	123,414	258,847
Actuarial services	45,671	41,618	87,289
Data processing	181,868	165,729	347,597
Disability review	0	0	0
Information systems	539,979	492,061	1,032,040
Management services	134,663	122,714	257,377
Medical review	20,762	18,919	39,681
Administrative, Internal Audit, Legal, Personnel	358,838	326,994	685,832
TOTAL PROFESSIONAL SERVICES	<u>1,417,214</u>	<u>1,291,449</u>	<u>2,708,663</u>
COMMUNICATION			
Travel	18,331	16,703	35,034
Telephone	45,185	41,176	86,361
Printing	35,134	32,017	67,151
Postage	141,451	128,898	270,349
TOTAL COMMUNICATION	<u>240,101</u>	<u>218,794</u>	<u>458,895</u>
MISCELLANEOUS			
Office space	80,371	73,239	153,610
Supplies and maintenance	33,132	30,193	63,325
Equipment	0	0	0
Other services and charges	13,102	11,939	25,041
TOTAL MISCELLANEOUS	<u>126,605</u>	<u>115,371</u>	<u>241,976</u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u>\$3,384,447</u></u>	<u><u>\$3,084,111</u></u>	<u><u>\$6,468,558</u></u>

With 211,287 active members and 98,100 retired members, the operating cost per member was \$20.91 for the year ended June 30, 2007.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006**

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 1,150,278	\$ 992,228	\$ 2,142,506
Employee benefits	377,486	325,620	703,106
TOTAL PERSONNEL SERVICES	<u>1,527,764</u>	<u>1,317,848</u>	<u>2,845,612</u>
PROFESSIONAL SERVICES			
Accounting	117,192	101,090	218,282
Actuarial services	163,159	140,741	303,900
Data processing	217,974	188,025	405,999
Disability review	49,506	42,704	92,210
Information systems	404,829	349,206	754,035
Management services	157,293	135,681	292,974
Medical review	22,576	19,469	42,045
Administrative, Internal Audit, Legal, Personnel	333,059	287,297	620,356
TOTAL PROFESSIONAL SERVICES	<u>1,465,588</u>	<u>1,264,213</u>	<u>2,729,801</u>
COMMUNICATION			
Travel	17,573	15,159	32,732
Telephone	28,252	24,371	52,623
Printing	45,350	39,118	84,468
Postage	114,880	99,095	213,975
TOTAL COMMUNICATION	<u>206,055</u>	<u>177,743</u>	<u>383,798</u>
MISCELLANEOUS			
Office space	93,945	81,036	174,981
Supplies and maintenance	19,328	16,674	36,002
Equipment	11,864	10,234	22,098
Other services and charges	11,437	9,868	21,305
TOTAL MISCELLANEOUS	<u>136,574</u>	<u>117,812</u>	<u>254,386</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$3,335,981</u>	<u>\$2,877,616</u>	<u>\$6,213,597</u>

With 207,998 active members and 93,434 retired members, the operating cost per member was \$20.61 for the year ended June 30, 2006.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 1,631,982	\$ 299,979	\$ 1,931,961
Employee benefits	473,476	87,031	560,507
TOTAL PERSONNEL SERVICES	<u>2,105,458</u>	<u>387,010</u>	<u>2,492,468</u>
PROFESSIONAL SERVICES			
Accounting	172,646	31,735	204,381
Legal services	107,365	19,735	127,100
Data processing	114,430	21,034	135,464
Information systems	140,308	25,790	166,098
Management services	8,279	1,522	9,801
External investment manager fees	9,036,660	1,661,053	10,697,713
Investment consulting fees	280,526	51,564	332,090
Investment custodian fees	745,260	136,988	882,248
Real estate manager fees	6,780,893	1,246,414	8,027,307
Administrative, Internal Audit, Personnel	389,938	71,676	461,614
TOTAL PROFESSIONAL SERVICES	<u>17,776,305</u>	<u>3,267,511</u>	<u>21,043,816</u>
COMMUNICATION			
Travel	38,853	7,142	45,995
Telephone	16,905	3,107	20,012
Printing	1,069	197	1,266
Postage	3,235	595	3,830
TOTAL COMMUNICATION	<u>60,062</u>	<u>11,041</u>	<u>71,103</u>
MISCELLANEOUS			
Office space	58,670	10,784	69,454
Supplies and maintenance	10,672	1,962	12,634
Other services and charges	53,159	9,771	62,930
TOTAL MISCELLANEOUS	<u>122,501</u>	<u>22,517</u>	<u>145,018</u>
TOTAL INVESTMENT EXPENSES	<u>\$ 20,064,326</u>	<u>\$ 3,688,079</u>	<u>\$ 23,752,405</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006**

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 1,396,116	\$ 247,903	\$ 1,644,019
Employee benefits	360,026	63,928	423,954
TOTAL PERSONNEL SERVICES	<u>1,756,142</u>	<u>311,831</u>	<u>2,067,973</u>
PROFESSIONAL SERVICES			
Accounting	157,315	27,933	185,248
Legal services	91,208	16,196	107,404
Data processing	71,626	12,718	84,344
Information systems	115,199	20,455	135,654
Management services	9,873	1,753	11,626
External investment manager fees	8,637,269	1,533,691	10,170,960
Investment consulting fees	311,879	55,379	367,258
Investment custodian fees	741,179	131,609	872,788
Real estate manager fees	3,719,340	660,430	4,379,770
Administrative, Internal Audit, Personnel	286,416	50,858	337,274
TOTAL PROFESSIONAL SERVICES	<u>14,141,304</u>	<u>2,511,022</u>	<u>16,652,326</u>
COMMUNICATION			
Travel	28,334	5,031	33,365
Telephone	16,665	2,958	19,623
Printing	742	132	874
Postage	3,081	547	3,628
TOTAL COMMUNICATION	<u>48,822</u>	<u>8,668</u>	<u>57,490</u>
MISCELLANEOUS			
Office space	67,018	11,900	78,918
Supplies and maintenance	8,501	1,510	10,011
Other services and charges	76,800	13,637	90,437
TOTAL MISCELLANEOUS	<u>152,319</u>	<u>27,047</u>	<u>179,366</u>
TOTAL INVESTMENT EXPENSES	<u>\$16,098,587</u>	<u>\$ 2,858,568</u>	<u>\$18,957,155</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF EXPENSES FOR CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006**

FOR THE YEAR ENDED JUNE 30, 2007

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	<u>\$ 45,671</u>	<u>\$ 41,618</u>	<u>\$ 87,289</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	7,058	6,434	13,492
Barry Siegel, M.D.	6,853	6,244	13,097
Medical Specialists of Knoxville	<u>6,851</u>	<u>6,241</u>	<u>13,092</u>
TOTAL MEDICAL REVIEW SERVICES	<u>20,762</u>	<u>18,919</u>	<u>39,681</u>
TOTAL EXPENSES FOR CONSULTANTS	<u><u>\$ 66,433</u></u>	<u><u>\$ 60,537</u></u>	<u><u>\$ 126,970</u></u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

FOR THE YEAR ENDED JUNE 30, 2006

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	<u>\$ 163,159</u>	<u>\$ 140,741</u>	<u>\$ 303,900</u>
MEDICAL REVIEW SERVICES			
Bramlett and Associates	215	185	400
Suzanne Fletcher, M.D.	6,786	5,853	12,639
Renee L Glenn, M.D.	215	185	400
Barry Siegel, M.D.	8,568	7,390	15,958
Medical Specialists of Knoxville	<u>6,792</u>	<u>5,856</u>	<u>12,648</u>
TOTAL MEDICAL REVIEW SERVICES	<u>22,576</u>	<u>19,469</u>	<u>42,045</u>
TOTAL EXPENSES FOR CONSULTANTS	<u><u>\$ 185,735</u></u>	<u><u>\$ 160,210</u></u>	<u><u>\$ 345,945</u></u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

INVESTMENT SECTION



REPORT BY INVESTMENT CONSULTANT

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

October 23, 2007

Jill Bachus
Director
Tennessee Consolidated Retirement System
Andrew Jackson Building
Nashville, TN 37243 0230

Dear Jill:

Strategic Investment Solutions prepares the quarterly performance reports in accordance with the CFAI methodology. For the year ended June 30, 2007, global equity and real estate markets continued to post strong positive results with the TCRS composite up 13.15%. Domestic equities were led by large capitalization and value oriented stocks while international equities were boosted by strong global economic growth, particularly in emerging markets, and a declining dollar. Bonds posted modest returns as interest rates for most maturities were little changed during the period.

As of June 30, 2007, the System's asset allocation and one year respective returns were:

Asset Class	% of Assets	One Year Return
Domestic Equities	33.2%	20.58%
Traditional Fixed Income	35.3%	6.17%
International Equities	15.5%	27.19%
International Fixed Income	3.2%	-0.84%
Cash and Equivalents	2.9%	4.84%
Real Estate	3.3%	10.43%
Inflation Indexed Fixed Income	6.6%	3.94%
Total	100.0%	13.15%

TCRS underperformed the median fund in the ICC Universe of Public Plan Sponsors (> \$100 million) over the past one and three years. This was the result of the System's high fixed income allocation and low alternative investments allocation relative to other large public funds in an environment of strong equity and alternative investments returns and modest bond market returns. Real estate holdings aided returns. Note that the overall asset allocation is geared not to maximize absolute returns but to meet the System's liabilities while minimizing the risk of loss.

Over the next five years SIS expects most asset class returns to fall within the mid-to-high single digits, with moderate economic growth and inflation. The volatility in capital markets has increased recently but remains low by historical standards.

SIS is an independent, employee-owned investment consulting firm. Our sole line of business is providing strategic consulting services to large institutional investors, including ten state-sponsored pension systems.

Please feel free to call me should you have any questions.

Best regards,



Peter A. Keliuotis, CFA

LETTER FROM TCRS CHIEF INVESTMENT OFFICER

STATE OF TENNESSEE

DALE SIMS
STATE TREASURER



JILL BACHUS
DIRECTOR OF TCRS

TREASURY DEPARTMENT
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
11TH FLOOR ANDREW JACKSON STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243

December 14, 2007

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007.

With over \$32 billion in assets, TCRS is one of the largest public pension plans in the United States. TCRS assets are invested to preserve principal value, to achieve a superior rate of return within acceptable risk levels, and to provide the liquidity necessary to pay beneficiaries in a timely manner.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, and short-term securities. A diversified portfolio is used to manage risk and minimize significant exposure to unpredictable events. The TCRS consultant periodically prepares an asset allocation study to determine the optimal long-term mix of assets to best meet the plans investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risk.

I am proud to report that the TCRS earned 13.15% for the year ended June 30, and earned 8.30% annually for the five-year period ended June 30, 2007.

The experienced TCRS investment staff is committed to providing superior investment returns in a financially sound manner with the highest ethical and professional standards. With the leadership of our Board and the work of our dedicated staff, this goal will be met.

Sincerely,

A handwritten signature in cursive script that reads "Ed Hennessee".

Ed Hennessee
Assistant to the Treasurer

STATUTORY INVESTMENT AUTHORITY

STATUTORY INVESTMENT AUTHORITY

The investment authority of TCRS is prescribed in the *Tennessee Code Annotated*, Title 8, Chapter 37. This chapter provides that, with certain enumerated exceptions, investments of TCRS assets are subject to the same terms, conditions and limitations imposed on domestic life insurance companies as set forth in *T.C.A.*, Section 56, Chapter 3. The Board of Trustees of TCRS adopts investment policy relative to the investment of TCRS assets. The investment objective is 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. A summary of statutory and policy provisions follow.

DOMESTIC STOCKS

- ❖ No more than 50% of the TCRS portfolio may be invested in domestic common stock, preferred stock and convertible bonds.
- ❖ No more than 4.99% of the outstanding shares of any one company may be purchased.

DOMESTIC FIXED INCOME

- ❖ No more than 75% of the TCRS portfolio may be invested in fixed income securities exceeding one year.
- ❖ Only issues that are investment grade securities (four highest ratings) may be purchased.
- ❖ Private placements are limited to 15% of the domestic fixed income portfolio. Private placements may be purchased if staff evaluation determines that the credit quality is equivalent to double A.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.

INTERNATIONAL

- ❖ Combined International equity and fixed income investments are limited to 25% of the TCRS portfolio.

INTERNATIONAL EQUITY

- ❖ No more than 25% of the TCRS portfolio may be invested in international equity securities.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.
- ❖ The countries in the Morgan Stanley Capital International EAFE index have been approved by the Board for international investing.

INTERNATIONAL FIXED INCOME

- ❖ No more than 10% of TCRS portfolio may be invested in international fixed income securities.
- ❖ Investments are limited to major developed countries.

SHORT-TERM SECURITIES

- ❖ Commercial paper should be rated A1 or P1.

STOCK OPTIONS AND BOND FUTURES

- ❖ Limited to 10% of the portfolio.
- ❖ Only covered call options may be written.

DOMESTIC STOCK INDEX FUTURES

- ❖ Contracts shall not exceed 5% of the TCRS portfolio.
- ❖ Shall only be used for asset allocation purposes and not for speculative leveraging. The system's cash and short-term securities must exceed the amount of the contract obligation.

SECURITIES LENDING

- ❖ May not lend more than 30% of the portfolio.
- ❖ Collateral, other than cash, must have a market value of 102% of the security loaned.

STANDBY NOTE PURCHASE AGREEMENT

- ❖ TCRS may enter into contracts to serve as a standby note purchaser for the Tennessee State School Bond Authority, the Tennessee State Funding Board and the Tennessee Local Development Authority.

FOREIGN CURRENCY HEDGING

- ❖ May not exceed 80% of the international securities.

REAL ESTATE

- ❖ No more than 5% of the TCRS portfolio may be invested in real estate.

PROXY VOTING

- ❖ Shall vote proxies in a manner which will provide the best ultimate value to shareholders.

INVESTMENT PERFORMANCE REVIEW

INVESTMENT PERFORMANCE REVIEW

Periods Ending June 30, 2007

	Annualized Returns		
	Current Year	3-Year	5-Year
Pension Plan Portfolio			
TCRS Performance	13.15 %	9.09%	8.30 %
Policy Index	14.05 %	9.96%	9.14 %
Domestic Equity			
TCRS Performance	20.58 %	12.24%	11.07 %
Benchmark - S & P 1500	20.23 %	12.09%	10.96 %
Domestic Fixed Income			
TCRS Performance	6.17 %	3.90%	4.44 %
Benchmark - Citigroup BIG	6.06 %	3.90%	4.26 %
Inflation Hedged Bonds			
Citigroup TIPS Index	3.94 %	3.49%	-
International Equity			
TCRS Performance	27.19 %	22.66%	18.65 %
Benchmark - MSCI EAFE Index	27.00 %	22.24%	18.20 %
International Fixed Income			
TCRS Performance	(0.84)%	1.21%	5.59 %
Citigroup G5 - ex US Index	(0.32)%	1.15%	4.75 %
Real Estate			
TCRS Performance	10.43 %	16.48%	12.89 %
Benchmark - NCREIF Index	16.59 %	17.42%	13.73 %
Short-Term Securities			
TCRS Performance	4.84 %	3.57%	2.65 %
Benchmark - Three month Treasury Bill	5.20 %	3.77%	2.76 %

	Strategic Investment Solutions	
	Percentile Rankings / Risk Adjusted Basis	
Ranking of TCRS Portfolio		
Last three years		25
Last five years		8
Last ten years		22

The percentile ranking is the position of the TCRS portfolio as compared with other public funds with 1 being the best and 100 being the worst. The investment performance for TCRS was computed using a market, time weighted rate of return by an independent investment consultant.

ASSET ALLOCATION**ASSET ALLOCATION***as of June 30, 2007**Expressed in Thousands*

Asset Class	Fair Value	Percentage
Domestic Equity	\$ 10,703,839	33%
Domestic Fixed Income	13,375,601	42%
International Equity	4,849,088	16%
International Fixed Income	1,002,619	3%
Short-Term Securities	1,094,147	3%
Real Estate	<u>1,083,488</u>	<u>3%</u>
Total	<u>\$ 32,108,782</u>	<u>100%</u>

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. In addition, inflation hedged bonds are not presented as a separate asset class on the above schedule. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

LARGEST HOLDINGS

JUNE 30, 2007

Largest Stock Holdings
By Fair Value
as of June 30, 2007

Shares	Security Name	Fair Value
3,903,082	Exxon Mobil Corporation	\$ 327,390,518
6,050,000	General Electric Company	231,594,000
4,435,364	AT&T Incorporated	184,067,606
3,538,000	Microsoft Corporation	104,264,860
1,781,715	Bank of America Corporation	87,108,046
1,695,000	Citigroup Incorporated	86,936,550
947,000	Chevron Corporation	79,775,280
2,826,000	CISCO Systems Incorporated	78,704,100
1,253,800	Procter & Gamble Company	76,720,022
2,881,000	Pfizer Incorporated	73,667,170

Largest Bond Holdings
By Fair Value
as of June 30, 2007

Par Value	Security Name	Yield	Maturity	Moody's Quality Rating	Fair Value
\$ 409,784,000	United States Treasury Infl Index Note	2.43%	01/15/17	Aaa	\$ 400,083,593
416,364,000	United States Treasury Infl Index Note	2.11	01/15/16	Aaa	395,318,049
217,000,000	United States Treasury Bond	6.26	02/15/21	Aaa	273,064,120
250,000,000	FNMA Debenture	5.35	03/05/14	Aaa	245,390,625
229,808,000	United States Treasury Infl Index Note	2.94	07/15/12	Aaa	234,260,530
223,622,000	United States Treasury Infl Index Note	2.08	01/15/14	Aaa	214,904,320
212,428,000	United States Treasury Infl Index Note	1.98	07/15/15	Aaa	200,744,460
202,000,000	FHLMC Notes	6.06	09/19/16	Aaa	199,903,240
200,000,000	FHLMC Notes	5.57	12/28/09	Aaa	199,864,000
160,190,435	FHLMC Group #G08160	5.70	11/01/36	NR	154,578,965

A complete portfolio listing is available upon request

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

Moody's rates securities as follows:

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

INVESTMENT SUMMARY

INVESTMENT SUMMARY

as of June 30, 2007

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	\$ 8,343,223,870	25.99%	\$ 724,069,115	2.25%	\$ 9,067,292,985	28.24%
Corporate Bonds	5,032,376,995	15.67%	278,482,214	0.87%	5,310,859,209	16.54%
Convertible Bonds	0	0.00%	67,092	0.00%	67,092	0.00%
Total Fixed Income	13,375,600,865	41.66%	1,002,618,421	3.12%	14,378,219,286	44.78%
Common Stock						
Capital Goods & Services	206,877,242	0.64%	102,272,604	0.32%	309,149,846	0.96%
Co-mingled Equity Funds	0	0.00%	2,253,709	0.01%	2,253,709	0.01%
Consumer Durables	167,451,244	0.52%	7,515,775	0.02%	174,967,019	0.54%
Consumer Non-Durables	1,991,052,849	6.20%	396,743,644	1.24%	2,387,796,493	7.44%
Energy	1,096,352,953	3.41%	163,995,103	0.51%	1,260,348,056	3.92%
Financial	2,240,099,712	6.98%	3,169,797,101	9.86%	5,409,896,813	16.84%
Materials & Services	2,309,691,828	7.19%	413,674,597	1.29%	2,723,366,425	8.48%
Miscellaneous Common Stock	0	0.00%	5,260,150	0.02%	5,260,150	0.02%
Technology	1,771,269,896	5.52%	133,683,548	0.42%	1,904,953,444	5.94%
Transportation	130,962,557	0.42%	118,952,883	0.37%	249,915,440	0.79%
Utilities	790,080,958	2.46%	334,939,277	1.04%	1,125,020,235	3.50%
Total Common Stock	10,703,839,239	33.34%	4,849,088,391	15.10%	15,552,927,630	48.44%
Short-Term Investments						
Certificates of Deposit	9,981,510	0.03%	0	0.00%	9,981,510	0.03%
Commercial Paper	566,543,139	1.77%	0	0.00%	566,543,139	1.77%
Pooled Funds and Mutual Funds	9,042	0.00%	0	0.00%	9,042	0.00%
U. S. Government Securities	517,613,240	1.61%	0	0.00%	517,613,240	1.61%
Total Short-Term Investments	1,094,146,931	3.41%	0	0.00%	1,094,146,931	3.41%
Real Estate	1,083,487,583	3.37%	0	0.00%	1,083,487,583	3.37%
Total Investments	26,257,074,618	81.78%	5,851,706,812	18.22%	32,108,781,430	100.00%
Short Term Investments						
Classified as Cash Equivalents	(566,552,181)		0		(566,552,181)	
Total Investments as Shown on the Statement of Plan Net Assets	\$ 25,690,522,437		\$ 5,851,706,812		\$ 31,542,229,249	

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

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS
FOR THE YEAR ENDED JUNE 30, 2007**

SCHEDULES OF FEES

	Average Assets Under Management	Fees
Asset Management		
International Investment Manager Fees	4.8 Billion	\$ 10,697,714
Real Estate Asset Management	1 Billion	8,027,307
Total Asset Management		\$ 18,725,021
Other Investment Services Fees		
Custodian Bank	30.8 Billion	\$ 916,546
General Investment Consultant	30.8 Billion	245,000
Real Estate Investment Consultant	1 Billion	100,000
Total Investment Services Fees		\$ 1,261,546

SCHEDULES OF COMMISSIONS

Domestic Exchange Traded Shares

Broker Name	Domestic		
	Shares Traded	Commissions	Commission Per Share
A.G. Edwards & Sons, Inc.	7,902,900	\$ 252,477	\$0.0319
B.O.E. Securities, Inc.	4,261,736	141,728	0.0333
BancAmerica Securities, Inc.	11,571,592	382,637	0.0331
Bank of New York Brokerage, Inc.	7,485,200	112,278	0.0150
Bear Stearns & Company, Inc.	13,709,525	458,513	0.0334
Bear Stearns / Factset	6,231,400	222,128	0.0356
Capital Institutional Services, Inc.	21,696,590	1,084,830	0.0500
Citigroup Global Markets, Inc.	9,612,150	320,221	0.0333
Instinet Corporation	14,181,538	231,375	0.0163
Jefferies and Company	7,400,300	246,948	0.0334
JP Morgan Chase & Co.	13,910,810	463,590	0.0333
Lehman Brothers, Inc.	13,277,800	445,436	0.0335
Merrill Lynch & Company, Inc.	7,662,000	257,222	0.0336
Morgan Keegan & Company, Inc.	5,146,500	181,322	0.0352
Other Brokers*	25,351,083	868,589	0.0343
Totals	169,401,124	\$ 5,669,294	

Program Trades where total commission cost includes trading commission, liquidity fees, and market impact fees.

Broker Name	Domestic		
	Shares Traded	Commissions	Commission Per Share
Credit Suisse	37,535,940	\$ 469,199	\$0.0125
Bear Stearns & Company, Inc.	26,330,050	394,951	0.0150
Capital Institutional Services, Inc.	26,786,102	335,445	0.0125
Other Brokers*	28,479,050	221,902	0.0078
Totals	119,131,142	\$ 1,421,497	

International Exchange Traded Shares

Broker Name	International		
	Shares Traded	Commissions	Commission Per Share
Bear Stearns & Company, Inc.	33,822,748	\$ 290,071	\$0.0086
Daiwa Securities America, Inc.	4,856,290	103,481	0.0213
Exane	5,995,403	119,345	0.0199
JP Morgan Chase & Co.	18,128,782	167,168	0.0092
Lehman Brothers, Inc.	28,159,019	139,756	0.0050
Merrill Lynch & Company, Inc.	37,598,772	301,372	0.0080
Societe Generale	3,815,597	111,826	0.0293
UBS Securities LLC	43,797,787	1,573,705	0.0359
Other Brokers*	71,342,769	1,195,294	0.0168
TOTALS	247,517,167	\$ 4,002,018	

Shares for international stocks are based on the actual foreign shares traded while the commission is expressed in U.S. dollars. Therefore, commissions per share between domestic and international are not comparable.

*Less than \$100,000 total commission per brokerage firm

ACTUARIAL SECTION



ACTUARIAL INTRODUCTION**BIENNIAL ACTUARIAL VALUATIONS**

Biennial actuarial valuations of the TCRS are performed by an independent actuarial consulting firm to assess the funding status of the system and to determine employer contribution rates for its various components. The valuation performed as of July 1, 2005, set employer rates effective July 1, 2006. The Board of Trustees of the system is responsible for adopting the employer contribution rates after reviewing the actuarial results. The next valuation, performed as of July 1, 2007, will establish new employer rates effective July 1, 2008.

FUNDING OF PENSIONS

It is the policy of the state to fund pensions by actuarially determined contributions which are intended to provide funding for both the normal liability cost and the unfunded actuarial accrued liability cost. This policy seeks to ensure that sufficient assets will be available to pay benefits as they are due.

ACCRUED LIABILITY

With the 2005 actuarial valuation, the accrued liability, which was frozen in 1981, was reestablished for the closed attorneys general and state judges' plans. This was accomplished by setting the unfunded accrued liability equal to the excess of the Entry Age Normal Past Service Liability over the valuation assets for each group.

SPECIFICS

Valuations are based on demographic data (employee ages, salaries and service credits), economic projections (salary increases, interest rates and investment earnings), and decrement estimates (mortality and disability rates). The economic projections and decrement estimates used for valuation purposes utilized the assumptions recommended by the actuary and adopted by the Board of Trustees based on an actuarial experience study conducted every four years. The earnings rate

assumption adopted by the Board is subject to the approval of the Council on Pensions and Insurance.

QUADRENNIAL EXPERIENCE STUDY

A quadrennial experience study was conducted as of June 30, 2004. A number of small changes were made to the economic and decrement assumptions. Preretirement and post-retirement mortality assumptions were also modified to more closely reflect past experience. Retirement rates were modified based on experience between 1996 and 2004.

ACTUARY'S CERTIFICATION LETTER



Bryan, Pendleton, Swats & McAllister, LLC
A Wells Fargo Company

November 1, 2007

Mr. Dale Sims
Chairman, Board of Trustees
Tennessee Consolidated Retirement System
Tenth Floor
Andrew Jackson State Office Building
Nashville, Tennessee 37243-0230

Re: Actuary's Certification Letter

Dear Mr. Sims:

The purpose of this letter is to certify the actuarial adequacy of contributions being made by the State of Tennessee and participating Political Subdivisions to the Tennessee Consolidated Retirement System and to discuss the approach currently being taken toward meeting the financing objectives of the Plan.

The most recent biennial actuarial valuation of the Tennessee Consolidated Retirement System was performed as of July 1, 2005. That valuation was based on a set of actuarial assumptions (described in detail in the section headed "Summary of Actuarial Assumptions and Methods") which was adopted by the Board of Trustees on the recommendation of the actuary after a study of actual experience under the TCRS during the four-year period ending June 30, 2004. The experience study concluded that the assumed rate of return, the inflation assumption and the salary increase rate assumption should remain unchanged. Modifications were recommended for many of the demographic assumptions including changes to mortality, termination and retirement rates to better reflect actual experience. For Consolidated State and Political Subdivision groups, the final "phase-in" of assumption changes recommended from the June 30, 2000 experience study was also recognized as of July 1, 2005. One third of the effect of termination/retirement rates recommended after the June 30, 2000 experience study was recognized as of both July 1, 2001 and July 1, 2003, with the remainder recognized in the July 1, 2005 actuarial valuation. The full effect of all assumption changes resulting from the June 30, 2004 experience study recommendations was reflected as of July 1, 2005.

There have been no significant changes in the level of benefits provided by the plan since the date of the preceding valuation.

The Board of Trustees in 1975 established as its financing objective the amortization of unfunded accrued liabilities over the ensuing 40-year period. In the years since then, the implementation of that general goal has involved a gradual strengthening of the methods utilized in computing required annual contributions. This has been accomplished by such steps as (1) taking advance funding of expected cost-of-living increases into account, (2) placing all amortization payments on a "level dollar" basis, a stronger basis than the "percentage of payroll" method previously utilized, and (3) elimination of the unfunded accrued liability for the major contribution classes, primarily as a result of actuarial gains attributable to favorable investment performance.

In performing the 2005 valuation, we relied on employee data and asset information provided by the administrative staff of the Tennessee Consolidated Retirement System. In the case of employee data,

5301 Virginia Way, Suite 400, Brentwood, Tennessee 37027

(continued)

ACTUARY'S CERTIFICATION LETTER
(CONTINUED)

Mr. Dale Sims
November 1, 2007
Page Two

each individual record was audited thoroughly for reasonableness and internal consistency, although the validity of the information was not traced to source documents. With respect to plan assets, a general review for consistency with the information furnished for prior valuations was performed.

Certain tables presented in the Comprehensive Annual Financial Report are derived from the July 1, 2005 actuarial valuation report prepared by Bryan, Pendleton, Swats and McAllister, LLC. The tables were prepared by the staff of the Tennessee Consolidated Retirement System and examined by our firm. These tables include the following –

Financial Section

- Schedules of Funding Progress

Actuarial Section

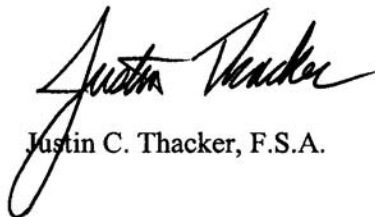
- Summary of Actuarial Assumptions and Methods
- Actuarial Data
- Actuarial Balance Sheet
- Short-Term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities
- Selected Actuarial Funding Information
- Analysis of Financial Experience

The Schedule of Retired Member Activity in the Actuarial Data section was prepared by our firm using information gathered from actuarial valuations between 1995 and 2005.

The 2005 valuation was prepared in accordance with accepted actuarial principles of practice prescribed by the Actuarial Standards Board and the principles of Governmental Accounting Standards Board Statement 25. I am a Member of the American Academy of Actuaries with experience in performing valuations for public retirement systems; all calculations were performed either by me or by other qualified actuaries under my direct supervision.

Based upon the valuation results and the contribution rates adopted by the Board of Trustees, it is our opinion that the Tennessee Consolidated Retirement System continues to fund its liabilities in accordance with standard actuarial principles of advance funding, continuing a program first adopted in 1975.

Sincerely,



Justin C. Thacker, F.S.A.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following assumptions were adopted by the Board of Trustees for use beginning with the July 1, 2005 valuation based on the consulting actuary’s recommendations resulting from the June 30, 2004 actuarial experience study.

GENERAL ACTUARIAL METHODS

- ❖ *Actuarial Cost Method* (Frozen Entry Age)—Unfunded accrued liabilities are being funded over a 40-year period commencing in 1975. The unfunded accrued liability was reestablished for the closed attorneys general and state judges’ plans as part of the July 1, 2005 valuation. This was accomplished by setting the unfunded accrued liability equal to the excess (if any) of the Entry Age Normal Past Service Liability over the valuation assets for each group or zero.
- ❖ *Treatment of Actuarial Gains and Losses*—Under the Frozen Entry Age Method, any actuarial gains or losses are absorbed into the normal cost.
- ❖ *Asset Valuation Method*—Assets are valued on a basis which reflects a five-year moving average of the fair market value. Investment losses are applied to offset accumulated investment gains prior to determining the amount of earnings to be phased in.
- ❖ *Valuation Data*—The administrative staff of TCRS furnishes the actuary with demographic data relating to the active life members and the retired life members. The fair value of system assets are also provided by retirement system staff. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.
- ❖ *Post-Retirement Adjustments*—Retirement benefits are assumed to increase at the maximum geometric rate of 3% annually, reflecting the 1997 adoption of compounded cost-of-living adjustments.

ECONOMIC ASSUMPTIONS

- ❖ *Investment Return Rate*—Seven and one-half percent per annum, compounded annually.
- ❖ *Employee Salary Increases*—Graded scale that reflects the plan experience pattern of declining escalation rates as participant ages increase. No explicit assumption is made regarding the portion attributable to the effects of inflation on salaries. Active membership is assumed to remain constant.

- ❖ *Increase in Social Security Wage Base*—Three and one-half percent annual increase.

DECREMENT ASSUMPTIONS

- ❖ *Post-Retirement Mortality*—Annuity mortality tables previously used are no longer compatible with TCRS results. Specifically adopted tables have been created to more accurately reflect patterns that occur among TCRS retirees. Sample rates are below.

	Male	Female
<i>Teachers</i>		
Age 50	0.3 %	0.2 %
Age 60	0.6 %	0.5 %
Age 70	1.9 %	1.3 %
<i>State & Political Subdivisions</i>		
Age 50	0.4 %	0.2 %
Age 60	1.1 %	0.7 %
Age 70	2.6 %	1.5 %

- ❖ *Preretirement Mortality*—Sixty-five percent (65%) of the 1994 Group Annuity Mortality Table is used for state employees and political subdivision employees. For teachers, the 1994 Group Annuity Mortality Table is used with an adjustment of 60%.

- ❖ *Withdrawal Due to Disability*—Sample rates of disability based on experience:

	Male	Female
<i>Teachers</i>		
Age 30	0.01 %	0.01 %
Age 40	0.08 %	0.08 %
Age 50	0.20 %	0.20 %
<i>State</i>		
Age 30	0.09 %	0.05 %
Age 40	0.19 %	0.17 %
Age 50	0.27 %	0.37 %
<i>Political Subdivisions</i>		
Age 30	0.04 %	0.04 %
Age 40	0.10 %	0.10 %
Age 50	0.45 %	0.45 %

(continued)

**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
(CONTINUED)**

❖ *Turnover Assumption* – Tables for probabilities of separation due to termination of employment are developed utilizing a “two-year select and ultimate” approach.

<i>Teachers</i>			
	1st Year Employment	2nd Year Employment	Ultimate
<i>Male</i>			
Age 30	18.0%	13.5%	6.2%
Age 40	18.0%	13.5%	2.2%
Age 50	18.0%	13.5%	1.8%
<i>Female</i>			
Age 30	18.0%	13.5%	7.7%
Age 40	18.0%	13.5%	2.7%
Age 50	18.0%	13.5%	1.5%
<i>State Employees</i>			
	1st Year Employment	2nd Year Employment	Ultimate
<i>Male</i>			
Age 30	24.3%	20.0%	9.1%
Age 40	20.4%	15.1%	2.5%
Age 50	16.5%	12.7%	1.9%
<i>Female</i>			
Age 30	24.3%	20.0%	11.1%
Age 40	20.4%	15.1%	3.5%
Age 50	16.5%	12.7%	2.4%
<i>Political Subdivision Employees</i>			
	1st Year Employment	2nd Year Employment	Ultimate
<i>Male</i>			
Age 30	21.4%	17.3%	7.0%
Age 40	19.2%	14.8%	3.2%
Age 50	17.0%	12.3%	2.8%
<i>Female</i>			
Age 30	21.4%	17.3%	10.9%
Age 40	19.2%	14.8%	4.9%
Age 50	17.0%	12.3%	3.6%

Retirement – The probabilities of retirement for members eligible to retire:

Age	Teachers	State	P.S.
Age 60	15.0%	9.0%	9.5%
Age 61	20.0%	11.5%	15.0%
Age 62	26.0%	21.5%	24.5%
Age 63	19.5%	14.5%	16.5%
Age 64	24.0%	16.0%	17.5%
Age 65	37.5%	29.0%	26.0%
Age 70	100.0%	17.5%	18.0%
Age 75	100.0%	100.0%	100.0%

In addition, for members younger than age 60, a loading factor of 12.5% for teachers and 10% for state and political subdivision employees is added during the year the member is first eligible for unreduced retirement. After age 60, for those members with 15 or more years of service, an 8% load is added for teachers and 4% for state employees and political subdivision employees.

ACTUARIAL DATA

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Actuarial Valuation		Annual Payroll	Average	Average Annual Percentage Increase
July 1	Number	In Thousands	Annual Pay	In Average Pay
1987	147,779	\$ 2,800,035	\$ 18,947	5.90%
1989	153,664	3,215,050	20,922	5.08%
1991	158,820	3,636,495	22,897	4.61%
1993	166,443	3,943,079	23,690	1.72%
1995	175,584	4,580,041	26,085	4.93%
1997	180,637	4,940,816	27,352	2.40%
1999	189,592	5,473,774	28,871	2.74%
2001	195,946	5,997,047	30,606	2.96%
2003	200,597	6,504,434	32,425	2.93%
2005	206,150	7,136,956	34,620	3.33%

SCHEDULE OF RETIRED MEMBER VALUATION DATA

Actuarial Valuation		Annual Allowances	Average	Average Annual Percentage Increase
July 1	Number	In Thousands	Annual Allowances	In Average Allowances
1987	49,386	\$ 234,163	\$ 4,741	5.83%
1989	51,836	264,479	5,102	3.74%
1991	55,146	315,248	5,717	5.86%
1993	58,268	367,844	6,313	5.08%
1995	61,992	449,310	7,248	7.15%
1997	66,908	535,485	8,003	5.08%
1999	71,812	663,140	9,234	7.42%
2001	77,831	795,676	10,223	5.22%
2003	83,279	919,582	11,042	3.93%
2005	89,893	1,082,823	12,046	4.45%

SCHEDULE OF RETIRED MEMBER ACTIVITY

Expressed in Thousands

Actuarial Valuation	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
July 1								
1997	9,118	\$ 115,447	4,202	\$ 29,272	66,908	\$ 535,485	19.18%	\$ 8,003
1999	10,001	162,709	5,097	35,054	71,812	663,140	23.84%	9,234
2001	10,526	163,723	4,507	31,187	77,831	795,676	19.99%	10,223
2003	11,128	168,529	5,680	44,623	83,279	919,582	15.57%	11,042
2005	12,161	208,722	5,547	45,481	89,893	1,082,823	17.75%	12,046

Note: Timing differences exist between the data utilized for statistical information and that used for actuarial valuation purposes.

ACTUAL VS. RECOMMENDED CONTRIBUTION RATES

The Board adopted the contribution rates as recommended by the actuary.

ACTUARIAL BALANCE SHEET

ACTUARIAL BALANCE SHEET
as of July 1, 2005

	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEEPP)	Political Subdivision Pension Plan (PSPP)	Total
ASSETS			
Present assets creditable to:			
Employer accumulation fund	\$ 20,459,800,667	\$ 3,326,998,155	\$ 23,786,798,822
Members' accumulation fund	3,167,360,134	797,014,927	3,964,375,061
Total present assets	23,627,160,801	4,124,013,082	27,751,173,883
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	4,165,622,264	1,468,074,118	5,633,696,382
Accrued liability	39,806,610	326,114,462	365,921,072
Total employer accumulation	4,205,428,874	1,794,188,580	5,999,617,454
Members' accumulation fund	1,428,090,406	472,497,795	1,900,588,201
Total prospective contributions	5,633,519,280	2,266,686,375	7,900,205,655
TOTAL ASSETS	\$ 29,260,680,081	\$ 6,390,699,457	\$ 35,651,379,538
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries			
	\$ 10,599,479,029	\$ 1,563,938,839	\$ 12,163,417,868
Present active members	18,145,343,942	4,680,372,225	22,825,716,167
Former members	515,857,110	146,388,393	662,245,503
TOTAL LIABILITIES	\$ 29,260,680,081	\$ 6,390,699,457	\$ 35,651,379,538

UNAUDITED

SHORT-TERM SOLVENCY TEST

SHORT-TERMSOLVENCYTEST

The financing objective of the Tennessee Consolidated Retirement System is to pay for the benefits provided by the plan through contributions that remain approximately level from year to year as a percentage of payroll, except that the strategy to fund the unfunded accrued liability is to make level-dollar payments over an established amortization period. A short-term solvency test is one means of checking a system’s progress under its funding program. In a short-term solvency test, the plan’s present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present

retired lives; and (3) the liabilities for service already rendered by active members. In a system that has been following the approach of level percent of payroll financing for some time, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) should be fully covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time.

Dollar Amounts Expressed in Millions

Actuarial Valuation July 1	Actuarial Accrued Liabilities for:			Valuation Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed)		(1)	(2)	(3)
1995 SETHEEPP	\$ 1,995.7	\$ 3,958.4	\$ 6,731.6	\$ 12,319.2	100%	100%	95%
PSPP	384.8	534.2	830.1	1,707.8	100%	100%	95%
Total	\$ 2,380.5	\$ 4,492.6	\$ 7,561.7	\$ 14,027.0	100%	100%	95%
1997 SETHEEPP (1)	\$ 2,141.7	\$ 5,456.1	\$ 8,185.1	\$ 15,671.7	100%	100%	99%
PSPP (1)	426.4	743.5	1,117.9	2,226.9	100%	100%	95%
Total	\$ 2,568.1	\$ 6,199.6	\$ 9,303.0	\$ 17,898.6	100%	100%	98%
1999 SETHEEPP	\$ 2,396.6	\$ 6,401.8	\$ 9,621.8	\$ 18,327.1	100%	100%	99%
PSPP	501.4	877.1	1,512.4	2,690.8	100%	100%	87%
Total	\$ 2,898.0	\$ 7,278.9	\$ 11,134.2	\$ 21,017.9	100%	100%	97%
2001 SETHEEPP	\$ 2,638.6	\$ 7,837.6	\$ 10,366.0	\$ 20,761.0	100%	100%	99%
PSPP	592.0	1,104.2	1,831.9	3,188.0	100%	100%	81%
Total	\$ 3,230.6	\$ 8,941.8	\$ 12,197.9	\$ 23,949.0	100%	100%	97%
2003 SETHEEPP	\$ 2,908.2	\$ 9,071.1	\$ 10,172.5	\$ 22,099.3	100%	100%	99%
PSPP	691.1	1,304.9	1,927.4	3,605.5	100%	100%	84%
Total	\$ 3,599.3	\$ 10,376.0	\$ 12,099.8	\$ 25,704.8	100%	100%	97%
2005 SETHEEPP	\$ 3,167.4	\$ 10,599.5	\$ 9,900.1	\$ 23,627.2	100%	100%	100%
PSPP	797.0	1,563.9	2,089.2	4,124.0	100%	100%	84%
Total	\$ 3,964.4	\$ 12,163.4	\$ 11,989.3	\$ 27,751.2	100%	100%	97%

(1) Includes effect of compound COLA and 3.6% indexing improvements.

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

<p>The unfunded accrued liability represents the excess of the accrued actuarial liability over the actuarial value of assets. For funding purposes, the Board of Trustees of TCRS has adopted the frozen initial liability method.</p> <p>Under this method, the unfunded accrued liability is being funded by level-dollar contributions during an amortization period which ends in the year 2015. Also, actuarial gains and losses are absorbed in normal cost rather than as part of the unfunded liability. The statute governing TCRS allows the Board of Trustees to reestablish the unfunded accrued liability for actuarial gains and losses.</p> <p>For the July 1, 2005 actuarial valuation, the Board reestablished the unfunded accrued liability for the closed attorneys general and state judges' plans. In an</p>	<p>inflationary economy where the covered payroll continues to grow, the level-dollar amounts which are being contributed to fund the unfunded accrued liability will, if expressed as a percentage of payroll, continue to decrease.</p> <p>While concern is generally expressed regarding the dollar amount of the unfunded accrued liability, an analysis should also include the method being used to fund this liability as well as a review of this liability expressed as a percentage of active member payroll. The smaller the ratio of unfunded liabilities to the active member payroll, the stronger the system. A review of this ratio over a period of years will give an indication of whether the system is becoming financially stronger or weaker with respect to its unfunded liabilities.</p>
---	---

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

Dollar Amounts Expressed in Millions

Actuarial Valuation July 1	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Ratio Assets to AAL	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
1995	\$ 14,434.8	\$ 14,027.0	97%	\$ 407.8	\$ 4,580.0	9%
1997 (3)	18,070.8	17,898.6	99%	172.2 (1)(2)	4,940.8	3%
1999	21,311.1	21,017.9	99%	293.2	5,473.8	5%
2001	24,370.4	23,949.0	98%	421.4 (2)	5,997.0	7%
2003	26,075.2	25,704.8	99%	370.4	6,504.4	6%
2005	28,117.1	27,751.2	99%	365.9 (2)	7,137.0	5%

Notes:

- (1) Unfunded accrued liability was reestablished.
- (2) Includes adjustments for changes in actuarial assumptions.
- (3) Includes effect of compound COLA and 3.6% indexing improvement.

SELECTED ACTUARIAL FUNDING INFORMATION

SELECTED ACTUARIAL FUNDING INFORMATION

Actuarial Valuation Year	Earnings Assumptions	Salary Assumptions	Unfunded Liability		State Amortization Period (1)
			SETHEPP	PSPP	
1995	8.0%	7.0%	\$ 366,528,134	\$ 41,288,942	20
1997 (2)	7.5%	5.5%	111,172,072	61,012,975	18
1999	7.5%	5.5%	93,022,745	200,161,388	16
2001	7.5%	4.75% (3)	81,226,933	340,147,400	14
2003	7.5%	4.75% (3)	52,493,209	317,945,618	12
2005	7.5%	4.75% (3)	39,806,610	326,114,462	10

Notes:

- (1) The amortization period varies among political subdivisions participating in TCRS with the maximum period limited to 30 years.
- (2) Includes effect of compound COLA and 3.6% indexing improvement.
- (3) Graded scale.

ANALYSIS OF FINANCIAL EXPERIENCE

GAIN AND LOSS ANALYSIS, JULY 1, 2005 VALUATION

	State and Higher Education	Teacher
Normal Cost		
Effective Employer Normal Cost Rate Pursuant to 2003 Valuation	10.54%	5.50%
Investment Results	2.43%	2.45%
Salary Increases: If there are smaller pay increases than assumed, the normal cost is reduced; if there are greater increases than assumed, the normal cost is increased.	0.21%	(0.22%)
New Entrants: Includes the effect where normal cost for new entrants since the previous valuation differs from the normal cost of the group.	0.21%	0.37%
Social Security Changes: More rapid increases in the Social Security wage base	(0.03%)	(0.06%)
Cost of Living Escalation: COLA in 2004 was 1.90%	(0.29%)	(0.27%)
Prior Service Purchases: Employee purchases of prior service credits result in liabilities to the plan that are not fully offset by related employee contributions	0.10%	0.07%
Contribution rate change delay	0.55%	0.30%
Mortality	0.14%	(0.19%)
Change in actuarial assumptions	(0.14%)	(2.00%)
Other	(0.14%)	0.18%
Effective Employer Normal Cost Rate Pursuant to 2005 Valuation	13.58%	6.13%

**RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES
STATE EMPLOYEES, TEACHERS, AND HIGHER EDUCATION EMPLOYEES**

Unfunded Actuarial Liabilities at June 30, 2006	\$ 36,992,843
Interest Accrual Fiscal Year 2006-2007	2,369,864
Contributions Made toward Unfunded Actuarial Liabilities (Fiscal Year 2006-2007)	(5,394,663)
Unfunded Actuarial Liabilities at June 30, 2007	\$33,968,044

The remaining unfunded actuarial liabilities relates to two small closed plans for certain elected state and county officials. The two major plans for state employees and teachers do not have an unfunded liability.

PLAN SUMMARY

HISTORY AND ADMINISTRATION

The TCRS was established in 1972 by an Act of the Tennessee General Assembly. Seven existing retirement systems were consolidated to provide retirement, disability and death benefits to state employees, public school teachers, higher education employees and the employees of participating local governments. State laws governing the plan may be found in Chapters 34-37, 39 of Title 8, *Tennessee Code Annotated*. Amendments to the plan can only be made by legislation enacted by the General Assembly of the State of Tennessee.

A 20-member Board of Trustees has the responsibility to manage and oversee the operation of the consolidated system. The Board consists of nine ex-officio members from the executive, legislative, and judicial branches of state government, nine representatives of the active TCRS membership, and two representatives for retirees. Employee representation consists of three teachers, one from each grand division of the state, two state employees from departments other than those represented by ex-officio members, three representatives of local governments, one public safety officer, one retired state employee representative, and one retired teacher representative. Local government representatives are appointed for two-year terms by each of the following organizations: the Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. All employee representatives must be vested members of TCRS. A retired teacher representative serves on the board in a non-voting capacity.

TCRS is administered by the Treasury Department under the legislative branch of state government. By state law, the State Treasurer serves as chairman of the Board of Trustees and as custodian of the funds of the system. The Director of the retirement system is appointed by the Treasurer and serves as the chief administrative officer of the plan.

The state is responsible for the pension cost of state employees and teachers; costs for the participation of local government employees are paid by political subdivisions. Administrative expenses are paid from employers' account balance. The operating budget is funded by local governments on a per member fee basis and by state government as part of the employer contribution rate.

MEMBERSHIP

Membership in the retirement system is a condition of employment for full-time state employees, K-12 teachers, higher education general employees and the employees of participating local governments. Membership is optional for part-time state employees and the part-time employees of political subdivisions which have authorized such coverage.

Interim teachers and part-time teachers have optional membership. The faculty employees of institutions of higher education may elect participation in either TCRS or an optional retirement program (ORP), a defined contribution plan for higher education faculty.

CONTRIBUTIONS

TCRS membership became noncontributory on July 1, 1981 for most state employees, teachers in state supported institutions of higher education and teachers employed in the Department of Education. At that time, the contributions, up to five percent of compensation payable to these employees, were assumed by the state, but this amount continued to be credited to the individual member's accounts from employer funds. State employees hired after July 1, 1981 join TCRS as noncontributory members with no funds credited to their individual accounts.

Participating political subdivisions may either adopt noncontributory retirement provisions or require employee contributions. The contribution rate for local government employees is five percent up to the social security wage base and 5.5 percent above that base, unless the employing government has authorized a level five percent rate. Public school teachers contribute at a rate of five percent of gross salary.

Individual accounts are maintained for all contributory members with interest credited annually at a rate of five percent. Since the TCRS is a defined benefit plan, benefits are based upon the member's average final compensation and years of creditable service. The member's account balance including interest accrued has no bearing on the monthly benefit amount payable at retirement. Account balances plus interest are fully refundable upon termination of service or death.

(continued)

PLAN SUMMARY (CONTINUED)

Contributory members are now covered by Section 414(h) of the Internal Revenue Code. Under this provision, retirement contributions are made on a tax-deferred basis, with income tax due only when contributions are returned to members as benefits or refunds. Political subdivisions may adopt the 414(h) provision for their employees.

The state also makes contributions on behalf of higher education faculty members who select membership in the ORP. These contributions are equal to 10 percent of salary up to social security wage base and 11 percent of any excess salary.

BENEFITS

TCRS provides three valuable benefits to its members: disability, death and service retirement. Disability benefits are available to qualified TCRS members who become totally disabled before meeting the requirements for service retirement. Two types of disability retirement are available: ordinary and accidental.

To qualify for ordinary disability, a member must have a minimum of five years of TCRS service credit. The ordinary disability benefit is equal to 90 percent of what the member would receive under service retirement. If a disabled retiree has less than 20 years of service credit, the service is projected to age 60 or 20 years, whichever comes first. When service is projected, the actual and projected service combined cannot exceed 20 years. If the member's actual service credit exceeds 20 years, the benefit is based on actual service only.

There is no minimum service requirement to qualify for an accidental disability benefit. However, the disability must be the result of a job-related accident that occurs without negligence on the part of the member, during the performance of duty. Prior to the onset of social security benefits, an accidental disability benefit is equal to 50 percent of the member's average final compensation (AFC). Once social security benefits begin, the accidental benefit is 33.3 percent of AFC. For members joining TCRS on or after July 1, 1997, accidental disability benefits are determined in the same manner as ordinary disability using the projection of service method. Disability benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. The accidental benefit is

adjusted if the member's combined benefits from social security and/or workers' compensation exceed 75 percent of his AFC.

One of several death benefits may be payable to the designated beneficiary of an active member who dies prior to retirement. The type of death benefit payable will be determined by whether or not death occurred while in service, who is named as beneficiary, and the member's length of service.

A member may designate one or more persons, his estate, an institution, or any combination of such as his beneficiary. However, estates, institutions, and/or multiple beneficiaries are only eligible for a lump-sum refund of the member's accumulated contributions and interest unless one of the beneficiaries named is the surviving spouse. Other death benefits offered by TCRS include a 100 percent Joint and Surviving Spouse Annuity after 10 Years Service, a 100 percent Joint and Survivor Annuity for Any Beneficiary and a Line of Duty Benefit. Any beneficiary of a member who had 10 years of service and who is eligible for a lump-sum death benefit may elect a benefit to be paid over 10 years.

All members, with the exception of state judges, joining TCRS after 1976 enter the same membership group. The benefit formula for this group provides 1.5 percent of AFC computed over five years for each year of service credit. If a member's AFC exceeds the social security integration level (SSIL) applicable at retirement, the formula provides an additional 0.25 percent of the amount of the excess for each service year. These benefits are increased by five percent for state employees, teachers, and employees of participating political subdivisions which have authorized the five percent benefit improvement. State judges joining TCRS after September 1, 1990 become Group IV members.

Members become eligible for regular service retirement at age 60 and vested or at any age with 30 years. Vested members are eligible for reduced early retirement benefits when they have reached age 55 or have completed 25 years of service. Members joining TCRS after June 30, 1979 attain vesting rights after five years of service; the vesting period for members who joined prior to July 1, 1979 is four years. Five-year vesting and 25-year retirement are benefits that are optional to local governments. Otherwise, vesting for local governments is 10 years of service.

SERVICES FOR ACTIVE AND RETIRED MEMBERS

SERVICES FOR ACTIVE MEMBERS

TCRS provides a number of services for active members through its various sections.

Field Services

- ❖ TCRS staff is available to conduct employee presentations on all aspects of the retirement system.
- ❖ Employer seminars are conducted annually to educate retirement officers on legislation affecting TCRS.

Membership

- ❖ Comprehensive membership statements are provided to all members annually.
- ❖ Computer generated membership letters and membership pamphlets are mailed to all new members.
- ❖ Membership booklets are available to members upon request.

Prior Service

- ❖ An automated calculation and eligibility system generates billings for members who wish to establish prior service.
- ❖ An installment program is available to purchase certain types of prior service.
- ❖ Prior Service may be purchased with a rollover from a tax-deferred 401(k) plan, 403(b) plan, 457 plan or an IRA.
- ❖ TCRS staff is available for personal counseling on an individual basis at their Nashville office.

Benefits

- ❖ Interactive benefit calculator via Internet.
- ❖ Computer generated benefit estimates are available for those members approaching retirement age.
- ❖ Annual regional employee benefit counseling workshops are available to educate potential retirees.
- ❖ TCRS staff is available for personal counseling on an individual basis at their Nashville office.
- ❖ Preretirement planning seminars, which explain all facets of post-career retirement planning, are provided for members.

SERVICES FOR RETIRED MEMBERS

A number of services are made available to TCRS retirees.

- ❖ A toll-free telephone line.
- ❖ Retiree identification cards.
- ❖ Semiannual retiree newsletter: *The Retiree Advisor*.
- ❖ Direct deposit service.
- ❖ Continuation of medical insurance.
- ❖ Medicare supplement coverage.
- ❖ Income tax information.
- ❖ Certification of monthly benefits.
- ❖ Certification of student discounts.
- ❖ Credit Union deductions.
- ❖ Tennessee State Employee Association deductions.
- ❖ Tennessee Retired Teachers Association deductions.

SAMPLE BENEFIT CALCULATIONS

TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS
for Calendar Year 2007

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
\$15,000	TCRS	\$ 3,544		\$ 4,725		\$ 5,906		\$ 7,088		\$ 8,269	
	Social Security	9,156		9,156		9,156		9,156		9,156	
	Total	\$ 12,700	84.7%	\$ 13,881	92.5%	\$ 15,062	100.4%	\$ 16,244	108.3%	\$ 17,425	116.2%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$ 11,025	
	Social Security	10,728		10,728		10,728		10,728		10,728	
	Total	\$ 15,453	77.3%	\$ 17,028	85.1%	\$ 18,603	93.0%	\$ 20,178	100.9%	\$ 21,753	108.8%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$ 11,813		\$ 13,781	
	Social Security	12,300		12,300		12,300		12,300		12,300	
	Total	\$ 18,206	72.8%	\$ 20,175	80.7%	\$ 22,144	88.6%	\$ 24,113	96.5%	\$ 26,081	104.3%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$ 11,813		\$ 14,175		\$ 16,538	
	Social Security	13,872		13,872		13,872		13,872		13,872	
	Total	\$ 20,960	69.9%	\$ 23,322	77.7%	\$ 25,685	85.6%	\$ 28,047	93.5%	\$ 30,410	101.4%
\$35,000	TCRS	\$ 8,269		\$ 11,025		\$ 13,781		\$ 16,538		\$ 19,294	
	Social Security	15,444		15,444		15,444		15,444		15,444	
	Total	\$ 23,713	67.8%	\$ 26,469	75.6%	\$ 29,225	83.5%	\$ 31,982	91.4%	\$ 34,738	99.3%
\$40,000	TCRS	\$ 9,450		\$ 12,600		\$ 15,750		\$ 18,900		\$ 22,050	
	Social Security	17,016		17,016		17,016		17,016		17,016	
	Total	\$ 26,466	66.2%	\$ 29,616	74.0%	\$ 32,766	81.9%	\$ 35,916	89.8%	\$ 39,066	97.7%
\$45,000	TCRS	\$ 10,631		\$ 14,175		\$ 17,719		\$ 21,263		\$ 24,806	
	Social Security	18,588		18,588		18,588		18,588		18,588	
	Total	\$ 29,219	64.9%	\$ 32,763	72.8%	\$ 36,307	80.7%	\$ 39,851	88.6%	\$ 43,394	96.4%
\$50,000	TCRS	\$ 11,868		\$ 15,824		\$ 19,779		\$ 23,735		\$ 27,691	
	Social Security	19,656		19,656		19,656		19,656		19,656	
	Total	\$ 31,524	63.0%	\$ 35,480	71.0%	\$ 39,435	78.9%	\$ 43,391	86.8%	\$ 47,347	94.7%
\$55,000	TCRS	\$ 13,246		\$ 17,661		\$ 22,076		\$ 26,492		\$ 30,907	
	Social Security	20,352		20,352		20,352		20,352		20,352	
	Total	\$ 33,598	61.1%	\$ 38,013	69.1%	\$ 42,428	77.1%	\$ 46,844	85.2%	\$ 51,259	93.2%
\$60,000	TCRS	\$ 14,624		\$ 19,499		\$ 24,373		\$ 29,248		\$ 34,122	
	Social Security	21,024		21,024		21,024		21,024		21,024	
	Total	\$ 35,648	59.4%	\$ 40,523	67.5%	\$ 45,397	75.7%	\$ 50,272	83.8%	\$ 55,146	91.9%

* 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 2007. 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 2007;
- (2) The retiree has worked a full career (TCRS plus other employers, if necessary) of 35 years or more; and
- (3) Salary increases throughout the retiree's career have followed the same pattern as National Average Earnings.

The department's Internet benefits calculator allows members to receive an immediate estimate: www.treasury.state.tn.us/tcrs/

MAJOR LEGISLATIVE IMPROVEMENTS

<p>1972 Benefit formula improved from 1.12% of salary up to the SSIL to 1.5% of salary up to the SSIL.</p> <p>1973 Annual cost-of-living increase based on the CPI with a cap of 1.5% adopted for retirees.</p> <p>1974 Disability retirement eligibility requirement reduced from 10 years to 5 years of service.</p> <p>Maximum annual cost-of-living increase raised to 3%.</p> <p>Provision to increase retirees’ benefits whenever the benefit formula is improved.</p> <p>Service credit authorized for unused accumulated sick leave.</p> <p>1976 Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.</p> <p>Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.</p> <p>1978 A bonus cost-of-living increase granted to retirees at a lump-sum cost of \$15.3 million.</p> <p>An optional retirement plan established for teachers in the Board of Regents system.</p> <p>1980 Death benefits for members dying in-service with 10 years of service improved by offering a 100% joint and survivor annuity of the member’s accrued benefit for the spouse.</p> <p>1981 Noncontributory retirement for state employees and higher education employees adopted. Employees’ contributions, up to 5%, were assumed by the state.</p> <p>1983 An actuarially reduced retirement benefit at any age with 25 years of service authorized.</p> <p>1984 Credit for out-of-state service for the purpose of determining retirement eligibility authorized.</p> <p>Retirement credit for armed conflict approved.</p> <p>Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.</p> <p>1985 \$22 million ad-hoc increase granted to retirees.</p>	<p>1987 Service credit for half of peacetime military service made available.</p> <p>\$17 million ad-hoc increase granted to retirees.</p> <p>Retirement incentive for state employees.</p> <p>Section 414(h) of the IRC adopted, allowing employee contributions to be made on a tax-deferred basis.</p> <p>1990 Retirement incentive for state employees.</p> <p>1991 3.6% indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6% indexing was extended. In 1997, it was extended indefinitely.</p> <p>1992 Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.</p> <p>1993 Salary portability for service in different classifications authorized effective January 1, 1994.</p> <p>Benefit improvement up to 5% authorized.</p> <p>1997 Compounded COLA for retirees approved.</p> <p>1998 Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.</p> <p>Group 1 and Prior Class C benefit limitations increased to 80%.</p> <p>Mandatory retirement established with supplemental bridge benefit for all state public safety officers.</p> <p>1999 Group 1 benefit maximum increased to 90%.</p> <p>2000 Group 2 benefit maximum increased to 80%.</p> <p>2001 Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.</p> <p>2005 Return to work statutes were reformed, including a temporary employment increase to 120 days.</p> <p>2006 Ad-hoc increase granted to members retired prior to 1989.</p> <p>2007 Public Safety Officer benefits were enhanced.</p>
---	---

STATISTICAL SECTION



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Service Credit

Years of Service	SETHEEPP			PSP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
0-4	16,114	18,604	5,107	28,959	68,784
5-9	9,627	15,785	3,210	19,119	47,741
10-14	5,755	11,245	2,257	11,503	30,760
15-19	4,383	7,065	1,963	7,275	20,686
20-24	5,100	6,300	1,673	4,574	17,647
25-29	3,411	5,340	1,506	2,811	13,068
30-34	2,328	3,997	921	1,252	8,498
35-39	911	1,544	435	387	3,277
40-44	227	217	100	92	636
Over 44	90	48	21	31	190
Total	47,946	70,145	17,193	76,003	211,287

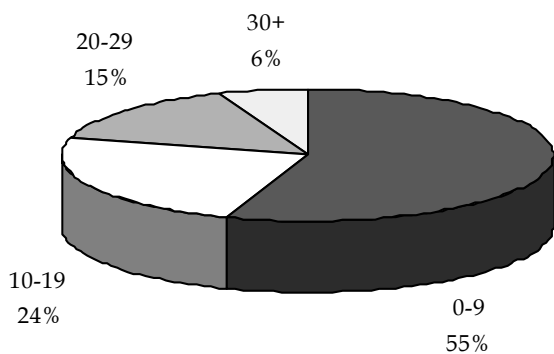
SCHEDULE OF ACTIVE MEMBERS

by Enrollment Date

Date of Membership	SETHEEPP			PSP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1940s	4	16	3	13	36
1950s	49	24	7	5	85
1960s	560	933	191	67	1,751
1970s	4,573	8,362	2,051	2,548	17,534
1980s	10,544	12,284	3,851	9,660	36,339
1990s	12,492	22,696	4,543	25,344	65,075
2000s	19,724	25,830	6,547	38,366	90,467
Total	47,946	70,145	17,193	76,003	211,287

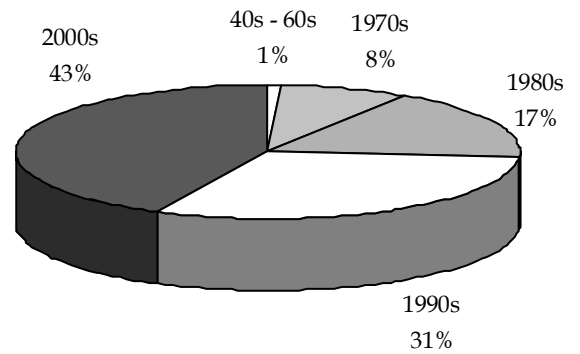
PERCENTAGE OF ACTIVE MEMBERS

by Service Credit



PERCENTAGE OF ACTIVE MEMBERS

by Enrollment Date



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Less than 20	282	7	43	424	756
20-29	6,303	12,877	1,649	8,701	29,530
30-39	9,541	18,597	2,870	17,110	48,118
40-49	13,599	17,043	5,090	23,140	58,872
50-54	7,808	10,745	2,988	10,882	32,423
55-59	6,576	8,420	2,636	8,946	26,578
60-64	2,615	2,051	1,265	4,274	10,205
65-69	849	316	457	1,649	3,271
Over 69	373	89	195	877	1,534
Total	47,946	70,145	17,193	76,003	211,287

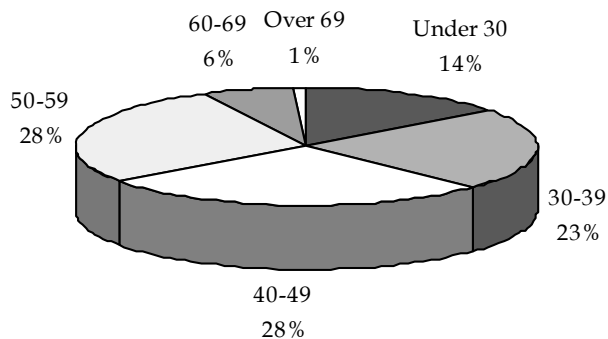
SCHEDULE OF ACTIVE MEMBERS

by Age at Enrollment

Age at Enrollment	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Less than 20	1,522	121	303	1,200	3,146
20-24	9,643	23,810	2,752	9,411	45,616
25-29	10,050	17,488	3,321	11,322	42,181
30-34	7,244	9,458	2,809	12,085	31,596
35-39	6,075	7,619	2,565	12,692	28,951
40-44	4,849	5,507	2,019	10,886	23,261
45-49	3,732	3,365	1,545	7,720	16,362
50-54	2,602	1,823	1,027	5,349	10,801
55-59	1,608	776	581	3,246	6,211
60-64	469	142	199	1,368	2,178
65-69	122	26	49	533	730
Over 69	30	10	23	191	254
Total	47,946	70,145	17,193	76,003	211,287

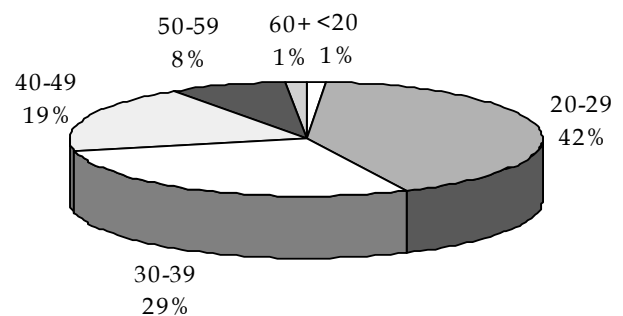
PERCENTAGE OF ACTIVE MEMBERS

by Current Age



PERCENTAGE OF ACTIVE MEMBERS

by Age at Enrollment



SCHEDULES OF ACTIVE MEMBERS

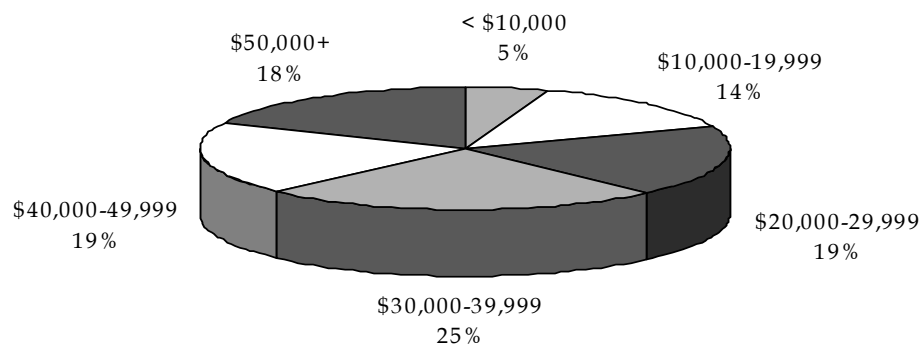
SCHEDULE OF ACTIVE MEMBERS

by Salary

Annual Salary	SETHEEP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Less than \$10,000	2,132	263	718	7,393	10,506
\$10,000-19,999	4,048	932	1,975	22,806	29,761
\$20,000-29,999	13,095	2,159	5,206	19,746	40,206
\$30,000-39,999	12,782	21,193	3,683	14,197	51,855
\$40,000-49,999	7,311	24,994	2,026	6,445	40,776
\$50,000+	8,578	20,604	3,585	5,416	38,183
Total	47,946	70,145	17,193	76,003	211,287

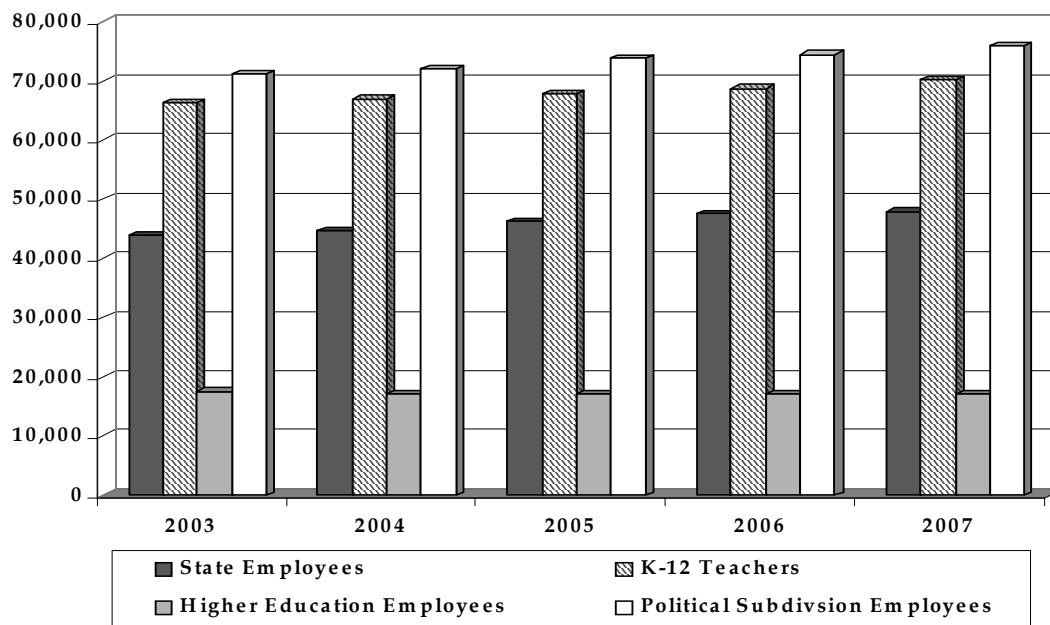
PERCENTAGE OF ACTIVE MEMBERS

by Salary



ACTIVE MEMBERS

Fiscal Years 2003-2007



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Type of Benefit Plan

Benefit Plan*	SETHEEPP			PSPP	
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	Total
Regular	12,096	20,923	6,353	18,000	57,372
Option I	1,866	1,707	1,401	2,135	7,109
Option II	794	815	568	678	2,855
Option III	2,397	2,669	1,194	2,215	8,475
Option IV	1,730	2,487	967	1,154	6,338
S.S. Leveling	1,669	3,669	461	1,310	7,109
Subtotal	20,552	32,270	10,944	25,492	89,258
Survivors	3,049	1,924	1,402	2,467	8,842
Total	23,601	34,194	12,346	27,959	98,100

- *Regular Maximum Plan - No Survivor Benefits
- *Option I 100% Joint and Survivor Annuity
- *Option II 50% Joint and Survivor Annuity
- *Option III 100% Joint and Survivor Annuity with Pop-up Feature
- *Option IV 50% Joint and Survivor Annuity with Pop-up Feature
- *S.S. Leveling Benefit Level Coordinated with Social Security

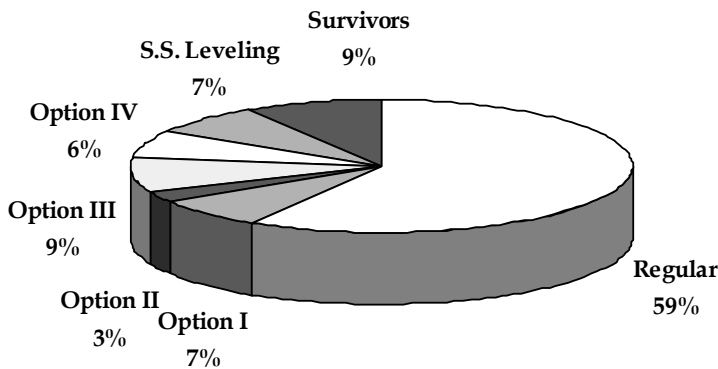
SCHEDULE OF RETIRED MEMBERS

by Type of Retirement

Type of Retirement	SETHEEPP			PSPP	
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	Total
Retirees:					
Service	16,321	27,024	8,657	19,786	71,788
Early	2,788	4,381	1,737	3,927	12,833
Disability	1,443	865	550	1,779	4,637
Total Retirees	20,552	32,270	10,944	25,492	89,258
Survivors	3,049	1,924	1,402	2,467	8,842
Total	23,601	34,194	12,346	27,959	98,100

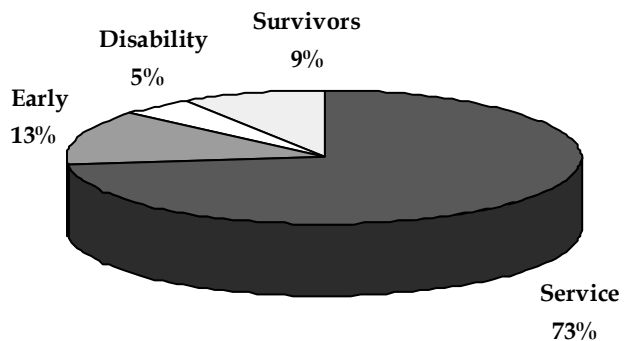
PERCENTAGE OF RETIRED MEMBERS

by Type of Benefit Plan



PERCENTAGE OF RETIRED MEMBERS

by Type of Retirement



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Average Monthly Benefit

State Employees

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	Option I	Option II	Option III	Option IV	SS Leveling	Survivors
0-500	8,345	5,107	1,405	659	1,174	4,518	768	233	826	455	349	1,174
501-1,000	6,235	3,862	855	660	858	3,548	457	178	557	391	354	858
1,001-1,500	3,786	2,886	347	101	452	1,916	244	106	412	318	370	452
1,501-2,000	2,396	1,977	127	15	277	1,095	164	69	283	220	283	277
2,001-2,500	1,302	1,152	31	6	113	494	101	51	142	167	206	113
2,501-3,000	670	558	16	0	96	237	58	32	85	78	63	96
3,001-3,500	365	315	5	0	45	126	33	25	55	42	21	45
3,501-4,000	197	178	2	0	17	77	15	16	19	33	11	17
over 4,000	305	286	0	2	17	85	26	84	18	26	12	17
Totals	23,601	16,321	2,788	1,443	3,049	12,096	1,866	794	2,397	1,730	1,669	3,049

Teachers

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	Option I	Option II	Option III	Option IV	SS Leveling	Survivors
0-500	4,949	3,519	1,064	157	209	3,361	324	155	405	258	190	209
501-1,000	6,024	3,698	1,547	409	370	3,804	392	154	499	406	388	370
1,001-1,500	7,008	5,167	1,062	231	548	4,059	346	152	626	532	759	548
1,501-2,000	7,093	6,161	493	61	378	4,264	301	131	607	613	800	378
2,001-2,500	4,827	4,437	158	6	226	2,908	168	108	294	369	787	226
2,501-3,000	2,330	2,185	39	1	105	1,359	95	52	143	169	414	105
3,001-3,500	1,108	1,046	14	0	48	634	46	34	66	85	194	48
3,501-4,000	467	440	3	0	24	271	20	19	16	32	85	24
over 4,000	388	371	1	0	16	263	15	10	13	23	52	16
Totals	34,194	27,024	4,381	865	1,924	20,923	1,707	815	2,669	2,487	3,669	1,924

Higher Education Employees

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	Option I	Option II	Option III	Option IV	SS Leveling	Survivors
0-500	4,692	3,093	886	282	431	2,788	500	188	428	271	141	431
501-1,000	3,101	2,048	497	220	336	1,736	337	113	274	252	84	336
1,001-1,500	1,692	1,219	217	37	219	770	197	91	173	139	86	219
1,501-2,000	921	684	77	7	153	324	114	49	102	97	67	153
2,001-2,500	653	554	31	2	66	250	89	38	79	68	44	66
2,501-3,000	491	383	18	2	88	178	61	30	54	51	19	88
3,001-3,500	324	267	6	0	51	108	39	22	47	36	11	51
3,501-4,000	211	159	1	0	51	63	28	19	14	26	5	51
over 4,000	261	250	4	0	7	136	36	18	23	27	4	7
Totals	12,346	8,657	1,737	550	1,402	6,353	1,401	568	1,194	967	461	1,402

Political Subdivisions

Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	Option I	Option II	Option III	Option IV	SS Leveling	Survivors
0-500	18,006	12,473	2,948	1,229	1,356	12,528	1,374	357	1,333	617	514	1,356
501-1,000	5,896	4,144	672	490	590	3,819	402	150	449	254	280	590
1,001-1,500	2,064	1,530	181	47	306	933	179	69	226	107	201	306
1,501-2,000	963	764	76	8	115	364	84	44	108	73	143	115
2,001-2,500	478	398	23	3	54	158	42	21	49	47	89	54
2,501-3,000	286	239	22	2	23	87	25	21	30	32	52	23
3,001-3,500	103	99	4	0	0	39	9	8	11	10	21	0
3,501-4,000	60	59	1	0	0	35	5	2	3	7	6	0
over 4,000	103	80	0	0	23	37	15	6	6	7	4	23
Totals	27,959	19,786	3,927	1,779	2,467	18,000	2,135	678	2,215	1,154	1,310	2,467

SCHEDULES OF RETIRED MEMBERS

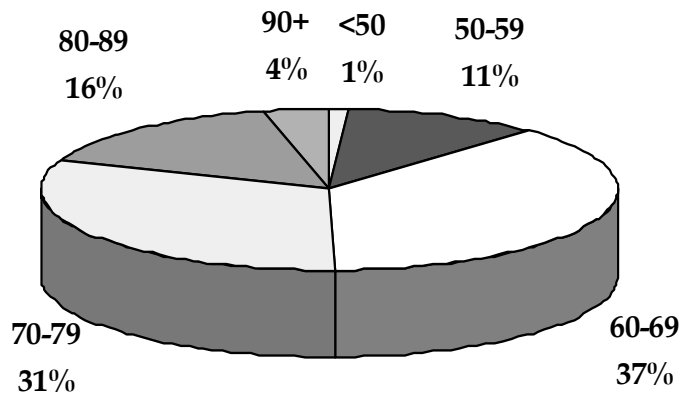
SCHEDULE OF RETIRED MEMBERS

by Current Age

Benefit Plan	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 40	129	78	34	68	309
40-44	98	48	36	87	269
45-49	237	104	90	171	602
50-54	639	634	235	593	2,101
55-59	2,081	3,951	773	1,867	8,672
60-64	4,036	6,919	1,816	4,351	17,122
65-69	4,594	6,423	2,503	6,102	19,622
70-74	4,030	5,036	2,342	5,461	16,869
75-79	3,278	4,272	2,019	4,137	13,706
80-84	2,439	2,948	1,380	2,750	9,517
85-89	1,409	1,985	805	1,599	5,798
90-94	523	1,252	267	616	2,658
95-99	106	470	40	143	759
Over 99	2	74	6	14	96
Total	23,601	34,194	12,346	27,959	98,100

PERCENTAGE OF TOTAL RETIRED MEMBERS

by Current Age



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Date of Retirement

Date of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1950s	1	8	0	2	11
1960s	20	91	6	3	120
1970s	830	1,982	324	839	3,975
1980s	3,664	5,940	1,950	4,016	15,570
1990s	9,091	11,263	5,028	9,933	35,315
2000s	9,995	14,910	5,038	13,166	43,109
Total	23,601	34,194	12,346	27,959	98,100

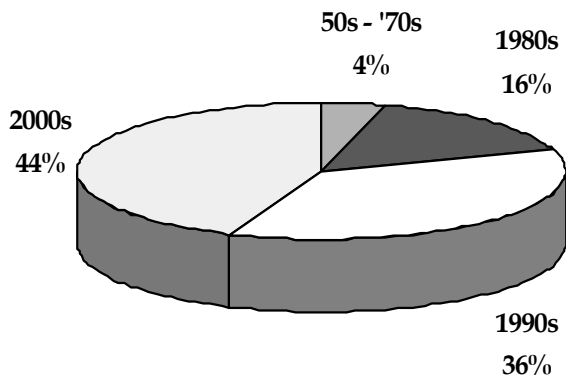
SCHEDULE OF RETIRED MEMBERS

Based on Service Credit at Retirement

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 10	5,053	2,577	2,376	6,295	16,301
10-14	3,137	2,047	1,771	5,485	12,440
15-19	2,857	2,462	1,657	4,765	11,741
20-24	2,982	3,638	1,561	4,152	12,333
25-29	2,540	4,891	1,429	3,101	11,961
30-34	4,641	12,061	2,190	3,011	21,903
35-39	1,575	4,585	901	851	7,912
40-44	652	1,663	353	247	2,915
Over 44	164	270	108	52	594
Total	23,601	34,194	12,346	27,959	98,100

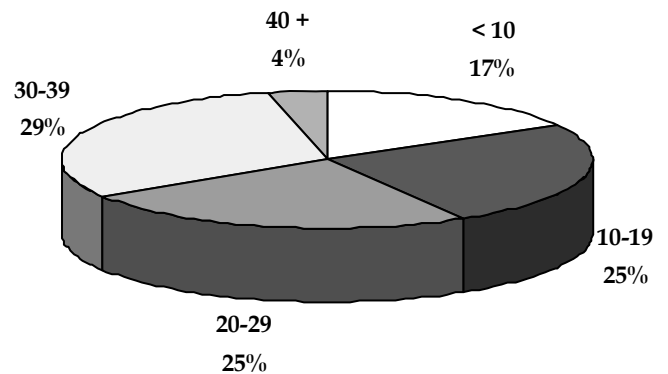
PERCENTAGE OF RETIRED MEMBERS

by Date of Retirement



PERCENTAGE OF RETIRED MEMBERS

by Service Credit at Retirement



RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

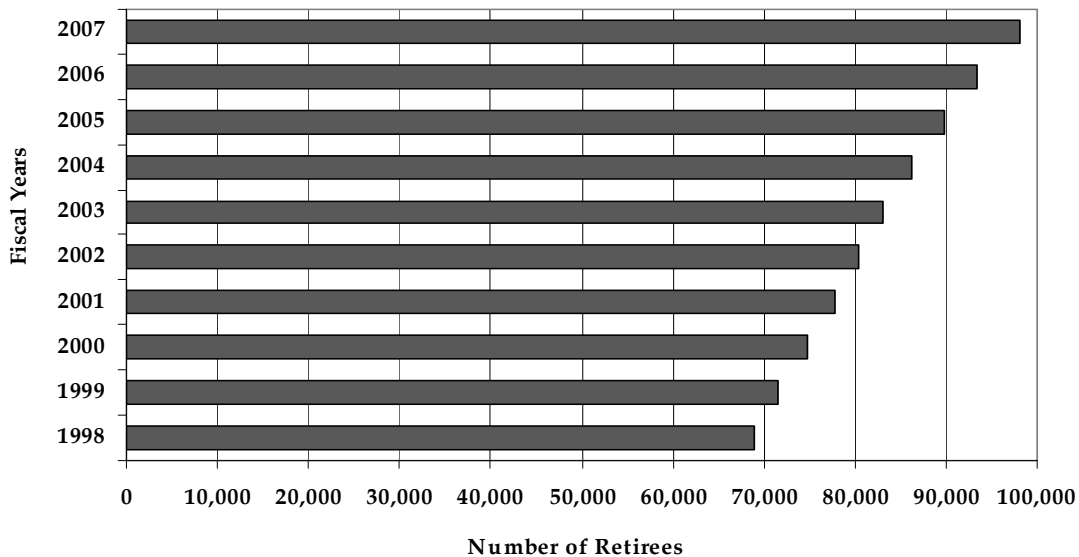
UNITED STATES				INTERNATIONAL COUNTRIES			
Alabama	523	Kentucky	496	North Dakota	2	Australia	1
Alaska	14	Louisiana	72	Ohio	109	Canada	5
Arizona	123	Maine	15	Oklahoma	49	England	1
Arkansas	334	Maryland	69	Oregon	36	France	1
California	164	Massachusetts	14	Pennsylvania	63	Germany	2
Colorado	72	Michigan	86	Rhode Island	2	Greece	2
Connecticut	10	Minnesota	23	South Carolina	196	Ireland	1
Delaware	13	Mississippi	943	South Dakota	7	Israel	1
District of Columbia	10	Missouri	131	Tennessee	90,777	Italy	1
Florida	1,049	Montana	9	Texas	350	Japan	1
Georgia	874	Nebraska	6	Utah	13	Kenya	1
Hawaii	11	Nevada	36	Vermont	9	Spain	1
Idaho	19	New Hampshire	17	Virginia	428	Mexico	2
Illinois	112	New Jersey	16	Washington	54	Total Foreign Countries	20
Indiana	88	New Mexico	34	West Virginia	29	US Virgin Islands	1
Iowa	13	New York	54	Wisconsin	32	Saipan	2
Kansas	25	North Carolina	433	Wyoming	4	Overseas Military Bases	9
				Total U.S.	98,068	Total U.S.	98,068
						Total U.S. & Foreign	98,100

TENNESSEE							
Anderson	1,308	Fentress	289	Lauderdale	602	Roane	1,181
Bedford	599	Franklin	668	Lawrence	669	Robertson	843
Benton	299	Gibson	966	Lewis	236	Rutherford	2,622
Bledsoe	327	Giles	438	Lincoln	541	Scott	417
Blount	2,243	Grainger	259	Loudon	674	Sequatchie	247
Bradley	1,219	Greene	1,674	McMinn	731	Sevier	898
Campbell	677	Grundy	255	McNairy	440	Shelby	10,140
Cannon	273	Hamblen	1,077	Macon	211	Smith	317
Carroll	524	Hamilton	4,527	Madison	2,053	Stewart	167
Carter	1,321	Hancock	81	Marion	421	Sullivan	2,843
Cheatham	600	Hardeman	755	Marshall	427	Sumner	1,956
Chester	337	Hardin	494	Maurry	801	Tipton	640
Claiborne	590	Hawkins	810	Meigs	138	Trousdale	136
Clay	126	Haywood	468	Monroe	576	Unicoi	336
Cocke	549	Henderson	308	Montgomery	2,000	Union	242
Coffee	785	Henry	689	Moore	97	Van Buren	199
Crockett	264	Hickman	442	Morgan	550	Warren	666
Cumberland	762	Houston	78	Obion	687	Washington	2,491
Davidson	7,281	Humphreys	347	Overton	404	Wayne	275
Decatur	205	Jackson	209	Perry	212	Weakley	922
Dekalb	263	Jefferson	769	Pickett	114	White	500
Dickson	651	Johnson	313	Polk	194	Williamson	1,825
Dyer	461	Knox	5,929	Putnam	1,688	Wilson	1,551
Fayette	751	Lake	216	Rhea	421	Total	90,777

**RETIRED MEMBERS ON PAYROLL
AND PRIOR SERVICE ESTABLISHED**

NUMBER OF RETIREES ON PAYROLL

Fiscal Years 1998-2007



PRIOR SERVICE ESTABLISHED

for the Year Ended June 30, 2007

Type of Service	Members	Years of Service	Payments
State:			
Backpayment	176	352	\$ 1,584,791
Military	141	282	3,166
Redeposit	95	455	1,076,635
Total	412	1,089	\$ 2,664,592
Teachers:			
Backpayment	93	93	\$ 1,068,793
Military	49	103	1,064
Redeposit	150	788	1,749,660
Total	292	984	\$ 2,819,517
Higher Education:			
Backpayment	183	192	\$ 282,828
Military	54	105	2,240
Redeposit	27	89	182,460
Total	264	386	\$ 467,528
Political Subdivisions:			
Backpayment	972	1,334	\$ 2,336,696
Military	148	296	6,075
Redeposit	55	249	363,056
Total	1,175	1,879	\$ 2,705,827
Totals by Category:			
Backpayment	1,424	1,971	\$ 5,273,108
Military	392	786	12,545
Redeposit	327	1,581	3,371,811
Total	2,143	4,338	\$ 8,657,464

TREASURY RETIREMENT INSTALLMENT PLAN

The Treasury Retirement Installment Plan, known as TRIP, was established in 1996 to be an alternative payment method for members who have prior service to be established. Previously, prior service payments were required to be made in a lump sum payment. TRIP has allowed these members to establish their prior service by making monthly installment payments in the form of Automated Clearing House (ACH) withdrawals from a designated bank account. Service is credited to the member's account once the balance has been paid off.

Examples of service types which are eligible to be included on TRIP are previously withdrawn service, peacetime military service, educational leave and enrollment service for new participating employers. When a member is billed for their prior service, a statement is generated showing a lump sum payment. In addition, TRIP information is given with regard to financing over 6 to 60 months. The member may elect to finance the entire amount or elect to make a down payment and finance the balance.

Annual statements are also generated as of the fiscal year ending June 30. Statements reflect the principle and interest payments made and remaining balance. The member may choose at any time to pay off the remaining balance.

TREASURY RETIREMENT INSTALLMENT PLAN
Payments Received for the Year Ended June 30, 2007

Type of Service	Members	Total Years of Service	Payments (Net of Refunds)
State:			
Backpayment	10	26	\$ 38,390
Military	1	2	(933)
Redeposit	66	341	208,399
Total	77	369	\$ 245,856
Teachers:			
Backpayment	18	39	\$ 30,956
Military	0	0	0
Redeposit	126	600	457,754
Total	144	639	\$ 488,710
Higher Education:			
Backpayment	8	40	\$ 32,801
Military	1	1	1,580
Redeposit	10	47	56,003
Total	19	88	\$ 90,384
Political Subdivisions:			
Backpayment	38	147	\$ 99,608
Military	0	0	0
Redeposit	60	310	157,275
Total	98	457	\$ 256,883
Totals by Category:			
Backpayment	74	252	\$ 201,755
Military	2	3	647
Redeposit	262	1,298	879,431
Total	338	1,553	\$ 1,081,833

REFUND ACTIVITY AND POLITICAL SUBDIVISION PARTICIPATION

REFUND ACTIVITY

For the Year Ended June 30	Number of Refunds Processed	Amount Refunded
1998	4,571	\$ 24,649,359
1999	4,874	25,634,380
2000	5,029	28,562,230
2001	4,771	28,517,803
2002	4,259	24,304,536
2003	4,540	26,631,386
2004	4,688	29,925,762
2005	4,724	30,815,699
2006	5,916	34,710,966
2007	4,830	36,343,972

The TCRS became noncontributory July 1, 1981 for state employees, higher education employees, and certain political subdivisions, resulting in fewer refunds for members withdrawing from the system.

POLITICAL SUBDIVISION PARTICIPATION

Schedule by Category

Year Ended June 30	Number of Cities	Number of Counties	Miscellaneous Political Subdivisions	Total
1998	142	86	160	388
1999	147	87	170	404
2000	151	87	158	396
2001	156	87	161	404
2002	158	87	166	411
2003	160	88	170	418
2004	163	88	179	430
2005	169	88	187	444
2006	173	88	196	457
2007	177	88	202	467

HISTORICAL EMPLOYER CONTRIBUTION RATES

HISTORICAL EMPLOYER CONTRIBUTION RATES

Expressed as a Percentage of Salary

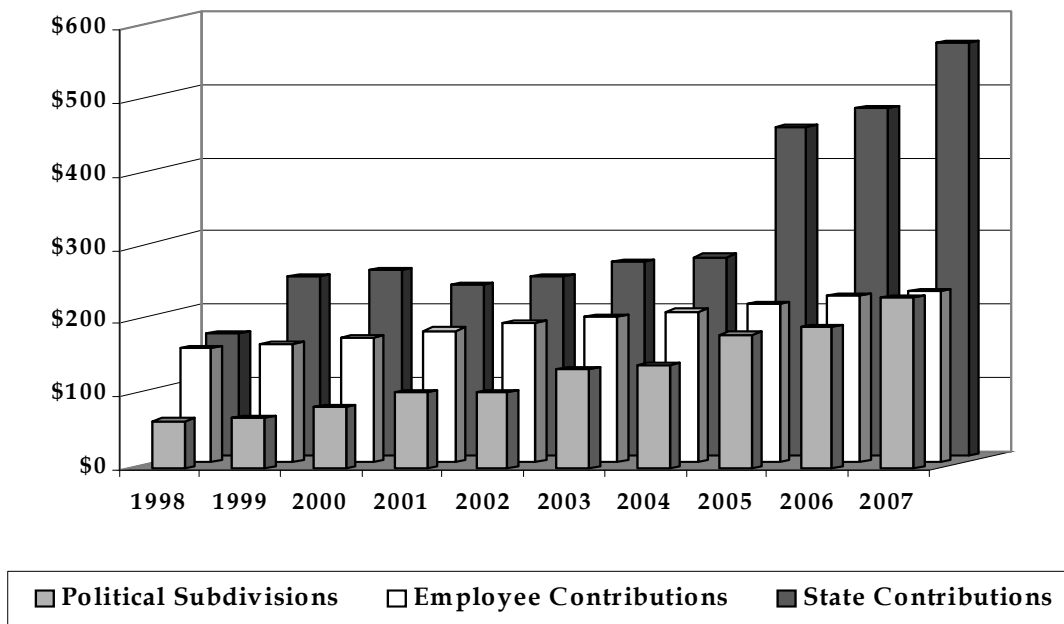
Year Ended June 30	State	Teachers	Higher Education Employees	
	Employees		Faculty	General
1998	3.65%	3.89%	3.65%	3.65%
1999	5.43	5.47	5.43	5.43
2000	5.43	5.47	5.43	5.43
2001	6.19	3.72	6.19	6.19
2002	6.19	3.72	6.19	6.19
2003	7.30	3.40	7.30	7.30
2004 (1)	7.29	3.39	7.29	7.29
2005	10.54	5.50	10.54	10.54
2006 (2)	10.31	5.50	10.31	10.31
2007	13.62	6.13	13.62	13.62

The employer contribution rates for political subdivisions are individually determined based on the biennial actuarial valuation of each political subdivision.

- (1) As part of a statewide request for budget reductions, TCRS reduced the administrative component of the employer contribution rate by 0.01%.
- (2) A reduction in the contribution rate was made due to return to work reform.

RETIREMENT CONTRIBUTIONS

Fiscal Years 1998-2007



HISTORICAL FAIR VALUE

HISTORICAL FAIR VALUE

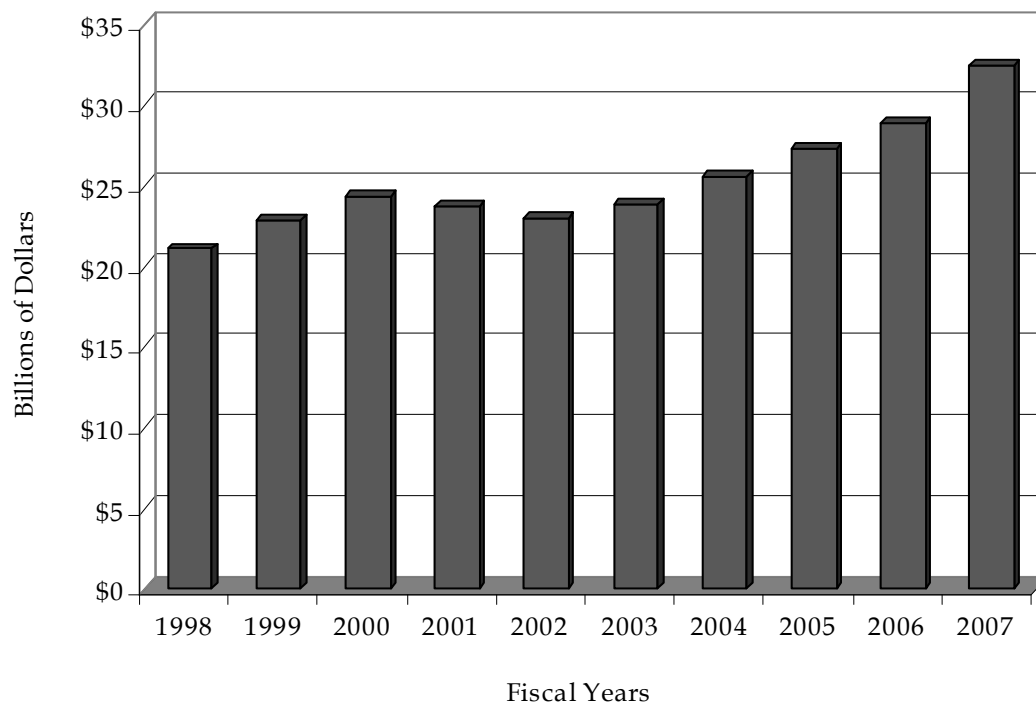
Fiscal Years 1998-2007

Expressed in Thousands

As of June 30	Fair Value	As of June 30	Fair Value
1998	\$ 21,057,487	2003	\$ 23,778,484
1999	22,797,512	2004	25,586,516
2000	24,337,679	2005	27,216,262
2001	23,737,926	2006	28,820,635
2002	22,982,880	2007	32,365,969

HISTORICAL FAIR VALUE

Fiscal Years 1998-2007



**ANALYSIS OF MEMBER AND EMPLOYER RESERVES
FOR THE YEAR ENDED JUNE 30, 2007**

MEMBER RESERVE FUND

The legislation which created the TCRS established two funds, the Member Reserve Fund and the Employer Reserve Fund, to account for the financial transactions of the pension plans. The Member Reserve Fund represents the accumulation of employee contributions plus interest.

	SETHEEPP	PSPP	Total
<i>June 30, 2006 Member Reserve Fund</i>	\$ 3,274,864,189	\$ 848,904,061	\$ 4,123,768,250
Member Contributions	175,743,246	57,002,957	232,746,203
Employer Provided Contributions	21,913,138	10,979,745	32,892,883
Interest	152,787,999	39,960,756	192,748,755
Refunded Account Balances	(19,231,458)	(17,112,514)	(36,343,972)
Transfers to Employer Fund of Retiring Members'	(219,466,240)	(43,605,551)	(263,071,791)
	<u>\$ 3,386,610,874</u>	<u>\$ 896,129,454</u>	<u>\$ 4,282,740,328</u>
<i>June 30, 2007 Member Reserve Fund</i>	<u>\$ 3,386,610,874</u>	<u>\$ 896,129,454</u>	<u>\$ 4,282,740,328</u>

EMPLOYER RESERVE FUND

The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retirees. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

	SETHEEPP	PSPP	Total
<i>June 30, 2006 Employer Reserve Fund</i>	\$ 21,140,601,885	\$ 3,556,265,272	\$ 24,696,867,157
Employer Contributions	562,728,794	231,699,041	794,427,835
Investment Income	3,202,705,618	588,698,033	3,791,403,651
Transfers from Retiring Members' Account	219,466,240	43,605,551	263,071,791
Employer Provided Contributions	(21,913,138)	(10,979,745)	(32,892,883)
Interest Credited to Members' Account	(152,787,999)	(39,960,756)	(192,748,755)
Lump-Sum Death Benefits	(3,718,654)	(1,784,328)	(5,502,982)
Retirement and Survivors Annuities	(1,059,045,647)	(165,882,967)	(1,224,928,614)
Administrative Expenses	(3,384,447)	(3,084,111)	(6,468,558)
	<u>\$ 23,884,652,652</u>	<u>\$ 4,198,575,990</u>	<u>\$ 28,083,228,642</u>
<i>June 30, 2007 Employer Reserve Fund</i>	<u>\$ 23,884,652,652</u>	<u>\$ 4,198,575,990</u>	<u>\$ 28,083,228,642</u>

AVERAGE BENEFIT PAYMENTS SCHEDULE

AVERAGE BENEFIT PAYMENT SCHEDULE

Fiscal Year of Retirement

	Years of Service Credit				
	10 - 14	15 - 19	20 - 24	25 - 29	30 or more
1998 Average Monthly Benefit	\$ 386	\$ 673	\$ 918	\$ 1,358	\$ 1,932
Number of Retirees	401	344	430	379	1,153
Average Final Salary	\$ 23,347	\$ 27,627	\$ 30,058	\$ 35,104	\$ 39,957
1999 Average Monthly Benefit	\$ 452	\$ 735	\$ 1,024	\$ 1,399	\$ 2,092
Number of Retirees	422	326	399	384	1,197
Average Final Salary	\$ 26,001	\$ 30,189	\$ 31,930	\$ 35,899	\$ 43,034
2000 Average Monthly Benefit	\$ 397	\$ 703	\$ 970	\$ 1,369	\$ 2,041
Number of Retirees	443	321	367	425	1,312
Average Final Salary	\$ 24,289	\$ 28,880	\$ 31,562	\$ 36,242	\$ 42,795
2001 Average Monthly Benefit	\$ 421	\$ 722	\$ 1,035	\$ 1,420	\$ 2,064
Number of Retirees	375	323	376	391	1,440
Average Final Salary	\$ 25,291	\$ 31,157	\$ 33,609	\$ 37,869	\$ 44,220
2002 Average Monthly Benefit	\$ 442	\$ 693	\$ 976	\$ 1,417	\$ 2,092
Number of Retirees	347	331	346	370	1,537
Average Final Salary	\$ 25,923	\$ 29,913	\$ 31,628	\$ 38,091	\$ 45,015
2003 Average Monthly Benefit	\$ 491	\$ 713	\$ 962	\$ 1,383	\$ 2,096
Number of Retirees	363	352	332	371	1,463
Average Final Salary	\$ 29,112	\$ 29,942	\$ 32,140	\$ 37,253	\$ 45,026
2004 Average Monthly Benefit	\$ 406	\$ 721	\$ 1,080	\$ 1,458	\$ 2,167
Number of Retirees	387	344	358	390	1,754
Average Final Salary	\$ 30,591	\$ 31,239	\$ 35,619	\$ 39,432	\$ 46,718
2005 Average Monthly Benefit	\$ 501	\$ 724	\$ 1,053	\$ 1,527	\$ 2,254
Number of Retirees	350	419	390	406	1,775
Average Final Salary	\$ 30,448	\$ 30,929	\$ 35,028	\$ 41,288	\$ 47,980
2006 Average Monthly Benefit	\$ 533	\$ 802	\$ 1,135	\$ 1,565	\$ 2,324
Number of Retirees	388	364	445	376	1,859
Average Final Salary	\$ 32,442	\$ 33,917	\$ 38,127	\$ 42,260	\$ 49,423
2007 Average Monthly Benefit	\$ 570	\$ 800	\$ 1,190	\$ 1,688	\$ 2,473
Number of Retirees	590	426	503	476	1,975
Average Final Salary	\$ 33,818	\$ 33,699	\$ 39,285	\$ 45,064	\$ 51,802

Note: This schedule represents the average monthly benefits under the maximum plan of members retiring with an unreduced service retirement benefit. It excludes members retiring with a reduced early retirement benefit or under disability.

SCHEDULES OF BENEFIT EXPENSES

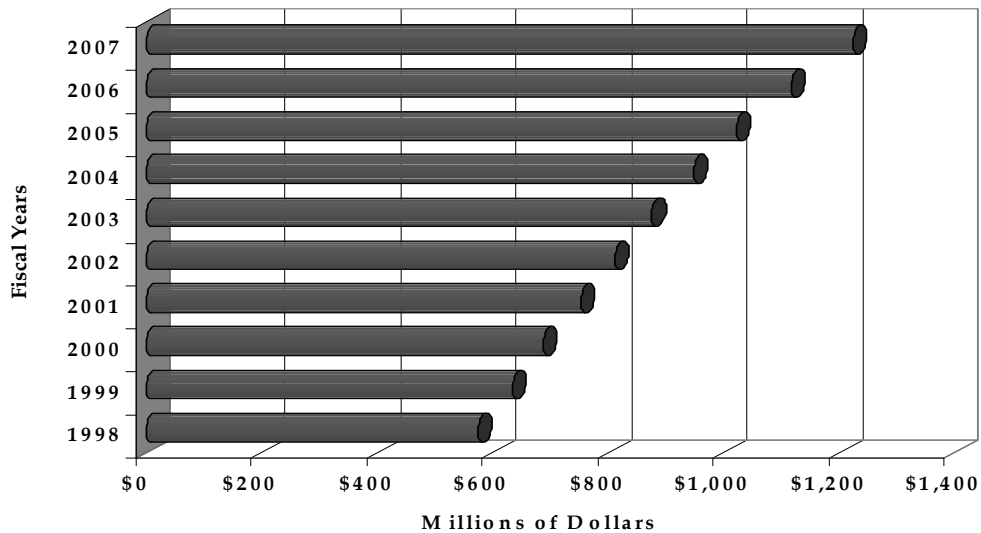
SCHEDULES OF BENEFIT EXPENSES

Expressed in Thousands

Year Ending	Base Annuity	Disability Annuity	Survivor Annuity	Cost of Living	Lump-Sum Death Benefits	Total Benefits	Refunds	Total
SETHEPP								
6/30/1998	\$378,485	\$ 12,694	\$ 24,127	\$ 88,435	\$ 2,557	\$ 506,298	\$ 14,311	\$ 520,609
6/30/1999	414,149	13,948	25,934	99,823	2,616	556,470	13,491	569,961
6/30/2000	450,919	15,089	28,839	106,542	2,658	604,047	15,474	619,521
6/30/2001	491,204	16,094	31,224	116,892	3,720	659,134	16,484	675,618
6/30/2002	528,471	17,405	33,518	129,918	2,225	711,537	12,689	724,226
6/30/2003	571,703	18,809	36,818	134,455	3,052	764,837	14,250	779,087
6/30/2004	617,659	20,341	40,022	145,767	3,149	826,938	15,305	842,243
6/30/2005	668,340	21,229	43,437	154,522	3,731	891,259	15,329	906,588
6/30/2006	726,109	22,225	46,495	173,624	4,227	972,680	17,751	990,431
6/30/2007	789,603	22,971	50,032	196,439	3,719	1,062,764	19,231	1,081,995
PSPP								
6/30/1998	\$ 53,991	\$ 1,811	\$ 3,441	\$ 12,615	\$ 746	\$ 72,604	\$ 10,338	\$ 82,942
6/30/1999	60,182	2,027	3,769	14,506	778	81,262	12,143	93,405
6/30/2000	69,164	2,315	4,423	11,933	852	88,687	13,088	101,775
6/30/2001	75,517	2,474	4,800	13,477	982	97,250	12,034	109,284
6/30/2002	82,084	2,704	5,206	15,417	1,143	106,554	11,616	118,170
6/30/2003	90,372	2,973	5,820	16,236	994	116,395	12,381	128,776
6/30/2004	98,680	3,250	6,394	17,860	1,329	127,513	14,621	142,134
6/30/2005	106,943	3,397	6,951	19,186	1,180	137,657	15,487	153,144
6/30/2006	117,074	3,584	7,497	21,915	1,441	151,511	16,960	168,471
6/30/2007	128,937	3,751	8,170	25,025	1,784	167,667	17,113	184,780

ANNUAL BENEFIT PAYMENTS

Fiscal Years 1998-2007



SCHEDULES OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

SCHEDULES OF CHANGES IN NET ASSETS

Expressed in Thousands

Year Ending	Additions			Deductions			Total Change in Net Assets
	Member Contributions	Employer Contributions	Investment Income	Benefit Payments	Administrative Expenses	Refunds	
SETHEEPP							
6/30/1998	\$ 116,196	\$ 166,756	\$ 2,410,112	\$ 506,298	\$ 2,191	\$ 14,311	\$ 2,170,264
6/30/1999	122,565	244,453	1,685,780	556,470	2,350	13,491	1,480,487
6/30/2000	129,925	252,162	1,533,113	604,047	2,363	15,474	1,293,316
6/30/2001	135,154	232,149	(284,167)	659,134	1,795	16,484	(594,277)
6/30/2002	142,126	243,498	(383,371)	711,537	2,714	12,689	(724,687)
6/30/2003	148,493	264,320	959,110	764,837	2,631	14,250	590,205
6/30/2004	154,334	271,298	1,870,972	826,938	2,935	15,305	1,451,426
6/30/2005	160,686	448,154	1,579,232	891,259	3,008	15,329	1,278,476
6/30/2006	166,984	474,879	1,594,214	972,680	3,336	17,751	1,242,310
6/30/2007	175,743	562,729	3,202,706	1,062,764	3,385	19,231	2,855,798
PSPP							
6/30/1998	\$ 39,086	\$ 65,276	\$ 348,156	\$ 72,604	\$ 1,694	\$ 10,338	\$ 367,882
6/30/1999	38,618	69,230	246,936	81,262	1,840	12,143	259,539
6/30/2000	39,906	82,749	227,961	88,687	1,990	13,088	246,851
6/30/2001	45,433	103,681	(43,623)	97,250	1,683	12,034	(5,476)
6/30/2002	47,139	103,374	(60,412)	106,554	2,290	11,616	(30,359)
6/30/2003	49,218	134,014	153,368	116,395	2,425	12,381	205,399
6/30/2004	50,650	139,808	310,881	127,513	2,599	14,621	356,606
6/30/2005	54,921	181,096	271,135	137,657	2,738	15,487	351,270
6/30/2006	59,327	191,000	283,084	151,511	2,877	16,960	362,063
6/30/2007	57,003	231,699	588,698	167,667	3,084	17,113	689,536

SCHEDULES OF PRINCIPAL PARTICIPATING EMPLOYERS

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

SETHEEPP

2007				1998			
Participating Govt.	Covered Employees	Rank	% of	Participating Govt.	Covered Employees	Rank	% of
			Total System				Total System
Teachers	131,080	1	50.16%	Teachers	93,010	1	47.79%
State Employees	90,704	2	34.71%	State Employees	68,038	2	34.96%
Higher Ed. Employees	39,525	3	15.13%	Higher Ed. Employees	33,567	3	17.25%
Total	261,309		100.00%	Total	194,615		100.00%

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

PSPP

2007				1998			
Participating Govt.	Covered Employees	Rank	% of	Participating Govt.	Covered Employees	Rank	% of
			Total System				Total System
Memphis City Schools	6,973	1	4.97%	Memphis City Schools	4,840	1	5.24%
Hamilton County	5,144	2	3.67%	Hamilton County	4,442	2	4.81%
Montgomery County	2,917	3	2.08%	Shelby County	2,246	3	2.43%
Rutherford County	2,757	4	1.97%	Sullivan County	1,806	4	1.95%
Shelby County	2,573	5	1.84%	Rutherford County	1,767	5	1.91%
Sullivan County	2,324	6	1.66%	Montgomery County	1,730	6	1.87%
Kingsport	1,855	7	1.32%	Sumner County	1,651	7	1.79%
Madison County	1,846	8	1.32%	Kingsport	1,400	8	1.52%
Sumner County	1,771	9	1.26%	Johnson City	1,280	9	1.39%
Washington County	1,499	10	1.07%	Williamson County	1,145	10	1.24%
Others	110,554		78.84%	Others	70,099		75.85%
Total	140,213		100.00%	Total	92,406		100.00%

INTRODUCTION TO POLITICAL SUBDIVISION PARTICIPATION

PARTICIPANTS

TCRS has established pension plans for four groups of public employees: state employees, higher education employees, teachers and the employees of governmental entities (political subdivisions). Employees of political subdivisions may participate in TCRS if the entity’s governing body authorizes participation and accepts all liability associated with coverage for their employees.

Participation is subject to the approval of the Board of Trustees. At June 30, 2007, there were 467 political subdivisions participating in TCRS.

Participation as of June 30, 2007:

Cities	177
Counties	88
Utility Districts	56
Special School Districts	19
Joint Ventures	23
Housing Authorities	11
911 Emergency Communication Districts	40
Miscellaneous Authorities	53
Total	467

ADMINISTRATION

TCRS administers the pension plan for political subdivisions in accordance with state statute. Each employer is responsible for the pension cost for its employees. The cost is not shared with other political subdivisions nor with the state. A separate fund balance is maintained by the retirement system for each participating political subdivision and employer contribution rates are determined individually.

APPLICATION

To apply for TCRS participation, the chief governing body of the political subdivision must first pass a resolution authorizing an actuarial study to estimate the potential cost of participation. Once the governing body has had an opportunity to review the estimated pension cost and liability, a second resolution must then be passed in order to authorize TCRS participation. Political subdivisions electing TCRS coverage accept the liability for pension benefits to be accrued by their employees.

COVERAGE

A political subdivision is required to offer coverage under the same terms and conditions to all the employees of each of its departments and agencies.

Political subdivisions have the option of purchasing, or allowing their employees to purchase, retirement credit for service rendered prior to the employer’s date of participation. The amount of prior service allowed may be limited.

Political subdivisions opting to join TCRS do so under the plan provisions that exist at the time of their participation. Subsequent legislative changes, however, are optional if they result in increased cost to the political subdivision. These optional improvements may be adopted by resolutions approved by the chief governing body.

**THE TCRS PROVIDES
THE ADMINISTRATION
OF A RETIREMENT
PROGRAM FOR 467
LOCAL GOVERNMENTS.**

OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS

<p>MEMBERSHIP</p> <ul style="list-style-type: none"> ❖ Optional membership for part-time employees ❖ Probationary period of up to six months during which the employees are not eligible for membership in TCRS and no contributions to TCRS are required of either the employees or the employer ❖ Reduce vesting requirement to qualify for retirement benefits from 10 years to five years <p>CONTRIBUTIONS</p> <ul style="list-style-type: none"> ❖ Employee contributions at a level five percent both below and above the social security wage base ❖ Exclusion of employee contributions from taxable income under 414(h) provisions of the Internal Revenue Code ❖ Noncontributory retirement plan ❖ Extension of 3.6 percent indexing feature for noncontributory members' salaries used in calculating the average final compensation component of a benefit calculation <p>CREDITABLE SERVICE</p> <ul style="list-style-type: none"> ❖ Credit for service credit lost as a result of advanced age ❖ Service credit for unused sick leave ❖ Service credit for military service during periods of armed conflict at no cost to the employee ❖ Service credit for periods of temporary disability during which the employee was receiving workers' compensation payments based on covered employment ❖ Service credit purchase for peacetime military service between October 15, 1940 and May 7, 1975 ❖ Purchase of service credit for probation period 	<p>SURVIVOR BENEFITS</p> <ul style="list-style-type: none"> ❖ 100 percent joint and survivor spouse death benefit for members with 10 years of service ❖ Provide inactive members with certain death and disability benefits ❖ 50 percent of 5 year average salary benefits for surviving spouse for members killed in the line of duty. <p>RETIREMENT BENEFITS</p> <ul style="list-style-type: none"> ❖ Provide current retirees and members a five percent increase in base retirement benefit ❖ The actuarial equivalent of an age 65 benefit for employees retiring after age 65 ❖ 25-year retirement with actuarially reduced benefits ❖ Minimum benefit level increase to \$8 per year of service ❖ Mandatory retirement with supplemental bridge benefit for public safety officers. <p>RETIRED MEMBERS</p> <ul style="list-style-type: none"> ❖ Exclusion of cost-of-living benefit increases at the date of participation for all employees or at a later date for new employees ❖ Inclusion of compounded cost-of-living adjustment (COLA) to current and future retirees of employers now providing a simple COLA or employers who previously elected not to provide a COLA. <p>MISCELLANEOUS</p> <ul style="list-style-type: none"> ❖ A participating entity may voluntarily withdraw from TCRS by submitting written notice one year in advance. At the time of withdrawal, TCRS membership ceases to be open to new employees. The political subdivision's retirement responsibility to current TCRS members remains, however, contribution obligations and benefit and service credit accruals continue.
---	--

POLITICAL SUBDIVISION PARTICIPANTS

<p>911 EMERGENCY COMMUNICATION DISTRICTS</p> <p>Campbell County Carroll County Carter County Cheatham County Claiborne County Fayette County Fentress County Gibson County Grainger County Greene County Hamblen County Hamilton County Hardeman County Hawkins County Humphreys County Jefferson County Johnson County Lauderdale County Lawrence County Madison County Maury County Monroe County McNairy County Montgomery County Overton County Roane County Robertson County Rutherford County Sequatchie County Sevier County Shelby County Sullivan County Tipton County Union County Van Buren County Warren County Washington County Weakley County White County Wilson County</p>	<p>Brentwood Brighton Bristol Brownsville Byrdstown Camden Carthage Caryville Centerville Charleston Charlotte Church Hill Clarksville Cleveland Clifton Clinton Collegedale Collinwood Cookeville Coopertown Cornersville Cowan Crossville Cumberland Dandridge Dayton Decatur Decaturville Dickson Dover Ducktown Dunlap Dyer East Ridge Elizabethton Elkton Erin Erwin Estill Springs Etowah Fairview Fayetteville Forest Hills Friendship Friendsville Gainesboro Gatlinburg Gleason Goodlettsville Gordonsville Greenbrier Greeneville Greenfield Harriman Hartsville Henderson Hendersonville Hohenwald Humboldt Huntland</p>	<p>Jacksboro Jackson Jamestown Jefferson City Johnson City Jonesborough Kenton Kimball Kingsport Kingston Kingston Springs Lafayette Lafollette Lake City Lakeland Lakewood Lawrenceburg Lebanon Lenoir City* Linden Livingston Lobelville Lookout Mountain Loretto Loudon Luttrell Madisonville Martin Maryville Maury City Maynardville McEwen McKenzie McMinnville Medina Middleton Milan Millersville Millington Monterey Morrison Morristown Moscow Mosheim Mountain City Mt. Carmel Mt. Juliet Munford Murfreesboro* New Johnsonville New Tazewell Newport Nolensville Norris Oak Ridge Oakland Obion Oliver Springs Paris Parsons</p>	<p>Pegram Pikeville Pittman Center Pleasant View Portland Puryear Red Bank Ripley Rockwood Rogersville* Rutherford Rutledge Savannah Selmer Sevierville Signal Mountain Soddy Daisy Somerville South Carthage Sparta Spencer Spring Hill Spring City Springfield Surgoinsville Sweetwater Tazewell Tellico Plains Townsend Trenton Tusculum Unicoi Union City Vonore Waynesboro Waverly Westmoreland White House White Pine Whiteville Whitwell Woodbury</p> <p>COUNTIES</p> <p>Anderson Bedford Benton Bledsoe Blount Bradley Campbell Cannon Carroll Carter Cheatham Chester Claiborne Clay Cocke</p>	<p>Coffee Crockett Cumberland Decatur DeKalb Dickson Fayette Fentress Franklin Gibson Giles Grainger Greene Grundy Hamblen Hamilton Hardeman Hardin Hawkins Haywood Henderson Henry Hickman Humphreys Jackson Jefferson Johnson Lake Lauderdale Lawrence Lewis* Lincoln Loudon Macon Madison Marion Marshall Maury McMinn McNairy Monroe Montgomery Moore* Morgan Obion Overton Perry Pickett Polk Putnam Rhea Roane Robertson Rutherford Scott Sequatchie Sevier Shelby* Smith Sullivan</p>	<p>Sumner Tipton Trousdale Unicoi Union Van Buren Warren Washington Wayne Weakley White Williamson Wilson</p> <p>HOUSING AUTHORITIES</p> <p>Bristol Clinton Cookeville Hartsville Hohenwald Lawrenceburg Maryville Memphis Morristown Rockwood Sweetwater</p> <p><i>*All departments not covered by TCRS.</i></p> <p style="text-align: right;"><i>(continued)</i></p>
--	---	--	--	--	---

CITIES

- Adams
- Alamo
- Alcoa
- Ashland City
- Athens*
- Atoka
- Atwood
- Baileyton
- Belle Meade
- Bells
- Benton
- Big Sandy
- Bluff City
- Bolivar
- Bradford

**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**

<p>JOINT VENTURES</p> <p>Argie Cooper Public Library Bradley-Cleveland Civil Defense Bradley-Cleveland Comm. Svc. Agency Clarksville/Montgomery Co. Public Lib. Clarksville/Montgomery Co. Reg. Plan. Comm. Cleveland/Bradley Community Center Comm. Edward Gauche Fisher Public Library Fayetteville/Lincoln Co. Public Library Gorham/MacBane Public Library Jackson/Madison Co. Library Johnson City/Washington Co. EMS Kinsler Park Lawrence Co. Library Linebaugh Public Library Morristown/Hamblen Co. Landfill Sevier Solid Waste Smyrna/Rutherford Co. Airport Auth. Tellico Area Svc. System Tri-City Airport Comm. Tri-County Vocational School W. G. Rhea Public Library Washington Co./Johnson City Animal Control Center Wilson Emergency Mgt. Agency</p>	<p>Southeast Tenn. Comm. Svc. Agency Southeast Tenn. Dev. District Southeast Tenn. Human Res. Agency Southwest Tenn. Comm. Svc. Agency Southwest Tenn. Dev. District Southwest Tenn. Human Res. Agency Tenn. Assoc. of Assessing Officers Tenn. Assoc. of County Mayors Tenn. Athletic Coaches Assoc. Tenn. Co. Commissioners Assoc. Tenn. Co. Highway Officials Assoc. Tenn. County Services Assoc. Tenn. Education Assoc. Tenn. Historical Society Tenn. Municipal Bond Fund Tenn. Municipal League Tenn. Mun. League Risk Mgt. Pool Tenn. School Board Assoc. Tenn. Secondary Sch. Athletic Assoc. Tenn. Sheriffs Assoc. Tenn. State Employees Assoc. Tenn. Veterans Home Board Upper Cumberland Community Services Agency Upper East Tenn. Human Dev. Agency Workforce Solutions</p>	<p>Crab Orchard Cumberland Utility District of Roane and Morgan Counties District of Rutherford County Double Springs Dyersburg Suburban East Fork East Side Fall Creek Falls First Carter County First Tipton County First Hawkins County Gladeville Glen Hills Greeneville Light & Power Hampton Hardeman-Fayette County Hendersonville Hixson Jackson County Johnson City Power Bd. Lake County Lakeview Lincoln County Board of Public Utilities Loudon Middle Tennessee New Market North Utility District of Decatur and Benton Counties Northeast Henry County Oak Ridge Old Hickory Persia Plateau Poplar Grove Quebec-Walling Reelfoot Lake Regional Riceville Savannah Valley Sevier County Siam Sylvia-Tennessee City Pond Water Sneedville Soddy Daisy-Falling Water Smith South Elizabethton Weakley County Municipal Electric Webb Creek West Overton</p>
<p>MISCELLANEOUS AGENCIES</p> <p>Beech River Watershed Blount County Fire Protection Dist. Blount County Library Books from Birth Bristol/Kingsport/Sullivan Co. Industrial Commission Dist. County Officials Assoc. of Tenn. Delta Human Resource Agency Douglas Cherokee Economic Auth. East Tenn. Community Svc. Agency Fayetteville-Lincoln Co. Ind. Dev. Bd. First Tenn. Dev. District First Tenn. Human Resource Agency Four Lake Reg. Industrial Dev. Auth. Greater Nashville Regional Council Hamilton Co. Comm. Svc. Agency Hardin County General Hospital Knox Co. Community Services Agency Mid-Cumberland Comm. Svc. Agency Melton Hill Regional Indust. Dev. Assoc. Newport/Locke Co. Economic Dev. Dist. Northeast Community Svc. Agency Northwest Tenn. Comm. Svc. Agency Sequatchie Valley Plan. & Dev. Dist. Shelby Co. Community Svc. Agency South Central Tenn. Community Services Agency South Central Tenn. Dev. Dist. South Central Tenn. Workforce Board</p>	<p>SPECIAL SCHOOL DISTRICTS</p> <p>Bradford Clinch Powell Education Coop. Elizabethton Board of Education Franklin Gibson County Schools District Hollow Rock-Bruceton Huntingdon Lebanon Little Tenn. Valley Education Coop. McKenzie Memphis Milan Oak Ridge Board of Education Oneida Paris South Carroll Special School District Trenton Union City Board of Education West Carroll County</p> <p>UTILITY DISTRICTS</p> <p>Alpha-Talbott Arthur Shawnee Big Creek Bloomingdale Bondecroft Bristol Electric System Castalian Springs/Bethpage Citizen's Gas Consolidated County Wide</p>	<p>* All departments not covered by TCRS.</p>