

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
MARCH 22, 2013

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
MARCH 22, 2013**

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POLITICAL SUBDIVISION REPORT

**Political Subdivisions Beginning Participation
in the Tennessee Consolidated Retirement System
April 1, 2013**

Political Subdivision	Amount of Service Purchased		Employer Rate	Accrued Liability	Cost of Living	Number of Employees
	Employer	Employee				
Second South Cheatham Utility District	0	12	Normal	\$463,647	Include	9
			Accrued			
			Adm. Cost			
			TOTAL			

Meetings:

August, 2012

Explained results of actuarial study and participation procedures to the governing body.

April, 2013

Upon approval by TCRS Board of Trustees, will explain laws, policies and benefit provisions to employees of the district.

April, 2013

Upon approval by TCRS Board of Trustees, will explain reporting procedures to payroll officer.



STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
STATE TREASURER

JILL BACHUS
DIRECTOR

MEMORANDUM

TO: Mary Margaret Collier, Division of Local Finance
FROM: Melissa L. Davis, TCRS Field Services *Mld*
SUBJECT: Participation in Tennessee Consolidated Retirement System
DATE: February 4, 2013

The Second South Cheatham Utility District will begin participation in the Tennessee Consolidated Retirement System effective 4/1/2013.

The Board of Trustees of the TCRS requires a political subdivision to appropriate the necessary funds in their annual budget for retirement costs. The total first year cost for the entity is \$60,216. Twenty Five Percent (25%) of this figure (or \$15,054) is required to be budgeted for the 2012-2013 budgeted year ending June 30, 2013.

Enclosed is the 2012-2013 budget for this entity. Please let me know if this information is sufficient and accurately reflects adequate funding for retirement costs for this entity.

If you have any questions, please call me at (615) 741-1971.

Enclosure



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7872
FAX (615) 741-5986

MEMORADUM

TO: Melissa L. Davis, TCRS Field Services
FROM: Mary-Margaret Collier, Director *M.M.C.*
DATE: February 7, 2013
SUBJECT: Second South Cheatham Utility District

The fiscal year 2013 annual budget submitted by the Second South Cheatham Utility District appears sufficient to fund the required \$15,054 first year retirement costs for the fiscal year ending July 31, 2013.

Second South Cheatham Utility District
Condensed Budget
2012-2013 Budget Year
Fiscal Year Ending July 31, 2013

Operating Revenues	\$1,845,550.00
Operating Expenses ¹	<u>1,354,857.50</u>
Net Operating Income	\$490,692.50
Non-operating Revenues	11,500.00
Non-operating Expenses	<u>(334,872.32)</u>
Non-operating Income/(Loss)	(\$323,372.32)
Net Income Before Contributions	\$167,320.18

Note 1: Includes \$33,880 for first year TCRS cost

Second South Cheatham Utility District
Condensed Budget
2012-2013 Budget Year

Total Revenues ²	\$1,857,050.00
Total Expenses ¹	<u>1,689,729.82</u>
Net Gain	\$167,320.18

Note 2: Includes operating and non-operating revenue

Note 3: Does not include depreciation expense of \$370,000. Includes principal payment of \$223,668 for fiscal year 2013 from the fiscal year 2012 Notes to the Financial Statements.

The financial information received by this Office with the request for the review of the District's fiscal year 2013 annual budget represents the District's assertions of its financial condition that may or may not reflect the current or future financial condition of the District.

If you need additional information, please do not hesitate to contact me.

A. SUMMARY OF REPORT

An actuarial valuation was performed as of October 1, 2012, to examine the cost of any benefits provided by the Tennessee Consolidated Retirement System as it would apply to the Second South Cheatham Utility District if the group joined the System on that date.

Costs and benefits were calculated on the assumption that the employer will not purchase any prior service, but would accept its share of the liability if an employee elected to establish up to twelve years of prior service.

Each political subdivision participating in the TCRS can include or exclude cost of living benefits in its retirement plan. If cost of living benefits are included, they must be "advance funded" in the same manner as other retirement benefits. Since the group now has this option, costs have been developed both "with" and "without" cost of living benefits.

The annual funding requirements (employer contributions only) of each approach for the plan year beginning on the valuation date are shown in the following table:

	WITHOUT C.O.L.		WITH C.O.L.	
	Amount	% of Payroll*	Amount	% of Payroll*
Initial Accrued Liability**	\$337,348	---	\$463,647	---
Employer Contributions				
Normal Cost	\$9,106	2.36%	\$15,782	4.09%
Accrued Liability	31,937	8.28	43,894	11.38
Administrative Expense***	540	0.14	540	0.14
Total	\$41,583	10.78%	\$60,216	15.61%

* Total annual payroll of employees, excluding employees eligible to retire during the plan year, was determined to be \$385,868.

** Amortized over 20 years by payment of the "accrued liability" contribution shown in the table.

*** Administrative expense equals \$60.00 per year per active participant.

TABLE 1

DISTRIBUTION OF ACTIVE PARTICIPANTS' EARNINGS

BY AGE

Age Group	Male			Female			Total		
	No	Total Earnings	Average Earnings	No	Total Earnings	Average Earnings	No	Total Earnings	Average Earnings
1-20	0	0	0	0	0	0	0	0	0
21-25	0	0	0	0	0	0	0	0	0
26-30	1	36,507	36,507	0	0	0	1	36,507	36,507
31-35	1	47,784	47,784	0	0	0	1	47,784	47,784
36-40	0	0	0	0	0	0	0	0	0
41-45	0	0	0	0	0	0	0	0	0
46-50	2	112,113	56,056	1	30,160	30,160	3	142,273	47,424
51-55	2	106,915	53,457	0	0	0	2	106,915	53,457
56-60	0	0	0	2	52,389	26,194	2	52,389	26,194
61-65	0	0	0	0	0	0	0	0	0
66-70	0	0	0	0	0	0	0	0	0
71-75	0	0	0	0	0	0	0	0	0
76-80	0	0	0	0	0	0	0	0	0
81-85	0	0	0	0	0	0	0	0	0
86-90	0	0	0	0	0	0	0	0	0
TOTAL	6	303,319	50,553	3	82,549	27,516	9	385,868	42,874

TABLE 2

DISTRIBUTION OF ACTIVE PARTICIPANTS' EARNINGS

BY LENGTH OF SERVICE

Service Group	Male			Female			Total		
	No	Earnings		No	Earnings		No	Earnings	
		Total	Average		Total	Average		Total	Average
0	0	0	0	0	0	0	0	0	0
1	0	0	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0	0	0
3	0	0	0	1	13,492	13,492	1	13,492	13,492
4	0	0	0	0	0	0	0	0	0
0-4	0	0	0	1	13,492	13,492	1	13,492	13,492
5-9	1	36,507	36,507	0	0	0	1	36,507	36,507
10-14	5	266,812	53,362	2	69,057	34,528	7	335,869	47,981
15-19	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0
35-39	0	0	0	0	0	0	0	0	0
40-44	0	0	0	0	0	0	0	0	0
45-49	0	0	0	0	0	0	0	0	0
TOTAL	6	303,319	50,553	3	82,549	27,516	9	385,868	42,874

TABLE 3
CALCULATION OF FUNDING LEVELS

The October 1, 2012 funding levels were determined as follows:

	<u>WITHOUT C.O.L.</u>	<u>WITH C.O.L.</u>
(1) Present Value of Benefits	742,247	916,615
(2) Past Service Liability	532,597	658,896
(3) Present Value of Future Employee Contributions	144,108	144,108
(4) Present Value of Future Normal Costs(1) - (2) - (3)	65,542	113,611
(5) Present Value of Future Salaries	2,882,165	2,882,165
(6) Normal Cost Rate ((4)/(5)) x 1.0375	2.36%	4.09%
(7) Current Payroll	385,868	385,868
(8) Normal Cost (6) x (7)	9,106	15,782
(9) Employee Past Service Contribution	195,249	195,249
(10) Accrued Liability (2) - (9)	337,348	463,647
(11) Accrued Liability Contribution (10) x .09125 x 1.0375	31,937	43,894
(12) Accrued Liability Contribution Rate (11)/(7)	8.28%	11.38%

TABLE 4
PROJECTED SCHEDULE OF BENEFIT PAYMENTS

(With Full Past Service Credit)

Calendar Year	Number Retiring	Emerging Benefits	Emerging Liability	Total Payout	Total Liability
2012	0	0	0	0	0
2013	1	8,439	115,880	2,103	115,880
2014	1	1,352	18,565	8,692	132,121
2015	0	0	0	9,631	129,327
2016	0	0	0	9,555	126,416
2017	0	0	0	9,475	123,386
2018	1	18,098	228,140	10,891	348,374
2019	1	22,051	277,968	36,279	617,029
2020	0	0	0	48,571	600,017
2021	0	0	0	48,028	582,390
2022	1	16,093	220,997	52,802	785,137
2023	1	37,868	477,365	100,472	1,239,191
2024	0	0	0	99,317	1,202,436
2025	1	30,376	382,923	108,171	1,547,336
2026	0	0	0	126,728	1,497,911
2027	0	0	0	125,023	1,446,841
2028	0	0	0	123,185	1,394,135
2029	0	0	0	121,191	1,339,843
2030	1	55,479	783,637	132,865	2,067,681
2031	0	0	0	171,687	1,996,084

The above table sets forth an estimate of normal retirement benefit payout, assuming:

- a) no deaths or terminations will occur before normal retirement,
- b) emerging benefits are based on the salary scale used for actuarial costing, and
- c) there are no early, disability or delayed retirements.

Tennessee Consolidated Retirement System

A RESOLUTION to authorize a political subdivision's participation in the Tennessee Consolidated Retirement System in accordance with Title 8, Chapters 34 through 37 of the Tennessee Code Annotated.

WHEREAS, Tennessee Code Annotated, Title 8, Chapter 35, Part 2 allows a political subdivision to participate in the Tennessee Consolidated Retirement System subject to the approval by the Board of Trustees; and

WHEREAS, the **Second South Cheatham Utility District** desires to participate in the Tennessee Consolidated Retirement System under the provisions of state law and the following terms and conditions:
(Name of Political Subdivision)

1. PRIOR SERVICE:

- a. The political subdivision will assume all liability (both employer and employee) for **0** year(s) of prior service for each person employed on the date of participation;
- b. The political subdivision will assume the employer liability only for **12** year(s) of prior service for each person employed on the date of participation; and accept the unfunded liability should any or all its employees elect to establish such service.

The maximum allowable number of years of prior service any employee may establish is the sum of the number of years in a. and b. above.

- 2. COST-OF-LIVING: The political subdivision has the option of providing cost-of-living increases to its retirees and hereby chooses to **provide** cost-of-living increases for retirees.
- 3. PART-TIME EMPLOYEES: The political subdivisions has the option of providing retirement coverage to part-time employees and hereby chooses to **provide** this coverage.

WHEREAS, the liability for participation and costs of administration shall be the sole responsibility of the political subdivision and not the State of Tennessee; and

WHEREAS, the political subdivision has passed a budget amendment appropriating the funds necessary to meet such liability and the same is attached hereto; and

WHEREAS, the effective date of participation shall be on a date as determined by the Board of Trustees of the Tennessee Consolidated Retirement System, and the initial employer contribution rate shall be **15.61%** which is based on the estimated lump sum accrued liability of **\$463,647**; and

WHEREAS, the funds necessary to provide for the retirement costs during the **2013** fiscal year have been appropriated to the proper departmental budgets in the following amounts:

Employee Retirement	\$15,054 for April 1, 2013 thru July 31, 2013
_____	\$ _____
_____	\$ _____
_____	\$ _____

THEREFORE, BE IT RESOLVED That the **Board of Commissioners** of

(Name of Governing Body)

Second South Cheatham Utility District
(Name of Political Subdivision)

hereby authorizes all its employees in all its departments or

instrumentalities to become eligible to participate in the Tennessee Consolidated Retirement System subject to approval by the Board of Trustees pursuant to Tennessee Code Annotated Title 8, Chapter 35, Part 2. It is further understood that pursuant to Tennessee Code Annotated, Section 8-35-111, no employee of said political subdivision covered by this resolution shall have multiple memberships in any retirement program or programs financed from public funds whereby such employee obtains or accrues pensions or retirement benefits based upon the same period of service rendered to said political subdivision.

STATE OF TENNESSEE

COUNTY OF **Cheatham**

I, Jason K. West, clerk of the Board of

Board of Commissioners
(Name of Governing Body)

Second South Cheatham Utility District
(County, City Town, etc.)

Tennessee, do hereby certify that this is a true and exact copy of the foregoing Resolution that was approved and adopted at a meeting held on the **30th day of January, 2013**, the original of which is on file in this office. I further certify that 3 members voted in favor of the Resolution and that 3 members of the governing body were present and voting.

IN WITNESS WHEREOF, I have hereunto set my hand, and the seal of the Second South Cheatham Utility District
CHEATHAM, Kingsport, TN
(Name of County, City, Town, etc.)

[Signature]
As Clerk of the Board, as aforesaid

Seal

**Political Subdivisions Beginning Participation
in the Tennessee Consolidated Retirement System
April 1, 2013**

Political Subdivision	Amount of Service Purchased		Employer Rate	Accrued Liability	Cost of Living	Number of Employees
	Employer	Employee				
Madison Suburban Utility District	All	0	Normal .42 %	\$3,699,289	Include	40
			Accrued 22.20 %			
			Adm. Cost .15 %			
			<u>TOTAL 22.77 %</u>		/	

Meetings:

November, 2012

Explained results of actuarial study and participation procedures to the governing body.

April, 2013

Upon approval by TCRS Board of Trustees, will explain laws, policies and benefit provisions to employees of the district.

April, 2013

Upon approval by TCRS Board of Trustees, will explain reporting procedures to payroll officer.



STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
STATE TREASURER

JILL BACHUS
DIRECTOR

MEMORANDUM

TO: Mary Margaret Collier, Division of Local Finance
FROM: Melissa L. Davis, TCRS Field Services *Mld*
SUBJECT: Participation in Tennessee Consolidated Retirement System
DATE: February 6, 2013

The Madison Suburban Utility District will begin participation in the Tennessee Consolidated Retirement System effective 4/1/2013.

The Board of Trustees of the TCRS requires a political subdivision to appropriate the necessary funds in their annual budget for retirement costs. The total first year cost for the entity is \$359,245.00. Twenty-Five Percent (25%) of this figure (or \$89,811.00) is required to be budgeted for the 2012-2013 budgeted year ending June 30, 2013.

Enclosed is the 2012-2013 budget for this entity. Please let me know if this information is sufficient and accurately reflects adequate funding for retirement costs for this entity.

If you have any questions, please call me at (615) 741-1971.

Enclosure



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7872
FAX (615) 741-5986

MEMORADUM

TO: Melissa L. Davis, TCRS Field Services

FROM: Mary-Margaret Collier, Director

Mary-Margaret Collier
S.A.

DATE: February 22, 2013

SUBJECT: Madison Suburban Utility District

The fiscal year 2013 annual budget submitted by the Madison Suburban Utility District appears sufficient to fund the required \$89,811 first year retirement costs for the fiscal year ending June 30, 2013.

Madison Suburban Utility District

Condensed Budget

2012-2013 Budget Year

Fiscal Year Ending June 30, 2013

Operating Revenues	\$7,319,345.00
Operating Expenses ¹	<u>6,445,473.00</u>
Net Operating Income	\$873,872.00
Non-operating Revenues	1,594,532.00
Non-operating Expenses	<u>763,351.00</u>
Non-operating Income/(Loss)	\$831,181.00
Net Income Before Contributions	\$1,705,053.00

Note 1: Includes \$89,811 for first year TCRS cost

Madison Suburban Utility District

Condensed Cash Budget

2012-2013 Budget Year

Total Revenues ²	\$8,913,877.00
Total Expenses ³	<u>8,234,257.00</u>
Net Gain	\$679,620.00

Note 2: Includes operating and non-operating revenues

Note 3: Does not include non-cash depreciation expense of \$1,125,000. Includes principal payment of \$1,711,830 for fiscal year 2013 from the fiscal year 2012 Notes to the Financial Statements and interest expense of \$600,977.

The financial information received by this Office with the request for the review of the District's fiscal year 2013 annual budget represents the District's assertions of its financial condition that may or may not reflect the current or future financial condition of the District.

If you need additional information, please do not hesitate to contact me.

A. SUMMARY OF REPORT

An actuarial valuation was performed as of January 1, 2013, to examine the cost of any benefits provided by the Tennessee Consolidated Retirement System as it would apply to the Madison Suburban Utility District if the group joined the System on that date.

Costs and benefits were calculated on two bases. First, it was assumed that the employer would not purchase any prior service, but would accept its share of the liability if an employee elected to establish all years of prior service. Second, it was assumed that the employer would purchase all years of prior service.

Each political subdivision participating in the TCRS can include or exclude cost of living benefits in its retirement plan. If cost of living benefits are included, they must be "advance funded" in the same manner as other retirement benefits. Since the group now has this option, costs have been developed both "with" and "without" cost of living benefits.

The annual funding requirements (employer contributions only) of each approach for the two bases, for the plan year beginning on the valuation date, are shown in the following table:

	WITHOUT C.O.L.		WITH C.O.L.	
	Basis 1			
	Amount	% of Payroll*	Amount	% of Payroll*
Initial Accrued Liability**	\$1,875,158	---	\$2,566,173	---
Employer Contributions				
Normal Cost	\$0	0.00%	\$11,832	0.75%
Accrued Liability	177,525	11.25	242,944	15.40
Administrative Expense***	2,400	0.15	2,400	0.15
Total	\$179,925	11.40%	\$257,176	16.30%

Madison Suburban Utility District Retirement Plan Study

	WITHOUT C.O.L.		WITH C.O.L.	
	Amount	% of Payroll*	Amount	% of Payroll*
Initial Accrued Liability**	\$3,015,838	---	\$3,699,289	---
Employer Contributions				
Normal Cost	\$0	0.00%	\$6,626	0.42%
Accrued Liability	285,515	18.10	350,219	22.20
Administrative Expense***	2,400	0.15	2,400	0.15
Total	\$287,915	18.25%	\$359,245	22.77%

Each of the figures in the above table assumes an amortization of the initial accrued liability over a 20-year period. It is important to note that the percentage of payroll requirement, rather than the actual dollar amount, represents expected future level annual funding for the plan; for example, except for variations due to departures of actual from assumed experience, the plan would require a total level contribution by the employer of 22.77% of current and future payroll, whatever that might be, if the initial accrued liability for the “employer purchases all years of prior service” plan with C.O.L. is to be amortized over the next 20 years.

Details of the development of these cost levels are set out in Table 3 of the Appendix. The Appendix also summarizes the group’s payroll and demographic information.

The actuarial valuation underlying this report has been made utilizing employee data furnished by the employer and the actuarial assumptions summarized in Table 5 of the Appendix.

- * Total annual payroll of employees, excluding those currently eligible to retire, was determined to be \$1,577,539.
- ** Amortized over 20 years by payment of the “accrued liability” contribution shown in the table.
- *** Administrative expense equals \$60.00 per year per active participant.

TABLE 1

DISTRIBUTION OF ACTIVE PARTICIPANTS' EARNINGS

BY AGE

Age Group	Male			Female			Total		
	No	Earnings		No	Earnings		No	Earnings	
		Total	Average		Total	Average		Total	Average
1-20	0	0	0	0	0	0	0	0	0
21-25	5	155,825	31,165	0	0	0	5	155,825	31,165
26-30	4	139,482	34,870	1	30,043	30,043	5	169,525	33,905
31-35	4	131,021	32,755	2	47,512	23,756	6	178,533	29,755
36-40	2	83,568	41,784	0	0	0	2	83,568	41,784
41-45	2	71,721	35,860	2	72,926	36,463	4	144,647	36,161
46-50	1	39,127	39,127	2	73,174	36,587	3	112,301	37,433
51-55	4	177,787	44,446	2	69,733	34,866	6	247,520	41,253
56-60	5	258,786	51,757	2	149,874	74,937	7	408,660	58,380
61-65	0	0	0	1	34,058	34,058	1	34,058	34,058
66-70	1	42,902	42,902	0	0	0	1	42,902	42,902
71-75	0	0	0	0	0	0	0	0	0
76-80	0	0	0	0	0	0	0	0	0
81-85	0	0	0	0	0	0	0	0	0
86-90	0	0	0	0	0	0	0	0	0
TOTAL	28	1,100,219	39,293	12	477,320	39,776	40	1,577,539	39,438

TABLE 2

DISTRIBUTION OF ACTIVE PARTICIPANTS' EARNINGS

BY LENGTH OF SERVICE

Service Group	Male			Female			Total		
	No	Earnings		No	Earnings		No	Earnings	
		Total	Average		Total	Average		Total	Average
0	0	0	0	0	0	0	0	0	0
1	0	0	0	2	25,561	12,780	2	25,561	12,780
2	1	19,151	19,151	1	30,043	30,043	2	49,194	24,597
3	2	56,542	28,271	0	0	0	2	56,542	28,271
4	1	32,419	32,419	1	30,143	30,143	2	62,562	31,281
0-4	4	108,112	27,028	4	85,747	21,436	8	193,859	24,232
5-9	9	307,673	34,185	1	33,419	33,419	10	341,092	34,109
10-14	3	153,496	51,165	3	111,879	37,293	6	265,375	44,229
15-19	4	157,788	39,447	1	42,934	42,934	5	200,722	40,144
20-24	4	176,456	44,114	1	58,265	58,265	5	234,721	46,944
25-29	1	50,656	50,656	1	43,031	43,031	2	93,687	46,843
30-34	3	146,038	48,679	1	102,045	102,045	4	248,083	62,020
35-39	0	0	0	0	0	0	0	0	0
40-44	0	0	0	0	0	0	0	0	0
45-49	0	0	0	0	0	0	0	0	0
TOTAL	28	1,100,219	39,293	12	477,320	39,776	40	1,577,539	39,438

TABLE 3
CALCULATION OF FUNDING LEVELS

The January 1, 2013 funding levels were determined as follows:

	WITHOUT C.O.L.	
	Basis 1	Basis 2
(1) Present Value of Benefits	3,686,103	3,583,223
(2) Past Service Liability	3,082,824	3,015,838
(3) Present Value of Future Employee Contributions	640,100	640,100
(4) Present Value of Future Normal Costs(1) - (2) - (3)	0	0
(5) Present Value of Future Salaries	12,802,009	12,802,009
(6) Normal Cost Rate ((4)/(5)) x 1.0375	0.00%	0.00%
(7) Current Payroll	1,577,539	1,577,539
(8) Normal Cost (6) x (7)	0	0
(9) Employee Past Service Contribution	1,207,666	0
(10) Accrued Liability (2) - (9)	1,875,158	3,015,838
(11) Accrued Liability Contribution (10) x .09125 x 1.0375	177,525	285,515
(12) Accrued Liability Contribution Rate (11)/(7)	11.25%	18.10%

TABLE 3 (Continued)
CALCULATION OF FUNDING LEVELS

The January 1, 2013 funding levels were determined as follows:

	WITH C.O.L.	
	Basis 1	Basis 2
(1) Present Value of Benefits	4,506,163	4,390,753
(2) Past Service Liability	3,773,839	3,699,289
(3) Present Value of Future Employee Contributions	640,100	640,100
(4) Present Value of Future Normal Costs(1) - (2) - (3)	92,224	51,364
(5) Present Value of Future Salaries	12,802,009	12,802,009
(6) Normal Cost Rate ((4)/(5)) x 1.0375	0.75%	0.42%
(7) Current Payroll	1,577,539	1,577,539
(8) Normal Cost (6) x (7)	11,832	6,626
(9) Employee Past Service Contribution	1,207,666	0
(10) Accrued Liability (2) - (9)	2,566,173	3,699,289
(11) Accrued Liability Contribution (10) x .09125 x 1.0375	242,944	350,219
(12) Accrued Liability Contribution Rate (11)/(7)	15.40%	22.20%

TABLE 4
PROJECTED SCHEDULE OF BENEFIT PAYMENTS

(With Full Past Service Credit)

Calendar Year	Number Retiring	Emerging Benefits	Emerging Liability	Total Payout	Total Liability
2012	5	83,832	1,105,705	15,227	1,105,705
2013	4	107,709	1,510,595	170,847	2,590,708
2014	2	32,653	411,626	214,600	2,947,428
2015	1	11,613	159,471	226,030	3,038,909
2016	0	0	0	228,713	2,965,113
2017	1	22,002	333,071	242,894	3,221,631
2018	0	0	0	245,853	3,137,716
2019	3	59,510	788,845	254,409	3,839,641
2020	2	56,529	804,993	336,693	4,536,866
2021	0	0	0	351,466	4,411,008
2022	0	0	0	347,243	4,280,849
2023	1	23,701	340,320	364,398	4,486,731
2024	0	0	0	361,379	4,342,194
2025	1	35,015	530,068	364,755	4,723,366
2026	1	14,759	202,677	389,996	4,765,632
2027	1	24,018	329,816	397,388	4,926,591
2028	0	0	0	410,308	4,746,791
2029	1	30,245	397,188	405,260	4,959,843
2030	0	0	0	424,450	4,762,431
2031	2	86,651	1,186,585	489,061	5,747,760

The above table sets forth an estimate of normal retirement benefit payout, assuming:

- a) no deaths or terminations will occur before normal retirement,
- b) emerging benefits are based on the salary scale used for actuarial costing, and
- c) there are no early, disability or delayed retirements.

Tennessee Consolidated Retirement System

A RESOLUTION to authorize a political subdivision's participation in the Tennessee Consolidated Retirement System in accordance with Title 8, Chapters 34 through 37 of the Tennessee Code Annotated.

WHEREAS, Tennessee Code Annotated, Title 8, Chapter 35, Part 2 allows a political subdivision to participate in the Tennessee Consolidated Retirement System subject to the approval by the Board of Trustees; and

WHEREAS, the MADISON SUBURBAN UTILITY DISTRICT desires to participate in the Tennessee Consolidated Retirement System under the provisions of state law and the following terms and conditions:

1. PRIOR SERVICE:

- a. The political subdivision will assume all liability (both employer and employee) for ALL year(s) of prior service for each person employed on the date of participation;
- b. The political subdivision will assume the employer liability only for _____ year(s) of prior service for each person employed on the date of participation; and accept the unfunded liability should any or all its employees elect to establish such service.

The maximum allowable number of years of prior service any employee may establish is the sum of the number of years in a. and b. above.

- 2. COST-OF-LIVING: The political subdivision has the option of providing cost-of-living increases to its retirees and hereby chooses to PROVIDE cost-of-living increases for retirees.
- 3. PART-TIME EMPLOYEES: The political subdivisions has the option of providing retirement coverage to part-time employees and hereby chooses to EXCLUDE this coverage.

WHEREAS, the liability for participation and costs of administration shall be the sole responsibility of the political subdivision and not the State of Tennessee; and

WHEREAS, the political subdivision has passed a budget amendment appropriating the funds necessary to meet such liability and the same is attached hereto; and

WHEREAS, the effective date of participation shall be on a date as determined by the Board of Trustees of the Tennessee Consolidated Retirement System, and the initial employer contribution rate shall be 22.77% which is based on the estimated lump sum accrued liability of \$ 3,699,289.⁰⁰; and

WHEREAS, the funds necessary to provide for the retirement costs during the 2013 fiscal year have been appropriated to the proper departmental budgets in the following amounts:

employee benefits	\$ <u>359,245⁰⁰</u>
_____	\$ _____
_____	\$ _____
_____	\$ _____

1 Quarter of 2012-2013 beginning April 1, 2013 = 89,811⁰⁰

THEREFORE, BE IT RESOLVED

That the **BOARD OF COMMISSIONERS of THE MADISON SUBURBAN UTILITY DISTRICT OF DAVIDSON COUNTY, MADISON, TN** hereby authorizes all its employees in all its departments or instrumentalities to become eligible to participate in the Tennessee Consolidated Retirement System subject to approval by the Board of Trustees pursuant to Tennessee Code Annotated Title 8, Chapter 35, Part 2. It is further understood that pursuant to Tennessee Code Annotated, Section 8-35-111, no employee of said political subdivision covered by this resolution shall have multiple memberships in any retirement program or programs financed from public funds whereby such employee obtains or accrues pensions or retirement benefits based upon the same period of service rendered to said political subdivision.

STATE OF TENNESSEE

COUNTY OF Davidson

I, Tim Karetz, clerk of the Board of BOARD OF COMMISSIONERS, MADISON SUBURBAN UTILITY DISTRICT, DAVIDSON COUNTY, MADISON, TN

Tennessee, do hereby certify that this is a true and exact copy of the foregoing Resolution that was approved and adopted at a meeting held on the 19th day of December, 2012, the original of which is on file in this office. I further certify that 3 members voted in favor of the Resolution and that all members of the governing body were present and voting.

IN WITNESS WHEREOF, I have hereunto set my hand, and the seal of the **MADISON SUBURBAN UTILITY DISTRICT OF DAVIDSON COUNTY, MADISON, TENNESSEE**

Tim Karetz
As Clerk of the Board, as aforesaid

Seal

OPTIONAL RETIREMENT PROGRAM

Optional Retirement Plan (ORP)

Contributions for the Year <i>Description: New deposits for the 12 months ended 12/31/2012</i>	ING	VALIC	TIAA CREF	Total
TN State Board of Regents System	\$ 11,722,735	\$ 8,210,562	\$ 28,968,973	\$ 48,902,270
University of Tennessee System	\$ 10,495,336	\$ 6,481,395	\$ 28,484,748	\$ 45,461,479
Total Contributions Received	\$ 22,218,071	\$ 14,691,957	\$ 57,453,721	\$ 94,363,749

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Active Participant Count for the Year <i>Description: Individual lives with Active deposits to their account for the year ended 12/31/2012</i>	ING	VALIC	TIAA CREF
TN State Board of Regents System	1,341	1,364	4,551
University of Tennessee System	1,360	1,055	3,943
Total Active Participants	2,701	2,419	8,494

Optional Retirement Plan (ORP)

TN ORP Asset Balances	ING	VALIC	TIAA CREF	Total
<i>Description: Total Assets for the Year Ended 12/31/12</i>				
TN State Board of Regents System	\$ 86,775,464	\$ 119,238,343	\$ 877,951,585	\$ 1,083,965,392
University of Tennessee System	\$ 132,842,034	\$ 108,196,236	\$ 1,417,393,793	\$ 1,658,432,063
Total TN ORP Asset Balances	\$ 219,617,498	\$ 227,434,579	\$ 2,295,345,378	\$ 2,742,397,455
<i>Description: Individual Lives with Active deposits to their account for the year ended 12/31/2012</i>				
ORP Total Participants	ING	VALIC	TIAA CREF	
TN State Board of Regents System	1,596	2,519	12,754	
University of Tennessee System	2,282	2,387	13,599	
Total Participants	3,878	4,906	26,353	

STATISTICAL REPORTS

ANALYSIS OF MEMBERS ACTIVELY CONTRIBUTING

	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012
Group I Members:							
(State & Higher Ed.)	57,592	56,536	56,656	56,466	56,566	55,824	56,670
Teachers	79,583	78,940	78,865	78,814	78,613	78,159	78,876
General Employees of Polisubs	81,751	80,239	80,167	80,761	80,784	78,934	80,311
General Assembly	127	128	129	129	129	128	129
County Officials	2	2	2	2	2	2	2
PSC							
County Judges	1	1	1	1	1	1	1
Attorneys General	635	640	644	644	648	649	645
Total Group I	219,691	216,486	216,464	216,817	216,743	213,697	216,634
Group II & Prior Class:							
Wildlife Officers	3	3	2	2	2	2	2
Highway Patrol	6	3	3	3	3	3	3
Firemen & Policemen- Political Subdivisions	21	18	17	17	16	13	17
Total Group II & Prior Class	30	24	22	22	21	18	22
Group III and Prior Class:							
State Judges	2	2	2	2	2	2	2
County Judges							
Attorneys General	5	5	5	5	5	4	5
County Officials	5	5	5	5	5	4	5
Total Group III & Prior Class	12	12	12	12	12	10	12
Group IV							
State Judges	181	182	181	181	182	182	181
Total Membership							
Contributing to TCRS	219,914	216,704	216,679	217,032	216,958	213,907	216,849
Teachers Contributing to ORP	11,562	11,575	11,570	11,601	11,575	11,546	11,569
Grand Totals	231,476	228,279	228,249	228,633	228,533	225,453	228,418

**RETIRED PAYROLL
STATISTICS
December 31, 2012**

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	46,966,473.26	41376
STATE PAID JUDGES	819,662.21	160
COUNTY PAID JUDGES	358,978.41	114
ATTORNEY GENERALS	846,027.12	301
COUNTY OFFICIALS	411,972.14	226
PUBLIC SERVICE COMMISSIONERS	8,584.44	5
POLITICAL SUBDIVISIONS	23,204,619.53	34551
TEACHERS	83,110,126.49	43173
LOCAL TEACHERS	3,666,209.74	2115
GOVERNORS AND WIDOWS	29,726.00	5
AGED STATE EMPLOYEES	133.14	1
AGED TEACHERS	2,503.73	18
TOTAL	\$159,425,016.21	122,045

RETIRED PAYROLL
July 1, 2012
THROUGH
December 31, 2012

	AMOUNT	# OF RETIREES
STATE EMPLOYEES	279,057,552.47	41376
STATE PAID JUDGES	4,979,726.75	160
COUNTY PAID JUDGES	2,187,753.06	114
ATTORNEY GENERALS	5,042,495.33	301
COUNTY OFFICIALS	2,475,989.35	226
PUBLIC SERVICE COMMISSIONERS	51,506.64	5
POLITICAL SUBDIVISIONS	138,321,278.40	34551
TEACHERS	500,647,502.46	43173
LOCAL TEACHERS	22,185,212.90	2115
GOVERNORS AND WIDOWS	178,366.00	5
AGED STATE EMPLOYEES	800.84	1
AGED TEACHERS	15,819.93	18
TOTAL	\$955,144,004.13	122,045

NOTE: NINETY-FIVE PERCENT (95%) OF THE RETIREES ARE ON DIRECT DEPOSIT.

NUMBER OF MEMBERS REFUNDED

<u>Month</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
July	507	1,149	450	894	499	496	475
August	481	675	308	612	406	466	471
September	546	566	316	494	431	447	394
October	454	609	411	369	379	383	375
November	440	492	353	320	293	364	319
December	318	234	257	256	276	257	241
January	408	450	332	257	307	348	
February	333	308	310	242	265	312	
March	342	316	291	278	299	262	
April	365	308	311	687	277	346	
May	323	619	217	385	662	329	
June	313	843	340	360	406	339	
TOTAL	<u>4,830</u>	<u>6,569</u>	<u>3,896</u>	<u>5,154</u>	<u>4,500</u>	<u>4,349</u>	<u>2,275</u>

**REFUND EXPENDITURES
2012-2013 FISCAL YEAR**

MONTH	MEMBER'S CONTRIBUTIONS	414(H) CONTRIBUTIONS	MEMBER'S INTEREST	EMPLOYER CONTRIBUTIONS	DEATH PAYMENTS	TOTAL
July	134,678.69	3,059,661.14	1,178,615.17	238,005.97	435,162.47	\$5,046,123.44
August	76,587.36	3,065,117.07	1,042,827.14	154,778.94	641,110.86	\$4,980,421.37
September	50,365.81	3,156,811.65	1,076,996.01	23,606.09	363,877.97	\$4,671,657.53
October	44,456.20	2,636,249.91	906,473.85	53,569.77	284,009.77	\$3,924,759.50
November	66,786.43	1,914,374.12	712,381.25	75,430.60	413,831.35	\$3,182,803.75
December	16,063.85	1,256,545.89	314,359.28	13,564.46	89,846.30	\$1,690,379.78
January						
February						
March						
April						
May						
June						
TOTAL	388,938.34	15,088,759.78	5,231,652.70	558,955.83	2,227,838.72	\$23,496,145.37

PRIOR SERVICE ACTIVITY
October 1, 2012 through December 31, 2012

State:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	19	5	\$ 8,847
	Military	21	39	-
	Redeposit	6	25	97,730
	Totals	46	69	\$ 106,577

Teachers:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	14	6	\$ 102,906
	Military	2	3	-
	Redeposit	16	67	269,817
	Totals	32	76	\$ 372,723

Higher Education:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	68	49	\$ 5,229
	Military	4	14	-
	Redeposit	0	0	-
	Totals	72	63	\$ 5,229

Political Subdivisions:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	94	97	\$ 283,831
	Military	24	44	552
	Redeposit	6	26	26,778
	Totals	124	167	\$ 311,162

Grand Totals:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	195	157	\$ 400,814
	Military	51	100	552
	Redeposit	28	118	394,325
	Totals	274	375	\$ 795,691

DISABILITY RETIREMENT REPORT

Disability Statistical Report

Second Quarter 12-13

Disability Applications Received	October	48
	November	39
	December	<u>30</u>
	TOTAL	117
Initial Claims Approved	October	27
	November	25
	December	<u>21</u>
	TOTAL	73
Initial Claims Disapproved	October	12
	November	8
	December	<u>11</u>
	TOTAL	31
Initial Claims Approved after Reconsideration		06
Initial Claims Disapproved after Reconsideration		05
Re-Evaluation Claims Approved		39
Re-Evaluation claims Disapproved		0
Cases Referred to Vocational Rehabilitation		0

**APPROVED FOR DISABILITY
SECOND QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	55	STATE	COURT ASSISTANT	18	\$57,693	A	\$1,363	HYPERTENSIVE ESRD
ORD.	NO	NO	56	STATE	VOCATIONAL REHAB COUNSELOR	12	\$43,140	A	\$836	GENERALIZED EPILEPSY
ORD.	YES	NO	48	STATE	DISABILITY CLAIMS EXAMINER	13	\$35,437	A	\$837	CIRRHOISIS, CHRONIC HEPATITIS C, & DM
ORD.	NO	NO	54	STATE	MEDICAL ADMINISTRATIVE ASSISTANT	20	\$26,294	A	\$621	OA, ASTHMA, OBESITY, HTN, & SLEEP APNEA
ACC.	NO	NO	59	POL SUB	MAINTENANCE WORKER	25	\$31,790	A	\$386	RUPTURED DISC S/P SURGERY X4, & CHRONIC PAIN
ORD.	NO	NO	55	STATE	RN	27	\$52,254	A	\$1,723	SEVERE PNEUMONIA, & AORTIC REGURGITATION
ORD.	NO	NO	53	STATE	ADMINISTRATIVE SPECIALIST	16	\$32,747	A	\$773	MS
ORD.	YES	NO	51	POL SUB	POLICE OFFICER	16	\$35,898	A	\$848	PTSD, MOOD DISORDER, & CHRONIC PAIN SYNDROME
ORD.	YES	NO	44	POL SUB	BOOKKEEPER	7	\$39,995	B	\$873	FIBROSING MEDIASTITIS
ORD.	NO	NO	55	STATE	CERTIFIED NURSE PRACTITIONER	9	\$44,042	A	\$719	MAJOR DEPRESSION, & PTSD
ORD.	YES	NO	43	TEACHER	TEACHER	12	\$38,273	A	\$904	MYASTHENIA GRAVIS, MS, FATIGUE, LEG WEAKNESS, & BLURRED VISION
ORD.	NO	NO	54	POL SUB	COOK	9	\$10,343	B	\$169	MS
ORD.	YES	NO	49	POL SUB	CUSTODIAN	10	\$18,424	A	\$435	LUNG CANCER, S/P L-PNEUMONECTOMY, CHEMOTHERAPY, & COPD
ORD.	YES	NO	50	STATE	BOILER OPERATOR	27	\$44,076	D	\$1,269	UNCONTROLLED DM II, & HTN

**APPROVED FOR DISABILITY
SECOND QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	45	STATE	EXTENSION AGENT I	5	\$32,074	D	\$681	SYSTEMIC LUPUS, HTN, & FIBROMYALGIA
ORD.	YES	YES	46	STATE	DIRECTOR	14	\$49,100	A	\$1,160	LUMBAR SPONDYLOSIS, MULTI-LEVEL FACET ARTHROPATHY, & CHRONIC PAIN
ORD.	YES	NO	48	STATE	ADMINISTRATIVE ASSISTANT I	25	\$32,622	A	\$982	DM, CAD, OA, OBESITY, & RECURRENT MAJOR DEPRESSION
ORD.	YES	NO	45	STATE	ELIGIBILITY COUNSELOR	19	\$33,522	A	\$791	BIPOLAR DISORDER, MAJOR DEPRESSION, & ALCOHOLISM
ORD.	YES	NO	35	STATE	TELEPHONE OPERATOR	9	\$20,607	A	\$486	CEREBRAL PALSY
ORD.	NO	NO	58	STATE	PAROLE OFFICER II	18	\$34,950	D	\$643	UNCONTROLLED DM WITH FOOT ULCERS
ORD.	NO	NO	52	STATE	LICENSE EXAMINER	15	\$25,797	B	\$515	CHRONIC LOW BACK PAIN S/P BACK SURGERIES X 4, & LUMBAR SPASMS
ORD.	NO	NO	54	STATE	APPRAISAL ANALYST	16	\$36,302	B	\$748	AUTO-IMMUNE DISEASE, CIRROSIS, & FIBROMYALGIA
ORD.	NO	NO	53	POL SUB	MECHANIC	23	\$49,440	B	\$1,216	CVA, & MEMORY LOSS
ORD.	YES	NO	41	POL SUB	SPECIAL SERVICES ASSISTANT	9	\$10,889	D	\$238	DM, FOOT ULCERS, & MAJOR DEPRESSION
ORD.	NO	NO	55	STATE	TRANSPORTATION ASSISTANT	14	\$18,195	A	\$420	POSTLAMINECTOMY, CVA, & LUMBAR RADICULOPATHY
ORD.	NO	NO	55	TEACHER	TEACHER	14	\$44,949	A	\$1,057	BI-POLAR DISORDER, & ANXIETY
ORD.	NO	NO	59	STATE	ELIGIBILITY COUNSELOR II	9	\$30,068	A	\$372	CAD, CHF, ESRD, & HTN
ORD.	NO	NO	57	POL SUB	NUTRITIONALIST	15	\$31,578	A	\$672	MS

**APPROVED FOR DISABILITY
SECOND QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	55	STATE	CORRECTIONAL OFFICER	15	\$29,182	A	\$689	DM WITH NEUROPOTHY, HYPOTHYROIDISM, & LUMBAR DISK DISEASE
ORD.	YES	NO	50	TEACHER	JUNIOR ROTC INSTRUCTOR	11	\$60,579	A	\$1,431	REMOTE NECK INJURY, & CLAW HAND
ORD.	NO	NO	52	POL SUB	COOK	13	\$13,798	A	\$325	CAD, & RENOVASCULAR HTN
ORD.	YES	NO	39	TEACHER	TEACHER	6	\$42,405	A	\$1,001	EMBOLIC CVA, HTN, PERICADITIS, & MYOCARDITIS
ORD.	YES	NO	51	TEACHER	TEACHER	20	\$56,670	B	\$1,249	LEUKODYSTROPHY
ORD.	YES	NO	50	TEACHER	TEACHER	12	\$39,787	A	\$939	PARAPLEGIA, FRACTURE OF VERTEBRA COLUMN WITH SPINAL CORD INJURY
ORD.	YES	NO	40	POL SUB	TEACHER'S ASSISTANT	5	\$8,777	A	\$207	FIBRODYSPLASIA, CHRONIC PAIN, & LIMITED AMBULATION
ORD.	NO	YES	56	TEACHER	INSTRUCTOR	17	\$47,697	A	\$1,126	NARCOLEPSY, & DM
ORD.	NO	NO	55	POL SUB	CUSTODIAN	13	\$24,248	A	\$515	CERVICAL MYELOPATHY
ORD.	YES	NO	43	POL SUB	SECRETARY	7	\$9,946	B	\$215	BREAST CANCER, FIBROMALGIA, LYMPHEDEMA, & DEPRESSION
ORD.	NO	NO	55	POL SUB	TEACHER'S ASSISTANT	17	\$23,735	B	\$513	R-HIP TROCHANTERIC BURSITIS, R-ELBOW DJD, & R-KNEE DJD
ORD.	NO	NO	53	POL SUB	ELECTRICIAN	11	\$29,879	A	\$647	SPONDYLOSIS, DDD, RADICULOPATHY, HYPERCALCEMIA, & HYPOTHYROIDISM
ORD.	NO	NO	59	STATE	TELEPHONE OPERATOR	24	\$27,534	A	\$799	COPD, CHF, & PEPTIC ULCERS
ORD.	NO	NO	57	STATE	CLERK 2	26	\$25,670	A	\$816	ESRD, HTN, & DM II

**APPROVED FOR DISABILITY
SECOND QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	52	STATE	SUPERVISOR	21	\$47,224	A	\$1,194	CHRONIC LYMPHODEMA, & ARTHRITIS
INACT.	NO	NO	47	STATE	TRUCK DRIVER	9	\$13,176	A	\$50	CVA, L-HEMIPLEGIA WITH VISUAL FIELD & MEMORY DIFFICULTS
ORD.	YES	NO	44	STATE	COOK II	9	\$17,775	A	\$419	CERVICAL DISC DISEASE WITH RADICULOPATHY, & CHRONIC PAIN
ORD.	YES	NO	45	STATE	ELIGIBILITY COUNSELOR II	9	\$30,532	A	\$721	POST LAMINECTOMY SYNDROME, SCIATICA, CHRONIC BACK PAIN, & RADICULOPATHY
ORD.	NO	YES	55	STATE	MICROBIOLOGIST II	8	\$48,840	A	\$517	SEVERE ASTHMA WITH OCCUPATIONAL COMPONENT
SS-ORD	NO	NO	56	POL SUB	MAINTENANCE WORKER	16	\$21,515	A	\$508	LEGALLY BLIND
ORD.	YES	YES	50	POL SUB	TEACHING ASSISTANT	18	\$15,946	A	\$388	FIBROMYALGIA, OBESITY, GERD, & IBS
ORD.	YES	NO	50	POL SUB	OFFICE MANAGER	17	\$27,791	A	\$656	BREAST CANCER, CHEMOTHERAPY WITH SIDE EFFECTS, & POLYCYSTIC KIDNEY DISEASE
SS-ORD	YES	NO	42	POL SUB	SPECIAL EDUCATION ASSISTANT	10	\$19,352	A	\$457	MAJOR DEPRESSION, CERVICAL DDD, JOINT PAIN, DM, & MORBID OBESITY
SS-ORD	NO	NO	57	STATE	CASE MANAGER IV	24	\$49,656	A	\$1,446	DM II, SEVERE NEUROPATHY, HTN, HYPERLIPIDEMIA, & GOITER
ORD.	NO	NO	57	POL SUB	CUSTODIAN	12	\$22,251	B	\$361	CERVICAL MYELOPATHY, & CERVICAL STENOSIS
ORD.	NO	NO	59	POL SUB	CAFETERIA ASSISTANT	16	\$12,565	D	\$198	ANKYLOSING SPONDYLITIS, FIBROMYALGIA, & LEUKOPENIA
ORD.	NO	NO	55	TEACHER	TEACHER	19	\$59,364	A	\$1,402	SARCOIDOSIS, CIRRHOSIS, ESOPHAGEAL VARICES, CAD, JOINT PAIN, & PORTAL HTN
ORD.	YES	YES	45	POL SUB	CAFETERIA MANAGER	12	\$17,819	A	\$420	CERVICAL & LUMBER DDD

**APPROVED FOR DISABILITY
SECOND QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	43	POL SUB	SANITATION WORKER	17	\$27,311	A	\$645	DILATED CARDIOMYOPATHY
SS-ORD	NO	NO	52	TEACHER	TEACHER	17	\$47,024	A	\$1,110	BUDD CHIARI SYNDROME
SS-ORD	YES	NO	44	STATE	CORRECTIONAL OFFICER	19	\$29,883	B	\$643	COAGULATION, & BLOOD CLOTS IN BOTH LEGS
ORD.	YES	NO	42	POL SUB	OPERATOR	15	\$28,130	A	\$664	FAILED BACK SYNDROME, PVD, PSTD, & MAJOR DEPRESSIVE D/O WITH PSYCHOSIS
SS-ORD	NO	NO	58	POL SUB	LABORER	8	\$28,165	A	\$341	ISCHEMIC CARDIOMYOPATHY, CAD, CHF, STAGE IV KIDNEY DISEASE, DM, PROLIFERATIVE DIABETIC RETINOPATHY, HTN, & HYPERLIPIDEMIA
ORD.	NO	NO	57	STATE	VOCATIONAL REHAB COUNSELOR	17	\$35,245	A	\$832	MAJOR DEPRESSION, ANXIETY DISORDER, & ATTENTION DEFICIT DISORDER
ORD.	NO	NO	52	POL SUB	CLERICAL	10	\$30,824	E	\$666	SEVERE CVA
ORD.	YES	NO	49	POL SUB	MOWER OPERATOR	11	\$28,521	A	\$673	FRACTURED SKULL WITH HEMORRHAGE
ORD.	NO	NO	54	POL SUB	POLICE	19	\$43,628	B	\$925	PARKINSON'S DISEASE
ORD.	NO	NO	58	STATE	ASSISTANT MANAGER II	21	\$34,147	A	\$847	STAGE IV NON-HODGKINS LYMPHOMA, & THYROID CANCER
SS-ORD	NO	NO	58	STATE	EXECUTIVE ASSISTANT	15	\$27,130	A	\$571	DM, DIABETIC RETINOPATHY, NEUROPATHY, ARTHRITIS, & UNSTEADY GAIT
ORD.	NO	NO	54	TEACHER	TEACHER	17	\$46,752	D	\$971	DDD, SCIATICA, CHRONIC BACK PAIN, DEPRESSION & ANXIETY

**APPROVED FOR DISABILITY
SECOND QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	56	STATE	SYSTEMS ANALYST IV	12	\$43,361	B	\$731	CERVICAL & LUMBER DISC DISEASE W/RADICULOPATHY, & SPONDYLOSIS
ORD.	NO	NO	56	STATE	LPN	8	\$34,291	A	\$482	CHRONIC LOW BACK PAIN, & SEVERE INFLAMMATORY JOINT DISEASE
ORD.	NO	NO	55	TEACHER	SPEECH THERAPIST	20	\$46,896	B	\$998	CONGENITAL ARTHROGRYPOSIS
ORD.	NO	YES	60	STATE	ADMINISTRATIVE SERVICES ASSISTANT	9	\$26,960	A	\$353	PRIMARY BILARY CIRRHOSIS, HEPATITIS & IBS
ORD.	YES	NO	47	POL SUB	MAINTENANCE/ CUSTODIAN	11	\$22,877	A	\$540	CVA SYNDROME

**DISAPPROVED FOR DISABILITY
SECOND QUARTER
2012-2013**

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
ORD.	NO	52	POL SUB	UTILITY SERVICE WORKER	18	CHRONIC FATIGUE SYNDROME, ANXIETY, DEPRESSION, & LOW TESTOSTERONE	DEPRESSION IS NOT SEVERE, CAP OF SED WRA
ORD.	NO	41	POL SUB	FIRE FIGHTER	6	LOW BACK PAIN W/RADICULOPATHY, BULGING DISC, & HNP	CAP OF SED WRA
ORD.	NO	55	STATE	SOCIAL WORKER	15	CHRONIC MIGRAINES, & DEPRESSION	INSUFFICIENT MEDICAL DOCUMENTATION
ORD.	NO	43	STATE	CORRECTIONAL OFFICER	14	TOTAL BODY JOINT PAIN, MORBID OBESITY, & DM II	CAP OF SED WRA
ORD.	YES	55	TEACHER	TEACHER	13	OA, & ADULT TETHERED CORD SYNDROME	CAP OF LGT WRA
ORD.	YES	53	TEACHER	TEACHER	29	HIP & LUMBAR PAIN	LIMITED TO SED WRA
ORD.	NO	46	STATE	DIRECTOR	14	LUMBAR DISK DISEASE S/P SPINAL FUSION, & CHRONIC LOW BACK PAIN	CAP OTHER TYPES OF LGT WRA
ORD.	NO	55	POL SUB	BUS DRIVER	10	CERVICAL DDD, DYSPHAGIA, TINNITUS, & BILATERAL SENSORINEURAL HEARING LOSS	CAP SED-LGT WRA
ORD.	NO	56	POL SUB	BUS DRIVER	25	MORBID OBESITY, DM II, NEUROPATHY, DJD, OA, & PAIN OF BACK, KNEES & FEET	CAP SED-MED WRA
ORD.	NO	47	POL SUB	ELECTRICIAN	16	BACK PAIN, LUMBAR RADICULOPATHY, & MORBID OBESITY	CAP OF SED WRA
ORD.	YES	54	STATE	CORRECTIONAL OFFICER	9	R-TOTAL KNEE REPLACEMENT, CHRONIC PAIN, & DEPRESSION	CAP SED-LGT WRA
ACC.	NO	59	STATE	PSYCH TECH II	7	KNEE PAIN, OA, & R-KNEE MENISCUS & LIGAMENT TEAR	CAP OF LGT WRA

**DISAPPROVED FOR DISABILITY
SECOND QUARTER
2012-2013**

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
ORD.	NO	58	STATE	SUPERVISOR	19	DDD, SEVERE BACK PAIN, & ARTHRITIS	CAP OF LIGHT WRA
ORD.	YES	50	STATE	MAILROOM COORDINATOR	11	FIBROMYALGIA, DDD, MIGRAINE HA'S, DEPRESSION, & ANXIETY	CAP SED-MED WRA
ORD.	NO	51	POL SUB	SPECIAL EDUCATION TEACHER	17	BIPOLAR D/O, MORBID OBESITY, & BACK PAIN	LIMITED TO SED WRA
INACT.	NO	37	POL SUB	DISPATCHER	5	DDD, ARTHRITIS OF NECK & BACK, ANXIETY, & DEPRESSION	CAP OF SITTING & STANDING
ORD.	NO	49	POL SUB	ELECTRICAL TECHNICIAN	20	R-ROTATOR CUFF TEAR, & SEVERE DEPRESSION	INSUFFICIENT MEDICAL DOCUMENTATION, CAP LGT WRA
ORD.	NO	49	STATE	DRIVER'S LICENSE EXAMINER	22	PANIC D/O, BI-POLAR D/O, & ANEURYSM	CAP OF WORKING
ORD.	NO	51	POL SUB	LPN	17	CHRONIC BACK PAIN	LIMITED TO LGT WRA
ORD.	NO	57	STATE	HIGHWAY WORKER	9	ARTHRITIS, DM, HTN, & LEUKEMIA	CAP OF SEDENTARY WRA
ORD.	NO	54	POL SUB	TEACHING ASSISTANT	11	OA, BILATERAL KNEE REPLACEMENT, CARPAL TUNNEL SURGERY, ROTATOR CUFF REPAIR, & OBEISITY	BORDERLINE SEVERITY, CAP SED-MED WRA
ORD.	NO	52	STATE	PSYCH TECH	5	FIBROMYALGIA, SLEEP APNEA, DEPRESSION, & ANXIETY	LIMITED TO SED WRA
ORD.	NO	57	STATE	FOOD SERVICE WORKER	13	COMPLETE ROTATOR CUFF TEAR	CAP OF LGT WRA
ORD.	NO	52	STATE	DATA PROCESSOR	19	CAD	CAP OF MED WRA

**DISAPPROVED FOR DISABILITY
SECOND QUARTER
2012-2013**

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
ACC.	NO	52	STATE	ADMINISTRATIVE ASSISTANT	27	DDD, SEVERE PAIN, & ALCOHOL DEPENDENCE	CAP OF SED WRA
ACC.	NO	54	STATE	CRAFT SPECIALIST	3	SPINE FRACTURES, CHRONIC BACK PAIN	CAP OF LGT WRA
ORD.	NO	51	POL SUB	PRODUCTION MANAGER	11	BACK PAIN, & FIBROMYALGIA	CAP OF SED WRA
ORD.	NO	43	POL SUB	PARAMETIC	6	DDD	CAP OF LGT WRA
ORD.	NO	57	STATE	ADMINISTRATIVE ASSISTANT	9	FIBROMYALGIA, OA, & DDD	CONDITION MANAGED WITH CURRENT TREATMENT
ACC.	NO	57	TEACHER	AUTOMOTIVE INSTRUCTOR	19	BILATERAL KNEE OA	PRE-EXISTING CONDITION, CAP OF LGT WRA
INACT.	NO	48	STATE	ELIGIBILITY COUNSELOR	8	FIBROMYALGIA, DEPRESSION, GAD, & DILATED CARDIOMYOPATHY	CAP LGT-MED WRA

FINANCIAL STATEMENTS

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2012

ASSETS	
Cash and cash equivalents	\$268,128,712.84
<hr/>	
Receivables	
Member receivable	589,681.46
Employer receivable	971,318.15
Accrued interest receivable	92,777,590.54
Accrued dividends receivable	39,535,944.10
Real estate income receivable	952,024.68
Investments sold	523,009,854.03
Total receivables	<hr/> 657,836,412.96 <hr/>
Investments, at fair value	
Short-term securities	13,353,342.76
Government securities	8,495,121,602.90
Corporate securities	5,445,471,214.92
Corporate stocks	20,738,427,495.36
Private Equities	230,281,372.00
Real estate	1,632,535,337.87
Total investments	<hr/> 36,555,190,365.81 <hr/>
Capital Assets, at cost	
Software in Development	9,749,457.84
Computer System, net of depreciation	1,677,480.25
Total Capital Assets	<hr/> 11,426,938.09 <hr/>
TOTAL ASSETS	<hr/> 37,492,582,429.70 <hr/>
LIABILITIES	
Retired payroll payable	4,240,218.91
Retiree insurance premium payable	7,706,579.76
Accounts payable	89,605.38
Investments purchased	928,391,612.92
Other investment payables	0.00
TOTAL LIABILITIES	<hr/> 940,428,016.97 <hr/>
NET ASSETS HELD IN TRUST FOR PENSION	
BENEFITS	<hr/> \$ 36,552,154,412.73 <hr/>

See Accompanying Notes to the Financial Statements

UNAUDITED

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS
JULY 1, 2012 THROUGH DECEMBER 31, 2012

ADDITIONS	
Contributions	
Member contributions	\$101,029,831.92
Employer contributions	418,455,788.66
Total contributions	<u>519,485,620.58</u>
Investment income	
Net Appreciation in fair value of investments	1,604,162,818.31
Interest	239,765,020.85
Dividends	235,622,018.03
Real Estate income, net of operating expenses	31,491,955.49
Total investment income	<u>2,111,041,812.68</u>
Less: Investment expense	(10,964,912.50)
Net investment income	<u>2,100,076,900.18</u>
TOTAL ADDITIONS	<u>2,619,562,520.76</u>
DEDUCTIONS	
Annuity benefits	
Retirement benefits	781,956,300.30
Cost of living	172,382,229.85
Death benefits	2,281,409.85
Refunds	19,075,804.33
Administrative expenses	4,485,335.39
TOTAL DEDUCTIONS	<u>980,181,079.72</u>
NET INCREASE	1,639,381,441.04
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
JULY 1, 2012	34,912,772,971.69
SEPTEMBER 30, 2012	<u>\$36,552,154,412.73</u>

See Accompanying Notes to the Financial Statements

UNAUDITED

Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2012

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 Assets and Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of investments in private equities is determined quarterly by the independent private equity managers with a more intensive review being performed at the end of each calendar year end. 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. Software in development has been reported at historical cost as a capitalized asset in accordance with GASB 51.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2012

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

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

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	83,041	33,544
Terminated members entitled to but not receiving benefits	22,867	9,758
Current active members	<u>135,588</u>	<u>79,488</u>
Total	241,496	122,790
Number of participating employers	140	482

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.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2012

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.

Political Subdivisions Pension Plan

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

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

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2012

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 those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed five percent (5 percent) of the market value of total assets.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2012

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.

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.

Asset-Backed Securities - The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates.

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

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

Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2012

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

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included as investment income on the statement.

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

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 60 basis points on the \$350 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, 80 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 105 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.