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Independent Auditor's Report

Members of the General Assembly
Members of the State Funding Board
The Honorable David H. Lillard, Jr., Treasurer

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the State Pooled Investment Fund as of June 30, 2017, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the State Pooled Investment Fund's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the State Funding Board. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the State Pooled Investment Fund.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State Pooled Investment Fund of the State of Tennessee as of June 30, 2017, and the changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A.1., the financial statements present only the State Pooled Investment Fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee, as of June 30, 2017 and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017, on our consideration of the State Pooled Investment Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Pooled Investment Fund's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 14, 2017

State Pooled Investment Fund
Statements of Fiduciary Net Position
June 30, 2017

ASSETS		
Cash and Cash Equivalents	$	6,739,282,635
Short-term investments, at amortized cost		4,412,157,636
Accrued income receivable		10,783,886
TOTAL ASSETS		11,162,224,157
LIABILITIES AND NET POSITION		
NET POSITION HELD IN TRUST FOR POOL PARTICIPANTS	$	11,162,224,157

State Pooled Investment Fund
Statements of Changes in Fiduciary Net Position
For Fiscal Year Ended June 30, 2017

OPERATIONS		
Investment income	$	61,337,817
Expenses		
Administrative fee		4,179,610
Custodian and banking services fees		937,512
Total expenses		5,117,122
NET INVESTMENT INCOME		56,220,695
CAPITAL SHARE TRANSACTIONS (DOLLAR AMOUNTS AND NUMBER OF SHARES ARE THE SAME)		
Shares sold		42,589,586,763
Less shares redeemed		42,142,721,289
INCREASE FROM CAPITAL SHARE TRANSACTIONS		446,865,474
TOTAL INCREASE IN NET POSITION		503,086,169
NET POSITION, BEGINNING OF YEAR		10,659,137,988
NET POSITION, END OF YEAR	$	11,162,224,157

See accompanying Notes to the Financial Statements

State Pooled Investment Fund
Notes to the Financial Statements
June 30, 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

2. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

3. Cash and Cash Equivalents

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

4. Method Used to Report Investments and Participant Shares

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency. SPIF funds are limited to high quality obligations with regulated maximum and average maturities, the effect of which is to minimize both market and credit risk. The State Funding Board has elected for the SPIF to use amortized cost accounting measures to report investments and to transact with participants at a stable net asset value. Furthermore, the State had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year.

B. DEPOSITS AND INVESTMENTS

The SPIF is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of the State Funding Board adopted in April 2016 gives the Treasurer approval to invest in U.S. Direct Obligations, U.S. Agency Securities, U.S. Instrumentality Securities, repurchase or reverse repurchase agreements, collateralized certificates of deposits in authorized state depositories, prime commercial paper, prime banker's acceptances, and securities lending agreements.

At June 30, 2017, the principal amount of certificates of deposit in state depositories was $1,965,385,000. Interest rates on certificates of deposit held at June 30, 2017 ranged from 0.70% to 1.25%, and the days to maturity ranged from 7 to 212 days.

As of June 30, 2017, the SPIF had the following investments:

State Pooled Investment Fund Investments
June 30, 2017

Investment Type	Carrying Amount	Fair Value	Par Value	Interest Rate Range	Days to Maturity*
Cash Equivalents and Short-term Investments					
U.S. Government Agencies	$ 6,716,165,654	$ 6,715,672,374	$ 6,718,350,000	0.630%-1.274%	14-406
U.S. Government Treasuries	1,044,611,804	1,044,204,540	1,044,000,000	0.625%-4.75%	48-388
Commercial Paper	399,919,833	399,919,833	400,000,000	0.880%-1.070%	3-40
Total Cash Equivalents and Short-term Investments	$ 8,160,697,291	$ 8,159,796,747	$ 8,162,350,000		
Less: short-term investments classified as cash equivalents on Statement of Fiduciary Net Position	(4,574,799,655)				
Add: certificates of deposit classified as short-term investments on Statement of Fiduciary Net Position	826,260,000				
Short-term investments as shown on Statement of Fiduciary Net Position	$ 4,412,157,636				

*Days to maturity is calculated as the maturity date of the security less the purchase date.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the SPIF's investments in debt securities as of June 30, 2017 are included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All state funds are required to be deposited with a financial institution that has been designated as a state depository. Statutes require that state deposits be secured by collateral securities with a market value of 105% of the face of the deposit secured thereby after considering the applicable FDIC coverage, or the depository must be a member of the State Collateral Pool and the pool must have securities pledged which in total equal the required percentage established by the Collateral Pool Board. All certificates of deposit are also required by policy to be placed directly with state depositories. For repurchase or reverse repurchase agreements, a counterparty or its parent, shall have an investment grade credit rating, be a primary dealer as defined by the Federal Reserve Bank of New York, or be of comparable quality. The SPIF's investment policy requires a first tier quality criteria for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be of first tier quality, the security or issuer shall have an investment grade credit rating, and the security shall be eligible for purchase by the Federal Reserve system. Commercial paper should be of first tier quality, but the security shall have an investment grade credit rating by at least two Nationally Recognized Statistical Rating Organizations and the issuer shall be approved in writing by the Chief Investment Officer. For securities lending agreements, the underlying collateral is limited to first tier U.S. Direct Obligation Securities, U.S. Agency Securities, or U.S. Instrumentality Securities.

Credit Quality Distribution for Securities with Credit Exposure as a percentage of Total Investments
June 30, 2017

Credit Quality Rating		Carrying Value	Percentage of Total Fixed Income Securities
US Treasury (1)	$	1,044,611,804	12.80%
AA		72,584,443	0.89%
A1 (3)		399,919,833	4.90%
NR (2)		6,643,581,211	81.41%
Total Fixed Income Securities	$	8,160,697,291	100.00%
Less Short Term Investments classified as Cash		(4,574,799,655)	
Add Certificates of Deposit classified as Short Term Investments		826,260,000	
Total Short Term Investments as shown on Net Position	$	4,412,157,636	

(1) Includes obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.
(2) Includes securities that are implicitly guaranteed by the U.S. government but are not rated by the Standard and Poor's or Moody's.
(3) A1 is the highest rating category for commercial paper.

Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The SPIF's investment policy sets forth criteria which the Board determines to be prudent in consideration of the purposes, terms, distribution requirements and other circumstances of the SPIF and in the best interest of the participants. Less than five percent (5%) of the SPIF shall be in investments of any one issuer of securities. In addition, less than ten percent (10%) of the SPIF shall be in investments of any one issuer of a demand feature or guarantee. The diversification limits, however, do not apply to or include U.S. Government Securities. For commercial paper, the SPIF shall not be invested in more than two hundred fifty million dollars ($250,000,000) of any one issuer and for prime banker's acceptances not more that twenty-five million dollars ($25,000,000) of any one issuer. Likewise, the total fair value of securities on loan under securities lending agreements shall not exceed fifty percent (50%) of the total fair value of the

SPIF on any day. At June 30, 2017, the SPIF had the following investment amounts and percentages of total investments, in organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

Issuer Organization		Carrying Amount	Percentage of Total Investments
International Bank for Reconstruction and Development	$	2,781,978,060	34.09%
Federal Home Loan Banks		1,948,904,887	23.88%
Federal Farm Credit Banks		1,739,980,201	21.32%

Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the weighted average maturity of the pool shall not exceed sixty (60) days calculated using maturity shortening features for securities with a variable or floating interest rate. The weighted average life of the SPIF cannot exceed one hundred twenty (120) days calculated using stated maturity and without using maturity shortening features. No security or investment may be purchased with a remaining maturity of greater than three hundred ninety seven (397) calendar days. At June 30, 2017, the weighted average maturity of the pool was forty-three (43) days and the weighted average life of the pool was sixty-four (64) days. It is the intent of the State Funding Board that the fair value of the SPIF not deviate more than one-half percent (0.5%) from amortized cost. If it does, actions may include, but not be limited to, selling securities whose fair value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. As of June 30, 2017, the SPIF portfolio had the following weighted average maturities on debt investments:

State Pooled Investment Fund Weighted Average Maturity of Debt Investments
June 30, 2017

Investment Type		Carrying Amount	Weighted Average Maturity (Months)
U.S. Government Agencies	$	6,716,165,654	1.47
U.S. Government Treasuries		1,044,611,804	2.36
Commercial Paper		399,919,833	0.28
Total Debt Investments		8,160,697,291	2.51
Total SPIF Portfolio	$	11,298,943,569	1.43

C. OTHER ACCOUNTING DISCLOSURES

Description of the State Pooled Investment Fund

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

Investment in the SPIF by local governments and certain state agencies is optional and participants may invest any amount for any length of time in the SPIF. There are no limitations or restrictions on participant withdrawals with the exception of a 24-hour notice for withdrawals exceeding $5,000,000. However, some deposits made to the LGIP are contractually required and committed to the State Department of Transportation (DOT). The only withdrawals allowed from these accounts are to pay the DOT in accordance with progress billings for construction projects contracted between the entity and the DOT.

An average rate of return is calculated on the investments made each month in the SPIF and is used to credit earnings to LGIP participants and the State departments and agencies required to earn interest. The State's general fund is credited with the residual earnings. Accordingly, participants' shares are sold and redeemed at a value equal to the amount of the principal plus accrued earnings while investments are reported at amortized cost. For the fiscal year ending June 30, 2017 an administrative fee of .04 percent was charged against each participant's average daily balance to provide funding for administrative expenses to operate the SPIF.