NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation - The accompanying financial statements of the State of Tennessee have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements of the Colleges and Universities have been prepared in conformity with generally accepted accounting principles for colleges and universities as prescribed by the Governmental Accounting Standards Board. Certain amounts presented for the preceding year have been reclassified for comparative purposes.

B. Financial Reporting Entity

Introduction - As required by generally accepted accounting principles, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government.

Discretely Presented Component Units.

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for guaranteeing student loans under both federal and state programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are State officials. TSAC's budget is approved by the State.

2. The Community Services Agencies (CSAs) (Governmental Fund Types) listed below are to provide a mechanism to facilitate the provision of services for children and other citizens in need of services from state agencies:

   Davidson County Community Services Agency
   Knox County Community Services Agency
   Shelby County Community Services Agency
   Hamilton County Community Services Agency
   Northeast Community Services Agency
   East Tennessee Community Services Agency
   Upper Cumberland Community Services Agency
   Southeast Community Services Agency
   Mid-Cumberland Community Services Agency
   South Central Community Services Agency
   Northwest Community Services Agency
   Southwest Community Services Agency

   The Boards for these CSAs are appointed by the Governor and the budget must be approved by the State.

3. The Tennessee Certified Cotton Growers Organization (Governmental Fund Type) was formed to aid in the eradication of the Boll Weevil. The majority of the Board is appointed by the Commissioner of the Department of Agriculture, and the State provides a substantial amount of funding.

4. The Tennessee Housing Development Agency (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The Board of the agency is appointed by the Governor and its budget is approved by the State.

5. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the Board consists of State officials; therefore, the State can impose its will on the Authority.

6. The Tennessee Commodity Producer Indemnity Board (Grain Indemnity) (Proprietary Fund Type) is responsible for administering the grain indemnity fund. This fund receives monies from assessments on the sale of grain by producers. These monies are then used to compensate any claimant who has incurred a financial loss due to a failure of a commodity dealer or warehouseman. The Board is comprised of state officials and the State may impose its will since the State appoints, hires and dismisses those individuals responsible for the day-to-day management of the organization.

7. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the Governor and its budget is approved by the State. In addition, the issuance of bonds must be approved by the State Funding Board.

8. The Child Care Facilities Corporation (Proprietary Fund Type) purpose is to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The Board is comprised primarily of State officials. The State must approve the budget of the Corporation.

9. The Tennessee State School Bond Authority (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents or the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the state in conjunction with a federal government program. The Board of the Authority consists primarily of State officials; therefore, the State is able to impose its will on the organization.

10. The University of Tennessee Board of Trustees (College and University Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the State. The Board is appointed by the Governor and the State provides a substantial amount of the funding.

11. The Tennessee Board of Regents (College and University Fund Type) is responsible for the operation of six universities, twelve community colleges, two technical institutes and twenty-seven technology centers. The Board is comprised of State officials and appointees by the Governor and the State provides a substantial amount of funding.

Complete financial statements for each of the individual component units may be obtained at the following addresses:

Tennessee Housing Development Agency
1114 Parkway Towers
404 James Robertson Parkway
Nashville, TN 37243

Tennessee Local Development Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

Tennessee State Veterans' Homes Board
345 Compton Road
Murfreesboro, TN 37130

Tennessee State School Bond Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

University of Tennessee
Office of the Treasurer
301 Andy Holt Tower
Knoxville, TN 37996-0100

Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217

All others may be obtained at the following address:
Finance & Administration
Division of Accounts
14th Floor William R. Snodgrass Tennessee Tower
312 Eighth Avenue North
Nashville, TN 37243-0298

C. Fund Structure and Basis of Accounting - The financial activities of the state reported in the accompanying statements are classified into three fund categories and two account groups, all described below. The fund categories include governmental funds, proprietary funds and fiduciary funds. Account groups are presented for general fixed assets and general long-term obligations.

The state's governmental fund types include:

1. the General Fund - used to account for all financial transactions not required to be accounted for in other funds;
2. the Special Revenue Funds - used to account for specific revenues earmarked to finance particular or restricted programs and activities;
3. the Debt Service Fund - used to account for the payment of principal and interest on general long-term debt; and
4. the Capital Projects Fund - used to account for the acquisition or construction of all major governmental capital facilities.

All of the governmental funds are accounted for on the modified accrual basis of accounting. Under this basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Principal revenue sources accounted for on the modified accrual basis include federal grants, departmental services, interest on investments, sales taxes, petroleum and vehicular-related taxes and fees, and gross receipts taxes. Licenses, fines, fees and permits are accounted for on the cash basis. Expenditures are recognized when the related fund liability is incurred except:

a. Inventories generally are considered expenditures when consumed;
b. Prepayments usually are not recorded; and
c. Principal and interest on long-term debt are recorded when due.

Encumbrance accounting is utilized for budgetary control purposes in governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditure.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary funds include:

1. the Enterprise Funds - used to account for the operations of self-sustaining state agencies providing goods or services to the general public on a user-charge basis; and
2. the Internal Service Funds - used to account for the operations of self-sustaining state agencies providing goods or services to other state agencies on a cost-reimbursement basis.

The proprietary funds are accounted for on the accrual basis. Under this method, revenues are recorded when earned and expenses at the time liabilities are incurred.

The fiduciary funds represent Trust and Agency Funds which are used to account for assets held by the state in a trust or agency capacity. These funds include:

1. the Expendable Trust Funds - used to account for the activities of trusts whose principal and income may be used for the purposes of the trust;
2. the Nonexpendable Trust Funds - used to account for the activities of trusts whose income is used to fund the trust purpose but whose principal is to be maintained intact;
3. the Pension Trust Fund - used to account for the activities of the state-administered retirement system;
4. Investment Trust Fund – used to account for the activities of the state sponsored external investment pool; and
5. the Agency Funds - used to account for amounts held in custody for others. Agency funds are custodial in nature and do not present results of operations or have a measurement focus.

Expendable Trust and Agency Funds are accounted for on the modified accrual basis of accounting. Nonexpendable, Pension Trust and Investment Trust Funds are accounted for on the accrual basis.

All proprietary funds, nonexpendable trust funds, pension trust and investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The financial statements of the pension plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The state's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The account group for general fixed assets is maintained to account for all fixed assets acquired or constructed for use by the state, other than those accounted for in the proprietary funds.

The account group for general long-term obligations is maintained to account for general obligation debt outstanding, arbitrage payable, claims payable, capital leases and accrued annual and compensatory leave not otherwise recorded in proprietary or fiduciary funds.

In addition to the forementioned fund categories and account groups, the component units also include colleges and universities which are accounted for using a different accounting and reporting model.

The college and university fund types (component units - discrete) include:

1. Current Funds - used to account for resources that will be expended in the near term for operating purposes of the institutions. These include (a) unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes and (b) restricted funds which may be utilized only in accordance with externally-restricted purposes;
2. Fiduciary Funds - used to account for assets held by loan, endowment, life income and agency funds in which the universities act in a fiduciary capacity; and
3. Plant Funds - used to account for institutional property acquisition, renewal, replacement, debt service and investment.

The college and university fund types are accounted for on the accrual basis of accounting with the following exceptions:

A. Depreciation expense related to plant fund assets is not recorded; and
B. Revenues and expenditures of an academic term encompassing more than one fiscal year are solely reported in the fiscal year in which the term is predominantly conducted.

D. Proprietary Activity Accounting and Financial Reporting - Activities accounted for in the state's proprietary, non-expendable trust and pension trust funds and proprietary type component units follow all applicable GASB pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989.

E. College and University Accounting and Financial Reporting Model - The state uses the AICPA college guide model for accounting and reporting guidance for its colleges and universities, which are presented as component units-discrete.

F. Budgetary Process - Legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general and special revenue funds, except the Supreme Court Boards, Fraud and Economic Crime and Dairy Promotion Board (accounted for as Special Revenue Funds). The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the state's financial plan for the coming year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Unencumbered appropriations lapse at the end of each fiscal year, with the encumbered appropriations being carried forward to the next year. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $108.2 million were required.

The state's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of encumbrance and contract obligations. Because these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts in the accompanying budgetary comparison statement are presented on the budgetary basis. A reconciliation of the differences between the budgetary and GAAP basis is presented in Note 2B. The budgetary comparison statement includes the General Fund and all budgeted Special Revenue Funds.

G. Cash and Cash Equivalents - This classification includes demand accounts, petty cash and monies in cash management pools. The liquidity of the cash management pools is sufficient to cover any withdrawal request by a participant. This classification also includes short-term investments with a maturity date within three months of the date acquired by the state. These short-term investments, which are not part of the State Cash Pool, are stated at fair value. Investments in the State Cash Pool are stated at cost or amortized cost as this pool is a 2a7-like pool. Collateral, as required by law, is pledged by the various banks and government securities dealers to guarantee state funds placed with them. It is the state's policy to include cash management pools as cash. In addition, all securities whose primary purpose is to facilitate the placement of funds in long-term investment vehicles are classified as investments.

H. Investments - This classification includes long-term investments which are stated at fair value.

Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Investment income consists of realized and unrealized appreciation in the fair value of investments. Interest income is recognized when earned. Securities and security transactions are recorded in the financial statements on trade-date basis.

I. Receivables - Receivables in the state's governmental and fiduciary funds primarily consist of taxes, interest, departmental services and federal revenues. Taxes are recorded as receivables when earned and received within 60 days after yearend. Interest, departmental services and federal revenues are recorded when earned. The remaining governmental fund revenues are not considered susceptible to accrual prior to receipt; accordingly, licenses, fees, fines, permits and similar revenues are recognized on the cash basis. The General Fund and certain Trust Fund receivables, representing taxes and benefits overpayments, have been reduced by an allowance for uncollectibles. Receivables in all other funds have arisen in the ordinary course of business. College and University receivables have also been reduced by an uncollectible allowance.

J. Interfund Transactions - The state basically has four types of interfund transactions, as follows:

1. Services rendered and employee benefit contributions. These transactions are accounted for as revenues, expenditures or expenses in the funds involved.
2. Operating appropriations/subsidies. These are accounted for as operating transfers in the funds involved.
3. Equity contributions. These are accounted for as equity transfers (additions to or deductions from beginning governmental fund balances or proprietary fund contributed capital).
4. College and university interfund borrowings. These transactions represent borrowings of a temporary nature and are reported as assets of the college and university fund making the advance and as liabilities of the fund receiving the advance.

The composition of the state's due to/from other funds at June 30, 2000 is presented in Note 2E.

K. Advances to Component Units - Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account or deferred revenue which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

L. Inventories - Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a Special Revenue Fund) and Motor Vehicle Management (an Internal Service Fund). The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

M. Fixed Assets and Depreciation - General fixed assets are presented in the accompanying financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Interest during construction has not been capitalized. Also, certain public domain fixed assets (including highways, bridges, highway lands and rights-of-way) are not capitalized. No depreciation is provided on general fixed assets.

Enterprise, Internal Service and Nonexpendable Trust Fund fixed assets are stated at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. They are being depreciated principally on a straight-line basis over estimated useful lives ranging from 20 to 50 years for Structures and Improvements and 4 to 20 years for Machinery and Equipment. It is the state's policy to capitalize interest expense incurred on significant assets during their construction.

A statement of changes in general fixed assets for the year ended June 30, 2000 is presented in Note 2A.

Generally, College and University component units fixed assets are stated at cost and are not depreciated. Donated fixed assets are stated at fair market value at the time of donation. Because of the magnitude of library holdings, however, it has been the state's policy to value library books at a standard amount per volume, currently $48, which approximates current cost.

N. Accumulated Unpaid Vacation and Sick Pay - The state's liability for accumulated unpaid annual and compensatory time is reported in the accompanying General Long-Term Obligations Account Group for all governmental fund types. In the proprietary fund types and the college and university fund types, this obligation is reported as a fund liability.

There is no liability in the accompanying financial statements for unpaid accumulated sick leave since it is the state's policy to record the cost of sick leave only when paid. This contingency amount is disclosed in Note 9A.

O. Fiscal Year End - The fiscal year end of the primary government and component units is June 30, except for the following agencies reported as Special Revenue funds: Supreme Court Boards and Dairy Promotion Board. Both of these organizations have a December 31 year end. Also, the Certified Cotton Growers Organization, a component unit, has a December 31 year end.

P. Fund Balance Reserves and Designations - The state's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditure or (2) legally segregated for a specific future use. In the accompanying Combined Balance Sheet, reserves for related assets such as inventories, petty cash, advances, long-term receivable, and prepayments are examples of the former. Reserves for encumbrances, contracts, continuing appropriations and other specific purposes are examples of the latter. The state's fund balance designations reflect tentative plans for future use of financial resources. The General Fund designation for revenue fluctuations, has been established as protection in the event of future revenue shortfalls or expenditure overruns.

Q. Totals (Memorandum Only) - Total columns on the general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

R. Comparative Data - Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

NOTE 2 - OTHER ACCOUNTING DISCLOSURES

A. General Fixed Assets - A statement of changes in general fixed assets for the year ended June 30, 2000 is shown below (expressed in thousands).

	Land	Structures and Improvements	Machinery and Equipment	Construction in Progress	Totals
Balance, July 1, 1999	$166,964	$1,173,764	$ 381,023	$ 50,714	$ 1,772,465
Prior Period Adjustment	(6,742)				(6,742)
Change in Accounting Principle			(157,708)		(157,708)
Adjusted Balance, July 1, 1999	160,222	1,173,764	223,315	50,714	1,608,015
Additions	6,364	58,949	41,539	43,283	150,135
Deductions	(709)	(1,262)	(24,429)	(55,058)	(81,458)
Balance, June 30, 2000	$165,877	$1,231,451	$ 240,425	$ 38,939	$1,676,692

B. Budgetary Basis vs. GAAP - The accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund and All Budgeted Special Revenue Fund Types presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since the budgetary and GAAP presentations of actual data differ, a reconciliation of the two is presented below (expressed in thousands).

	General Fund	All Special Revenue Funds
Fund Balances (Budgetary Basis), June 30, 2000	$ 930,994	$ 241,138
Add:		
Reserve for encumbrances and contracts	11,719	237,347
Highway construction appropriations carried forward		90,148
Unbudgeted Supreme Court Boards		2,407
Unbudgeted Dairy Promotion Board		5
Unbudgeted Fraud and Economic Crime		1,902
Fund Balances (GAAP Basis), June 30, 2000	$ 942,713	$ 572,947

C. Fund Equity Restatement/Change in Accounting Principle

Change in Accounting Principle: The state revised its capitalization policy to increase the amount required to capitalize equipment from $1,000 to $5,000. As a result, the Office for Information Resources (OIR), an internal service fund, reduced its fixed assets and fund equity by $11.194 million. The General Fixed Assets Account Group reduced its fixed assets by $157.7 million. Component units, the University of Tennessee System and the Tennessee Board of Regents System, reduced fixed assets and fund balances by $141.477 million and $176.269 million.

Prior Period Adjustments: The Facilities Revolving Fund (FRF) increased capital assets by $3.577 million to correct a previous year's understatement of buildings. The Motor Vehicle Management fund increased fund equity by $3.311 million to correct an overstatement in depreciation expense in the prior year. Veterans' Homes Board, a component unit, reduced retained earnings by $421 thousand primarily because its allowance for doubtful accounts was understated in prior years. Also, the General Fixed Asset Account Group had a change of $6.742 million, which was to correct an error in valuing assets.

D. Segment Information - Segment financial information for the state's Enterprise Funds for the year ended June 30, 2000, is presented below (expressed in thousands). These enterprise funds provide the following types of goods or services (in the order shown below): Sewage treatment loans, sewage treatment facilities loans, energy loans, insurance, insurance, drinking water system loans, and property distribution.

	State Loan Program	Sewer Treatment Loan	Energy Loan Program
Operating Revenues	$ 1,053	$ 15,324	$ 904
Depreciation and Amortization	10		
Operating Income (Loss)	(74)	15,324	904
Operating Grants, Entitlements, and Shared Revenues		891	1,599
Operating Transfers In			
Operating Transfers Out to Component Units	25		
Net Income (Loss)	(99)	15,324	2,503
Current Capital Transfers		15,744	
Equity Transfers In		6,352	
Property, Plant and Equipment:			
Additions			
Deletions			
Net Working Capital	3,006	96,979	16,134
Total Assets	24,814	388,944	19,403
Bonds and Other Long-Term Liabilities Payable from Operating Revenues	17,222		
Total Equity	3,682	387,147	19,378

Teacher Group Insurance	Local Government Group Insurance	Drinking Water	Property Utilization	Totals
$ 143,720	$ 43,762	$ 411	$ 1,314	$ 206,488
				10
(2,875)	622	411	(317)	13,995
		381		2,871
2,680			200	2,880
				25
766	1,534	411	(117)	20,322
		491		16,235
				6,352
			13	13
2,460	12,387	6,672	200	137,838
22,914	16,966	9,049	373	482,463
				17,222
2,460	12,387	9,049	200	434,303

E. Due To/Due From Other Funds - A summary of due from other funds and due to other funds at June 30, 2000 is shown below (expressed in thousands).

	DUE FROM OTHER FUNDS					
		Special Revenue			Internal Service	Trust and Agency Funds
DUE TO OTHER FUNDS	General Fund	Education	Highway	Wildlife Resources Agency	Office for Information Resources	Employment Security
General		$ 643			$ 485	$ 183
Special Revenue:						
Education Trust	$ 244,035					
Highway						
Wildlife Resources Agency						
Solid Waste						
Job Skills						
Hazardous Waste						
Underground Storage Tanks						
Enhanced Emergency 911 Service						
Salvage Title Enforcement						
Drycleaner's Environmental Response						
Tennessee Regulatory Authority					122	
Enterprise:						
Property Utilization						
Internal Service:						
Office for Information Resources						
Motor Vehicle Management						
General Services Printing						
Food Services						
Postal Services	311					
Purchasing						
Central Stores						
Records Management						
Trust and Agency:						
Employment Security	583					
Employee Flexible Benefits	51	2	$ 8	$ 1	1	
Baccalaureate Education	80					
Chairs of Excellence	48					
Totals	$ 245,108	$ 645	$ 8	$ 1	$ 608	$ 183

DUE FROM OTHER FUNDS

Trust and Agency Funds				
Employee Flexible Benefits	Baccalaureate Education	Pension Trust	Contingent Revenue	Totals
$ 104	$ 5	$ 1,950	$ 5,470	$ 8,840
5		64	186	244,290
7	1	260	738	1,006
2		45	116	163
		2	5	7
			1	1
1		4	13	18
1		6	15	22
1			1	2
		1	2	3
			1	1
2		8	22	154
		1	4	5
4	1	30	84	119
		2	6	8
		3	8	11
			1	1
		4	7	322
		3	9	12
		1	3	4
		1	3	4
				583
				63
				80
				48
$ 127	$ 7	$ 2,385	$ 6,695	$ 255,767

F. Due to Primary Government From Component Units - A summary of due to the primary government from the component units at June 30, 2000 is shown below (expressed in thousands).

	DUE FROM COMPONENT UNITS					
			Enterprise Funds		Internal Service Funds	
DUE TO PRIMARY GOVERNMENT	General	Capital Projects	Local Gov't. Group Insurance	Property Utilization	Office for Information Resources	Motor Vehicle Management
TN Student Assistance Corporation						
Northeast CSA	$ 149		$ 1		$ 6	
East TN CSA	68				51	
Upper Cumberland CSA	37		1			
Southeast CSA	33				8	
Mid-Cumberland CSA	271				14	
South Central CSA	205				4	
Northwest CSA	317				5	
Southwest CSA	223		1		6	
Knox Co. CSA	202		2		2	
Shelby Co. CSA	61					
Hamilton Co. CSA	32				1	
Tennessee Housing Development Agency	47					
Veterans' Homes Board	866					
Board of Regents	845	$ 479		$ 21	136	$ 10
University of Tennessee	174			1	13	2
Totals	$ 3,530	$ 479	$ 5	$ 22	$ 246	$ 12

DUE FROM COMPONENT UNITS

Internal Service Funds			Trust and Agency Funds					
General Services Printing	Facilities Revolving Fund	Central Stores	Employment Security	Employee Flexible Benefits	Chairs of Excellence	Pension Trust	Contingent Revenue	Totals
						$ 2	$ 4	$ 6
			$ 2			8		166
								119
			1			3		42
						4		45
			1			13		299
						3		212
						9		331
			1			27		258
			1					207
			1					62
			1			4		38
				$ 2		9	27	85
			6			27		899
$ 2		$ 1			$ 3	1,246		2,743
	$ 21				666	1,305		2,182
$ 2	$ 21	$ 1	$ 14	$ 2	$ 669	$ 2,660	$ 31	$ 7,694

G. Due From Primary Government To Component Units - A summary of due to the component units from the primary government at June 30, 2000 is shown below (expressed in thousands).

DUE FROM PRIMARY GOVERNMENT	DUE TO COMPONENT UNITS: General	Capital Projects	Local Government Group Insurance	Chairs of Excellence	Totals
Northeast CSA	$ 209		$ 1		$ 210
East TN CSA	830				830
Upper Cumberland CSA	199				199
Southeast CSA	160				160
Mid-Cumberland CSA	577				577
South Central CSA	80				80
Northwest CSA	305				305
Southwest CSA	149				149
Davidson County CSA	766				766
Knox County CSA	207				207
Shelby County CSA	637				637
Hamilton County CSA	5				5
Board of Regents	107			$ 1,017	1,124
University of Tennessee		$ 11,154		972	12,126
Totals	$ 4,231	$ 11,154	$ 1	$ 1,989	$ 17,375

H. Due to Component Units From Component Units - A summary of due to the component units from component units at June 30, 2000 is shown below (expressed in thousands).

	DUE TO COMPONENT UNITS			
DUE FROM COMPONENT UNITS	Shelby County CSA	Board of Regents	University of Tennessee	Totals
East TN CSA	$ 1			$ 1
TN State School Bond Authority		$ 8,012	$ 11,787	19,799
Totals	$ 1	$ 8,012	$ 11,787	$19,800

I. Advances -

The General Fund has an advance of $180 thousand to a component unit, the Veterans' Homes Board. The Veterans' Homes Board is to repay the advance out of profits generated.

The Debt Service Fund has an advance of $14.8 million to the Tennessee Local Development Authority (TLDA). TLDA plans to repay the advance from the TLDA borrowers' principal and interest payments.

Tennessee State School Bond Authority has made the following advances to other component units (expressed in thousands):

	Advances from Component Units
Tennessee Board of Regents	$ 161,339
University of Tennessee	168,771
	$ 330,110

These advances are due in varying amounts annually and are sufficient to pay the debt service on the bonds and commercial paper payable that the Tennessee State School Bond Authority has issued.

J. Related Organizations - The State's officials are also responsible for appointing the members of the boards of other organizations, but the State's accountability for these organizations does not extend beyond making appointments. The State appoints the board members of the Beech River Watershed Development Authority, Carroll County Watershed Authority, Goodwyn Institute Commission, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, Tennessee Competitive Export Corporation, Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., and Sports Festival, Inc.

K. Joint Ventures -The State is a participant in a joint venture, the Tennessee-Tombigbee Waterway Development Compact, with the states of Alabama, Kentucky and Mississippi. The purpose of this compact is to promote the development of a navigable waterway connecting the Tennessee and Tombigbee Rivers and provide a nine foot navigable channel. The fiscal year end of the Tennessee Tombigbee Waterway is December 31. Financial statements for the Tennessee Tombigbee Waterway may be obtained at: P. O. Drawer 671, Columbus, MS 39703.

Presented below is summary financial data for this joint venture (expressed in thousands):

	1999	1998
Current Assets	$ 271	$ 313
Property Plant & Equipment	29	25
Total Assets	300	338
Investment in General Fixed Assets	29	25
Fund Balance	271	313
Total Liabilities and Fund Balance	300	338
Revenues	282	323
Expenditures	324	286
Excess of Revenues over (under) expenditures	(42)	37
Beginning Fund Balance	313	276
Ending Fund Balance	$ 271	$ 313

L. Jointly Governed Organizations - The State in conjunction with 28 other states and Puerto Rico are members of the Pest Control Compact.

The State in conjunction with 13 other states and Puerto Rico are members of the Southern Growth Policies Board. Tennessee paid some $30,917 in fiscal year 2000 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid $110,658 in dues in fiscal year 2000.

The Compact for Education was entered into with 49 other states, plus Puerto Rico and the Virgin Islands. Tennessee paid $59,400 in fiscal year 2000 for membership dues.

The Interstate Mining Compact has 17 member states, including Tennessee. Tennessee paid $12,028 in fiscal year 2000 for membership dues.

The Southern States Energy Board is comprised of 16 member states, including Tennessee.

The Southeast Interstate Low Level Radioactive Waste Compact has 8 member states, including Tennessee.

The Chickasaw Trail Economic Development Compact has two member states in conjunction with one county in each state.

M. Accounts and Notes Receivable - Receivables at June 30, 2000 consist of the following (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	Total
Accounts Receivable:								
Interest	$ 16,341				$ 24		$215,038	$ 231,403
Taxes	330,943	$ 362,527	$ 3,559				247,266	944,295
Accounts	279,951	646			7,606	$ 781	91,013	379,997
Intergovernmental	611,425	122,024		$ 449	323,611		1,951	1,059,460
Gross Accounts Receivable	1,238,660	485,197	3,559	449	331,241	781	555,268	2,615,155
Less: Allowance for Uncollectibles	(42,498)						(20,546)	(63,044)
Net Accounts Receivable	$1,196,162	$ 485,197	$ 3,559	$ 449	$ 331,241	$ 781	$534,722	$2,552,111

Component Units

	Tennessee Student Assistance Corporation	Tennessee Housing Development Agency	Tennessee Local Development Authority	Board of Regents	University of Tennessee	Other	Total
Accounts Receivable:							
Interest	$ 88	$ 19,706	$ 240	$ 3,292			$ 23,326
Accounts	22,204	1,533,413	91,728	67,724	$ 120,727	$ 1,579	1,837,375
Intergovernmental	1,120						1,120
Gross Accounts Receivable	23,412	1,553,119	91,968	71,016	120,727	1,579	1,861,821
Less: Allowance for Uncollectibles				(8,289)	(9,490)		(17,779)
Net Accounts Receivable	$ 23,412	$ 1,553,119	$ 91,968	$ 62,727	$ 111,237	$ 1,579	$ 1,844,042
Notes Receivable	$ 5,875			$ 29,279	$ 37,190		$ 72,344
Less: Allowance for Uncollectibles				(8,102)	(1,107)		(9,209)
Net Notes Receivable	$ 5,875			$ 21,177	$ 36,083		$ 63,135

N. Fund Balance Reserves and Designations - Specific purpose reserves represent current and past legislative appropriations requiring year-end segregation. A summary of the nature and purpose of these reserves at June 30, 2000 by fund type follows (expressed in thousands).

Reserved for Other Specific Purposes	General	Special Revenue	Trust and Agency
Highway Construction		$ 90,148	
Wildlife Resources Program		34,225	
Criminal Injuries Compensation		74,484	
Solid Waste		9,349	
Job Skills		29,226	
Environmental Protection		9,003	
Hazardous Waste Program		7,415	
Parks Acquisition		20,002	
Enhanced Emergency 911 Service		8,223	
Unemployment Compensation Benefits			$ 989,371
Pension Benefits			24,337,679
Higher Education Chairs of Excellence			232,361
Local Government Investment Pool			1,601,506
Probation Supervision and Rehabilitation	$ 5,923		
Commerce and Insurance Regulatory Boards	2,224	2,971	
Health Regulatory Boards	2,422		
Traumatic Brain Injury	1,463		
Sports Authority	3,027		
Temporary Assistance	6,666		
Alcohol Drug Addiction Treatment	2,168		
Tobacco Settlement - Agriculture	101,475		
Tobacco Settlement - Health	101,475		
Title and Registration	4,915		
Other Non-Lapsing and Special Revenue Programs	20,263	29,696	24,604
Totals	$ 252,021	$ 314,742	$27,185,521

The General Fund designation for other specific purposes represents the following appropriations made by the Legislature to carry out tentative managerial plans for fiscal year 2001 (expressed in thousands):

Future Appropriations	$ 198,826
Casualty Losses	7,256
Industries for the Blind	132
	$ 206,214

The reserve for related assets represents assets which are not available for appropriation. A summary of these reserves at June 30, 2000 by fund type follows (expressed in thousands).

Reserved for Related Assets	General	Special Revenue
Inventories		$ 6,265
Advances to Component Units	$ 180	
Long-Term Receivables	3,548	
Prepayments	15	17
	$ 3,743	$ 6,282

O. Presented below are the condensed financial statements for the discretely presented component units (expressed in thousands):

CONDENSED FINANCIAL STATEMENTS - DISCRETELY PRESENTED COMPONENT UNITS

BALANCE SHEETS

	Tennessee Student Assistance Corporation	Tennessee Housing Develop. Agency	Tennessee Local Develop. Authority	Tennessee State School Bond Authority	Tennessee Board of Regents	University of Tennessee	Other	Total
Assets:								
Current Assets	$ 94,790	$ 420,924	$ 30,812	$ 26,803	$ 360,346	$ 439,751	$ 18,736	$1,392,162
Due from Primary Government					1,124	12,126	4,125	17,375
Due from Component Units				19,799			1	19,800
Advance to Component Units				330,110				330,110
Other Assets		1,900,874	94,314	16,783	154,536	549,153	558	2,716,218
Fixed Assets	5	20			1,912,567	1,545,630	10,978	3,469,200
Amounts to be Provided	83						1,105	1,188
Total Assets	$ 94,878	$ 2,321,818	$ 125,126	$ 393,495	$2,428,573	$ 2,546,660	$ 35,503	$7,946,053
Liabilities:								
Current Liabilities	$ 7,727	$ 113,261	$ 39,934	$ 114,951	$ 241,251	$ 207,020	$ 16,326	$ 740,470
Due to Primary Government	6	85			2,743	2,182	2,678	7,694
Due to Component Units					8,012	11,787	1	19,800
Bonds Payable		1,872,661	58,263	271,814	1,175		4,887	2,208,800
Advance From Primary Government			14,800				180	14,980
Advance from Component Units					161,339	168,771		330,110
Total Liabilities	7,733	1,986,007	112,997	386,765	414,520	389,760	24,072	3,321,854
Equity:								
Investment in General Fixed Assets	5				1,742,429	1,364,743	875	3,108,052
Contributed Capital		2,500					10,164	12,664
Retained Earnings		333,311	12,129	6,730			2,049	354,219
Fund Balances	87,140				271,624	792,157	(1,657)	1,149,264
Total Equity	87,145	335,811	12,129	6,730	2,014,053	2,156,900	11,431	4,624,199
Total Liabilities and Equity	$ 94,878	$ 2,321,818	$ 125,126	$ 393,495	$2,428,573	$2,546,660	$ 35,503	$7,946,053

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Tennessee Student Assistance Corporation	Other	Total
Revenues	$ 17,793	$ 6,400	$ 24,193
Expenditures:			
Current	35,580	49,616	85,196
Transfers From Primary Government	22,671	39,683	62,354
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	4,884	(3,533)	1,351
Fund Balances, July 1	82,256	6,031	88,287
Prior Period Adjustment		(4,155)	(4,155)
Fund Balances, June 30	$ 87,140	$ (1,657)	$ 85,483

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

	Tennessee Housing Develop. Agency	Tennessee Local Develop. Authority	Tennessee School Bond Authority	Other	Total
Operating Revenues	$ 133,549	$ 6,697	$ 19,749	$ 10,324	$ 170,319
Operating Expenses	113,617	5,646	18,612	10,119	147,994
Operating Income (Loss)	19,932	1,051	1,137	205	22,325
Non-Operating Revenues (Expenses)	(12,990)			32	(12,958)
Transfers From Primary Government		25			25
Extraordinary Items	(326)		(930)		(1,256)
Net Income (Loss)	6,616	1,076	207	237	8,136
Fund Equity, July 1	329,195	11,053	6,523	12,397	359,168
Prior Period Adjustment				(421)	(421)
Fund Equity, June 30	$ 335,811	$ 12,129	$ 6,730	$ 12,213	$ 366,883

STATEMENTS OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES

	Tennessee Board of Regents	University of Tennessee	Total
Revenues	$ 713,851	$ 845,586	$ 1,559,437
Expenditures:			
Education and General	1,180,590	904,099	2,084,689
Auxiliary Enterprise and Hospital	56,415	266,229	322,644
Transfers To Other Colleges and University Funds	(30,680)	(51,191)	(81,871)
Transfers From Primary Government	573,369	385,786	959,155
Other Additions (Deductions)	6,560	(53,160)	(46,600)
Net Increase (Decrease) in Fund Balances	$ 26,095	$ (43,307)	$ (17,212)

P. Individual Fund Deficits - The following individual funds have deficit retained earnings/fund balances at June 30, 2000 (expressed in thousands):

Enterprise Funds:	
Teacher Group Insurance	$ (10,140)
Property Utilization	$ (1,410)
Internal Service Funds:	
Food Services	$ (3,820)
Component Units:	
Certified Cotton Growers	$ (7,007)
Veterans' Homes Board	$ (1,381)
Child Care Facilities	$ (223)

Increases in fees and charges for services and products are expected to eliminate the deficits in these funds in fiscal years 2001 and beyond.

NOTE 3 – LONG-TERM LIABILITIES AND CERTAIN OTHER OBLIGATIONS

A. Bonds Payable - Bonds Payable at June 30, 2000 are shown below (expressed in thousands).

	Bonds
Enterprise Funds:	
General obligation bonds, 5.0%, due in generally decreasing amounts of principal and interest ranging from $2.6 million in 2001 to $719 thousand in 2006	$ 10,035
General obligation refunding bonds, 1996 Series C, 4.6% to 5.0%, principal and interest due in amounts ranging from $1.6 million in 2001 to $986 thousand in 2010	10,505
	20,540
Less: Unamortized bond refunding costs	(193)
Total Enterprise Funds	20,347
Internal Service Funds:	
General obligation bonds, 3.8% to 7.4%, due in decreasing amounts of principal and interest from $14.8 million in 2001 to $105 thousand in 2019	67,231
General obligation refunding bonds, 1996 Series B, 4.6% to 6%, principal and interest due in amounts ranging from $1.9 million in 2001 to $8 thousand in 2011	10,851
General obligation refunding bonds, 1999 Series A, 3.4% to 5%, principal and interest due in amounts ranging from $2.7 million in 2001 to $943 thousand in 2015	50,593
	128,675
Less: Unamortized bond refunding costs	(3,227)
Total Internal Service Funds	125,448
General Long-Term Debt:	
General obligation bonds, 3.8% to 7.4%, due in decreasing amounts of principal and interest from $68.9 million in 2001 to $3.9 million in 2029	541,284
General obligation refunding bonds, 1991 Series A, 6.2% to 6.35%, principal and interest due in amounts ranging from $5.9 million in 2001 to $5.6 million in 2002	10,450
General obligation refunding bonds, 1996 Series B, 4.6% to 6%, principal and interest due in amounts ranging from $17.5 million in 2001 to $3.9 million in 2011	114,178
General obligation refunding bonds, 1999 Series A, 3.4% to 5%, principal and interest due in amounts ranging from $15.5 million in 2001 to $4.5 million in 2015	192,361
Total General Long-Term Debt	858,273
Total Bonds Payable	$1,004,068

General Obligation bonds were not issued during the year ended June 30, 2000.

In prior years, the state defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the General Long-Term Obligations Account Group. However, since the State Treasurer is holding these monies in a trustee capacity, the assets and an offsetting liability are reported in an agency fund. As of June 30, 2000, $50 million of bonds outstanding are considered defeased.

B. Commercial Paper Payable - Commercial Paper Payable at June 30, 2000 is shown below (expressed in thousands).

	Commercial Paper
General Obligation Debt:	
General obligation commercial paper, interest rates ranging from 3.9% to 4.85% for tax exempt and 5.82% to 6.7% for taxable, varying maturities	$ 209,746
Internal Service Funds:	
General obligation commercial paper, interest rates ranging from 3.9% to 4.85%, varying maturities	38,754
Total	$ 248,500

The full faith and credit of the state, together with certain tax revenues, are pledged to secure all general obligation bonds and commercial paper listed above. Although the Enterprise (State Loan Program) and Internal Service Fund (Facilities Revolving Fund and Motor Vehicle Management) general obligation debt is being retired from resources of those funds, the state remains contingently liable for its payment.

In March 2000, the State instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper may be issued as federally taxable or tax exempt and constitute bond anticipation notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of $100 thousand and integral multiples of one thousand in excess of such amount, with interest payable at maturity. The commercial paper has varying maturities of not more than 270 days from their respective dates of issuance. Interest rates vary depending on the market. The amount of principal outstanding may not exceed $250 million.

The State has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2005. At June 30, 2000, $248.5 million of commercial paper was outstanding ($212.3 tax exempt and $36.2 federally taxable).

The general obligation bond anticipation note program, instituted in April 1996, was terminated and the notes redeemed on April 3, 2000, with proceeds from the initial commercial paper issue on March 15, 2000. The final bond anticipation note issue in October 1999, in the amount of $68.2 million, was included in the April redemption.

C. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2000 are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Requirements
2001	$ 80,337	$ 51,256	$ 131,593
2002	80,297	47,116	127,413
2003	74,457	43,006	117,463
2004	74,277	39,217	113,494
2005	73,912	35,335	109,247
2006-2010	299,002	124,761	423,763
2011-2015	224,056	59,275	283,331
2016-2020	74,895	16,842	91,737
2021-2025	12,755	7,220	19,975
2026-2029	13,500	2,483	15,983
	$1,007,488	$426,511	$ 1,433,999

D. Changes in General Long-Term Obligations - A summary of changes in general long-term obligations for the year ended June 30, 2000 follows (expressed in thousands).

	Balance, July 1, 1999	General Obligation Debt Issued	General Obligation Debt Retired	Other Changes in General Long-Term Obligations	Balance, June 30, 2000
General Obligation Bonds Payable	$ 927,569		$ (69,296)		$ 858,273
General Obligation Notes Payable	129,528	$ 84,200	(213,728)		-
General Obligation Commercial Paper Payable		210,246	(500)		209,746
Claims Payable	108,136			$ 3,416	111,552
Accrued Annual and Compensatory Leave	137,908			1,109	139,017
Lease Obligation Payable	543			(47)	496
Total General Long Term Obligations	$1,303,684	$ 294,446	$ (283,524)	$ 4,478	$1,319,084

The $111.552 million above for Claims Payable represents the long-term obligation of $63.789 million for Underground Storage Tanks, a Special Revenue Fund; $19.665 million from Highway Fund, a Special Revenue Fund; and $28.098 million payable from the General Fund.

Some $19.98 million in commercial paper payable was issued to finance construction projects for facilities owned by the Facilities Revolving Fund, an Internal Service fund. This commercial paper payable is reported as a liability of the Facilities Revolving Fund which is responsible for paying the debt service. These construction projects were managed by the Capital Projects Fund.

E. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2000 is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued July 1, 1999	Authorized	Canceled	Unissued June 30, 2000
Highway	$ 725,300	$ 87,700	$ 83,800	$ 729,200
Education	30,800		3,700	27,100
Environment and Conservation	49,307			49,307
General Government	531,196	116,690	29,078	618,808
Local Development Authority	27,000		1,200	25,800
Other	500			500
Totals	$ 1,364,103	$ 204,390	$ 117,778	$ 1,450,715

F. Capital Lease Obligations – The State leased a building for a vocational training center. The lease provides an option to purchase the building within the twelve-year lease period. Capital lease obligations are payable from resources of the General Fund. The property has been reported in the General Fixed Assets Account group as follows:

	2000
Land	$ 56,000
Building	$605,000

At June 30, 2000, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Lease Obligation Payable
2001	$ 74
2002	74
2003	74
2004	74
2005	74
2006-2009	240
Total	610
Less - Interest (5.1%)	114
Present value of net minimum lease payments	$496

G. Component Units -Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes at June 30, 2000, are shown below (expressed in thousands):

Revenue Bonds Payable - Tennessee Housing Development Agency mortgage finance program revenue bonds, various Series, 3.1% to 8.125%, due in amounts of principal and interest ranging from $188.7 million in 2001 to $7.3 million in 2032	$1,878,869
Less: Unamortized bond refunding costs	(6,208)
Net Bonds Payable	$1,872,661
THDA Homeownership Program Notes, interest rates range from 4.7% to 4.75%, due March 2001	$ 31,180

The revenue bonds and notes listed above are not obligations of the state. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the Tennessee Housing Development Agency (THDA).

Debt service requirements to maturity for these revenue bonds payable at June 30, 2000, are as follows (expressed in thousands):

For the Year(s)	Revenue Bonds		Total
Ended June 30	Principal	Interest	Requirements
2001	$ 85,763	$ 102,966	$ 188,729
2002	41,805	102,445	144,250
2003	47,647	100,418	148,065
2004	48,844	98,178	147,022
2005	54,267	97,251	151,518
2006-2010	270,538	452,182	722,720
2011-2015	298,256	376,570	674,826
2016-2020	346,280	277,628	623,908
2021-2025	362,215	151,493	513,708
2026-2030	260,550	51,469	312,019
2031-2032	41,390	2,247	43,637
	$1,857,555	$1,812,847	$ 3,670,402

The above principal for revenue bonds is less than that presented on the accompanying financial statements by $15.106 million. Of this amount, $21.314 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2001-2017). In addition, $6.208 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Bond sales during the year ended June 30, 2000 included the following issues:

July 1999	- THDA program bonds of $150 million.
October 1999	- THDA program bonds of $110 million.
February 2000	- THDA program bonds of $105 million.
June 2000	- THDA program bonds of $110 million.

During the year ended June 30, 2000, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $10.175 million and in the Homeownership Program in the amount of $31.888 million. The respective carrying values of these bonds were $10.102 million and $31.635 million. This resulted in a loss to the Mortgage Finance Program of $73 thousand and the Homeownership Program of $253 thousand.

On July 1, August 12, and September 10, 1999, the agency used $60.205 million of Bond Issue 1999-1 to refund certain bonds and notes previously issued in the Mortgage Finance Program, the Homeownership Program and the 1999CN-1 Single Family Mortgage Note Program. The carrying amount of those bonds and notes was $59.789 million. The refunding resulted in a difference of $416 thousand between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The agency completed the refunding to reduce its total debt service over the next 31 years by $14.615 million and realized an economic gain (the difference between the present values of the old and new debt service payments) of $16.43 million.

On July 29, 1999, the agency issued $150 million in Homeownership Program Bonds of which $43.105 million was used to refund certain bonds and notes previously issued in the Homeownership Program and the Single Family Mortgage Note Program. The carrying amount of those bonds and notes was $42.732 million. The refunding resulted in a difference of $373 thousand between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The agency completed the refunding to reduce its total debt service over the next 31 years by $9.095 million and realized an economic gain (the difference between the present values of the old and new debt service payments) of $16.502 million.

On October 20, 1999, the agency remarketed $40 million in Homeownership Program Bonds, Issue 1998-3. Also on this date, the agency issued $110 million in Homeownership Program Bonds of which $32.645 million ($23.680 million early redemption and $8.965 million current maturities) was used to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of those bonds was $23.449 million. The refunding resulted in a difference of $231 thousand between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable is being charged to operations through the year 2026. The agency completed the refunding to reduce its total debt service over the next 31 years by $1.754 million and realized an economic gain (the difference between the present value of the old and new debt service payments) of $15.634 million.

On February 17, 2000, the agency issued $105 million in Homeownership Program Bonds of which $27.671 million was used to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of those bonds and notes was $27.437 million. The refunding resulted in a difference of $234 thousand between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. The agency completed the refunding to reduce its total debt service over the next 31 years by $6.697 million and realized an economic gain (the difference between the present value of the old and new debt service payments) of $1.802 million.

On June 15, 2000, the agency issued $110 million in Homeownership Program Bonds and $31.18 million in Homeownership Program Notes of which $34 million ($28.955 million bonds and $5.045 million notes) was used to refund current maturities of bonds previously issued in the Homeownership Program. An additional $107.18 million ($81.045 million bonds and $26.135 million notes) of the proceeds will be used to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. Also on this date, the agency remarketed $1 million of Homeownership Program Bonds.

H. Component Units - Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2000, are shown below (expressed in thousands):

Tennessee Local Development Authority revenue bonds, 2.5% to 7.25%, due in generally decreasing amounts of principal and interest from $7 million in 2001 to $16 thousand in 2022	$59,894
Less: Unamortized bond refunding costs	(1,631)
Net Bonds Payable	58,263
Tennessee Local Development Authority revenue bond anticipation notes, $37.631 million at 4.56% due June 2001	$37,631

The revenue bonds and revenue bond anticipation notes listed above are not obligations of the state. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the Tennessee Local Development Authority (TLDA).

Prior Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds of the Community Provider Program by placing the proceeds of general obligation notes in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2000, $38.915 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2000 are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2001	$ 3,784	$ 3,173	$ 6,957
2002	3,974	2,984	6,958
2003	4,174	2,783	6,957
2004	4,064	2,570	6,634
2005	4,204	2,358	6,562
2006-2010	17,420	8,898	26,318
2011-2015	15,990	4,211	20,201
2016-2020	6,070	728	6,798
2021-2022	214	18	232
	$ 59,894	$ 27,723	$ 87,617

I. Component Units - Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2000 are shown below (expressed in thousands):

Tennessee State School Bond Authority revenue bonds, various Series, 3% to 6.7%, due in decreasing amounts of principal and interest from $29.3 million in 2001 to $3.5 million in 2028	$ 274,556
Less: Unamortized bond refunding costs	(2,742)
Net Bonds Payable	271,814
Tennessee State School Bond commercial paper, variable rate	$ 102,700

The revenue bonds and commercial paper listed above are not obligations of the state. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the Tennessee State School Bond Authority (TSSBA).

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2000 are as follows (expressed in thousands):

For the Year(s)	Revenue Bonds		Total
Ended June 30	Principal	Interest	Requirements
2001	$ 15,660	$ 13,666	$ 29,326
2002	15,612	13,095	28,707
2003	14,756	12,502	27,258
2004	15,336	11,927	27,263
2005	12,641	11,282	23,923
2006-2010	50,209	50,273	100,482
2011-2015	56,346	29,408	85,754
2016-2020	38,220	18,912	57,132
2021-2025	32,551	9,141	41,692
2026-2028	13,286	1,293	14,579
	$264,617	$171,499	$ 436,116

The above principal for revenue bonds is less than that presented on the accompanying financial statements by $7.197 million. Of this amount, $9.939 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2001-2010). In addition, $2.742 million, which is a deduction from bonds payable for the deferred amount on refundings is not reflected in above presentation.

On November 30, 1999, the authority issued $13.29 million of Qualified Zone Academy Bonds (QZAB) to finance improvement loans to qualifying K-12 schools in the state. The bonds are part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit is given to investors in lieu of interest on the bonds. On each November 30, the QZAB borrowers make annual principal payments into a bond fund held by a trustee to pay the bonds at maturity on November 1, 2001.

On July 16, 1999, the University of Tennessee transferred its sole ownership in UHS Ventures, Inc., a component unit formerly known as University Health System, Inc., to a newly formed 501(c)(3) corporation also named University Health System, Inc. On July 29, 1999, the university transferred ownership and control of its hospital, UT Memorial Research Center and Hospital located in Knoxville, to University Health Systems, Inc., (UHS). In conjunction with the university's hospital conversion, the authority defeased $96.4 million of commercial paper and $52.85 million of bonds on July 29, 1999. The bonds included $4.08 million of 1987 Series A, $1.605 million of 1990 Series A, $11.29 million of 1996 Series A, $31.475 million of 1996 Series B, and $4.4 million of 1996 Series D. Defeasance of the bonds resulted in a difference of $810 thousand between the reacquisition price and the net carrying amount of the old debt adjusted for unamortized deferred revenue. This difference is reported on the accompanying financial statements as a loss on extinguishment of debt.

On May 1, 2000, the authority liquidated $4.375 million of crossover refunding investments to call $4.31 million of 1990 Series B bonds. Call premiums of $64,650 were paid on the refunding. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $120 thousand, which is reported as a loss on extinguishment of debt. The 1996 Series D crossover refunding bonds were defeased in conjunction with the University hospital conversion.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2000, $86.045 million of bonds outstanding are considered defeased.

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed $200 million. At June 30, 2000, $102.7 million of commercial paper was outstanding ($89.3 million of tax-exempt and $13.4 million of federally taxable).

The commercial paper is a special obligation of the Authority. Commercial paper principal and interest may be paid from: (i) the proceeds of draws on the Liquidity Facility, (ii) Available Revenues, (iii) the moneys and securities (if any) on deposit in the commercial paper and reimbursement account and in the Debt Service Fund, (iv) the moneys and securities (if any) on deposit in the Project Construction Account for such projects, and (v) the proceeds of bonds, notes or other evidences of indebtedness to the extent set aside to make such payments.

The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The higher education institutions contribute funds to the Interest Rate Reserve Fund. The principal of the Interest Rate Reserve Fund is credited back to the institution as Commercial Paper is redeemed. The Interest Rate Reserve Fund consisted of $477,045 as of June 30, 2000.

The Commercial Paper liquidity provider, under an Advance Agreement, is *Westdeutsche Landesbank Girozentrale*, New York branch. The total available commitment is $152.25 million. The obligation of *Westdeutsche Landesbank Girozentrale* is to purchase unremarketed Commercial Paper.

NOTE 4 - INSURANCE RELATED ACTIVITIES

A. Teacher Group Insurance - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers of the political subdivisions of the state. In accordance with Tennessee Code Annotated 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2000, included 120 local education agencies and two education cooperatives, with 39,446 teachers and support personnel, and 2,323 retirees enrolled in one of three health care options: preferred provider plan, point of service plan, or a health maintenance organization. The state does not retain any risk for losses by this fund.

The Teacher Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal law and regulation. Plan participants are required to: pay premium on time, file claims for services received, report changes in eligibility of themselves or their dependents, and insure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which are 16.5% of the prior 12 months claims. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Teacher Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Teacher Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2000	1999
Unpaid Claims at Beginning of Year	$ 15,093	$ 13,263
Incurred Claims, Provision for Insured Events of the Current Year	113,760	93,546
Total Incurred Claims Expenses	128,853	106,809
Payments	111,337	91,716
Total Unpaid Claims at End of the Year	$ 17,516	$ 15,093

B. Local Government Group Insurance - The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Tennessee Code Annotated 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2000, included 36 counties, 80 municipalities and 160 quasi-governmental organizations, with 13,173 employees and 390 retirees maintaining coverage through one of three options: preferred provider plan, point of service plan, or a health maintenance organization. The state does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal law and regulation. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and insure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which are 16% of the prior 12 months claims. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2000	1999
Unpaid Claims at Beginning of Year	$ 3,231	$ 3,232
Incurred Claims, Provision for Insured Events of the Current Year	28,825	20,244
Total Incurred Claims Expenses	32,056	23,476
Payments	28,146	20,245
Total Unpaid Claims at End of the Year	$ 3,910	$ 3,231

C. Risk Management - It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice and workers' compensation. The state management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Claims Award Fund (CAF). CAF services claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. All agencies and authorities of the state participate in CAF, except for the Supreme Court Boards, The Dairy Promotion Board, and Certified Cotton Grower's Organization (a component unit). CAF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year end to determine the fund liability and premium allocation.

CAF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2000 the amount of these liabilities was $63.1 million, which are discounted at 5.07%. Changes in the balances of claims liabilities during fiscal years 1999 and 2000 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
1998-1999	$ 55,664	$ 24,941	$ (19,044)	$ 61,561
1999-2000	$ 61,561	$ 24,068	$ (22,522)	$ 63,107

At June 30, 2000, CAF held $72.2 million in cash and cash equivalents designated for payment of these claims.

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. During FY 99, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. Final settlement has not been made but the state is expected to receive approximately $6 million from the commercial insurer. Of this amount, $2.5 million has been received to date. No additional claims have been filed with the commercial carrier in FY 00. A designation for casualty losses in the amount of $7.256 million has been established in the General Fund to provide for any property losses other than the commercial insurance coverage.

D. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the state with the risk retained by the state, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees, retirees, and former employees with work related injuries are eligible to participate. Fund members at June 30, 2000, included 64,080 employees and 5,610 retirees enrolled in one of three options: preferred provider plan, point of service plan, or Health Maintenance Organization.

The Employee Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which are 17% of the prior 12 months claims. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Employee Group Insurance Fund considers investment income in determining if a premium deficiency exists.

As discussed above, the Employee Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2000	1999
Unpaid Claims at Beginning of Year	$ 33,682	$ 33,133
Incurred Claims, Provision for Insured Events of the Current Year	211,525	200,710
Total Incurred Claims Expenses	245,207	233,843
Payments	210,816	200,161
Total Unpaid Claims at End of the Year	$ 34,391	$ 33,682

NOTE 5 - PENSION PLANS

A. State Defined Benefit Plan - The State of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) and consisting of 140 participating employers. 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. Benefit provisions are established by state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. 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. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

Plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 5.43% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2000, 1999, and 1998, were $252.162 million, $244.453 million and $166.756 million respectively, equal to the required contributions for each year.

B. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 394 participating political subdivisions. The PSPP 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. Benefit provisions are established and amended by state statute. Cost of living adjustments, if adopted by a political subdivision, are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent. 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.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. The PSPP report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

C. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Members are fully vested upon entry into the plan. The required contributions made by the State of Tennessee to the ORP were $56.9 million for the year ending June 30, 2000.

D. Deferred Compensation - The state offers its employees two deferred compensation plans, one established pursuant to IRC Section 457 and the other pursuant to IRC Section 401 (k). All costs of administering and funding these programs are the responsibility of plan participants.

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establishes participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2000, contributions totaling $55.2 million were made by employees participating in the plans. Another $5.5 million was contributed by the State as matching contributions up to $20 per employee per month for the 401(k) plan match.

NOTE 6 - POST EMPLOYMENT HEALTH INSURANCE BENEFITS

A. General - The state offers an opportunity to its employees and eligible retirees to participate in a self-insured indemnity policy, a point of service plan, or health maintenance organizations. This post employment benefit is authorized under Tennessee Code Annotated 8-27-205. The indemnity policy (preferred provider plan) provides benefits to plan participants in a comprehensive, major medical format involving a $200 calendar year deductible and a $1,000 per individual out-of-pocket limit. The plan incorporates typical provisions relating to utilization review, medical necessity, pre-existing conditions, coordination of benefits and subrogation of expenses. The plan offers benefit incentives for the use of designated providers and the plan maintains limitations on benefits provided for the treatment of mental illness and substance abuse.

B. Retirees - Retirees who are not yet eligible for Medicare benefits may continue participation in the plan subject to certain length of service and participation requirements. Upon Medicare eligibility, the retiree is afforded the opportunity to participate in a fully-insured supplement policy not associated with the plan. The state pays a service determined amount for retirees who participate in the state sponsored Medicare supplement policy.

The funds collected for the plan's operation are recorded in the employee group insurance account. The plan's premiums are intended to fund benefits on a pay-as-you-go basis and no specified reserves have been established to fund retiree health benefits. Current retiree premium rates are based upon the retiree’s length of service and range from 20 percent to 40 percent of the plan’s total premium. The state provides no direct funding of retiree health benefits.

During the 1999-2000 fiscal year, the Preferred Provider Plan provided approximately $26.8 million in benefits to an average of 4,618 retired employee participants.

C. Cobra - Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay as you go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The state covered an average of 283 former employees during fiscal year 1999-2000, and the Preferred Provider Plan paid approximately $1.6 million in benefits to this group.

NOTE 7 – INVESTMENT POOL

The State Pooled Investment Fund (SPIF) is an external investment pool sponsored by the State of Tennessee. The external portion of SPIF is the Local Government Investment Pool (LGIP) and is reported as a separate investment trust fund. The internal portion, consisting of funds belonging to the state and its component units, has been included in the various funds and component units.

A copy of the SPIF report can be obtained by writing Tennessee Treasury Department, Accounting Division, 9th Floor Andrew Jackson Building, Nashville, TN 37243-0231 or by calling (615) 741-1337.

NOTE 8 - DEPOSITS AND INVESTMENTS

A. Investment Policy - The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories; prime commercial paper and prime banker's acceptances; bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States; mutual funds which are limited to investments of the above permitted kinds; and in certain obligations of the state. This resolution further states that the dollar weighted average maturity of the State Pooled Investment Fund shall not exceed 90 days and that no investment may be purchased with a remaining maturity of greater than 397 calendar days. Provided however, an amount not to exceed the lesser of $300 million or twenty percent (20%) of the book value of the State Pooled Investment Fund at the time such investments are made, may be invested in maturities greater than one year but not greater than five years. The State Pooled Investment Fund is also authorized by policy to contractually loan securities to investment brokers. On January 17, 1995, the State terminated the securities lending contract and therefore had no securities on loan from the State Pooled Investment Fund. Statutes require the 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. In addition, statutes require that financial institutions with a capital-to-assets ratio of less than five percent (5%) must pledge an additional $100 thousand of collateral securities.

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

The Tennessee Consolidated Retirement System (TCRS), in addition to the guidelines outlined for the Pooled Investment Fund, may invest in long-term investments. The TCRS may invest in bonds, debentures, preferred stock and common stock, and other good and solvent securities subject to the TCRS Board of Trustees approval. The Board has also authorized limited investments of securities in some foreign countries. TCRS may also invest in multifamily residential real estate through direct equity investment vehicles including, but not limited to, sole proprietorship and joint ventures.

B. Valuation of Investments

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

2. Other Investments – Investments not included in the SPIF are valued at fair value or amortized cost.

C. Securities Lending - The TCRS and the Chairs of Excellence (COE), a non-expendable trust fund, are authorized by their investment policies, as adopted by their boards, to enter into collateralized securities lending agreements whereby the TCRS and COE loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the TCRS' and COE's assets. The TCRS' and COE's custodian bank manages the lending program and maintains the collateral on behalf of the TCRS and COE. The borrower may deliver collateral to the lending agent in the form of cash or bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies or by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association and other United States government sponsored corporations or enterprises. Cash received as collateral may be reinvested by the lending agency in accordance with the investment policy, as further restricted under the TCRS and COE securities lending agreement. Collateral securities cannot be pledged or sold unless the borrower defaults.

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

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

At year end, the carrying amount of deposits in all funds was $1,691.459 million and the bank balance, including accrued interest, was $1,714.690 million. Of the bank balance, $1,714.512 million was (category 1) covered by insurance or collateral (valued at market) held in the state's name by independent custodial banks or segregated in the Federal Reserve Bank in the state's account and $178 thousand was (category 3) uninsured and uncollateralized.

Cash on deposit with fiscal agent includes $11.816 million of cash held in a custody account by State Street Bank under a contractual arrangement for master custody services. Monies with the custodial agent are not classified by credit risk, as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security.

E. Investments - Investments are also required to be categorized to indicate the level of risk assumed by the state. Category 1 consists of investments that are insured or registered or for which the securities are held by the state or its agent in the state's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent in the state's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent but not in the state's name. Investments are categorized below for all funds (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value 6/30/00
Cash Equivalents and Short-Term Investments:					
Commercial Paper	$ 1,803,515			$ 1,803,515	$ 1,803,515
Repurchase Agreements	74,500			74,500	74,500
Government Securities	1,347,132			1,347,132	1,346,877
Corporate Securities	58,021			58,021	58,021
Corporate Notes	918			918	918
Total Cash Equivalents and Short-Term Investments	3,284,086			3,284,086	3,283,831
Long-Term Investments:					
Government Securities - not on loan	9,531,514			9,531,514	9,531,514
Corporate Bonds	3,604,546			3,604,546	3,604,546
Corporate Stocks	10,077,405			10,077,405	10,077,405
Margin Deposits on Future Contracts:					
Domestic Government Bonds			$ 11,392	11,392	11,392
Total Long-Term Investments	23,213,465		11,392	23,224,857	23,224,857
Mutual Funds				6,670	6,670
Unsettled Investment Acquisitions:					
Corporate Bonds				20,146	20,146
Corporate Stocks				28,716	28,716
Real Estate				153,280	153,280
Unemployment Compensation Pool				937,105	937,105
Total Investments and Cash Equivalents	$26,497,551		$ 11,392	$27,654,860	$27,654,605

F. Component Units

The various component units are generally governed by the same basic State statutes as the State's investments described in Note 8A.

1. University of Tennessee

At year end, the carrying amount of deposits for the University of Tennessee was $13.280 million and the bank balance was $11.747 million. The entire bank balance was (category 1) covered by insurance or collateral (valued at market) held in the University's name by independent custodial banks. During the year ended June 30, 2000, the University had uncollateralized deposits on several days of amounts up to $5.155 million.

The investments for the University of Tennessee are categorized below (expressed in thousands):

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value 6/30/00
Cash Equivalents:					
Commercial Paper	$ 106,004			$ 106,004	$ 106,004
Repurchase Agreements	22,000			22,000	22,000
Government Securities	169,731			169,731	169,731
Total Cash Equivalents	297,735			297,735	297,735
Investments:					
Government Securities	11,759	$ 43,569		55,328	55,328
Corporate Bonds	4,089	23,805		27,894	27,894
Corporate Stocks	134,135	9,591	$ 1,432	145,158	145,158
Assets with Trustees			5,181	5,181	5,181
Collateralized Mortgage Securities	2,678			2,678	2,678
Other	208			208	208
Total Investments	152,869	76,965	6,613	236,447	236,447
	$ 450,604	$ 76,965	$ 6,613	534,182	534,182
Limited Partnership-Venture Capital Funds				35,919	35,919
Real Estate Equity				17,587	17,587
Mutual Funds				160,233	160,233
Real Estate Gifts				6,951	6,951
Cash Equivalents - assets with bank as custodian				3,899	3,899
Investments in Hedge Funds				40,479	40,479
Total Investments and Cash Equivalents				$ 799,250	$ 799,250

2. Tennessee Board of Regents -

At year end, the carrying amount of deposits for the Tennessee Board of Regents was $33.339 million and the bank balance was $49.372 million. Of the bank balance, $47.462 million was (category 1) covered by insurance or collateral (valued at market) held in the University's name by independent custodial banks or segregated in the Federal Reserve Bank in the University's name, $264 thousand was (category 2) collateralized with securities held by the pledging financial institution's trust department or agent in the University's name, and $1.646 million was (category 3) uninsured and uncollateralized. In addition, at June 30, 2000, the University had $243.580 million being held by the State in the Local Government Investment Pool.

The investments for the Tennessee Board of Regents are categorized below (expressed in thousands):

	Category				Fair
	1	2	3	Carrying Amount	Value 6/30/00
Investments:					
Government Securities	$ 52,062	$ 4,853	$ 3,610	$ 60,525	$ 60,525
Corporate Bonds	1,804	4,640	875	7,319	7,319
Corporate Stocks	10,129	11,567	2,295	23,991	23,991
Repurchase Agreements			3,457	3,457	3,457
Other	8,559	37		8,596	8,596
Total Investments	$ 72,554	$ 21,097	$10,237	103,888	103,888
Mutual Funds				14,190	14,190
Annuity				180	180
Total Investments and Cash Equivalents				$ 118,258	$ 118,258

3. Tennessee State School Bond Authority

At year end, the carrying amount of deposits was $30 thousand for the Tennessee State School Bond Authority (TSSBA). TSSBA's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk disclosure. In addition, at June 30, 2000, TSSBA had $26.720 million being held by the State in the State Pooled Investment Fund.

The investments for the Tennessee School Bond Authority are categorized below (expressed in thousands):

	Category				Fair
	1	2	3	Carrying Amount	Value 6/30/00
Investments:					
Government Securities	$ 14,725			$ 14,725	$ 14,725
Total Investments	$ 14,725			$ 14,725	$ 14,725

4. Tennessee Housing Development Agency

At year end, the carrying amount of deposits was $17.686 million for the Tennessee Housing Development Agency (THDA). THDA's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk disclosure. In addition, at June 30, 2000, THDA had $30.622 million being held by the State in the State Pooled Investment Fund.

The investments for the Tennessee Housing Development Agency are categorized below (expressed in thousands):

	Category				Fair
	1	2	3	Carrying Amount	Value 6/30/00
Cash Equivalents and Short-Term Investments:					
Repurchase Agreements	$ 183,193		$ 184	$ 183,377	$ 183,377
Government Securities	132,687			132,687	132,687
Total Cash Equivalents and Short-Term Investments	315,880		184	316,064	316,064
Long-Term Investments					
Government Securities	391,624			391,624	391,624
Long-Term Investments	391,624			391,624	391,624
Total Investments and Cash Equivalents	$ 707,504		$ 184	$ 707,688	$ 707,688

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. Sick Leave - It is the state's policy to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent due to illness, injury or related family death, there was no liability for sick leave at June 30, 2000. The estimated accumulated amount of unused sick leave at that date was $329 million.

B. Highway Construction Projects - At June 30, 2000, the Department of Transportation had contractual commitments of approximately $444.6 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($390.5 million) and general obligation bond proceeds ($54.1 million).

C. Loan Guarantees - The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures the student loans up to 100% of their principal amounts. At June 30, 2000, TSAC was guarantor of $2.232 billion in student loans, substantially all of which were reinsured by the USDE. The state has no obligation under these student loan guarantees in the event of default.

D. Nashville Correctional Facilities Revenue Bonds - In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville which have an outstanding balance of some $18.7 million as of June 30, 2000. These bonds are obligations of the Metropolitan Government of Nashville. The state is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

E. Operating Leases - The state has entered into various operating leases for land, buildings and equipment. All leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, all leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. Facilities Revolving Fund, an Internal Service Fund, has entered into various operating leases which have noncancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

For the Year(s) Ended June 30	Noncancelable Operating Leases
2001	$ 10,888
2002	8,982
2003	7,589
2004	6,092
2005	3,076
later years	2,309
Total Minimum Payments Required	$ 38,936

Expenditures for rent under leases for the years ended June 30, 2000 and 1999 amounted to $33.6 million and $32.6 million, respectively.

F. Litigation - Litigation has been brought against the State which challenges the conditions at Arlington Developmental Center. The State is under court order to remedy the situation and believes the Center is making satisfactory progress. In addition, the State was involved in litigation involving the Clover Bottom Developmental Center. A settlement was reached in the Clover Bottom litigation under which the State would work toward community placement of persons with developmental disabilities from all three developmental centers.

The small school systems in the state have previously filed suit against the state challenging the constitutionality of the funding formula for elementary and secondary education. The state Supreme Court held that the formula did violate the constitution. In response, the General Assembly enacted the Teachers Salary Equity Plan. A motion has been filed by the plantiffs which asserts that the state has failed to equalize teacher salaries.

The State is also party to numerous other legal proceedings, many of which normally recur in governmental operations. In the opinions of the Attorney General and General Counsel for the University of Tennessee system, final settlement of these matters will have no material effect on the accompanying financial statements.

G. Federal Grants - The state receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially, all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies or their representatives. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as either fund liabilities or liabilities of the General Long-Term Obligations Account Group when the loss becomes probable and reasonably estimable.

The Health Care Financing Administration (HCFA) has performed a review of the provider taxes collected for the period beginning fiscal year 1992 to the present. The purpose of the review was to determine the correlation between nursing home provider taxes and a state grant program for private pay patients of nursing homes (Grant Assistance Program). In a draft audit report dated June 15, 2000, HFCA stated that because they believe there is a correlation between the nursing home provider taxes and the nursing home grant assistance program, the provider taxes are impermissible for federal financial participation. The State responded to HCFA on July 14, 2000, by presenting their arguments opposing the findings in the draft report. A final audit report is expected from HCFA after consideration of the State's comments. The State will appeal any request for financial recoupment of the provider taxes.

Other audits of the Medical Assistance Program (TennCare) have resulted in significant amounts of known and likely questioned costs that could be determined to be disallowances by the U.S. Department of Health and Human Services (HHS). These questioned costs relate to expenditure of resources for ineligible TennCare enrollees and for unauthorized services. The ultimate liability to the federal government, if any, cannot presently be determined. If HHS were to impose a liability, the state would appeal the decision.

Inconsistencies in the rate setting process for residential treatment services provided to children in state custody may have created over-billings to the TennCare Program. Any potential overpayment by HHS because of these inconsistencies cannot be quantified.

H. Gain Contingencies - In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Master Settlement Agreement includes base payments to all states and territories totaling $206 billion over the next 25 years, and continues in perpetuity. Tennessee's share of the settlement is expected to be $4.8 billion through the year 2025. Third party lawsuits may affect future payments to Tennessee. Although Tennessee's share of the base payments may not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear.

NOTE 10 - SUBSEQUENT EVENTS

A. Primary Government – Subsequent to June 30, 2000, $150 million of general obligation bonds were issued in August 2000 at a premium of $781 thousand. The proceeds were used to redeem $150.5 million of general obligation commercial paper. In addition, $.5 million of commercial paper was redeemed on October 2. Commercial paper draws were made for $10 million in September, $5 million in October, and $5 million in November.

B. Component Units - THDA redeemed 1974 and 1985 resolution bonds in July for $27.595 million.

Subsequent to June 30, the Tennessee State School Board Authority issued $28.55 million in commercial paper. The authority issued $104.41 million of revenue bonds in November 2000 to redeem commercial paper and provide loans for new construction projects.

Effective July 1, legislation abolished Shelby State Community College and State Technical Institute at Memphis. Those institution's campuses, property, programs, assets, rights, duties, obligations, and debts are transferred to the newly created institution, Southwest Tennessee Community College.