Tennessee State Government

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2016

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016

BILL HASLAM, Governor

DEPARTMENT OF AUDIT
JUSTIN P. WILSON, Comptroller of the Treasury
Division of State Audit
DEBORAH V. LOVELESS, Director

DEPARTMENT OF FINANCE AND ADMINISTRATION
LARRY B. MARTIN, Commissioner
Division of Accounts
MIKEL J. CORRICELLI, Chief of Accounts

Front Cover: Tennessee State Capitol, Nashville, TN
Photograph obtained from Tennessee Department of General Services, Printing and Media Services

Tennessee Department of Finance and Administration, Authorization No. 317332, Jan 2017. 100 copies. This public document was promulgated at a cost of $14.78 per copy.

STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

Supplementary Information | Page

INTRODUCTORY SECTION

Department of
Finance &
Administration

December 21, 2016

The Honorable Bill Haslam, Governor,
Members of the Tennessee General Assembly,
Citizens of Tennessee

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the State of Tennessee for the fiscal year ended June 30, 2016. This report is prepared and submitted by the Department of Finance and Administration as part of its responsibility under *Tennessee Code Annotated* 4-3-1007 to maintain a system of general accounts embracing all the financial transactions of state government.

The CAFR is the primary means of reporting the State of Tennessee's financial activities. Its objective is to provide a clear picture of our government as a single comprehensive reporting entity. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the state's financial activities have been included.

The aforementioned beliefs are based on a comprehensive framework of internal control that has been established by state government management to provide a reasonable basis for asserting Tennessee's financial statements are free of material misstatement. The concept of reasonable assurance recognizes that the cost of a system of internal and operational control should not exceed the benefits derived, and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

The State of Tennessee Comptroller of the Treasury, Department of Audit, considered by federal and state government to be independent auditors, has examined the accompanying financial statements, and issued an unmodified opinion. Its report is located at the front of the financial section of this report. The state also coordinates the Single Audit effort of all federal funds through the Department of Audit. The Single Audit Report for the state will be issued under separate cover and at a later date. We acknowledge the Department of Audit's staff for their many contributions to the preparation of this report.

We would like to direct your attention toward two important items contained in this CAFR. The first item is the Management Discussion and Analysis (MD&A) that follows the Independent Auditor's Report. Complementing this letter, MD&A is designed to give you, the reader, an overview of the state's financial position, described in understandable terms, in order to help you better understand the results of operations of your state government. Secondly, we would like to direct your attention to the Basic Financial Statements (BFS) which follow the MD&A. The BFS contain government-wide statements that present the state's financial activities in a manner similar to that of a private corporation; fund statements that report governmental, proprietary, fiduciary fund financial activity; component unit financial activity; and note disclosures that explain and enhance the basic financial statements.

Department of Finance and Administration • State Capitol • Nashville, Tennessee 37243
http://tn.gov/finance/topic/fa-accounting-financial

State Profile

Entered the Union: June 1, 1796 (16)	**Capital:** Nashville
Origin of Name: from the old Yuchi Indian word, "Tana-see," meaning "The Meeting Place."	
State Nickname: Volunteer State	**State Bird:** Mockingbird
State Slogan: America at its Best	**State Flower:** Iris
State Motto: Agriculture and Commerce	**State Tree:** Tulip Poplar
State Horse: Tennessee Walking Horse	**State Animal:** Raccoon
State Songs: My Homeland, Tennessee • When It's Iris Time in Tennessee • My Tennessee • Tennessee Waltz • Rocky Top	
Population: 6,600,299 (U.S. Census Bureau, Population Division, 2015 estimate) **National Forest:** 1 • **State Forests:** 15 • **State Parks:** 56	

The three stars on Tennessee's flag represent the grand divisions into which it is geographically, culturally, economically, and legally divided (east, middle and west), and, the blue circle around the stars represents the unity of these three grand divisions. Proud to be a right-to-work state with no personal income tax on wages, Tennessee's tax burdens are among the lowest in the country, and its budgetary discipline has allowed for meaningful investments in public education, workforce development and international business outreach.

State government powers in Tennessee are by state constitution divided into three distinct branches, the legislative, the executive and the judicial. The legislative branch of government consists of a bicameral General Assembly with a Senate and House of Representatives. Members of the General Assembly, or Legislature, are elected by popular vote from districts across the state. Legislators are part-time lawmakers who live in their district and know the local issues. The primary function of the General Assembly is lawmaking. The Legislature enacts laws, provides a forum for debate and secures financing for the operation of state government. In the case of the executive branch, the constitution places the "Supreme Executive Power" of the state with the governor. The governor and his executive branch agencies "execute" or administer laws, mandates and new programs created by the General Assembly by statute. The judicial branch, serves as a check on the powers of both the legislative and executive branches.

For financial reporting purposes, the state's reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable, and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The funds and accounts of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. Further information about the state's reporting entity can be found in Note 1 to the financial statements.

The state and its component units provide a wide range of services and funding to the citizens of Tennessee, including education; health and human services; economic development; environmental and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The financial activities associated with these services are reflected in both summary and detail throughout the CAFR.

Tennessee's constitution requires the state to maintain a balanced budget, and state legislation grants the governor the authority and duty to develop and submit to the General Assembly a recommended budget. Preparation of the governor's annual budget for the State of Tennessee is the responsibility of the Commissioner of Finance and Administration, who is the state budget director. Within the Department of Finance and Administration, the Division of Budget is responsible for budget development using the modified accrual basis of accounting. (Annual budgets are adopted for the departments in the general fund and special revenue funds [except Fraud and Economic Crime, Agricultural Promotion Boards, and Tennessee Promise Endowment Scholarship Fund], and for the debt service fund.)

At the time the budget document is presented to the General Assembly, the appropriation process is initiated. The general appropriations act reflects the General Assembly's approval of the annual budget, and once passed and signed, the budget, in the form of the appropriations act, becomes the state's financial plan for the coming year. This act appropriates funds at the program level. No expenditures may be made, and no allotments increased, except pursuant to appropriations made by law. Budgetary control is maintained at the program level by the individual departments, acting in conjunction with the Department of Finance and Administration. Additional information regarding the state's budgetary process can be found in the Notes to Required Supplementary Information within this report.

Information Useful in Assessing Tennessee's Economic Condition

Local economy

Tennessee is beating the national average in terms of job growth and is one of the top ten states in the nation as far as economic momentum. From July 2015 to July 2016 Tennessee experienced a 2.4 percent job growth, with some metropolitan areas exceeding that number. Today more Tennesseans have a job than at any point in state history. In addition, Tennessee has been ranked the number one state for automobile manufacturing strength for an unprecedented five of the last six years, and, its exports have increased by 27 percent in the last four years.

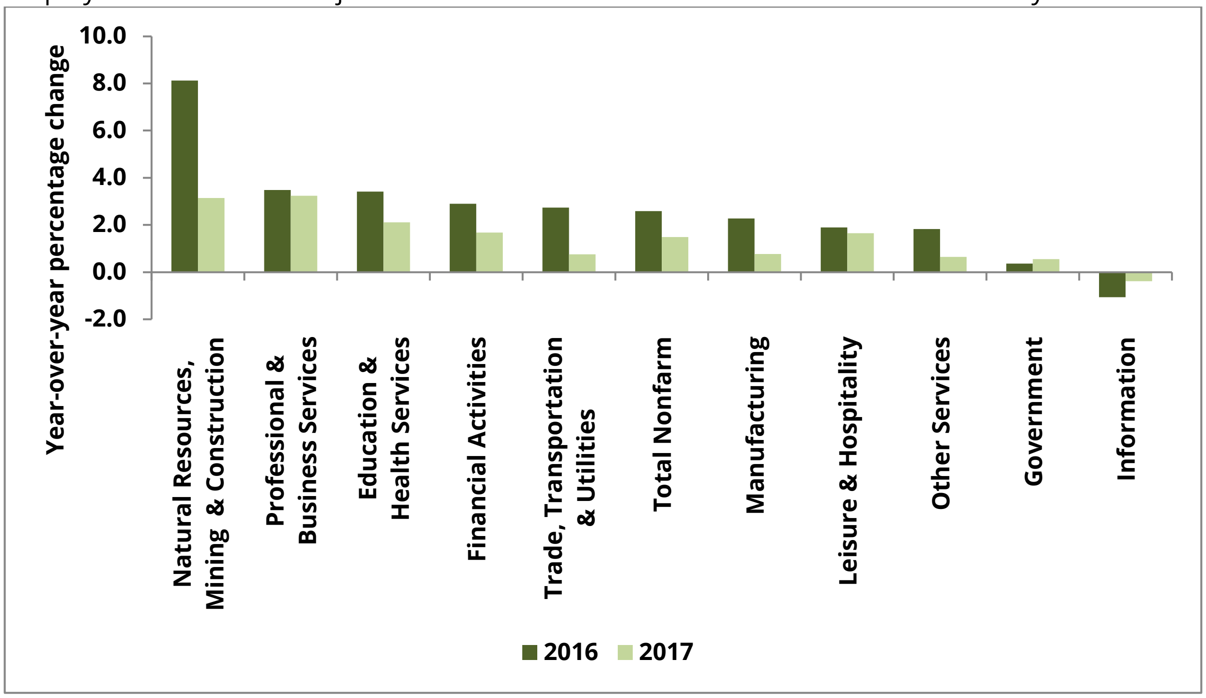
Recent projections point to relatively strong personal income growth and nonfarm job gains for Tennessee that should allow the state to continue to outpace national economic growth over the next two years.

Tennessee outlook at a glance (as of May, 2016):

- Nonfarm employment is projected to increase by 2.6 percent this year and 1.5 percent in 2017.
- Manufacturing employment will continue to expand, growing by 2.3 percent in 2016 and 0.8 percent in 2017.
- Tennessee's unemployment rate will fall from an annual average of 5.8 percent in 2015 to 4.6 percent in 2016, a remarkable 1.2 percentage point drop. The state unemployment rate will continue its descent into the following year, falling to an annual average of 4.5 percent in 2017.

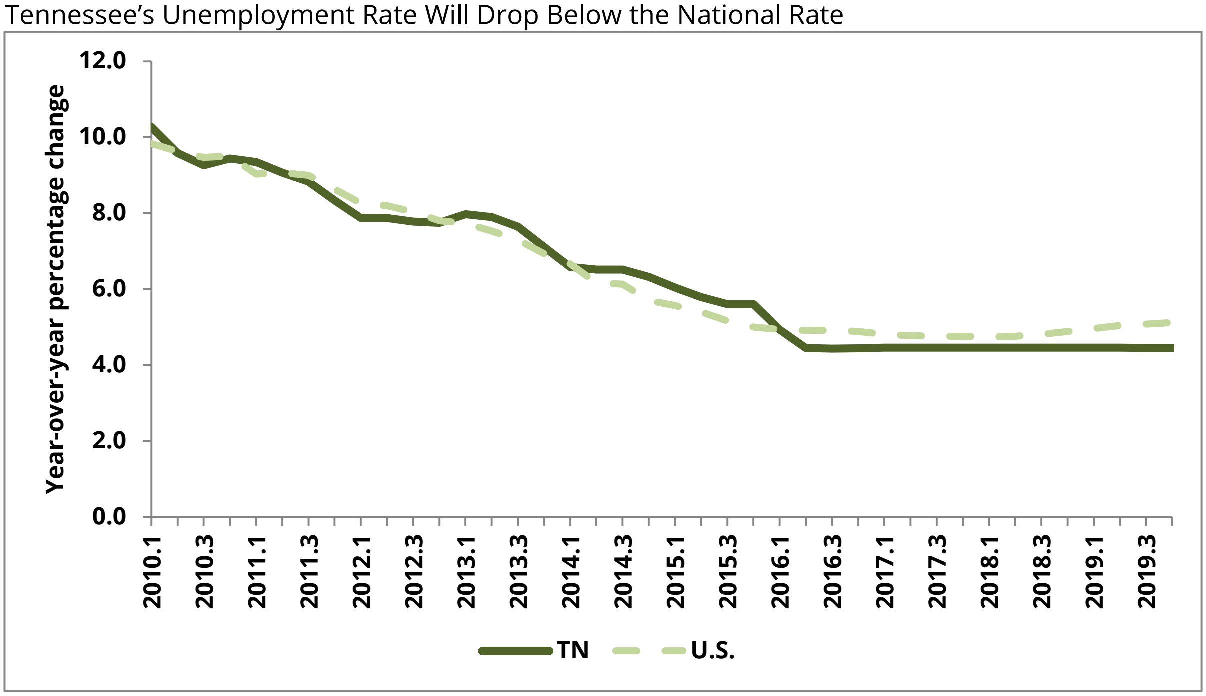
- Nominal personal income will advance 5.0 percent this year, and an additional 5.0 percent in 2017.
- Taxable sales will continue to expand growing by a projected 5.3 percent in 2016 and 5.1 percent in 2017.

Employment Gains are Projected for Most Broad Sectors of the Tennessee Economy



Source: Bureau of Labor Statistics and Boyd Center, UT

Tennessee's Unemployment Rate Will Drop Below the National Rate



Source: Bureau of Labor Statistics, IHS, Inc., and Boyd Center, UT

While Tennessee has now enjoyed more than six years of growth since the end of the Great Recession in 2009, it recognizes that its future in economic development will depend on having a workforce that is ready for high skill, high wage jobs. Accordingly, Tennessee is working hard to create innovative workforce partnerships and game changing education reform for skills in high demand. The state's Drive to 55 campaign, to increase the number of Tennesseans with a postsecondary degree or credential to 55 percent by 2025, is considered for example, not just a mission for higher education, but a mission for workforce and economic development, as well as a drive to reduce unemployment and improve quality of life. If the hoped-for gains are realized, economists have already predicted that this will support a stronger growth trajectory for the state economy.

Long-term financial planning and relevant financial policies

- Committed to controlling pension obligations, the state has met the full actuarially required contribution each year since 1972 and periodically revisits benefit provisions, including shifting to a hybrid plan as of July 1, 2014.

  For employees hired after June 30, 2014, the traditional defined benefit (where financial risk was borne entirely by the employer) was replaced with a combination of a defined benefit and a defined contribution plan. This hybrid plan includes greater controls over employer costs and unfunded liabilities. Accordingly, a bifurcated pension plan is now in place. A defined benefit legacy plan remains in force for employees hired before July 1, 2014.

- In an effort to modernize employee health insurance benefits for current, former and future employees, as well as to ensure the fiscal integrity and sustainability of these benefits, legislation was enacted that eliminated retiree insurance and the associated subsidies for state, higher education, local education and local government employees first hired, and elected officials first elected, after July 1, 2015. This legislation also included a requirement for the establishment of an investment trust for purposes of pre-funding other postemployment benefits (OPEB) accrued by employees of the state, with initial funding to be from appropriations made in the general appropriations act.

- In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be five percent (5%) of the estimated state tax revenues to be allocated to the general fund and education trust fund. This goal was increased to eight percent (8%) effective July 1, 2013. The revenue fluctuation reserve, or the "rainy day fund", allows services to be maintained when revenue growth is slower than estimated in the budget. Amounts in the revenue fluctuation reserve may be utilized to meet state tax revenue shortfalls. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of $100 million or one-half (1/2) of the amount available in the reserve, may be used to meet expenditure requirements in excess of budgeted appropriation levels.

- Tennessee's financial operations are conservative and its budget is consistently balanced. In response to economic and revenue weakness during the last downturn, the state repeatedly lowered base spending while relying on one-time resources, including federal stimulus and state reserve balances, to maintain budgetary equilibrium. The state has maintained a conservative posture since then, limiting spending growth while continuing to deposit resources to its "rainy day fund".

- The Tennessee Governmental Accountability Act of 2013 requires that a system of strategic planning, program performance measures and performance audits be used to measure the effectiveness and efficiency of governmental services. The information generated by the system is intended to inform the public and assist the general assembly in making meaningful decisions about the allocation of scarce resources in meeting vital needs.

- The state constitution requires, for current operations, that expenditures for any fiscal year not exceed the state's revenues and reserves, including the proceeds of any debt obligation, for that year. In addition, the Constitution forbids the expenditure of any debt obligation for a purpose other than the purpose for which it was authorized. Under state law, the term of bonds authorized and issued cannot exceed the expected life of the projects being financed. Bond anticipation notes have been authorized to be issued for the purposes of all existing bond authorizations.

  The state is also authorized to issue general obligation tax revenue anticipation notes (TRANS) in anticipation of tax revenues in the then current fiscal year of the state. The state constitution prohibits, however, the issuance of debt for operating purposes maturing beyond the end of a fiscal year. The state has not heretofore issued TRANS and has no current intent to do so.

- The state's current practice is to annually budget for 5 percent of all authorized and unissued general obligation bonds to account for assumed principal redemption (on the basis of an assumed 20-year, level-principal issue), plus an amount for assumed interest currently at a rate of 6 percent annually.

- Over the years, Tennessee has consistently maintained a relatively low debt burden. This has been accomplished through the use of sound, prudent, and conservative debt management practices adopted by the executive and legislative branches of government. Such practices include funding a portion of the state's capital program with surplus cash, cancellation of bond authorizations in lieu of issuing debt, creating and maintaining a "rainy day fund" to offset unanticipated revenue shortfalls, and the adoption of state statutes designed to control the issuance of excessive debt. The state continues to maintain a relative low debt burden, and access to the capital markets remains strong.

- Tennessee does not borrow money to fund transportation projects. Transportation initiatives instead follow a "pay-as-you-go" philosophy that utilizes bond authorizations as a cash management tool to accelerate projects in anticipation of expected revenues over a project's horizon. The bonds are authorized but remain unissued. The authorization allows the Tennessee Department of Transportation (TDOT) to obligate projects and get them started. Project costs are then paid throughout the year using TDOT's current cash flow. TDOT manages the project costs and has developed a model to project the cumulative cash requirement of multiple projects at different stages of construction and maintenance. The model projects TDOT's cash balance and indicates when additional bonds can be authorized or, if expected revenue failed to meet targets, whether the bonds must be sold to cover expenses.

  The state's practice of using cash flow to finance road projects in lieu of issuing debt has been one of the key factors in Tennessee's ability to secure and retain very high bond ratings.

- Monthly financial data on revenues and expenditures (budgetary comparison reports) are provided to the governor and agency heads. Significant variations are required to be researched and commented upon by agency heads. The governor may affect spending reductions to offset unforeseen revenue shortfalls or unanticipated expenditure requirements for particular programs. These spending reductions can take the form of deferred equipment purchases, hiring freezes, and similar cutbacks. The governor may also call special sessions of the General Assembly at any time to address financial or other emergencies.

- The state provides for a variety of tax credit and exemptions for companies expanding within the state or relocating to the state. The amounts and durations of these tax incentives depend on the type of company, number of jobs created and the amount of capital invested. These tax incentives are intended to address a variety of businesses from manufacturing and technology to investment in economically-distressed areas in the state.

- The Tennessee Interagency Cash Flow Committee was created by the General Assembly in 2011 for the purpose of establishing, compiling, and maintaining an eighteen month forward rolling cash flow projection. Departmental and programmatic specific forecasting data is used to project cash flow and earnings information relative to the various interest-bearing funds and accounts within the state's pooled investment fund. These projections enhance cash flows based on historical data alone, and help the state better plan and position itself for fluctuations in available cash balances.

- All state departments and institutions of higher education must under Tennessee law perform an annual management assessment of risk. Recently issued implementation guidance (effective for 2017) requires that this assessment utilize enterprise risk management practices that align with the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) enterprise risk management (ERM) framework, and, incorporate the Standards for Internal Control in the Federal Government's (known as the Green Book) adaption of COSO's Internal Control – Integrated Framework (2013). The guidance emphasizes the need to integrate and coordinate risk management and strong and effective internal control into existing business activities and as an integral part of managing a state department or institution of higher education.

Major initiatives

Strategic goals of keeping Tennessee a state with a strong financial condition; helping Tennessee to be No. 1 in the southeast for high quality jobs; and, making certain that all Tennesseans, regardless of their circumstances, have an opportunity for a high quality education, are at the heart of all of the state's budgetary initiatives, no matter how big or small.

The "Discussion of currently known facts, decisions, or conditions of future significance" section of this report's MD&A includes certain specific information regarding some of the major budgetary initiatives that may have a significant impact on Tennessee's revenue and expenditure trends. Additional information is provided below:

- Drive to 55 Campaign
  As previously mentioned, the state's Drive to 55 Campaign was launched in 2013 to increase the number of Tennesseans with a postsecondary degree or certificate to 55 percent by 2025.

This initiative has established the Tennessee Promise program, the nation's first scholarship and mentorship program that provides high school graduates last-dollar scholarships to attend two years of community or technical college free of tuition and fees; reduced the number of college freshmen requiring remediation through the SAILS (Seamless Alignment and Integrated Learning Support) program; provided free technical college for adults through TCAT Reconnect Grants; created Tennessee Reconnect + Complete to help more adults return to college to complete unfinished degrees; developed a more comprehensive state approach to serving student veterans; and leveraged technology to enhance classroom instruction and college advising.

If the income of someone with a degree or certificate is compared to someone without, moving the state's population to 55 percent (currently at 37 percent) would mean $9 billion in additional income for Tennesseans. There is thus little else that comes close to this effort for impacting the future of Tennessee.

- Strategies for Efficiency in Real Estate Management (SEREM)
  SEREM is an initiative to improve the management of the state's real estate portfolio. With a mission of providing guidance and management for successful execution of high-level strategies for efficient real estate management, currently active strategies include:

  · *Alternative Workplace Solutions (AWS)*: An initiative that creates a physical and cultural transformation using non-traditional workspace to promote productivity, efficiency and flexibility across state government that improves the management of the state's real estate portfolio. AWS enhances workspace use, reducing the state's real estate footprint, improving energy management, and boosting workforce mobility and productivity.

  · *Energy Management (EmPower TN)*: An initiative to reduce energy consumption and costs across state-owned and managed facilities. By measuring and controlling energy use, investing in energy efficiency and renewable power generation and creating an operational environment of excellence, Empower TN will develop a sustainable path toward utility savings for the state.

  · *Real Estate Process Improvement:* An initiative to improve the management of the state's real estate portfolio by exploring opportunities to lower contracting costs through streamlining real estate processes related to construction, demolition, leasing, acquisition and other property management activities.

  · *Facilities Management:* An initiative to improve the management of the state's diverse real estate portfolio, one of its largest expenses. A recently released report, that followed months of analysis, projects a potential taxpayer savings of more than 35 million annually through a professional service provider approach.

  Each of these initiatives is led by an industry expert, and improvements are executed while developing business justification for specific project opportunities.

- Governor's Rural Task Force
  Despite the unprecedented economic growth occurring in Tennessee, many of the state's rural areas are not experiencing the same prosperity as urban areas. In order to ensure thriving communities in all areas of the state, the Rural Task Force was created in August 2015 to convene stakeholders, identify solutions and implement holistic initiatives to address key issues impacting the state's rural communities.

The Task Force is committed to aligning public and private resources and offering new strategic initiatives to create transformative solutions in asset-based economic activities across rural Tennessee. Already some important initiatives have been launched, including a six million dollar fund to develop new industrial sites, and a one million dollar fund to develop tourist assets.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This was the thirty-sixth year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This CAFR is an example of state leadership's continuing commitment to maintaining the highest standards of accountability in financial reporting. We believe it provides useful data to all parties using it in evaluating the financial activity of the State of Tennessee.

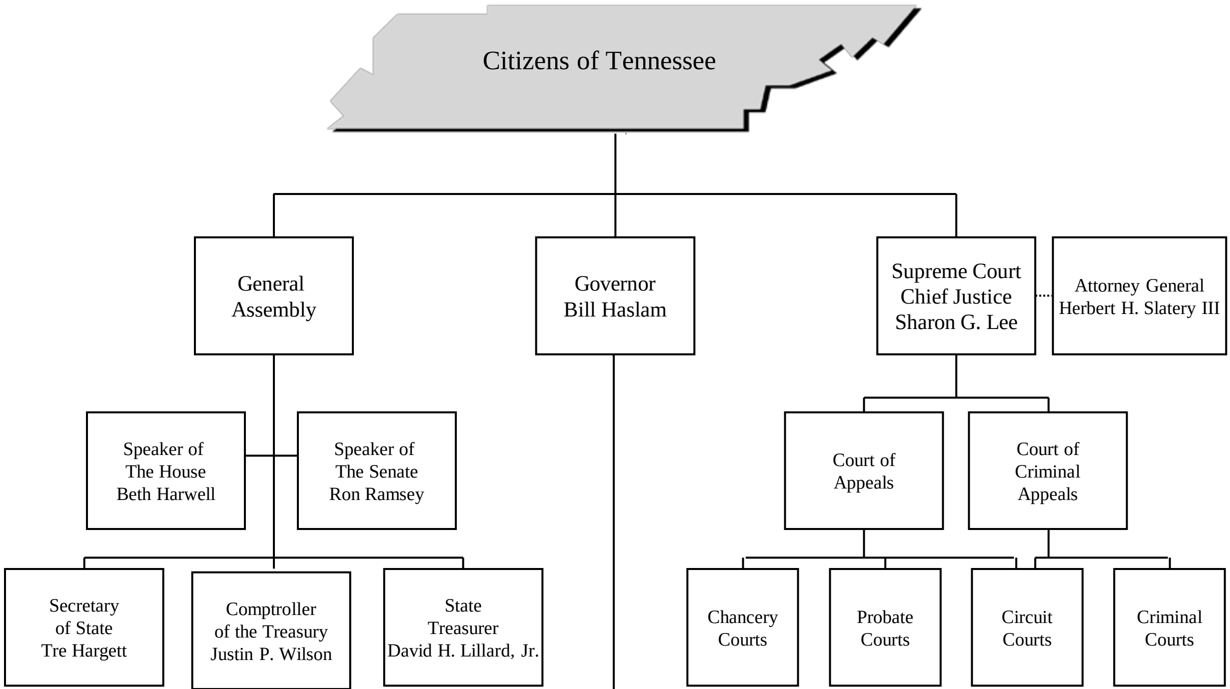
In conclusion, we wish to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency, each component unit, and the dedicated staff within the Department of Finance and Administration, Division of Accounts. We welcome any inquiries concerning this report.

Respectfully submitted,

Larry B. Martin
Commissioner

Mikel J. Corricelli
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2016



Departments

- Agriculture
- Children's Services
- Commerce and Insurance
- Correction
- Economic and Community Development
- Education
- Environment and Conservation
- Finance and Administration
- Financial Institutions
- General Services
- Health
- Human Resources
- Human Services
- Intellectual and Developmental Disabilities
- Labor and Workforce Development
- Mental Health and Substance Abuse Services
- Military
- Revenue
- Safety and Homeland Security
- Tourist Development
- Transportation
- Veterans Services
- Agencies, Boards, Commissions, and Councils

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Tennessee

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

FINANCIAL SECTION

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

Members of the General Assembly
and
The Honorable Bill Haslam, Governor

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Baccalaureate Education System Trust, Board of Claims, Board of Standards, Chairs of Excellence, Local Education Insurance Committee, Local Government Insurance Committee, State Building Commission, State Funding Board, State Insurance Committee, Tennessee Consolidated Retirement System, Tennessee Housing Development Agency, Tennessee Local Development Authority, Tennessee Student Assistant Corporation, and the Tennessee State School Bond Authority. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the State of Tennessee.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2016, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 5, the Tennessee Retiree Group Trust investment pool has investments valued at $6 billion, whose fair values have been estimated by management in the absence of readily determinable fair values. These investments make up 14% of net position of pension and other employee benefit trust funds, 0.02% of net position of investment trust funds, and 0.3% of total assets of agency funds. In addition, the financial statements of the University of Tennessee, a discretely presented component unit, include investments valued at $480.3 million (6.44% of total component unit net position), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Tennessee's basic financial statements. The supplementary information and supplementary schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory section and statistical section listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 21, 2016, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Tennessee's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 21, 2016

This Page Intentionally Left Blank

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our management discussion and analysis (MD&A) of the State of Tennessee's (the state's) financial performance provides an overview of the state's financial activities for the year ended June 30, 2016. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 2-10 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

  Net Position–The assets and deferred outflows of resources of the state exceeded its liabilities and deferred inflows of resources at June 30, 2016, by $33.9 billion (net position). Of this amount, $4.1 billion represents unrestricted net position, which may be used to meet the state's ongoing obligations to citizens and creditors while $28.2 billion represents *net investment in capital assets*.

  Changes in Net Position–The state's net position increased by $1.9 billion. The increase was the result of a significant increase in tax revenue collections as well as an increase in capital assets.

  Component units–Component units reported total net position of $7.5 billion, an increase of $387 million.

- **Fund Level:**

  At June 30, 2016, the state's governmental funds reported combined ending fund balances of $5.9 billion, an increase of $1.2 billion (see discussion on page 20) compared to the prior year. Of the combined fund balance, approximately $4.3 billion is spendable unrestricted (committed, assigned or unassigned) fund balance and is available for spending at the government's discretion or upon legislative approval; however, $568 million of this amount is set aside in a revenue fluctuation account (rainy day fund).

- **Long-Term Debt:**

  The state's total debt increased by $212.3 million during the fiscal year to total $2.4 billion. This change primarily results from the 2015A and 2015B bond issuances that totaled $383.8 million. The commercial paper balance increased by $48 million over the fiscal year. These increases combined with the payment of principal and refunding of bonds during the fiscal year accounts for the increase in long-term debt.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The s*tatement of net position and the statement of activities* (on pages 29-31) provide information about the activities of the state as a whole (government-wide statements) and present a longer-term view of the state's finances. Fund financial statements start on page 34. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the state's operations in more detail than the government-wide statements by providing information about the state's most significant funds. The remaining statements provide financial information about activities for which the state acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Position and the Statement of Activities

Our analysis of the state as a whole begins on page 19. One of the most important questions asked about the state's finances is, "Is the state as a whole better off or worse off as a result of the year's activities?" The *statement of net position* and the *statement of activities* report information about the state as a whole and about its activities in a way that helps answer this question. These statements include all assets, liabilities, and deferred outflows/inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report financial information about the entire government except fiduciary activities. The statements distinguish between the primary government and its component units, and also distinguish between governmental activities and business-type activities of the primary government. The s*tatement of net position* displays all the state's financial and capital resources in the format of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equal net position. The s*tatement of activities* reports the state's operations by function to arrive at net revenue (expense). The statement reports what type revenue (either program revenue or general revenue) funds the government operations. The state functions that are identified on this statement correspond to the functions used for budgetary purposes:

- *Governmental activities*–general government; education; health and social services; law, justice and public safety; recreation and resources development; regulation of business and professions; transportation; intergovernmental revenue sharing; payments to fiduciary funds and interest on long-term debt.

- *Business-type activities*–employment security, insurance programs, loan programs and other.

- *Component units*–significant component units include the Tennessee Housing Development Agency, the Tennessee Education Lottery Corporation, the Tennessee Board of Regents, and the University of Tennessee. Although these and other smaller entities are legally separate, these "component units" are important because the state is financially accountable for them.

Reporting the State's Most Significant Funds

Fund financial statements

Our analysis of the state's major funds begins on page 22. The fund financial statements begin on page 34 and provide detailed information about the most significant funds–not the state as a whole. Some funds are required to be established by state law and by bond covenants. However, the state establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The state's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Proprietary Funds. Proprietary funds report the government services that charge service fees to its customers. Proprietary funds include enterprise funds (serving citizens) and internal service funds (serving state agencies). The enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail; whereas, the internal service funds are included in the governmental activities.

Notes to the financial statements. Notes to the financial statements are also included and provide essential information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units. The notes to the financial statements can be found on pages 50-135.

The State as Trustee

Reporting the State's Fiduciary Responsibility

Fiduciary funds are used to report resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the state cannot use these assets to finance its operations. Instead, the state is responsible for using the fiduciary assets for the fiduciary fund's intended purposes.

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the state, assets and deferred outflows of resources exceeded liabilities and deferred inflow of resources by $33.9 billion as of June 30, 2016.

By far, the largest portion of the state's net position (83.3 percent) reflects its net investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment, construction in progress and software in development), less any related debt and deferred outflows of resources used to acquire those assets that is still outstanding. The state uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Tennessee
Net Position as of June 30
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	$ 9,283,579	$ 7,347,403	$ 2,665,707	$ 2,540,155	$ 11,949,286	$ 9,887,558
Capital assets	28,723,947	28,082,774			28,723,947	28,082,774
Total assets	38,007,526	35,430,177	2,665,707	2,540,155	40,673,233	37,970,332
Deferred outflows of resources	405,667	334,238			405,667	334,238
Current and other liabilities	2,337,046	1,686,025	114,553	111,847	2,451,599	1,797,872
Noncurrent liabilities	4,543,103	3,853,778	9,450	7,778	4,552,553	3,861,556
Total liabilities	6,880,149	5,539,803	124,003	119,625	7,004,152	5,659,428
Deferred inflows of resources	201,896	700,639			201,896	700,639
Net position:						
Net investment in capital assets	28,201,282	27,432,234			28,201,282	27,432,234
Restricted	1,595,049	1,150,817			1,595,049	1,150,817
Unrestricted	1,534,817	940,922	2,541,704	2,420,530	4,076,521	3,361,452
Total net position	$ 31,331,148	$ 29,523,973	$ 2,541,704	$ 2,420,530	$ 33,872,852	$ 31,944,503

An additional portion of the state's net position (4.7 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net position ($4.1 billion) and may be used to meet the state's ongoing obligations to citizens and creditors not funded by resources that are restricted. Primarily as a result of a significant increase in tax revenue collections, unrestricted net position increased by $715.1 million (21.3 percent).

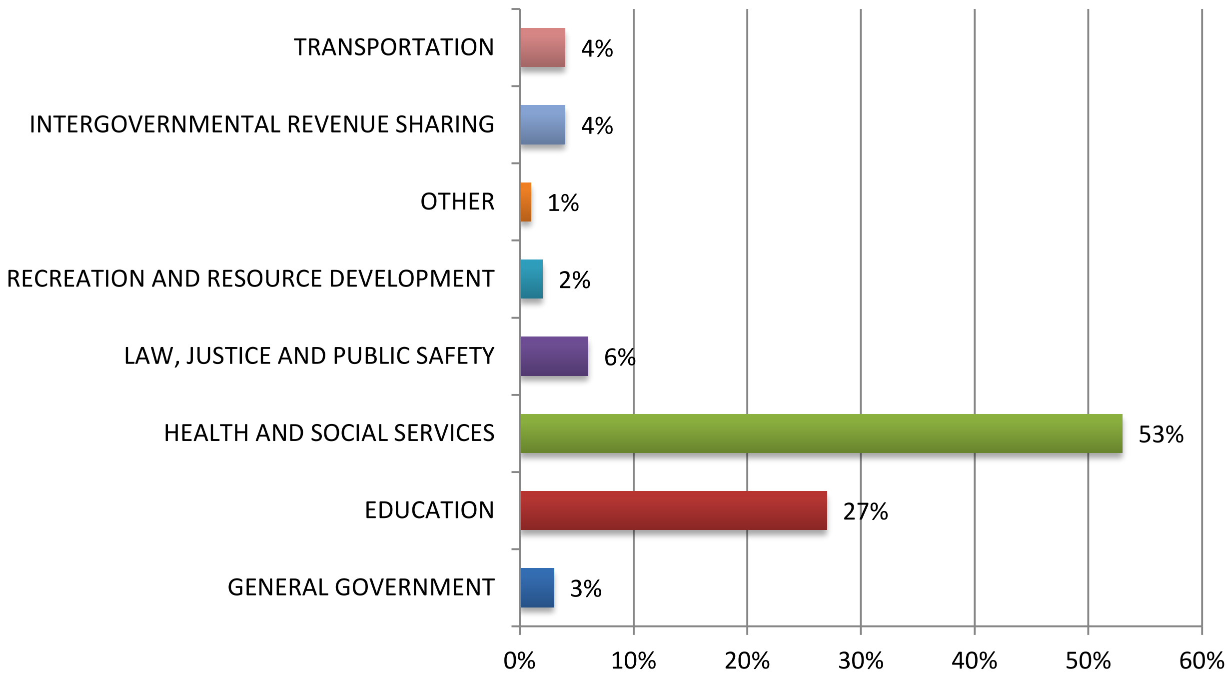
At the end of the current fiscal year, the state was able to report positive balances in all three categories of net position, for the government as a whole, and for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

State of Tennessee
Changes in Net Position
For the Fiscal Year Ended June 30
(Expressed in Thousands)

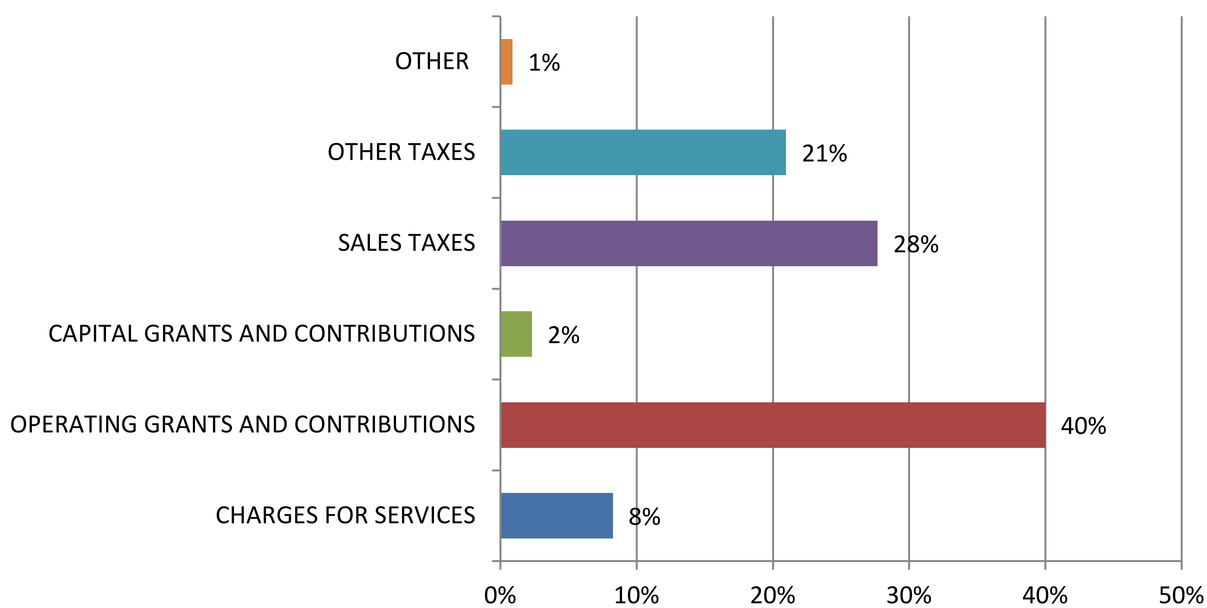
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	$ 2,459,068	$ 2,323,866	$ 864,632	$ 934,339	$ 3,323,700	$ 3,258,205
Operating grants and contributions	11,930,270	11,291,412	85,287	64,053	12,015,557	11,355,465
Capital grants and contributions	686,774	727,573			686,774	727,573
General revenues:						
Sales Taxes	8,258,134	7,713,695			8,258,134	7,713,695
Other taxes	6,253,300	5,917,859			6,253,300	5,917,859
Other	258,508	230,185			258,508	230,185
Total revenues	29,846,054	28,204,590	949,919	998,392	30,795,973	29,202,982
Expenses:						
General government	981,862	858,569			981,862	858,569
Education	7,507,413	7,302,492			7,507,413	7,302,492
Health and social services	14,930,669	14,258,216			14,930,669	14,258,216
Law, justice and public safety	1,605,231	1,522,333			1,605,231	1,522,333
Recreation and resources development	665,491	666,997			665,491	666,997
Regulation of business and professions	194,662	175,667			194,662	175,667
Transportation	1,045,959	1,126,447			1,045,959	1,126,447
Intergovernmental revenue sharing	1,045,095	980,258			1,045,095	980,258
Interest on long-term debt	60,891	60,622			60,891	60,622
Payments to fiduciary funds	680	400			680	400
Employment security			241,852	289,415	241,852	289,415
Insurance programs			585,757	556,634	585,757	556,634
Loan programs			1,865	1,493	1,865	1,493
Other			367	68	367	68
Total expenses	28,037,953	26,952,001	829,841	847,610	28,867,794	27,799,611
Increase in net position before contributions and transfers	1,808,101	1,252,589	120,078	150,782	1,928,179	1,403,371
Transfers	(1,096)	(8,046)	1,096	8,046		
Contributions to permanent funds	170	136			170	136
Increase (decrease) in net position	1,807,175	1,244,679	121,174	158,828	1,928,349	1,403,507
Net position, July 1	29,523,973	28,279,294	2,420,530	2,261,702	31,944,503	30,540,996
Net position, June 30	$ 31,331,148	$ 29,523,973	$ 2,541,704	$ 2,420,530	$ 33,872,852	$ 31,944,503

Governmental activities. Net position of the state's governmental activities increased by $1.8 billion (6.1 percent). This increase accounts for 93.7 percent of the total increase in net position of the primary government and is primarily the result of an increase in tax revenue as well as the capitalization of $883.5 million in expenses related to roadways and bridges and not recording depreciation expense for these assets. The state also had an increase in the state's net pension obligation of $418 million.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net position of the state's business-type activities increased by $121.2 million (5 percent). The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net position of $118.8 million. The Employment Security fund increase of $62.6 million is not considered to be significant and is generally due to a decrease in unemployment benefits paid as a result of a lower unemployment rate. The Sewer Treatment Loan program increase of $56.2 million also not considered to be significant and is primarily due to increased operating grants received and loaned out during the year. The Nonmajor Enterprise funds' activity resulted in a $2.4 million (.49 percent) increase in net position which is primarily attributable to an increase in operating grants received and loaned out during the year in the Drinking Water Loan program and a decrease in net position of the Teacher and Local Government Group Insurance funds due to higher benefit payments during the year.

THE STATE'S FUNDS

At June 30, 2016, governmental funds reported an increase in total revenues and in total expenditures. Details are in the following paragraphs. The revenue fluctuation account (rainy day fund) reported as unassigned fund balance has been increased to $568 million or 3 percent of the general fund's expenditures.

The general fund reported a $678 million increase in fund balance. The majority of this increase in fund balance was attributable to an increase in revenues. The majority of the revenue increase occurred as a result of significant increases in the Sales and Business taxes, $242.6 million and $170 million respectively. These tax increases are the result of continued economic conditions and an increase in private company expansion commitments across the state.

The education fund reported an overall increase in total revenues and transfers of $232.7 million (3.25%) and an increase of expenditures of $180.9 million (2.54%). Most of the increase in expenditures was due to the increase of the state's equitable share of the Basic Education Program (K-12 funding), and to provide additional funding for the state's comprehensive assessment program, for salary and benefit increases for K-12 and higher education employees, for need-based financial aid to serve unfunded eligible students, and for higher education institutions outcome- based formula growth.

The overall fund balance increased in the education fund by $83.6 million. The majority of the increase is restricted for student financial assistance.

The highway fund revenues increased $51.4 million and expenditures decreased $23.5 million. Revenues increased primarily as a result of an increase in tax revenue and expenditures decreased primarily as a result of TDOT's top-to-bottom initiative to reduce costs while increasing the core competency of TDOT's professional and technical staff.

The total plan net position of the pension trust funds are $43.3 billion, an increase of approximately $.1 billion from the prior year. The increase was primarily the result of improvements in the financial markets; the pension trust funds incurred a net investment gain of $1.1 billion.

General Fund Budgetary Highlights

Federal revenue collections were below estimated levels (approx. 8%) primarily due to a continuing decline in the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) program caseloads at the Department of Human Services (DHS). Because these programs are significantly funded by federal revenue, DHS's federal revenue saw a decrease of $390 million as a result of the decline in SNAP caseloads and $121 million as a result of the decline in TANF caseloads. The decline in TANF caseloads also led to a $53 million decline in the Child Care Development Fund (CCDF). The Department of Economic and Community Development had an unexpected decline in federal revenue due to an unexpected decrease in participation in the community development block grant program. The Department of Mental Health and Substance Abuse Services under-collected federal revenue due to programs that were not fully implemented as well as a decline in the average daily census of mental health institutes. The number of average unemployment recipients per week decreased in the Department of Labor's unemployment program. The Department of Health, an increase in Ryan White drug rebates led to an $11 million dollar budget variance in federal revenue because drug rebates were used to supplant federal revenue. The Department of Health also experienced a decrease in Women, Infant and Children (WIC) food participants which led to a $14 million dollar unexpected decline in federal revenue. The Department of Children's Services collected less federal revenue than expected due to a decrease in children qualifying for the Fostering Connection IV-E program. Lastly, at TennCare, there was a $36 million dollar savings resulting from changes in network as well as the leveling of the number of covered enrollees in the CoverKids program. In addition, TennCare also had a $19 million under-collection resulting from the lower number of hospitals and providers previously anticipated to meet the thresholds to receive a Health Information Technology (HIT) payment.

Actual expenditures in Finance and Administration, Labor and Workforce Development, Economic and Community Development and the TennCare program were significantly less than what was projected in the final budget primarily due to unexpended reserved amounts and multi–year projects that were appropriated in the current year. As previously mentioned the Department of Human Services experienced a favorable expenditure variance due to a decline in expenditures in the SNAP and TANF programs. At the Department of Health, expected expenditures decreased due to declining food costs and the number of participants in the WIC program.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets at June 30, 2016, of $28.7 billion, net of $1.9 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government

(Expressed in Thousands)

	Governmental Activities	
	2016	2015
Land	$ 2,240,287	$ 2,172,266
Infrastructure	23,891,312	23,049,536
Construction in progress	833,365	1,120,501
Structures and improvements	2,492,401	2,473,410
Machinery and equipment	1,091,489	1,010,205
Software in development	63,077	58,680
Subtotal	30,611,931	29,884,598
Accumulated depreciation	(1,887,984)	(1,801,824)
Total	$ 28,723,947	$ 28,082,774

More detail of the activity during the fiscal year is presented in Note 5D to the financial statements.

Capital assets, including those under construction, increased from fiscal year 2015 to 2016 by approximately 2.3 percent. The change was primarily due to purchases of land for highway right-of-ways and increases in construction in progress related to infrastructure (highways and bridges) projects. Infrastructure increased in total by $841.8 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $570.3 million and decreased (projects completed and capitalized) by $883.5 million. Infrastructure right-of-way acreage increased the land classification by $48.1 million. The change in machinery and equipment of $81.3 million resulted primarily from a $20 million mobile equipment upgrade for the Department of Transportation and a $27.8 million increase that resulted from system projects that were placed in operation and are now classified as equipment. The state had several system projects in the application development stage, resulting in the capitalization of $32.4 million in new software development costs.

In accordance with generally accepted accounting principles, the state is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the modified approach, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The state is responsible for approximately 14,000 miles of roadway and 8,358 bridges. Differences between the amount estimated to be necessary for maintaining and preserving infrastructure assets at targeted condition levels and the actual amounts of expense incurred for that purpose during the fiscal period are the results of timing differences. The budgeting process and the fact that projects are started at different times during the year and take more than 12 months to complete, results in spending in one year amounts that were budgeted in a previous fiscal year(s).

The decision to use the modified approach was essentially made because the state has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 138), indicated that bridges were rated at 10 points above the state's established condition level and roadways were 10 points above the state's benchmark level. Bridges are assessed biennially and roadways annually.

The state's capital outlay budget for the 2015-2016 fiscal year reflects a $317.4 million increase from the previous year. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included $165.8 million for Volkswagen plant infrastructure, $267.41 million for higher education projects and $19.3 million for correctional facilities maintenance and expansions.

Debt Administration

In accordance with the Constitution, the state has the authority to issue general obligation debt that is backed by the full faith and credit of the state. The Legislature authorizes a certain amount of debt each year and the State Funding Board has oversight responsibility to issue the debt for capital projects. Any improvement to real property, including the demolition of any building or structure located on real property in which the State of Tennessee or any of its departments, institutions, or agencies has an interest, other than Department of Transportation, highway and road improvements and demolition of structures in highway rights-of-way requires State Building Commission approval. The state issues commercial paper as a short-term financing mechanism for capital purposes and the commercial paper is typically redeemed with long-term bonds. The unissued balance by function (expressed in thousands) follows:

Purpose	Unissued June 30, 2016
Highway	$ 847,700
Higher Education	522,221
Environment and Conservation	9,755
Economic and Community Development	57,000
General Government	267,024
Total	$1,703,700

More detail of the activity during the fiscal year is presented in Note 5I to the financial statements.

The state's outstanding general obligation debt consists of the following (expressed in thousands):

	Governmental Activities	
	June 30, 2016	June 30, 2015
Bonds, net	$ 2,124,897	$ 1,960,437
Commercial Paper	245,536	197,686
Total	$ 2,370,433	$ 2,158,123

The state issued $286.3 million in tax-exempt general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short term basis, and to directly finance other capital projects. The state also issued $97.5 million of tax-exempt general obligation refunding bonds to provide for the advance refunding of $103.8 million of general obligation bonds. Nearly three-fourths of the outstanding debt has been issued either for capital projects of two of the state's major component units-University of Tennessee and Tennessee Board of Regents-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The state has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5I to the financial statements.

The state's bonds are rated AAA, Aaa, and AAA by Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, respectively. Under current state statutes, the general obligation debt issuances are subject to a maximum allowable debt service limitation based on a percentage of tax revenues allocated to the general fund, highway fund and debt service fund. As of June 30, 2016, the state's maximum allowable debt service of $1.2 billion was well above the maximum annual debt service of $241 million, with a legal debt service margin of $927.7 million.

DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS OF FUTURE SIGNIFICANCE

Economic Factors

Economic growth in Tennessee has outpaced national growth in recent quarters. Nominal personal income in Tennessee grew faster than the national average during the last three quarters of 2015. Similarly, nonfarm job growth in Tennessee outpaced national job growth over that same time period, as well as in the first quarter of 2016. As a result, Tennessee's unemployment rate dropped 0.7 percentage points and fell to 4.9 percent during the first quarter of 2016. This was the first time since early 2014 that the state unemployment rate was not above the national rate. Rates are expected to continue to remain even with or below national averages for the remainder of 2016 and for 2017. In addition, projections point to relatively strong personal income growth and nonfarm job gains in Tennessee that should allow the state to continue to outpace national economic growth over the next two years.

General Obligation Rating

For the first time since 2000 and for only the second time in state history, Tennessee has received a triple triple-A rating, the highest bond ratings issued by all three major credit rating agencies. Tennessee is one of only 11 states to receive triple triple-A status, and in terms of looking at the finances of a state, this is considered the gold standard.

The upgrade is reflective of Tennessee's strengthening economy, growing reserves and continuous sound management of its long-term liabilities. Improved reserves were viewed as positioning Tennessee better than other states against another potential economic downturn despite its reliance on cyclical sales tax revenues. From a practical standpoint, taxpayers will pay lower interest rates and less interest on the state's debt.

New Business Investment

For the second consecutive year, Tennessee was ranked among the best states in economic development in recognition of projects undertaken in 2015 creating a significant number of high-value-added new jobs as well as investments. The year 2015 was literally the best year on record for economic development in Tennessee. The state landed 161 company commitments totaling $5.5 billion in investment capital, calling for more than 25,000 new jobs. About 40 percent of that investment came from foreign countries, led by Japan, Canada, and China.

Many of these projects are in the manufacturing sector. Automotive manufacturing is the top manufacturing industry in the state, employing more than 100,000 workers, accounting for about one third of all Tennessee manufacturing jobs. The biggest automotive project announced was Nissan North America's $160 million expansion in Smyrna. Also, FICOSA North America is building a $58 million facility in Cookeville, where it plans to hire 550 new workers. Gestamp Corporation, a European automotive supplier, will invest another $180 million and add 510 jobs at its Chattanooga operations, making chassis components for VW. Also, DENSO Manufacturing Tennessee is expanding its automotive components plant in Maryville, Blount County, investing $400 million and creating 500 jobs.

Next Year's Budget

The 2016 session of the Tennessee General Assembly included legislation that continued the state's focus on education and fiscal strength, making the largest investment in K – 12 without a tax increase in Tennessee history, and reorganizing the existing higher education structure to better empower Tennessee's public colleges and universities to increase student success and the number of Tennesseans with a postsecondary credential.

The balanced FY 2016-2017 budget, which takes on no new debt, includes:

· $258 million for K-12 education, the largest investment without a tax increase in Tennessee's history, including more than $100 million for teacher salaries, nearly $30 million to fund the 12th month of insurance for teachers, and $15 million for recurring technology funds for schools – an amount that doubles the state's current investment and addresses concerns related to devices, infrastructure and instruction;

· $135 million for higher education, including $69 million for campus support, $13.2 million for student aid, and $16 million to continue Drive to 55 initiatives;

- $100 million for the Revenue Fluctuation Reserve (Rainy Day Fund), bringing it to an estimated $668 million on June 30, 2017, which is more than double the amount in the fund in 2011;

- $578.5 million ($448.5 million in state funds) to catch up on long-deferred maintenance and construction of state buildings, including $311.5 million ($275.8 million in state funds) for the top recommended capital projects from the University of Tennessee (UT) and Tennessee Board of Regents higher education systems: $85.5 million for a new Tennessee Tech University laboratory science building; $39 million for a new dentistry building at the UT Health Science Center in Memphis; $38.8 million for Tennessee State University's new health science building; and $35.9 million for renovations to UT Chattanooga academic buildings;

- $142 million from the General Fund to repay the state's Highway Fund, including $42 million for local governments' transportation needs as part of the state aid program;

- $60 million for salary increases for state employees and another $36 million for market rate adjustments for state employees making less than $50,000 annually;

- $54.3 million for the new Employment and Community First (ECF) CHOICES program to support competitive employment and independent living for Tennesseans with intellectual and developmental disabilities;

- $10 million for the Department of Economic and Community Development's Rural Development Initiative;

- $12.8 million for facilities and homeland security upgrades for the Military Department;

- $1.27 million to increase the number of drug recovery courts from 41 to 50 and for two additional veterans courts.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Tennessee's finances for all those with an interest in the state's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance and Administration, Division of Accounts, 312 Rosa Parks Avenue, Suite 2100, Nashville, TN 37243.

BASIC FINANCIAL STATEMENTS

This Page Intentionally Left Blank

STATE OF TENNESSEE
Statement of Net Position
June 30, 2016
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Total Component Units
ASSETS				
Cash and cash equivalents	$ 5,874,443	$ 866,674	$ 6,741,117	$ 2,232,402
Cash on deposit with fiscal agent	-	1,002,911	1,002,911	-
Investments	551,604	-	551,604	381,935
Receivables, net	2,170,643	170,680	2,341,323	306,229
Internal balances	(253)	253	-	-
Due from primary government	-	-	-	47,903
Due from component units	107,051	6	107,057	-
Inventories, at cost	26,229	-	26,229	10,816
Prepayments	261	-	261	19,702
Loans receivable, net	15,155	625,183	640,338	3,793,379
Net investment in capital leases	9,352	-	9,352	-
Fair value of derivatives	-	-	-	1,791
Other	-	-	-	5,947
Restricted assets:				
Cash and cash equivalents	165,738	-	165,738	506,256
Investments	361,381	-	361,381	1,782,981
Receivables, net	-	-	-	347,477
Net pension assets	1,975	-	1,975	12,214
Capital assets:				
Land, at cost	2,240,287	-	2,240,287	247,549
Infrastructure	23,891,312	-	23,891,312	615,763
Structures and improvements, at cost	2,492,401	-	2,492,401	5,946,382
Machinery and equipment, at cost	1,091,489	-	1,091,489	1,095,352
Less-accumulated depreciation	(1,887,984)	-	(1,887,984)	(3,173,676)
Construction in progress	833,365	-	833,365	596,042
Software in development	63,077	-	63,077	-
Total assets	38,007,526	2,665,707	40,673,233	14,776,444
DEFERRED OUTFLOWS OF RESOURCES	405,667	-	405,667	253,667
LIABILITIES				
Accounts payable and other current liabilities	1,899,828	88,178	1,988,006	513,404
Due to primary government	-	-	-	107,057
Due to component units	47,903	-	47,903	-
Unearned revenue	316,765	26,375	343,140	166,743
Payable from restricted assets	72,550	-	72,550	-
Other	-	-	-	32,452
Noncurrent liabilities:				
Due within one year	287,440	-	287,440	300,904
Due in more than one year	4,255,663	9,450	4,265,113	6,357,582
Total liabilities	6,880,149	124,003	7,004,152	7,478,142
DEFERRED INFLOWS OF RESOURCES	201,896	-	201,896	89,927
NET POSITION				
Net investment in capital assets	28,201,282	-	28,201,282	3,704,382
Restricted for:				
Highway projects	337,955	-	337,955	-
Student financial assistance	169,746	-	169,746	-
Natural and wildlife resources	70,895	-	70,895	-
Capital projects	93,188	-	93,188	94,027
Single family bond programs	-	-	-	417,331
Regulatory activities	70,372	-	70,372	-
Pensions	1,975	-	1,975	12,214
Other	95,414	-	95,414	707,585
Permanent and endowment funds				
Expendable	241,565	-	241,565	129,779
Nonexpendable	513,939	-	513,939	1,106,054
Unrestricted	1,534,817	2,541,704	4,076,521	1,290,670
Total net position	$ 31,331,148	$ 2,541,704	$ 33,872,852	$ 7,462,042

The notes to the financial statements are an integral part of this statement

STATE OF TENNESSEE
Statement of Activities
For the Year Ended June 30, 2016
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activities:				
General government	$ 981,862	$ 796,608	$ 58,165	$ 791
Education	7,507,413	50,274	1,559,966	-
Health and social services	14,930,669	1,030,133	9,739,487	1,695
Law, justice and public safety	1,605,231	161,110	157,122	3,300
Recreation and resources development	665,491	164,390	223,940	1,911
Regulation of business and professions	194,662	200,087	438	150
Transportation	1,045,959	56,466	191,152	678,927
Intergovernmental revenue sharing	1,045,095	-	-	-
Interest	60,891	-	-	-
Payments to fiduciary fund	680	-	-	-
Total governmental activities	28,037,953	2,459,068	11,930,270	686,774
Business-type activities:				
Employment security	241,852	290,005	14,443	-
Insurance programs	585,757	565,174	496	-
Loan programs	1,865	9,214	70,342	-
Other	367	239	6	-
Total business-type activities	829,841	864,632	85,287	-
Total primary government	$ 28,867,794	$ 3,323,700	$ 12,015,557	$ 686,774
Component units:				
Higher education institutions	$ 4,574,414	$ 1,757,026	$ 1,639,269	$ 231,975
Loan programs	727,586	207,880	423,384	-
Lottery programs	1,515,430	1,515,176	37	-
Other	52,052	42,180	3,655	512
Total component units	$ 6,869,482	$ 3,522,262	$ 2,066,345	$ 232,487
General revenues:				
Taxes:				
Sales and use				
Fuel				
Business				
Other				
Payments from primary government				
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings				
Miscellaneous				
Contributions to permanent funds				
Transfers				
Total general revenues, contributions, and transfers				
Change in net position				
Net position, July 1, restated				
Net position, June 30				

The notes to the financial statements are an integral part of this statement

STATE OF TENNESSEE
Statement of Activities
For the Year Ended June 30, 2016
(Expressed in Thousands)

Net (Expense) Revenue and Changes in Net Position — Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total Primary Government	Component Units
$ (126,298)	$ -	$ (126,298)	$ -
(5,897,173)	-	(5,897,173)	-
(4,159,354)	-	(4,159,354)	-
(1,283,699)	-	(1,283,699)	-
(275,250)	-	(275,250)	-
6,013	-	6,013	-
(119,414)	-	(119,414)	-
(1,045,095)	-	(1,045,095)	-
(60,891)	-	(60,891)	-
(680)	-	(680)	-
(12,961,841)	-	(12,961,841)	-
-	62,596	62,596	-
-	(20,087)	(20,087)	-
-	77,691	77,691	-
-	(122)	(122)	-
-	120,078	120,078	-
(12,961,841)	120,078	(12,841,763)	-
-	-	-	(946,144)
-	-	-	(96,322)
-	-	-	(217)
-	-	-	(5,705)
-	-	-	(1,048,388)
8,258,134	-	8,258,134	-
899,631	-	899,631	-
4,631,629	-	4,631,629	-
722,040	-	722,040	-
-	-	-	1,296,943
-	-	-	51,168
15,076	-	15,076	36,278
243,432	-	243,432	5,537
170	-	170	62,686
(1,096)	1,096	-	-
14,769,016	1,096	14,770,112	1,452,612
1,807,175	121,174	1,928,349	404,224
29,523,973	2,420,530	31,944,503	7,057,818
$ 31,331,148	$ 2,541,704	$ 33,872,852	$ 7,462,042

This Page Intentionally Left Blank

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

General Fund—The general fund is maintained to account for all governmental financial resources and transactions not accounted for in another fund.

Education Fund—The education fund is maintained to account for revenues and expenditures associated with programs involving the Departments of Education and Higher Education including the activities of the Tennessee Promise Scholarship Endowment Fund. Funding for these programs is accomplished primarily from the dedicated sales and services taxes, federal monies received from the U. S. Department of Education, and net lottery proceeds.

Highway Fund—This fund is maintained to account for revenues and expenditures associated with programs of the Department of Transportation. Funding of these programs is accomplished primarily from dedicated highway user taxes and funds received from the various federal transportation agencies. All federal funds accruing to the highway fund are received on a reimbursement basis covering costs incurred. It is the state's practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. This front-end state funding, together with multi-year disbursements on most projects, results in large cash balances in this fund. Effective July 1, 1986, the Department of Transportation began earning interest on certain unspent monies for a new highway construction program, while the general fund earns the interest on the other highway program monies.

Capital Projects Fund—The capital projects fund is maintained to account for the acquisition or construction of major governmental capital assets financed principally by long-term bonds.

Nonmajor Governmental Funds—Nonmajor governmental funds are presented by fund type in the supplementary section.

STATE OF TENNESSEE
Balance Sheet
Governmental Funds
June 30, 2016
(Expressed in Thousands)

	General	Education	Highway	Capital Projects
ASSETS				
Cash and cash equivalents	$ 3,074,929	$ 12,480	$ 720,081	$ 642,814
Investments	151,935	41,406	-	-
Receivables, net	1,385,377	619,405	189,584	8,411
Due from other funds	276,132	66	-	6,214
Due from component units	772	100,863	-	4,377
Inventories, at cost	10,984	119	11,020	-
Loans receivable, net	5,243	-	1,243	-
Prepayments and others	2,274	-	-	-
Restricted assets:				
Cash and cash equivalents	-	-	-	165,738
Investments	-	361,381	-	-
Total assets	$ 4,907,646	$ 1,135,720	$ 921,928	$ 827,554
LIABILITIES				
Accounts payable and accruals	1,358,448	131,041	166,098	67,204
Due to other funds	10,481	276,205	883	86
Due to component units	20,311	11,264	3,301	10,247
Payable from restricted assets	-	-	-	72,550
Unearned revenue	266,069	1,469	3,773	-
Total liabilities	1,655,309	419,979	174,055	150,087
DEFERRED INFLOWS OF RESOURCES	11,258	56,105	21,700	-
FUND BALANCES				
Nonspendable				
Inventories	$ 10,984	$ 119	$ 11,020	$ -
Long term portion of accounts receivable	7,781	-	-	-
Permanent fund and endowment corpus	-	361,381	-	-
Restricted	71,304	241,710	337,955	93,188
Committed	314,545	8,931	231,344	-
Assigned	1,612,001	47,495	145,854	584,279
Unassigned	1,224,464	-	-	-
Total fund balances	3,241,079	659,636	726,173	677,467
Total liabilities, deferred inflows of resources and fund balances	$ 4,907,646	$ 1,135,720	$ 921,928	$ 827,554

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the fund.

Internal service funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Position.

Resources and obligations related to pensions are not available nor due and payable, respectively, in the current period and therefore are not reported in the fund.

Long-term liabilities, other than pension and including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Net position of governmental activities

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE
Balance Sheet
Governmental Funds
June 30, 2016
(Expressed in Thousands)

Nonmajor Governmental Funds	Total Governmental Funds
$ 319,216	$ 4,769,520
358,263	551,604
22,861	2,225,638
72	282,484
1,039	107,051
-	22,123
8,669	15,155
19	2,293
-	165,738
-	361,381
$ 710,139	$ 8,502,987
54,615	1,777,406
794	288,449
2,441	47,564
-	72,550
14	271,325
57,864	2,457,294
9,350	98,413
$ -	$ 22,123
-	7,781
152,558	513,939
347,952	1,092,109
133,037	687,857
9,378	2,399,007
-	1,224,464
642,925	5,947,280
$ 710,139	
	28,265,171
	23,059
	1,045,207
	(723,746)
	(3,225,823)
	$ 31,331,148

STATE OF TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	General	Education	Highway	Capital Projects
REVENUES				
Taxes:				
Sales and use	$ 3,419,440	$ 4,766,413	$ 22,625	$ -
Fuel	13,737	-	777,639	-
Business	4,089,592	279,883	5,724	-
Other	701,261	145	-	-
Licenses, fines, fees, and permits	421,319	3,813	243,989	-
Investment income	24,841	20,843	-	-
Federal	10,115,580	1,087,873	877,409	4,134
Departmental services	1,919,987	114,164	54,325	66,708
Other	237,190	402,201	8,580	-
Total revenues	20,942,947	6,675,335	1,990,291	70,842
EXPENDITURES				
General government	548,707	-	-	-
Education	-	7,314,085	-	-
Health and social services	15,600,711	-	-	-
Law, justice and public safety	1,610,300	-	-	-
Recreation and resources development	571,504	-	-	-
Regulation of business and professions	105,165	-	-	-
Transportation	-	-	1,672,379	-
Intergovernmental revenue sharing	735,907	-	309,188	-
Debt service:				
Principal	-	-	-	110,210
Interest	-	-	-	-
Debt issuance costs	-	-	-	-
Capital outlay	-	-	-	469,307
Total expenditures	19,172,294	7,314,085	1,981,567	579,517
Excess (deficiency) of revenues over (under) expenditures	1,770,653	(638,750)	8,724	(508,675)
OTHER FINANCING SOURCES (USES)				
Bonds and commercial paper issued	-	-	-	447,222
Bond premium	-	-	-	52,531
Refunding bond proceeds	-	-	-	-
Refunding payment to escrow	-	-	-	-
Insurance claims recoveries	1,195	93	-	-
Transfers in	113,067	722,298	218,800	168,746
Transfers out	(1,207,323)	(9)	(2,039)	(380)
Total other financing sources (uses)	(1,093,061)	722,382	216,761	668,119
Net change in fund balances	677,592	83,632	225,485	159,444
Fund balances, July 1	2,563,487	576,004	500,688	518,023
Fund balances, June 30	$ 3,241,079	$ 659,636	$ 726,173	$ 677,467

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Nonmajor Governmental Funds	Total Governmental Funds
$ 58,746	$ 8,267,224
108,255	899,631
259,275	4,634,474
34,205	735,611
244,414	913,535
11,024	56,708
41,454	12,126,450
15,499	2,170,683
25	647,996
772,897	30,452,312
24,768	573,475
8,194	7,322,279
-	15,600,711
8,369	1,618,669
206,244	777,748
100,665	205,830
-	1,672,379
-	1,045,095
136,293	246,503
67,409	67,409
2,324	2,324
-	469,307
554,266	29,601,729
218,631	850,583
-	447,222
639	53,170
98,390	98,390
(98,159)	(98,159)
-	1,288
6,320	1,229,231
(209,716)	(1,419,467)
(202,526)	311,675
16,105	1,162,258
626,820	4,785,022
$ 642,925	$ 5,947,280

STATE OF TENNESSEE
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Net change in fund balances - total governmental funds	$	1,162,258
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		682,260
Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the funds until available.		(32,598)
The issuance of long-term debt (e.g. bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized over the life of the debt in the Statement of Activities. This amount is the net effect of these differences in treatment of long-term debt and related items.		(254,120)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		70,148
Internal service funds are used by management to charge the cost of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.		179,227
Changes in net position of governmental activities	$	1,807,175

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Sewer Treatment Loan—Created in 1987, this fund provides loans to local governments and utility districts for the construction of sewage treatment facilities. The initial sources of the monies are federal grants and state appropriations.

Employment Security Fund—This fund is maintained to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants. Funds are also received from the federal government for local office building construction, supplemental unemployment programs and work incentive payments. As required by law, all funds not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned from these monies is retained in the fund. Administrative and operational expenses incurred by the Department of Labor and Workforce Development are expenditures of the general fund.

Nonmajor Enterprise Funds—Nonmajor enterprise funds are presented in the supplementary section.

Internal Service Funds—Internal service funds are presented in the supplementary section.

STATE OF TENNESSEE

Statement of Net Position
Proprietary Funds
June 30, 2016
(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	$ 501,856	$ 1,290	$ 363,528	$ 866,674	$ 1,104,923
Cash on deposit with fiscal agent	-	1,002,911	-	1,002,911	-
Receivables:					
Accounts receivable	-	163,771	6,909	170,680	9,627
Loans receivable	24,989	-	13,086	38,075	-
Due from other funds	-	253	-	253	803
Due from component units	-	6	-	6	-
Inventories, at cost	-	-	-	-	4,106
Prepayments	-	-	-	-	232
Total current assets	526,845	1,168,231	383,523	2,078,599	1,119,691
Noncurrent assets:					
Accounts receivable	-	-	-	-	10,328
Loans receivable	444,736	-	142,372	587,108	-
Due from other funds	-	-	-	-	1,575
Net investment in capital leases	-	-	-	-	9,352
Restricted net pension assets	-	-	-	-	39
Capital assets:					
Land, at cost	-	-	-	-	58,956
Structures and improvements, at cost	-	-	-	-	547,406
Machinery and equipment, at cost	-	-	-	-	391,196
Less: Accumulated depreciation	-	-	-	-	(555,918)
Construction in progress	-	-	-	-	17,136
Total noncurrent assets	444,736	-	142,372	587,108	480,070
Total assets	971,581	1,168,231	525,895	2,665,707	1,599,761
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	18,566
LIABILITIES					
Current liabilities:					
Accounts payable and accruals	14	50,884	37,280	88,178	90,318
Due to other funds	-	-	-	-	6,191
Due to component units	-	-	-	-	339
Lease obligations payable	-	-	-	-	292
Bond payable	-	-	-	-	15,872
Unearned revenue	-	26,254	121	26,375	45,440
Others	-	-	-	-	35,408
Total current liabilities	14	77,138	37,401	114,553	193,860
Noncurrent liabilities:					
Pension	-	-	-	-	26,760
Lease obligations payable	-	-	-	-	8,086
Commercial paper payable	-	-	-	-	17,311
Bonds payable	-	-	-	-	193,198
Others	6,294	-	3,156	9,450	128,089
Total noncurrent liabilities	6,294	-	3,156	9,450	373,444
Total liabilities	6,308	77,138	40,557	124,003	567,304
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	5,816
NET POSITION					
Net investment in capital assets	-	-	-	-	230,842
Restricted for:					
Capital projects	-	-	-	-	743
Pensions	-	-	-	-	39
Unrestricted	965,273	1,091,093	485,338	2,541,704	813,583
Total net position	$ 965,273	$ 1,091,093	$ 485,338	$ 2,541,704	$ 1,045,207

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	**Employment Security**	**Nonmajor Enterprise Funds**	**Total**	**Governmental Activities- Internal Service Funds**
Operating revenues					
Charges for services	$ 7,280	$ -	$ 3,488	$ 10,768	$ 531,488
Investment income	1,197	-	294	1,491	-
Premiums	-	290,005	563,859	853,864	731,825
Total operating revenues	8,477	290,005	567,641	866,123	1,263,313
Operating expenses					
Personal services	-	-	-	-	82,429
Contractual services	1,094	-	35,459	36,553	280,043
Materials and supplies	-	-	-	-	65,748
Rentals and insurance	-	-	-	-	56,911
Depreciation and amortization	-	-	-	-	49,127
Benefits	-	241,852	543,313	785,165	725,171
Other	-	-	8,123	8,123	10,139
Total operating expenses	1,094	241,852	586,895	829,841	1,269,568
Operating income (loss)	7,383	48,153	(19,254)	36,282	(6,255)
Nonoperating revenues (expenses)					
Taxes	-	-	-	-	1
Grants	51,010	(6,667)	26,690	71,033	273
Insurance claims recoveries	-	-	-	-	370
Gain on sales of capital assets	-	-	-	-	1,122
Interest income	-	21,110	502	21,612	1,728
Interest expense	-	-	-	-	(9,616)
Other	(3,628)	-	(5,221)	(8,849)	-
Total nonoperating revenues (expenses)	47,382	14,443	21,971	83,796	(6,122)
Income (loss) before contributions and transfers	54,765	62,596	2,717	120,078	(12,377)
Capital contributions	-	-	-	-	3,268
Transfers in	1,429	-	1,965	3,394	189,269
Transfers out	-	-	(2,298)	(2,298)	(933)
Change in net position	56,194	62,596	2,384	121,174	179,227
Net position, July 1	909,079	1,028,497	482,954	2,420,530	865,980
Net position, June 30	$ 965,273	$ 1,091,093	$ 485,338	$ 2,541,704	$ 1,045,207

The notes to the financial statements are an integral part of this statement

STATE OF TENNESSEE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	$ -	$ 311,668	$ 575,359	$ 887,027	$ 404,974
Receipts from interfund services provided	-	2,238	-	2,238	892,647
Payments to suppliers	-	-	(597,646)	(597,646)	(1,067,351)
Payments to employees	-	-	-	-	(86,426)
Payments for unemployment benefits	-	(253,631)	-	(253,631)	-
Payments for interfund services used	(1,094)	-	(1,605)	(2,699)	(99,042)
Net cash provided by (used for) operating activities	(1,094)	60,275	(23,892)	35,289	44,802
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	51,010	(253)	26,690	77,447	-
Negative cash balance implicit repaid	-	(1,380)	-	(1,380)	-
Transfers in	1,429	-	1,965	3,394	188,336
Transfers out	-	-	(2,298)	(2,298)	-
Tax revenues received	-	-	-	-	1
Net cash provided by (used for) noncapital financing activities	52,439	(1,633)	26,357	77,163	188,337
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	-	-	-	-	(57,666)
Bond and commercial paper proceeds	-	-	-	-	10,293
Proceeds from sale of capital assets	-	-	-	-	6,888
Insurance claims recoveries	-	-	-	-	370
Bond issuance cost	-	-	-	-	(46)
Principal payments	-	-	-	-	(28,821)
Interest paid	-	-	-	-	(9,356)
Capital contributions	-	-	-	-	644
Net cash provided by (used for) capital and related financing activities	-	-	-	-	(77,694)
CASH FLOWS FROM INVESTING ACTIVITIES					
Loans issued and other disbursements to borrowers	(98,021)	-	(33,738)	(131,759)	-
Collection of loan principal	23,958	-	15,787	39,745	-
Interest received	8,491	21,110	2,700	32,301	1,728
Net cash provided by (used for) investing activities	(65,572)	21,110	(15,251)	(59,713)	1,728
Net increase (decrease) in cash and cash equivalents	(14,227)	79,752	(12,786)	52,739	157,173
Cash and cash equivalents, July 1	516,083	924,449	376,314	1,816,846	947,750
Cash and cash equivalents, June 30	$ 501,856	$ 1,004,201	$ 363,528	$ 1,869,585	$ 1,104,923

(continued on next page)

STATE OF TENNESSEE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

(continued from previous page)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	**Employment Security**	**Nonmajor Enterprise Funds**	**Total**	**Governmental Activities- Internal Service Funds**
Reconciliation of operating income to net cash provided by (used for) operating activities					
Operating income (loss)	$ 7,383	$ 48,153	$ (19,254)	$ 36,282	$ (6,255)
Adjustment to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization	-	-	-	-	49,127
Loss on disposal of capital assets	-	-	-	-	302
Bond issuance costs	-	-	-	-	46
Interest income	(7,280)	-	(1,904)	(9,184)	-
Investment income	(1,197)	-	(294)	(1,491)	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:					
(Increase) decrease in receivables	-	15,549	(2,175)	13,374	(529)
(Increase) decrease in due from other funds	-	75	-	75	(340)
(Increase) decrease in due from component units	-	1	-	1	-
(Increase) decrease in inventories	-	-	-	-	1,770
(Increase) decrease in prepaids	-	-	-	-	24
(Increase) decrease in net pension assets	-	-	-	-	(39)
(Increase) decrease in deferred outflows of resources	-	-	-	-	(3,493)
Increase (decrease) in accounts payable	-	(4,050)	(238)	(4,288)	16,983
Increase (decrease) in due to other funds	-	-	-	-	2,543
Increase (decrease) in due to component units	-	(43)	-	(43)	(431)
Increase (decrease) in deferred inflows of resources	-	-	-	-	(14,348)
Increase (decrease) in unearned revenue	-	590	(27)	563	(558)
Total adjustments	(8,477)	12,122	(4,638)	(993)	51,057
Net cash provided by (used for) operating activities	$ (1,094)	$ 60,275	$ (23,892)	$ 35,289	$ 44,802
Schedule of noncash capital and related financing activities					
Contributions of capital assets	$ -	$ -	$ -	$ -	$ 2,567
Refunding bond premium	-	-	-	-	1,642
Refunding bond proceeds	-	-	-	-	12,454
Total noncash capital and related financing activities	$ -	$ -	$ -	$ -	$ 16,663

The notes to the financial statements are an integral part of this statement.

This Page Intentionally Left Blank

FIDUCIARY FUNDS FINANCIAL STATEMENTS

Pension (and other Employee Benefit) Trust Funds—These funds are presented individually in the supplementary section.

Investment Trust Funds—These funds are presented individually in the supplementary section.

Private–Purpose Trust Funds—These funds are presented individually in the supplementary section.

Agency Funds—These funds are presented individually in the supplementary section.

STATE OF TENNESSEE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016
(Expressed in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents	$ 25,819	$ 987,133	$ 59,028	$ 520,966
Cash collateral on loaned securities	7,514,865	-	-	-
Receivables:				
Account	-	-	-	3,493
Taxes	-	-	57	437,793
Interest and dividends	-	2,272	7	-
Due from other governments	55,002	-	-	-
Other	26,202	-	34	-
Due from other funds	9,519	-	3	6
Due from component units	9,787	-	-	-
Investments, at fair value:				
Government bonds	-	60,881	371	-
Corporate bonds	-	-	1,207	-
Mutual funds	-	-	105,083	-
Net investment in TRGT	43,182,757	2,998	-	23,584
Investments, at amortized cost:				
Short-term investments	-	1,014,366	-	-
Capital assets, at cost:				
Machinery and equipment	37,138	-	-	-
Less - accumulated depreciation	(9,105)	-	-	-
Total assets	50,851,984	2,067,650	165,790	985,842
LIABILITIES				
Accounts payable and accruals	29,685	-	14,711	838,684
Due to other funds	-	-	3	-
Securities lending collateral	7,514,865	-	-	-
Amount held in custody for others	-	-	-	147,158
Total liabilities	7,544,550	-	14,714	985,842
NET POSITION				
Restricted for				
Pensions	43,306,210	-	-	
Employees' flexible benefits	1,224	-	-	
Individuals, organizations and other governments	-	-	151,076	
Amounts held in trust for				
Pool participants	-	2,067,650	-	
Total net position	$ 43,307,434	$ 2,067,650	$ 151,076	

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE

Statement of Changes in Fiduciary Net Position

Fiduciary Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Members	$ 300,286	$ -	$ -
Employers	1,000,587	-	-
Federal	-	-	5,986
Private	-	-	34,320
State	-	-	803
Other	2,158	-	23,954
Total contributions	1,303,031	-	65,063
Investment income:			
Net increase/(decrease) in fair value of investments	1,161,002	-	(940)
Interest and dividends	-	5,869	3,781
Securities lending income	48,239	-	-
Total investment income	1,209,241	5,869	2,841
Less: Investment expenses	(48,200)	(843)	-
Securities lending expense	(17,881)	-	-
Net investment income	1,143,160	5,026	2,841
Capital share transactions:			
Shares sold	-	3,167,562	-
Less: Shares redeemed	-	(2,991,852)	-
Net capital share transactions	-	175,710	-
Total additions	2,446,191	180,736	67,904
DEDUCTIONS			
Annuity benefits	2,307,101	-	-
Death benefits	5,604	-	-
Other	5,458	-	23,721
Refunds	45,288	-	26,465
Administrative expenses	20,315	-	20,122
Total deductions	2,383,766	-	70,308
Change in net position	62,425	180,736	(2,404)
Net position, July 1	43,245,009	1,886,914	153,480
Net position, June 30	$ 43,307,434	$ 2,067,650	$ 151,076

The notes to the financial statements are an integral part of this statement.

This Page Intentionally Left Blank

STATE OF TENNESSEE
Comprehensive Annual Financial Report
For the Year Ended June 30, 2016
Index for the Notes

NOTE 1 – **Summary of significant accounting policies**

A. **Financial reporting entity**

Introduction - As required by generally accepted accounting principles, these financial statements present the primary government (the state) and its component units, entities for which the state is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide 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 administering federal and state student financial assistance programs. 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 Tennessee Community Services Agency (TCSA) (Governmental Fund Type) provides coordination of funds and programs for the care of the citizens of the state. The board of the agency is appointed by the governor and the plan of operation and budget must be approved by the state.

3. The Tennessee Housing Development Agency (THDA) (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 consists of state officials, appointees of the governor, and appointees of the Speakers of the House and Senate. The agency budget is approved by the state.

4. The Tennessee Education Lottery Corporation (TELC) (Proprietary Fund Type) is responsible for the operation of a state lottery with net proceeds to be given to the state to be used for education programs and purposes in accordance with the Constitution of Tennessee. The corporation is governed by a board of directors composed of seven directors appointed by the governor.

5. The Tennessee Board of Regents (TBR) (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven centers of applied technology. The Board is comprised of state officials and appointees by the governor and the state provides a substantial amount of funding.

6. The University of Tennessee Board of Trustees (UT) (Proprietary 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.

7. The Tennessee Local Development Authority (TLDA) (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, developmental disabilities, or alcohol and drug facilities. The majority of the board consists of state officials. Any deficiency in the statutory reserve will be included in the governor's recommended budget submitted to the General Assembly for consideration.

8. The Tennessee 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.

9. The Federal Family Education Loan Program (Proprietary Fund Type) is administered by TSAC, the state's designated federal guaranty agency. As part of the program, TSAC guarantees loans made by lending institutions to students attending postsecondary schools as authorized by Title IV of the Higher Education Act of 1965. The majority of the board is either appointed by the governor or are state officials. TSAC's budget is approved by the state. On September 24, 2015, the corporation's Board of Directors voted to wind down guarantee agency loan activities and transfer the remaining portfolio to the U.S. Department of Education. This transfer was completed by June 30, 2016.

10. The Tennessee State School Bond Authority (TSSBA) (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and 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. The state can also impose its will on the Authority.

11. The Tennessee Certified Cotton Growers' Organization (Proprietary 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. The state can also impose its will on the organization.

12. The Access Tennessee (AccessTN) (Proprietary Fund Type) health insurance pool was established to offer health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions. The board of the insurance pool consists of state officials, appointees of the Speakers of House and Senate, and appointees of the Commissioner of Finance and Administration. The funding plan and plan of operation of the insurance pool are approved by the state.

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

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd floor
502 Deaderick Street
Nashville, TN 37243

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

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

Tennessee State School Bond Authority
505 Deaderick Street
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
1 Bridgestone Park
Nashville, TN 37214

Tennessee Education Lottery Corporation
One Century Place
23 Century Boulevard, Suite 200
Nashville, TN 37214

All others may be obtained at the following:
Finance & Administration
Division of Accounts
21st Floor William R. Snodgrass Tennessee Tower
312 Rosa L. Parks Avenue
Nashville, TN 37243

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Earned revenues are recognized when they become measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are typically recorded only when payment is due. General capital asset acquisitions are reported as expenditures and issuance of long-term debt is reported as an other financing source in governmental funds.

Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds and investment income. The state generally considers taxes, and similarly measurable fees and fines, available if collected within 60 days after fiscal year-end. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met, and the amount is received during the current period or within 6 months after fiscal year-end. The state uses this same 6 month availability period for most other measurable revenues, with the exception of the tobacco and similar litigation settlement proceeds, which are generally considered to be available if collection is expected within 12 months after fiscal year-end. Licenses, permits, and other similar miscellaneous revenue items are considered measurable and available only when cash is received.

The state reports the following major governmental funds:

The *general fund* is the state's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *education fund* accounts for financial transactions and balances associated with K-12 and higher education programs including the activities of the Tennessee Promise Scholarship Endowment Fund. Funding for these programs is accomplished primarily from dedicated sales and services taxes, federal monies received from the U.S. Department of Education, and net lottery proceeds.

The *highway fund* accounts for financial transactions and balances associated with programs of the Department of Transportation. Funding for these programs is accomplished primarily from dedicated highway user taxes and fees and funds received from the various federal transportation agencies.

The *capital projects fund* accounts for financial transactions and balances associated with the acquisition or construction of major governmental capital assets. These capital assets are financed principally with long-term bonds.

The state reports the following major proprietary funds:

The *sewer treatment loan fund* accounts for loans made to local governments and utility districts for the construction of sewage treatment facilities.

The *employment security fund* accounts for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Additionally, the state reports the following fund types:

Internal service funds account for services provided to other departments or agencies of the state, or to other governments, on a cost reimbursement basis. Internal service fund services include the provision of information technology, facilities management, fleet services, risk management, employee health insurance, accounting services, and purchasing services. Other services include human resource management, printing, postal, products and food produced by Department of Correction inmates, warehousing of supplies, and records management.

The *fiduciary fund types* are used to account for resources legally held in trust. Fiduciary activities include the following funds:

The *pension and other employee benefit* trust funds – account for activities of the Tennessee Consolidated Retirement System and the employee flexible benefits plan.

The *investment trust* funds – account for deposits belonging to entities outside of the state's financial reporting entity.

The *private purpose trust* funds – account for contributions made to 1) *College Savings Plans* – funds created under Section 529 of the Internal Revenue Code; 2) *Children in State Custody* – funds held from various sources to benefit children in state custody; 3) *Oak Ridge Monitoring* – a trust funded by the federal government for the purpose of monitoring the Oak Ridge landfill for radioactive leakage; 4) *TNInvestco* – accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act; 5) *Insurance Receiverships* – account for the distribution of assets to claimants as ordered by the court.

The *agency funds* – account for assets the state holds on behalf of others. Agency funds are custodial in nature and do not involve measurement of operations.

As a general rule, the effect of internal activity, interdepartmental revenues and expenditures (both direct and indirect expenditures), has been eliminated from the government-wide financial statements. An exception is that interfund services provided and used between functions have not been eliminated.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. Investment income of certain proprietary funds is classified as operating revenue because those transactions are a part of the funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first, then unrestricted resources as they are needed.

Expenditures or expenses for on-behalf payments for local education agencies participating in the Teacher Group Plan and the Medicare Supplement Plan, and for component unit retirees participating in the Medicare Supplement Plan, reduce the annual required contribution for the state's obligation to partially or fully fund the subsidized portion of the retiree's health insurance premiums.

D. Assets, liabilities, deferred outflows/inflows, and net position/fund balance

1. Deposits and investments—The state's cash and cash equivalents 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. The State Cash Pool is part of the State Pooled Investment Fund (SPIF), an external investment pool. Investments in the State Cash Pool are measured at amortized cost. 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.

   Investments not in the State Cash Pool 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 or depreciation 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.

2. Receivables and payables—All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectibles. Receivables in the state's governmental and fiduciary funds primarily consist of taxes, interest, departmental services and federal revenues, see Note 1C.

3. Inventories and prepaid items—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 Strategic Technology Solutions, Postal Services, Warehousing and Distribution, and General Services Printing (internal service funds). Standard cost is used by TRICOR (an internal service fund). However, at June 30, 2016, their inventory balance reasonably reflects approximate cost under FIFO. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Restricted assets—Proceeds of the state's general obligation bonds and commercial paper program that remain unspent at year end are classified as restricted cash on the statement of net position. The commercial paper program provides short-term financing for the state's capital projects. Tennessee Promise Scholarship Endowment Fund (reported in the education fund) has restricted assets in an endowment trust agreement. The state also has a restricted net pension asset because pension plan net position is greater than total pension liability.

   Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, and Tennessee Local Development Authority – report restricted cash and investments to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments. The Tennessee Board of Regents and the University of Tennessee report restricted cash, investments, and receivables for those that come with certain restrictions from donors, lenders, or grantors. Tennessee Education Lottery Corporation has restricted investments related to prize annuities. Tennessee Veterans' Homes Board has restricted assets related to loan agreements and other restricted assets that are the property of the homes' residents. Federal Family Education Loan Program has restricted assets related to loan guarantees.

   Tennessee Student Assistance Corporation, Tennessee Community Services Agency, Tennessee Housing Development Agency, Tennessee Board of Regents, University of Tennessee, and Tennessee Veterans' Homes Board have net pension assets because pension plan net position is greater than their total pension liability.

5. Capital assets—Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and intangibles (e.g., internally generated computer software, patents, trademarks, copyrights, and easements), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of infrastructure, land and intangibles, are defined by the state as assets with an initial individual cost of $5,000 or more and an estimated useful life of three years or more. Infrastructure assets and land are capitalized regardless of cost or useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Internally generated computer software is capitalized if the total estimated project costs are $5,000,000 or more, and has an estimated useful life of three years or more. All other intangibles are capitalized if the acquisition cost is $1,000,000 or more and has an estimated useful life of three years or more. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Capitalized assets, except for land and infrastructure, are depreciated over their useful lives.

The state holds certain assets such as works of art, historical documents, and artifacts that have not been capitalized or depreciated because the collections are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The state has elected to apply the modified approach to accounting for infrastructure—roadways and bridges. The modified approach is an alternative to depreciation that may be applied to infrastructure capital assets that meet certain requirements. Under the modified approach, depreciation expense is not recorded for these assets. Instead, costs for both maintenance and preservation of these assets should be expensed in the period incurred. Additions and improvements are capitalized.

Land, construction in progress, software in development, and intangibles with indefinite useful lives are not depreciated. The other property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40-50
Building improvements	20
Machinery and equipment	3-20

6. <u>Deferred outflows/inflows</u>—Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The primary government has three items that qualify for reporting in this category. The first is refunding of debt, the second is employer pension contributions being made after the measurement date, and the third is differences between expected and actual experience. In the governmental activities column of the government-wide statement of net position, the state reported $48.1 million for refunding of debt, $261.8 million for employer contributions made after the measurement date, and $95.8 million for differences between expected and actual experience.

   Deferred inflows of resources represent an acquisition of net position that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. The primary government has three items that qualify for reporting in this category. The first item is the result of three pension related factors. The first factor is investment returns were better than projected, the second factor is the difference between the actual and expected economic and demographic factors that were more favorable than anticipated, and the third factor is the change in proportionate share of net pension liabilities and assets. In the governmental activities column of the government-wide statement of net position, the state reported $199.8 million for these three pension related factors mentioned. The other two items are related to debt refunding and capital lease activities in which the state reported $1.7 million and $.4 million, respectively, in its governmental activities column of the government-wide statement of net position. In addition, the state has one item which arises only under modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds reported unavailable revenues from various taxes ($56.8 million), federal grants ($27.5 million), and other sources ($14 million) as deferred inflows of resources.

7. <u>Compensated absences</u>—It is the state's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the state's policy is to pay this only if the employee is sick or upon death.

8. <u>Long-term liabilities</u>—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in

the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Pensions−For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the state's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the state's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value. For the year ended June 30, 2016, the state reported $904.4 million of net pension liability, $2.0 million of net pension asset, $357.6 million of deferred outflows of resources, $199.8 million of deferred inflows of resources, and $97.8 million of pension expenses.

10. Net position—Consists of three components: *Net investment in capital assets* consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or commercial paper, and leases that are attributable to the acquisition, construction, or improvement of those assets. Unspent debt proceeds at year end are not included in this calculation.

Restricted net position consists of net position in which constraints are placed on the use of net position either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the state. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $1.6 billion restricted by the primary government, $343 million was by enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of "restricted net position" or "net investment in capital assets."

11. Fund balance—In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned.

- *Nonspendable* fund balance represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- *Restricted* fund balance represents amounts where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

- *Committed* fund balance represents amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The General Assembly is the highest level of decision-making authority for the state that can, by adoption of legislation prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the legislation remains in place until the same action is taken (i.e., adoption of other legislation) to remove or revise the limitation.

- *Assigned* fund balance represents amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. Generally, the assignment is expressed by the General Assembly in the annual General Appropriations Act.

- *Unassigned* fund balance represents the residual amount for the general fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first, then unrestricted resources. Of the unrestricted resources, the state considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

12. Fiscal year end—The fiscal year end of the primary government and component units is June 30, except for the Agricultural Promotion Boards, a special revenue fund; which has a December 31 year end. Also, the Certified Cotton Growers' Organization, a component unit, has a December 31 year end.

13. Comparative data/reclassifications**—**Comparative total data for the prior year has not been presented.

NOTE 2 – **Reconciliation of government-wide and fund financial statements**

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $3,225.823 million difference are as follows (expressed in thousands):

Bonds payable	$ 1,714,195
Plus: premium on bonds issued (to be amortized as interest expense)	201,632
Net deferred outflows/inflows of resources for bond refundings (to be amortized as interest expense)	(39,451)
Commercial paper payable	228,225
Accrued interest payable	25,827
Capital leases payable	12,565
Claims and judgments	41,101
Compensated absences	242,107
Other postemployment benefits	677,955
Pollution remediation	66,985
Other long-term liabilities and accounts payable	54,682
Net adjustment to reduce fund balance—total governmental funds to arrive at net position—governmental activities	$ 3,225,823

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net positions of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $682.260 million difference are as follows (expressed in thousands):

Capital outlay	$ 777,866
Depreciation expense	(95,606)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 682,260

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net positions. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities." The details of this $254.120 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation refunding bonds	$ 85,941
Issuance of general obligation bonds	279,909
Issuance of commercial paper	167,313
Bond premium capitalized	65,619
Debt reduced:	
General obligation bonds/payments to escrow	(98,159)
General obligation debt	(136,293)
Commercial paper redeemed	(110,210)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 254,120

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this ($70.148) million difference are as follows (expressed in thousands):

Pension	$ (160,561)
Compensated absences	(187)
Claims and judgments	(13,412)
Accrued interest	4,961
Capital lease	641
Other postemployment benefits	55,913
Pollution remediation	324
Pledged tax credits	7,082
Loss on disposal of capital assets	46,570
Amortization of bond premiums	(19,628)
Amortization of deferred outflows/inflows of resources	8,149
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ (70,148)

NOTE 3 – **Deficit fund equity**

The records management fund, an internal service fund, has a total net position deficit of $27 thousand. This deficit was caused primarily as a result of the reporting of other postemployment benefits at the fund level in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

NOTE 4 – **Accounting and reporting changes**

Prior period adjustments

Component units

- The University of Tennessee recorded a prior period adjustment of a decrease in net position of $5.1 million for an overstatement of gifts.

- The Tennessee Board of Regents and its foundations recorded prior period adjustments for a net decrease to net position of $12.4 million for overstatements in capital assets and other miscellaneous misstatements.

The following schedule enumerates adjustments for the fiscal year ended June 30, 2016, (expressed in thousands):

	6/30/2015 Net Position As Reported	Adjustments to Net Position	6/30/2015 Net Position As Restated
Component units	$ 7,075,292	$ (17,474)	$ 7,057,818
Total component units	$ 7,075,292	$ (17,474)	$ 7,057,818

Reporting changes

During the fiscal year ended June 30, 2016, the state implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB).

GASBS 72, *Fair Value Measurement and Application*, clarifies the definition of fair value and provides guidance for determining fair value measurements. The implementation of this standard required additional note disclosures.

GASBS 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*, and amends paragraphs 64, 74, and 82 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement establishes the hierarchy of generally accepted accounting principles (GAAP), and identifies nonauthoritative accounting guidance. The implementation of this standard did not have an impact on the financial statements or note disclosures.

GASBS 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of this standard did not have an impact on the beginning balances of the financial statements.

GASBS 82, *Pension Issues,* amends Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions* and No. 73, *Accounting and Financial Reporting for*

Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement clarifies that the measure of payroll that is required to be presented in pension-related schedules of Required Supplementary Information (RSI) should be covered payroll. Covered payroll is the payroll on which contributions to a pension plan are based. In addition, this statement clarifies that payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions should be classified as plan member contributions. As a result of implementing the statement, changes were made to RSI and other disclosures that reflect the new requirements of this statement.

NOTE 5 – **Detailed notes on all funds**

A. **Deposits and investments**

Primary Government

The state's cash includes deposits in demand accounts, petty cash and monies in cash management pools. State statutes provide that funds in the state treasury be invested by the State Treasurer. The State Pooled Investment Fund (SPIF) is established by *Tennessee Code Annotated*, Section 9-4-603 "for the purpose of receiving and investing any money in the custody of any officer or officers of the state unless prohibited by statute to be invested." Participants in the SPIF include the general fund of the state and any department or agency of the state which are required by court order, contract, state or federal law, or federal regulation to receive interest on invested funds, and which are authorized by the State Treasurer to participate in the SPIF. In addition, funds in the State of Tennessee Local Government Investment Pool (LGIP) investment trust fund are consolidated with the SPIF for investment purposes only. The primary oversight responsibility for the investment and operations of the SPIF rests with the Funding Board of the State of Tennessee (Funding Board).

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in U.S. Direct Obligations, U.S. Agency Securities, U.S. Instrumentality Securities, repurchase or reverse repurchase agreements, collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances and securities lending agreements. Investments in derivatives type securities and investments of high risk are prohibited. The Intermediate Term Investment Fund (ITIF) is authorized by statute to invest funds in the investment instruments specified under statutes for the SPIF. The ITIF is intended to offer longer term investment horizon and higher return for participants who did not need access to funds immediately.

In addition to the funds in the State Pooled Investment Fund, the Tennessee Retiree Group Trust (TRGT), an investment trust fund was adopted for the purpose of pooling funds solely for investment purposes including those assets of the Tennessee Consolidated Retirement System (TCRS) and other exempt pension and similar trusts. The College Savings Plans, a private-purpose trust consisting of the Baccalaureate Education System Trust (BEST) and the Tennessee Stars College Savings 529 Program (TNStars); the Tennessee Promise Scholarship Endowment Fund, a part of the Education Fund, a special revenue fund; and the Chairs of Excellence (COE) Trust, a permanent fund, are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees. The Insurance Receiverships Fund, a private purpose trust fund, and the State Funds Investment Portfolios, which include investments selected and managed by the Tennessee Wildlife Resources Agency (TWRA) and the Department of Economic and Community Development (ECD), do not have specific investment policies that restrict their investments.

As of June 30, 2016, the state's investments for all funds were as follows (expressed in thousands):

POOLED INVESTMENT AND OTHER FUNDS INVESTMENTS

Credit Quality Rating	TRGT	COE	SPIF	College Savings Plans
AAA	$ 643,178	$ 5,139	$ 920,983	
AA	406,395	13,871	521,666	
A	976,943	8,810		
BBB	2,697,536	11,959		
BB	335,910	244		
B	48,673			
CCC	76,293	308		
CC	1,021			
D	27,087			
NR	2,951,800	21,646	3,866,016	
A1 (Commercial paper)			724,971	
	8,164,836	61,977	6,033,636	
Government agencies and obligations[1]	5,862,038	62,355	2,679,384	
Total debt investments	14,026,874	124,332	8,713,020	
Non Fixed Income Assets				
Equity	22,979,833	172,364		
Equity fund				$ 11,927
Fixed mutual fund				26,419
Fixed mutual fund & MM funds				11,298
Blended mutual funds				25,718
Equity mutual funds				29,508
Preferred stock	52,414			
Real estate	3,163,805			
Private equities	1,485,193			
Strategic lending	1,398,215			
Derivatives (not rated)	5,268			
Certificate of deposit classified as short term			458,010	
Short-term investment fund at custodian	(12,176)			
Less: short term	(375,532)		(3,990,896)	
Total investments	$ 42,723,894	$ 296,696	$ 5,180,134	$ 104,870

1. Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S.government.

POOLED INVESTMENT AND OTHER FUNDS INVESTMENTS (continued)

Credit Quality Rating	Tennessee Promise Scholarship Endowment Fund	Intermediate Term Investment Fund	Insurance Receiverships Fund	State Funds Investment Portfolios	Total
AAA	$ 6,878				$ 1,576,178
AA	16,915				958,847
A	45,492				1,031,245
BBB	40,787				2,750,282
BB					336,154
B					48,673
CCC					76,601
CC					1,021
D					27,087
NR	27,435	$ 60,881	$ 1,579	$ 80,669	7,010,026
A1 (Commercial paper)					724,971
	137,507	60,881	1,579	80,669	14,541,085
Government Agencies and Obligations [1]	21,438			137,733	8,762,948
Total Debt Investments	158,945	60,881	1,579	218,402	23,304,033
Non Fixed Income Assets					
Equity	238,942				23,391,139
Equity fund			176		12,103
Fixed mutual fund					26,419
Fixed mutual fund & MM					11,298
Blended mutual funds					25,718
Equity mutual funds					29,508
Preferred stock					52,414
Real estate					3,163,805
Private equities					1,485,193
Strategic lending					1,398,215
Derivatives (not rated)					5,268
Certificate of deposit classified as short term					458,010
Short-term investment fund at custodian					(12,176)
Less: short term					(4,366,428)
Total investments	$ 397,887	$ 60,881	$ 1,755	$ 218,402	$ 48,984,519

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the state's investments in debt securities as of June 30, 2016, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the state. The SPIF's investment policy requires a first tier quality criteria for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be of first tier quality, the security or issuer shall have an investment grade credit rating, and the security shall be eligible for purchase by the Federal Reserve system. Commercial paper should be of first tier quality, but the security shall have an investment grade credit rating by at least two Nationally Recognized Statistical Rating Organizations and the issuer shall be approved in writing by the Chief Investment Officer. For securities lending agreements, the underlying collateral is limited to first tier U.S. Direct Obligation Securities, U.S. Agency Securities, or U.S. Instrumentality Securities.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency. During the fiscal year ended June 30, 2016, the SPIF implemented GASB Statement 79. The SPIF is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities, the effect of which is to minimize both market and credit risk. The State Funding Board has elected for the SPIF to use amortized cost accounting measures to report investment and to transact with participants at a Stable Net Asset Value. Additionally, the State had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year.

The TRGT, pursuant to *Tennessee Code Annotated* (TCA) Title 8, Chapters 34-37, the TCRS Board and the State Treasurer as the Custodian are authorized to invest the TRGT funds in the same manner as the funds of TCRS. TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated by one of the Nationally Recognized Statistical Rating Organizations (NRSROs). There is no requirement to divest an asset if it is downgraded after purchase. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

The COE Trust's investment policy states that the majority of investments should be placed in high quality debt securities to produce adequate income with minimal risk. In addition, for short-term investments, the investment policy states that only the highest quality short-term debt issues should be purchased.

The College Savings Plans' investment policy states that the trust may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. In addition, the policy requires that only the highest quality short-term debt issues, including commercial paper with ratings of A1 or P1, may be purchased. The policy further states that index funds may be utilized as an alternative to selecting individual securities.

The Tennessee Promise Scholarship Endowment Fund, state statute authorizes the trustees to adopt an investment policy for the trust in accordance with the laws, policies and guidelines that govern investments by the Tennessee Consolidated Retirement System. The policy also allows assets to be invested in shares of publicly traded investment companies, including Unit Investment Trusts (UIT's), Exchange Traded Funds (ETF's) and open-end and closed-end mutual funds. In addition, it permits investment in publicly traded foreign securities that are the same kinds, classes and investment grades otherwise eligible for investment, and in non-investment grade, fixed income securities, including but not limited to, high yield bonds.

The ITIF is authorized by statute to invest funds in the investment instruments specified under statutes for the SPIF in accordance with the policy guidelines for the ITIF as approved by the Funding Board. The current policy of the Funding Board for the ITIF gives the Treasurer approval to invest funds in 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, obligations guaranteed as to principal and interest by the federal home loan mortgage corporation, federal national mortgage association, student loan marketing association and other United States government-sponsored corporations, prime commercial paper, prime bankers' acceptances, and repurchase agreements for obligations of the United States or its agencies. Insurance Receiverships Fund and the State Funds Investment Portfolios have no investment policy limiting investment choice based on ratings issued by nationally recognized statistical rating agencies.

2. Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. An objective stated in the SPIF's investment policy is that the investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Acquisitions are monitored by policy to assure that no more than five percent (5%) of the pool, at the date of acquisition, is invested in a single issuer of securities. Additionally, no issuer of a demand feature or guarantee will exceed ten percent (10%) at the date of acquisition. These limits shall not apply to U.S. Government Securities. In addition, the SPIF's investment policy limits the book value of prime banker's acceptances to $25 million issued by any one issuer. Prime commercial paper investments are limited to $250 million issued by any one issuer.

The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. The TCRS' investment policy limits the maximum amount of securities in cash equivalents issued by any one issuer to $100 million, excluding those securities with the express or implied backing of the United States government. There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, the College Savings Plans, the Tennessee Promise Scholarship Endowment Fund or other State funds in any one issuer.

As of June 30, 2016, SPIF and Intermediate Term Investment Fund separately held investments in certain organizations representing five percent (5%) or more of its total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

The State Pooled Investment Fund (SPIF)

Issuer Organization	Carry Value	Percentage
Federal National Mortgage Association	$ 475,914	5.46
Federal Home Loan Bank	2,534,023	29.08
International Bank for Recon & Dev	1,252,286	14.37
Federal Farm Credit Banks	940,444	10.79

The Intermediate Term Investment Fund (ITIF)

Issuer Organization	Fair Value	Percentage
Federal Home Loan Bank	$ 36,477	59.92
Federal Farm Credit Bank	24,403	40.08

3. Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the weighted average maturity of the pool shall not exceed sixty days (60) calculated using Maturity Shortening Features for securities with a variable or floating interest rate. The weighted average life of the SPIF cannot exceed one hundred twenty days (120) calculated using Stated Maturity and without using Maturity Shortening Features. No security or investment may be purchased with a remaining maturity of greater than three hundred ninety seven (397) calendar days. At June 30, 2016, the weighted average maturity of the pool was thirty-eight (38) days and the weighted average life of the pool was ninety-five (95) days. It is the intent of the Funding Board that the fair value of the SPIF not deviate more than one-half percent (0.5%) from amortized cost. If it does, actions may include, but not be limited to, selling securities whose fair value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity.

As of June 30, 2016, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

STATE POOLED INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type		Carry Value	Weighted Average Maturity (Months)
U.S. Government Agencies	$	5,308,665	0.98
U.S. Government Treasuries		2,679,384	2.35
Commercial paper		724,971	0.17

The ITIF's investment policy with respect to maturity states that the dollar weighted average maturity of the Fund shall not exceed three (3) years, and that no security will be bought with a remaining life of over five (5) years. The maximum time period from the date of acquisition to maturity of government or agency securities may not exceed five (5) years. Prime commercial paper, including asset-backed commercial paper, shall not have a maturity that exceeds two hundred seventy (270) days. Individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity, however, they may be traded in the secondary market to maintain liquidity.

As of June 30, 2016, the Intermediate Term Investment Fund had the following weighted average maturities (expressed in thousands):

INTERMEDIATE TERM INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type		Fair Value	Weighted Average Maturity (Years)
U.S. Government Agencies	$	60,881	2.03

The TRGT is authorized to invest in securities in a manner consistent with the investment policy of the TCRS. TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Board Investment Grade Index and tends to have a duration within a range around that index.

TENNESSEE RETIREE GROUP TRUST
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2016	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 361,747	3.04
Government Bonds	2,644,987	14.14
Government Inflation Indexed	2,232,696	8.54
Government Mortgage-Backed	3,252,992	2.56
Government Asset-Backed	38,867	11.77
Municipal Bonds	173,322	10.36
Corporate Fixed Income		
Commercial Mortgage Backed	330,334	2.02
Asset Backed Securities	505,354	1.74
Corporate Bonds	4,098,867	9.88
Short Term		
Short Term Bills and Notes	375,532	0.00
Total Debt Investments	$ 14,014,698	

The investment policy for the COE Trust states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. The fixed income portfolio is benchmarked against the Barclays Aggregate Index and tends to have a duration within a range around that index.

CHAIRS OF EXCELLENCE
DEBT INVESTMENTS
(expressed in thousands)

Investment Type		Fair Value as of June 30, 2016	Effective Duration (Years)
Debt Investments			
U.S. Government			
U.S. Government Treasuries	$	25,835	7.75
U.S. TIPS		31,184	8.59
U.S. Agencies		8,828	3.56
Government Mortgage-Backed		19,678	3.56
Government Asset-Backed		1,599	9.44
Municipal Bonds		6,759	5.96
Corporate Fixed Income			
Corporate Mortgage-Backed		2,671	0.25
Corporate Bonds		25,224	6.97
Corporate Asset-Backed		2,554	2.68
Total Debt Investments	$	124,332	

The investment policy of the Tennessee Promise Scholarship Endowment Fund, authorizes the trustees to adopt an investment policy for the trust in accordance with the laws, policies, and guidelines that govern investments by the TCRS. The TCRS investment policy does not specifically address limits on investment maturity.

TENNESSEE PROMISE SCHOLARSHIP ENDOWMENT FUND
DEBT INVESTMENTS
(expressed in thousands)

Investment Type		Fair Value as of June 30, 2016	Effective Duration (Years)
Debt Investments			
U.S. Government			
U.S. Government Treasuries	$	13,201	7.17
Government Asset-Backed		6,098	12.27
Government Mortgage-Backed		25,076	3.91
Corporate			
Corporate Bonds		103,675	4.34
Mortgage-Backed		10,895	3.66
Total Debt Investments	$	158,945	

The investment policy for College Savings Plans states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value.

COLLEGE SAVINGS PLANS
DEBT INVESTMENTS
(expressed in thousands)

Fund Name Blended		Fair Value as of June 30, 2016	Effective Duration (Years)
Vanguard Wellington Investor Shares	$	12,112	7.07
Vanguard LifeStrategy Conservative Growth Fund		8,235	6.37
Vanguard LifeStrategy Income Fund		5,371	6.37
Fixed Income			
Vanguard Total Bond Market Institutional Shares		4,040	5.78
Vanguard Intermediate-Term Investment-Grade Fund Admiral Shares		796	5.46
DFA Inflation-Protected Securities Portfolio Institutional Class		339	8.07
Vanguard Intermediate-Term Treasury Admiral Shares		457	5.25
Vanguard Total Bond Market Index Fund		26,419	5.60
Total Debt Investments	$	57,769	

Insurance Receiverships fund has no investment policy limiting its investment choice based on maturity of the assets.

INSURANCE RECEIVERSHIPS FUND
(expressed in thousands)

Investment Type		Fair Value as of June 30, 2016	Effective Duration (in years)
Corporate bonds	$	1,208	3.01
Government bonds		371	3.99

The State Funds Investment Portfolio have no investment policy limiting their investment choice based on maturity of the assets.

STATE FUNDS INVESTMENT PORTFOLIO
(expressed in thousands)

Investment Type		Fair Value as of June 30, 2016	Effective Duration (in years)
U.S. Government Treasuries	$	137,733	6.99
Government Mortgage-Backed		80,669	27.79

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TRGT's exposure to foreign currency risk at June 30, 2016, was as follows (expressed in thousands):

Currency	Total Fair Value	Equity	Cash
Australian Dollar	$ 242,917	$ 241,463	$ 1,454
British Pound Sterling	1,081,235	1,073,734	7,501
Canadian Dollar	1,542,205	1,542,322	(117)
Danish Krone	138,475	138,431	44
Euro Currency	1,390,844	1,364,013	26,831
Hong Kong Dollar	183,929	183,139	790
Japanese Yen	1,271,723	1,260,282	11,441
New Israeli Shekel	18,442	18,331	111
New Zealand Dollar	3,734	3,734	
Norwegian Krone	35,204	35,204	
Singapore Dollar	32,754	32,640	114
Swedish Krona	135,826	135,712	114
Swiss Franc	410,093	409,677	416
Total	$ 6,487,381	$ 6,438,682	$ 48,699

5. Derivatives

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

The TRGT may buy or sell equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TRGT's target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2016, the TRGT was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The TRGT is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TRGT enters into an agreement to purchase pools of mortgage backed securities prior to the actual security being identified. The TRGT will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable.

The TRGT invests in the derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair values of such derivative instruments for the year ended as reported in the financial statements are as follows (expressed in thousands):

	Changes in Fair Value		Fair Value at June 30, 2016			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts						
		$ (120)		$ (120)	21,132	EUR
		3,043		3,043	26,601	GBP
		(1,009)		(1,009)	3,232,116	JPY
	Investment Income	$ 1,914	Derivative Instruments	$ 1,914		
Future Contracts	Investment Income	$ 64,490	Derivative Instruments Payable	$ (5,058)	$ 930,741	
TBA Mortgage-Backed Securities	Investment Income	$ 3,354	Derivative Instruments	$ 3,354	$ 419,374	

6. Custodial Credit Risk

Custodial Credit Risk—Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TRGT's deposits may not be returned to TRGT. The TRGT does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2016, the TRGT had uninsured and uncollateralized cash deposits of $48,699,421 in foreign currency held by our master custodian, State Street, in State Street's name. These deposits were used for investments pending settlement.

The Insurance Receiverships fund does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2016, the Insurance Receiverships fund had uninsured and uncollateralized cash deposits of $1.51 million at various institutions.

7. Securities Lending

The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. TCRS is authorized to invest in securities lending investments by TCA 8-37-104(a)(6) with the terms established in the investment policy whereby TRGT loans securities to brokers and dealers (borrower) and in turn, TRGT receives cash as collateral. TRGT pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Loans are limited to no more than thirty percent (30%) of the market value of the total assets in the TRGT portfolio and provided further that such loans are secured by collateral. Securities received as collateral hereunder shall have a market value equal to at least one hundred two percent (102%) of the market value of the loaned domestic security or one hundred five percent (105%) of any foreign security. Cash received as collateral shall equal at least one hundred percent (100%) of the market value of the loaned securities and may be invested by or on behalf of the TRGT in any instrument the TRGT may be directly invested.

The TRGT securities lending program is managed by a third party lending agent, Deutsche Bank AG. The TRGT may loan any debt or equity securities which is owned by TRGT.

At June 30, 2016 the TRGT had the following securities on loan and received the cash collateral (expressed in thousands) as shown below:

Securities on Loan	Fair Value of Securities on Loan	Cash/Non Cash Collateral Received
Fixed	$ 3,353,830	$ 3,437,099
Equity	3,983,496	4,082,398
Total	$ 7,337,326	$ 7,519,497

The TRGT has the ability to sell the collateral securities only in the case of a borrower default.

Component Units

The various component units are generally governed by the same state statutes as the state's policies described above.

1. University of Tennessee

The University is authorized by statute to invest funds in accordance with the University's investment policies. Funds, other than endowment, annuity, and life income funds, invest similarly to the state policies. Endowment, annuity, and life income funds can be invested in equity securities and various other securities given prudent diversification.

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2016, the University's investments were rated as follows (expressed in thousands):

STATE OF TENNESSEE
Notes to the Financial Statements
June 30, 2016 (Continued)

Rated Debt Instruments	Fair Value	Credit Quality Rating: US Treasury/ Agency	Aaa	Aa1	Aa2
U.S. Treasuries	$ 7,706	$ 7,706			
U.S. Agencies	2,850		$ 2,850		
U.S. Agencies (in pool)	965,086		655,042	$ 24,011	
Commercial Paper (in pool)	14,998				
Corporate Bonds	12,135				$ 379
Municipal Bonds	1,782		327	355	
Mutual Funds – Bonds	71,224				
Money Market Mutual Fund	5,339				
Total	$ 1,081,120	$ 7,706	$ 658,219	$ 24,366	$ 379

(Continued)

Rated Debt Instruments	Credit Quality Rating: Aa3	A1	A2	A3	Baa1
U.S. Treasuries					
U.S. Agencies					
U.S. Agencies (in pool)	$ 42,305				
Commercial Paper (in pool)		$ 14,998			
Corporate Bonds	371	1,415	$ 952	$ 2,879	$ 3,819
Municipal Bonds	1,100				
Mutual Funds – Bonds					
Money Market Mutual Fund					
Total	$ 43,776	$ 16,413	$ 952	$ 2,879	$ 3,819

(Continued)

Rated Debt Instruments	Credit Quality Rating: Baa2	Baa3	B2	Unrated
U.S. Treasuries				
U.S. Agencies				
U.S. Agencies (in pool)				$ 243,728
Commercial Paper (in pool)				
Corporate Bonds	$ 2,132	$ 141	$ 47	
Municipal Bonds				
Mutual Funds – Bonds				71,224
Money Market Mutual Fund				5,339
Total	$ 2,132	$ 141	$ 47	$ 320,291

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2016, the University had the following debt investments and maturities (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1 to 5	6 to 10	More Than 10	Undetermined
Investments						
U.S. Treasuries	$ 7,706	$ 364	$ 3,497	$ 3,845		
U.S. Agencies	2,850	767	1,235	827	$ 21	
U.S. Agencies (in pool)	965,086		457,850	433,580	73,656	
Commercial Paper (in pool)	14,998	14,998				
Corporate Bonds	12,135	2,145	8,238	1,547	205	
Municipal Bonds	1,782		682	1,100		
Bond Mutual Funds	71,224		21,395	41,487	2,617	$ 5,725
	$ 1,075,781	$ 18,274	$ 492,897	$ 482,386	$ 76,499	$ 5,725

University foundations' investments in the amount of $155.516 million are not included in these disclosures because the foundations utilize private-sector accounting standards.

Alternative Investments

In its Consolidated Investment Pool, as part of its endowment assets, the University has investments in one hundred limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2016, the estimated fair value of these assets is $480.264 million and total capital contributions, less returns of capital, equal $421.279 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The University's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

2. Tennessee Board of Regents System

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regents' investment policies. Funds, other than endowment, invest similarly to the state policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2016, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

		Credit Quality Rating			
Rated Debt Instruments	Fair Value	U.S. Treasury[1]/ Agency	AAA	AA	A
U.S. Treasuries	$ 68,508	$ 68,508			
U.S. Agencies	93,549	1,089	$ 1,593	$ 90,742	
Commercial Paper	2,499				$ 2,499
Corporate Bonds	7,170		318	666	1,787
Mutual Funds—Bonds	44,651		9,875	602	3,028
Collateralized Mortgage Obligation	717		717		
Money Market Mutual Fund	401				
Total Debt Instruments	$ 217,495	$ 69,597	$ 12,503	$ 92,010	$ 7,314

(Continued)

	Credit Quality Rating		
Rated Debt Instruments	BBB	BB	Not Rated
U.S. Treasuries			
U.S. Agencies			$ 125
Commercial Paper			
Corporate Bonds	$ 2,878		1,521
Mutual Funds—Bonds	1,876	$ 2,084	27,186
Collateralized Mortgage Obligation			
Money Market Mutual Fund			401
Total Debt Instruments	$ 4,754	$ 2,084	$ 29,233

1. Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. As of June 30, 2016, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1 to 5	6 to 10	More Than 10	Undetermined
U.S. Treasuries	$ 68,508	$ 17,939	$ 49,690	$ 879		
U.S. Agencies	93,549	4,362	84,473	3,324	$ 1,339	$ 51
Commercial Paper	2,499	2,499				
Corporate Bonds	7,170	1,171	4,456	1,187	249	107
Mutual Funds—Bonds	44,651	294	3,112	6,060	8,027	27,158
Collateralized Mortgage Obligation	717	226	491			
Total Debt Investments	$ 217,094	$ 26,491	$ 142,222	$ 11,450	$ 9,615	$ 27,316

The investments of certain foundations of the System are not included in these disclosures because these foundations utilize private-sector accounting standards. These foundations reported investments at fair value in the amount of $280.678 million.

3. Tennessee Housing Development Agency (THDA)

The Agency is authorized to establish policies for its funds to meet the requirements of bond resolutions and state statute. Funds are invested similarly to state policies.

The Agency's investment policy states that its portfolios will be diversified in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The Agency may invest 100 percent of its portfolio in U.S. government securities due to the absence of credit risk. A minimum of five percent of the par value of total investments must mature within five years. No more than 50 percent of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Credit Risk

The Agency's investments as of June 30, 2016, were rated by Standard and Poor's and/or Moody's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	Credit Quality Rating AAA	AA	Not Rated
U.S. Agency Coupon	$ 131,326		$ 2,615	128,711	
U.S. Treasury Coupon	68,451	$ 68,451			
U.S. Agency Discount	152,931			$	$ 152,931
Total Debt Instruments	$ 352,708	$ 68,451	$ 2,615	$ 128,711	$ 152,931

Concentration of Credit Risk

At June 30, 2016, more than 5 percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 180,760	51.25
Federal Home Loan Mortgage Corporation	41,153	11.67
Federal National Mortgage Association	59,729	16.93

Interest Rate Risk

As of June 30, 2016, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 131,326	0.804
U.S. Treasury Coupon	68,451	0.143
U.S. Agency Discount	152,931	1.626
Total	$ 352,708	

B. **Fair value measurements**

Primary Government

The fair value of assets held at June 30, 2016, represent the price that would be received were the asset to be sold or the liability transferred in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by Generally Accepted Accounting Principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Investments Measured at Fair Value
(expressed in thousands)

Fund	Investment Aggregation	GAAP Hierarchy Level 1	GAAP Hierarchy Level 2	GAAP Hierarchy Level 3	NAV	Total Investments
Tennessee Retiree Group Trust						
	Equity investments					
	Common Stock	$ 20,067,394	$ 23,610	$ 1,425		$ 20,092,429
	Real Estate and REIT's	510,415		2,473,066		2,983,481
	Limited Partnership Units	458		135,402	$2,747,549	2,883,409
	Mutual Funds	2,069,870			236,586	2,306,456
	Real Estate Limited Partnership Units				690,954	690,954
	Depository Receipts	70,066				70,066
	Rights	252				252
	Fixed income investments					
	U.S. Government Issues	4,623,983	196,073			4,820,056
	Agency Securities		3,550,993	7,018		3,558,011
	Corporate Bonds		4,074,409	24,458		4,098,867
	Municipals		170,627	2,694		173,321
	Other Asset Backed		297,892	12,587		310,479
	Collateralized Mortgage Obligations		433,878	10,810		444,688
	Auto Loans and Receivables		233,743			233,743
	Preferred Stock	45,345	7,069			52,414
Tennessee Promise						
	Mutual Funds	238,942				238,942
	Government Issues	12,671	529			13,200
	Agency Securities		25,076			25,076
	Corporate Bonds		103,675			103,675
	Other Asset Backed		16,994			16,994
Chairs of Excellence						
	Mutual Funds	172,364				172,364
	Government Issues	52,653	13,193			65,846
	Corporate Bonds		24,952	272		25,224
	Agency Securities		19,398	154		19,552
	Municipals		6,760			6,760
	Other Asset Backed		6,936	14		6,950
College Savings Plans						
	Mutual Funds	99,204				99,204
	Money Market Fund		5,666			5,666
Intermediate Term Investment Fund						
	Agency Securities		60,881			60,881
Insurance Receiverships						
	Mutual Funds	176				176
	Government Issues	371				371
	Corporate Bonds		1,207			1,207
State Fund Investment Portfolios						
	Agency Securities		80,669			80,669
	Government Issues	137,733				137,733
	Total Investments at Fair Value	$ 28,101,897	$ 9,354,230	$ 2,667,900	$ 3,675,089	$ 43,799,116

Level 1−Unadjusted quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date.

Level 2−Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; assets or liabilities that have a bid-ask spread price in an inactive dealer market, brokered market and principal-to-principal market; and Level 1 assets or liabilities that are adjusted.

Level 3−Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments where fair value is measured using the Net Asset Value ("NAV") per share have no readily determinable fair value and have been determined to be calculated consistent with FASB principals for investment companies.

Where inputs used in the measurement of fair value fall into different levels of the hierarchy, fair value of the instrument in its entirety are categorized based on the lowest level input that is significant to the valuation. This assessment requires professional judgement and as such management developed a fair value committee that worked in conjunction with our custodian and investment professionals to make these valuations. All assets held were valued individually and aggregated into classes so to be represented in the table above.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

Equity and equity derivative securities classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities. Equity securities classified in Level 3 are valued with last trade data having limited trading volume.

US Treasury Bill, Bonds, Notes and Futures classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Debt and debt derivative securities classified in Level 2 are valued using a bid-ask spread price from multiple independent brokers, dealers, or market principals, which are known to be actively involved in the market. Level 3 debt securities are valued using proprietary information, a single pricing source, or other observable inputs related to similar assets or liabilities.

Real estate investments classified in Level 3 are valued using the last valuations provided by external investment advisors or independent external appraisers. Generally, all direct real estate investments are appraised by a qualified independent appraiser(s) with the professional designation of Member of the Appraisal Institute ("MAI"), or its equivalent, every three (3) years beginning from the acquisition date of the property. The appraisals are performed using generally accepted valuation approaches applicable to the property type.

Investments in private mutual funds, traditional private equity funds, strategic lending funds and real estate funds that report using GAAP, the fair value, as well as the unfunded commitments, was determined using the prior quarter's NAV, as reported by the fund managers, plus the current cash flows. These assets were then categorized by investment strategy. In instances where the fund investment reported using non-GAAP standards, the investment was valued using the same method, but was classified in Level 3.

The following table sets forth the additional disclosures of the TRGT's investments, which are stated at fair value based on the net asset value "NAV" (expressed in thousands), as a practical expedient, reported by the investment managers or general partners:

	Strategy	Number of Funds	NAV	Remaining Life	Redemption Terms	Redemption Restrictions
Investments measured at NAV						
Limited Partnership Units	Traditional private equity and strategic lending	67	$ 2,747,549	Various	N/A	Various transfer and sale restrictions
Mutual funds	International public equities	25	236,586	N/A	May redeem all or part of the shares with at least fifteen (15) days written notice prior to the last business day of each month	Redemptions may be distributed in cash, in-kind or a combination and are subject to further restrictions by the fund's trustees
Real Estate Limited Partnership Units	Real estate commingled investments	16	690,954	N/A	N/A	Various transfer and sale restrictions

Traditional Private Equity and Strategic Lending: The private equity asset class is categorized into two component portfolios: traditional and strategic lending. Generally speaking, the types of private equity strategies include: venture capital, buyout, natural resource, secondaries, special situations, tactical, structured credit, and high yield debt. The majority of these investments have an approximate life of 10 years or greater and are considered illiquid. During the life of the partnerships, distributions are received as underlying partnership investments are realized. Transfer or sales of the partnership interest are restricted over the life of the partnership. The TRGT has no plans to liquidate any of these investments. As of June 30, 2016, it is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the TRGT's partnership interest.

International Public Equities using Mutual Funds: TRGT will invest in mutual funds as an efficient and cost-effective means to gain passive exposure to a specific sector, industry or country. As of June 30, 2016, TRGT has retained Baring International Investment Limited to facilitate an international equity investment strategy utilizing, in part, sector and country index mutual funds.

Real Estate Commingled Investments: The real estate asset class is comprised of two different investment types: direct investments and commingled investments. A commingled investment is a pooled investment vehicle comprised of real estate investments that is overseen by an external investment manager or general partner. Generally speaking, the commingled real estate investment strategies include: office, retail, industrial, multi-family, and diversified. The majority of these investments have an approximate life of 10 years or greater and are considered illiquid. During the life of the pooled investment vehicle, distributions are received as underlying investments are realized. Transfer or sales of the interest are restricted over the life of the investment. The TRGT has no plans to liquidate any of these investments.

<u>Component Units</u>

1. University of Tennessee

   The university categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The university has the following recurring fair value measurements as of June 30, 2016 (expressed in thousands):

Investments by fair value level	6/30/2016	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Treasuries	$ 17,784	$ 17,784		
U.S. Agencies	967,937	57,244	$ 910,693	
Municipal bonds	1,782		1,782	
Corporate bonds	12,134		12,134	
Corporate commercial paper	14,998		14,998	
Total debt securities	1,014,635	75,028	939,607	
Equity securities				
Common stock	25,901	24,894		$ 1,007
Preferred stock, public	119	119		
Total equity securities	26,020	25,013		1,007
Pooled investment vehicles				
Exchange traded, open-end, closed-end funds	43,861	43,861		
Other open-end funds with published values	164,808	163,703	1,105	
Total pooled investment vehicles	208,669	207,564	1,105	
Other assets	20,477		10,486	9,991
Private capital investments				
Private equities	77,715			77,715
Private credit/debit	38,716			38,716
Private real assets	85,730			85,730
Private, other	55,219			55,219
Total private capital investments	257,380			257,380
Investments measured at the Net Asset Value (NAV)				
Pooled investment vehicles (other open-end funds)	216,084			
Hedge funds, long/short equity	64,786			
Hedge funds, credit	53,716			
Hedge funds, diversified	123,785			
Total investments measured at NAV	458,371			
Total investments and cash equivalents valued at fair value	$ 1,985,552			

Debt securities−The fair value of the majority of the debt securities category at June 30, 2016, was determined based on Level 2 inputs. The university utilizes third-party pricing services and guidance provided by custodians and trading counterparties for fair value estimates of these investments. In addition, it takes into account the nature of the securities, trading activity, and availability of comparable securities in the marketplace. The fair value of U.S. Treasury and certain U.S. agency securities was based on Level 1 inputs. These securities benefit from an abundance of quoted prices in active markets.

Equity securities and pooled investment vehicles (exchange – traded or with published values)–These investment categories are comprised of common stock, preferred stock, limited partnerships, and funds, all of which are exchange-traded or with published values. The fair value of these assets at June 30, 2016, was primarily determined based on Level 1 inputs due to the transparent pricing provided by a securities exchange or published value.

Other assets–Level 3 inputs were utilized for the fair value calculations of this investment category, which contains real estate holdings of $3.414 million, separately invested portfolios of $6.568 million, and an annuity valued at $.009 million. Real estate was valued using various appraisal estimates, while the separately invested portfolios are managed externally for the benefit of the university. Pricing for the latter was provided by third parties. The annuity is priced by the sponsoring entity.

Private capital investments–The fair value of the private capital category at June 30, 2016, was determined based on Level 3 inputs. Valuation methods such as the income method and/or multiple analysis are examples of those commonly utilized by managers to determine the fair value of these assets and are typically unobservable to the university. The university's private capital investments have $132.328 million of unfunded commitments at June 30, 2016.

Investments measured at net asset value (NAV)–The university holds shares or interest in investment companies or vehicles for which the fair value is measured on a recurring basis using net asset value per share (or its equivalent). This category is a combination of open-end mutual funds and hedge funds. The open-end fund holdings implement strategies that are primarily net long or long-only investments in a variety of markets including the global equity markets, municipal debt, foreign sovereign and corporate bonds, investment-grade U.S. debt, real estate, and energy. The hedge fund holdings are divided into three sub-categories. The first is long/short equity, a strategy that typically invests in common stock by both buying shares and selling shares short. These strategies work across the global equity markets. The second category, entitled credit, focuses almost exclusively on fixed income instruments, which can include various types of bonds, derivatives, and loans. These strategies also invest in multiple jurisdictions around the world. The final category, diversified, is comprised of strategies that often overlap in approach and frequently employ more than one strategy within a single vehicle.

Total NAV investments–As of June 30, 2016, one investment of approximately $4.7 million remained outstanding with a long/short credit fund from which the university had executed a full redemption roughly nine months prior. The manager continues to make periodic cash distributions as opportunities arise; however, an exact date by which a full redemption will be accomplished cannot be determined at this time.

The table below provides a summary of the liquidity terms and conditions of those investments with value measured using net asset value (expressed in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV				
Open-end funds	$216,084		daily, semi-monthly, monthly, quarterly	1 day- 90 days
Hedge funds, long/short equity	64,786		quarterly, semi-annually, annually	30 days- 75 days
Hedge funds, credit	53,716		quarterly - annually	45 days- 120 days
Hedge funds, diversified*	123,785		monthly, quarterly, annually	3 days- 90 days

*At fiscal year-end, one position of roughly $17 million was still in its initial lock-up period with six months remaining. Once the lock-up period ends, that investment will be liquid quarterly with ninety days' notice.

2. Tennessee Board of Regents System

The system categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The system has the following recurring fair value measurements as of June 30, 2016 (expressed in thousands):

		Fair Value Measurements Using		
Investments by fair value level	6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Treasuries	$ 68,508	$ 68,508		
U.S. Agencies	93,549	75,480	$ 18,069	
Corporate bonds	7,170	3,766	3,404	
Mutual bond funds	25,160	25,160		
Collateralized mortgage obligations	717		717	
Other	73	73		
Total debt securities	195,177	172,987	22,190	
Equity securities				
Common stock	2,594	2,549		$ 45
Mutual equity funds	92,540	92,540		
Real estate	1,974			1,974
Equity REITs	1,711		1,711	
Hedge funds	5,152		5,152	
Other	497	147	350	
Total equity securities	104,468	95,236	7,213	2,019
Investments measured at the Net Asset Value (NAV)				
Mutual bond funds	19,491			
Mutual equity funds	48,442			
Real estate	81			
Private equities	4,103			
Hedge funds	2,009			
Natural resources	457			
Other	2,499			
Total investments measured at NAV	77,082			
FASB foundations' investments	280,678	119,361	53,880	107,437
Total investments and cash equivalents valued at fair value	$ 657,405			

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued at amounts provided by commercial pricing services which based their valuations on the bid-ask spread price in an active market (U.S. agencies) and Wall Street Journal quotes and statements from investment companies (CMO).

The valuation method for assets and liabilities measured at the net asset value per share (or its equivalent) is presented on the following table (expressed in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV				
Mutual bond funds	$ 19,491		Monthly	5 business days
Mutual equity funds	48,442		Daily, monthly	5- 30 business days
Real estate	81		not applicable	not applicable
Private equities	4,103	3,838	not applicable	not applicable
Hedge funds	2,009		Semi-annually	90 calendar days
Natural resources	457	435	not applicable	not applicable
Other	2,499		Semi-annually	95 calendar days

The assets of the multi-strategy bond fund are allocated among strategies in proportion that Commonfund Asset Management Company considers beneficial for a fully diversified fixed income portion of an educational endowment. The assets of the multi-strategy equity fund are allocated among strategies in proportions that Commonfund Asset Management Company considers beneficial for a fully diversified public equity portion of an educational endowment. There are currently no redemption restrictions on the multi-strategy equity and bond funds, although they could be put in place in extraordinary circumstances, such as any period during which the New York Stock Exchange is closed other than customary weekend or holiday closings, or during which trading thereon is restricted or there exists any emergency affecting the practicability of disposal of portfolio securities of the fund or the practicability of determining net asset value. It is not probable that the system will sell an investment for an amount different from the NAV per share.

3. Tennessee Housing Development Agency

The agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The agency has the following recurring fair value measurements as of June 30, 2016 (expressed in thousands):

		Fair Value Measurements Using		
Investments by fair value level	6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
Government agencies	$ 131,326		$ 131,326	
Government bonds	68,451	$ 68,451		
Short term bills and notes	152,931		152,931	
Total debt securities	$ 352,708	68,451	284,257	

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets of those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets of those securities.

C. Receivables

Receivables at June 30, 2016, for the state's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts including Due From Other Governments	Taxes and Certain Other Licenses, Fees, and Permits	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental activities:						
General	$ 696,308	$ 757,466	$ 8,163	$ 1,461,937	$ (151,510)	$ 1,310,427
Education	94,761	579,196	1,696	675,653	(56,248)	619,405
Highway	118,412	69,692	1,491	189,595	(11)	189,584
Capital projects	8,411			8,411		8,411
Nonmajor governmental funds	7,791	15,125	708	23,624	(763)	22,861
Internal service funds	19,653		845	20,498	(543)	19,955
Total-governmental activities	$ 945,336	$ 1,421,479	$ 12,903	$ 2,379,718	$ (209,075)	$ 2,170,643
Amounts not expected to be collected within one year	$ 10,328	$ 67,841				$ 78,169
Business-type activities:						
Employment security	$ 130,608	$ 67,239	$ 4,811	$ 202,658	$ (38,887)	$ 163,771
Nonmajor enterprise funds	7,128			7,128	(219)	6,909
Total-business-type activities	$ 137,736	$ 67,239	$ 4,811	$ 209,786	$ (39,106)	$ 170,680

D. Capital assets

Capital asset activity for the year ended June 30, 2016, was as follows (expressed in thousands):

Primary government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 2,172,266	$ 69,986	$ (1,965)	$ 2,240,287
Infrastructure	23,049,536	883,549	(41,773)	23,891,312
Construction in progress	1,120,501	639,444	(926,580)	833,365
Software in development	58,680	32,432	(28,035)	63,077
Capital assets, being depreciated:				
Structures and improvements	2,473,410	50,270	(31,279)	2,492,401
Machinery and equipment	1,010,205	118,370	(37,086)	1,091,489
Total capital assets	29,884,598	1,794,051	(1,066,718)	30,611,931
Less accumulated depreciation for:				
Structures and improvements	(1,113,507)	(54,131)	25,411	(1,142,227)
Machinery and equipment	(688,317)	(90,291)	32,851	(745,757)
Total accumulated depreciation	(1,801,824)	(144,422)	58,262	(1,887,984)
Governmental activities capital assets, net	$ 28,082,774	$ 1,649,629	$ (1,008,456)	$ 28,723,947

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental activities:	
General government	$ 4,316
Education	2,282
Health and social services	17,049
Law, justice and public safety	38,070
Recreation and resource development	13,239
Regulation of business and professions	946
Transportation	19,704
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	48,816
Total depreciation expense – governmental activities	$ 144,422

Highway construction commitments — At June 30, 2016, the Department of Transportation had contractual commitments of approximately $718.5 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($695.8 million) and general obligation bond proceeds ($22.7 million).

Discretely presented component units

Capital asset activity for the year ended June 30, 2016, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Art and collections	$ 10,897	$ 58		$ 10,955
Land	210,926	23,323	$ (1,427)	232,822
Construction in progress	741,097	397,692	(542,747)	596,042
Capital assets, being depreciated:				
Infrastructure	584,546	34,879	(4,672)	614,753
Structures and improvements	5,285,218	574,456	(47,204)	5,812,470
Machinery and equipment	1,031,189	82,708	(44,139)	1,069,758
Total capital assets	7,863,873	1,113,116	(640,189)	8,336,800
Less accumulated depreciation for:				
Infrastructure	(258,949)	(26,806)	745	(285,010)
Structures and improvements	(2,013,775)	(121,206)	23,810	(2,111,171)
Machinery and equipment	(671,550)	(78,766)	40,325	(709,991)
Total accumulated depreciation	(2,944,274)	(226,778)	64,880	(3,106,172)
Total capital assets, net	$ 4,919,599	$ 886,338	$ (575,309)	$ 5,230,628

The University of Tennessee foundations and certain Tennessee Board of Regents foundations utilize FASB standards; therefore, only the June 30, 2016, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Art and collections	$ 648
Land	14,727
Total capital assets, not being depreciated	15,375
Capital assets, being depreciated:	
Infrastructure	1,010
Structures and improvements	133,912
Machinery and equipment	13,991
Total capital assets being depreciated	148,913
Less: total accumulated depreciation	(67,504)
Total capital assets, being depreciated, net	81,409
Total capital assets, net	$ 96,784

E. Interfund balances

1. Interfund balances at June 30, 2016, for the state's individual major funds, nonmajor funds, internal service funds, and fiduciary funds in the aggregate consist of the following (expressed in thousands):

DUE FROM

		General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Fiduciary Funds	Total
	General		$ 275,792	$ 14	$ 86	$ 230	$ 7	$ 3	$ 276,132
	Education	$ 66							66
	Capital projects	210		23		172	5,809		6,214
D U E	Nonmajor governmental funds					72			72
T	Employment security	253							253
O	Internal service funds	2,351				27			2,378
	Fiduciary funds	7,601	413	846		293	375		9,528
	Total	$ 10,481	$ 276,205	$ 883	$ 86	$ 794	$ 6,191	$ 3	$ 294,643

The $275.8 million due to the general fund from the education fund resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the education fund.

2. COMPONENT UNITS PAYABLES

Component units' accounts payable to the primary government at June 30, 2016, consisted of the following (expressed in thousands):

PAYABLE FROM
COMPONENT UNITS

		Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
	PRIMARY GOVERNMENT:						
P	General			$ 235	$ 468	$ 69	$ 772
A	Education		$ 100,832	31			100,863
Y	Capital Projects			4,302	26	49	4,377
A B	Nonmajor governmental funds				1,039		1,039
L	Employment security					6	6
E	Fiduciary funds	$ 72		5,331	4,266	118	9,787
T O	Total	$ 72	$ 100,832	$ 9,899	$ 5,799	$ 242	$ 116,844

3. COMPONENT UNITS RECEIVABLES

Component units accounts receivable from the primary government at June 30, 2016, consisted of the following (expressed in thousands):

RECEIVABLE FROM
PRIMARY GOVERNMENT

RECEIVABLE TO

	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Total
COMPONENT UNITS:							
Tennessee Board of Regents	$ 9,617	$ 5,850	$ 972	$ 229	$ 1,095	$ 280	$ 18,043
University of Tennessee	9,368	5,414	2,329	10,018	1,346	59	28,534
Nonmajor component units	1,326						1,326
Total	$ 20,311	$ 11,264	$ 3,301	$ 10,247	$ 2,441	$ 339	$ 47,903

F. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2016, are as follows (expressed in thousands):

Transfers In

Transfers Out	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds
General		$ 722,298	$ 130,000	$ 156,289	$ 6,320
Education					
Highway	$ 2,039				
Capital projects	380				
Nonmajor governmental funds	108,350		88,800	12,457	
Nonmajor enterprise funds	2,298				
Totals	$ 113,067	$ 722,298	$ 218,800	$ 168,746	$ 6,320

(Continued) **Transfers In**

Transfers Out	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds	Total
General	$ 1,429	$ 1,965	$ 188,218	$ 804	$ 1,207,323
Education			9		9
Highway					2,039
Capital projects					380
Nonmajor governmental funds			109		209,716
Nonmajor enterprise funds					2,298
Totals	$ 1,429	$ 1,965	$ 188,336	$ 804	$ 1,421,765

Transfers are generally used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (3) use unrestricted resources from the general fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations.

In the fiscal year ended June 30, 2016, the general fund transferred $1.2 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $722.3 million to subsidize the activities of the education fund, $180.4 million to provide appropriations to internal service funds, $156.3 million for capital outlay expenditures, $130 million for highway expenditures, $7.8 million for interfund services used,

$6.8 million to provide appropriations to finance various programs in other funds, and $3.8 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for $88.8 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

G. Lease obligations

Operating lease obligations — The state has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most 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. The state has also entered into various operating leases, which have non-cancelable 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
2017	$	14,115
2018		13,064
2019		11,432
2020		10,867
2021		10,077
2022-2026		40,658
2027		1,215
Total minimum payments required	$	101,428

Expenditures for rent under leases for the year ended June 30, 2016, amounted to $74.7 million.

Capital lease obligations – The state leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 13 years. The effective interest rates for these leases range from 0.63 percent to 32.12 percent. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

				Governmental Activities
Assets:				
Land			$	158
Buildings	$	37,821		
Less: accumulated depreciation		6,401		31,420
			$	31,578

At June 30, 2016, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Executory Costs	Governmental Activities Lease Obligation Payable
2017	$ 1,549	$ 1,164	$ 753	$ 3,466
2018	1,495	1,162	772	3,429
2019	1,541	1,156	791	3,488
2020	1,576	1,145	811	3,532
2021	1,641	1,128	831	3,600
2022-2026	9,384	4,963	4,479	18,826
2027-2029	3,757	1,351	2,759	7,867
Total	$ 20,943	$ 12,069	$ 11,196	44,208
Less - interest				12,069
Less - executory costs				11,196
Present value of net minimum lease payments				$ 20,943

H. **Lease receivables**

Capital lease receivable — The state, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Post-Mortem Facility. The lease term is 20 years beginning July 15, 2001, with an option to renew the lease for an unlimited period of time for a nominal amount. The state is subsidizing a part of the cost of this building.

The state, as lessor, entered into a lease agreement with the Shelby County Government (lessee) for the Regional Forensic Center facility. The lease term is 20 years beginning July 1, 2012. The state shall transfer all of its rights, title and interest in and to the facility to Shelby County for a nominal amount upon the end of the lease term. The state is subsidizing a part of the cost of this building.

Minimum future lease payments to be received as of June 30, 2016 (expressed in thousands):

Year Ended June 30	Total
2017	$ 689
2018	673
2019	657
2020	641
2021	626
2022-2026	1,988
2027-2031	1,794
2032-2033	653
Total minimum future lease payments	$ 7,721
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	$ 7,721
Less: executory costs	(1,068)
Plus: unamortized loss on leases	3,544
Net investment in direct financing lease	$ 10,197

I. Long-term liabilities

1. General obligation bonds – Bonds Payable at June 30, 2016, are shown below (expressed in thousands):

Governmental activities:	Amount
General obligation bonds, 1.68% to 5.59%, due in generally decreasing amounts of principal and interest from $136.430 million in 2017 to $14.668 million in 2036	$ 1,009,673
General obligation refunding bonds, 2004 Series C, 5%, principal and interest due in amounts from $11.959 million in 2017 to $11.388 million in 2018	22,235
General obligation refunding bonds, 2005 Series A, 5.25%, principal and interest due in the amount of $17.950 million in 2017	17,055
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from $17.529 million in 2017 to $7.544 million in 2022	66,905
General obligation refunding bonds, 2009 Series D, 3.82% to 5.59%, principal and interest due in amounts from $3.814 million in 2017 to $3.889 million in 2029	36,177
General obligation refunding bonds, 2010 Series B, 3% to 4%, principal and interest due in amounts from $1.223 million in 2017 to $7.375 million in 2024	37,135
General obligation refunding bonds, 2011 Series B, 3% to 5%, principal and interest due in amounts from $8.963 million in 2017 to $187.775 thousand in 2026	48,800
General obligation refunding bonds, 2011 Series C, 1.68% to 3.53%, principal and interest due in amounts from $2.437 million in 2017 to $1.175 million in 2024	14,130
General obligation refunding bonds, 2012 Series A, 2.50% to 5%, principal and interest due in amounts from $31.373 million in 2017 to $7.334 million in 2028	443,985
General obligation refunding bonds, 2012 Series C, .90% to 1.60%, principal and interest due in amounts from $1.246 million in 2017 to $7.021 million in 2020	27,460
General obligation refunding bonds, 2014 Series B, 5%, principal and interest due in amounts from $3.958 million in 2017 to $11.475 million in 2030	79,160
General obligation refunding bonds, 2015 Series B, 3% to 5%, principal and interest due in amounts from $4.143 million in 2017 to $14.336 million in 2029	96,490
Total bonds outstanding	1,899,205
Plus unamortized bond premium	225,692
Total bonds payable	$ 2,124,897

General obligation bonds issued during the year ended June 30, 2016:

October 2015 Bond Series 2015A in the amount of $286.275 million
Refunding Bond Series 2015B in the amount of $97.490 million

The October, bond series 2015A, general obligation bond issuance in the amount of $286.275 million represents tax-exempt bonds maturing serially through 2036 at interest rates ranging from 2 percent to 5 percent. The bonds were sold at a premium of $54.379 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In October 2015, the state issued general obligation refunding bonds, series 2015B, in the amount of $97.490 million to provide for the advance refunding of $29.150 million and $74.600 million of general obligation bonds issued in series 2009A and 2010A respectively. Proceeds from the refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government wide statement of net position.

The net carrying amount of the refunded bonds was $113.180 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.830 million. The difference, reported in the accompanying financial statements as deferred inflows of resources, is being charged to operations through 2029 using the straight line method. The state completed the refunding to reduce its total debt service payments over 14 years by $12.002 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of $8.884 million.

Prior-year defeasance of debt

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 old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements. On June 30, 2016, $466.520 million of bonds outstanding are considered defeased.

2. General obligation commercial paper – Governmental activities commercial paper payable at June 30, 2016, is shown below (expressed in thousands).

	Commercial paper
General obligation commercial paper, interest rates ranging from .06% to .53% for tax exempt and .13% to .48% for taxable, varying maturities	$ 245,536

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 $350 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 July 1, 2021. At June 30, 2016, $245.536 million of commercial paper was outstanding ($221.073 million tax exempt and $24.463 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Pledged Revenues/Collateralized Borrowing

The state has entered into agreements under the Tennessee Small Business Investment Company Credit Act involving future gross premium taxes (or under certain conditions, other taxes imposed upon an insurance company by the state) that qualify for classification as collateralized borrowings. The proceeds of the borrowings are used to create a pool of venture capital funds for investment in early and mid-stage companies in Tennessee, and are being received in exchange for future vested credits against gross premium taxes owed. These credits are intended to represent a payment of taxes, have a limited life of 25 years, and are recorded as a reduction of the liability reported in the statement of net position when used.

The total amount of tax credits to be taken to reduce the liability for the use of the aforementioned tax credits is $52,417,506.19 as of June 30, 2016. For the current year, gross premium tax revenue totaled $864,517,886.43 and credits of $18,654,976.77 were used to reduce the liability for the borrowing. Gross premium taxes have averaged approximately $735 million per year over the last five years.

General obligation bonds and commercial paper constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state; and a charge and lien upon all fees, taxes and other revenues and funds allocated to the state's general fund, debt service fund and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes. The charge and lien on fees, taxes and other revenues in favor of the bonds is subject to a specific pledge of "Special Taxes" in favor of state general obligation bonds issued prior to July 1, 2013. "Special Taxes" consist of the annual proceeds of a tax of five cents per gallon upon gasoline; the annual proceeds of a special tax of one cent per gallon upon petroleum products; one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be paid to the state; and the annual proceeds of the franchise taxes imposed by the franchise tax law of the state. The final maturity of general obligation bonds issued prior to July 1, 2013 is October 1, 2032. Thereafter, or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013, this pledge of "Special Taxes" will expire. For fiscal year 2016, $1.166 billion or 65.50 percent of the above revenue streams were pledged for the payment of principal and interest on all general obligation bonds issued prior to July 1, 2013.

4. Debt service requirements to maturity – Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2016, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Requirements
2017	$ 160,274	$ 80,747	$ 241,021
2018	151,580	73,568	225,148
2019	141,265	66,945	208,210
2020	138,280	60,773	199,053
2021	131,540	54,645	186,185
2022-2026	611,296	189,319	800,615
2027-2031	433,995	74,113	508,108
2032-2036	130,975	12,122	143,097
	$ 1,899,205	$ 612,232	$ 2,511,437

5. General obligation bonds authorized and unissued – A summary of general obligation bonds authorized and unissued at June 30, 2016, 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, 2015	Authorized	Canceled	Unissued June 30, 2016
Highway	$ 874,900	$ 87,700	$ 114,900	$ 847,700
Higher Education	617,362		95,141	522,221
Environment & Conservation	13,577		3,822	9,755
Economic & Community Development	275,200		218,200	57,000
General government	306,606		39,582	267,024
Totals	$ 2,087,645	$ 87,700	$ 471,645	$ 1,703,700

6. Changes in long-term liabilities – A summary of changes in long-term obligations for the year ended June 30, 2016 follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds and commercial paper	$ 2,158,123	$ 622,265	$ (409,955)	$ 2,370,433	$ 160,275
Capital leases	20,599	1,787	(1,443)	20,943	1,549
Compensated absences	249,802	152,023	(151,419)	250,406	85,826
Claims and judgments	191,130	97,098	(97,109)	191,119	35,408
Pollution remediation	72,591	14,287	(19,893)	66,985	4,382
Other postemployment benefits	629,928	56,458		686,386	
Pension	486,269	994,574	(576,430)	904,413	
Other long-term liabilities	45,336	25,737	(18,655)	52,418	
Governmental activities Long-term obligations	$ 3,853,778	$ 1,964,229	$ (1,274,904)	$ 4,543,103	$ 287,440
Business-type activities					
Deposits payable	$ 7,778	$ 1,762	$ (90)	$ 9,450	
Business-type activities Long-term obligations	$ 7,778	$ 1,762	$ (90)	$ 9,450	

Governmental activities include all governmental funds and internal service funds. Typically, agencies accounted for in the general fund, internal service funds, and special revenue funds liquidate compensated absences, OPEB and pension obligations. Claims and judgments are obligations of the highway fund (special revenue fund), risk management fund (internal service fund) and the general fund. Typically, pollution remediation is liquidated from the general fund and highway fund.

J. **Payables**

Payables as of June 30, 2016, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Due To Other Governments	Other	Total Payables
Governmental activities:						
General	$ 936,576	$ 76,759	$ 78	$ 132,950	$ 219,765	$ 1,366,128
Education	29,054	4,790		87,312	10,315	131,471
Highway	102,588	7,600		56,739		166,927
Capital projects	58,682			81,072		139,754
Nonmajor governmental funds	20,714	2,311	25,775	31,728	128	80,656
Internal service funds	75,617	3,195	5,856	2,774		87,442
Total—governmental activities	$ 1,223,231	$ 94,655	$ 31,709	$ 392,575	$ 230,208	$ 1,972,378
Business-type activities:						
Employment security	$ 142			$ 48,936	$ 1,806	$ 50,884
Sewer treatment loan			$ 14			14
Nonmajor enterprise funds	34,739		7	2,534		37,280
Total—business-type activities	$ 34,881		$ 21	$ 51,470	$ 1,806	$ 88,178

K. **Governmental fund balances**

Balances as of June 30, 2016, were as follows (expressed in thousands):

	Restricted Purposes	Committed Purposes	Assigned Purposes
General fund			
General operations:			
Legislature			$ 49,317
Constitutional offices	$ 3,502	$ 20,437	56,809
Administrative services		30,620	770,723
Children's services		3	4,849
Public health	24,882	90,639	284,821
Human services	8,966	3,057	36,522
Business and industry development	6,913	1,311	303,789
Judicial	15,467	14,254	2,705
Natural resources	161	15,114	9,307
Public safety	12	16,924	58,225
Agriculture		1,267	23,734
Employment and business regulation	11,290	116,942	1,720
Other	111	3,977	9,480
Total general fund	$ 71,304	$ 314,545	$ 1,612,001
Education fund			
After school program	$ 23,336		
Lottery for education	169,746		
Energy efficient school initiative	2,831		
TN Promise Scholarship Endowment Fund	45,626		
Other	171	$ 8,931	$ 47,495
Total education fund	$ 241,710	$ 8,931	$ 47,495
Highway fund			
State matching	$ 337,955		
Railway, aeronautics, and waterway program		$ 137,061	
State aid		91,940	
Future highway projects			$ 126,395
Railroad inspection		2,343	
Other			19,459
Total highway fund	$ 337,955	$ 231,344	$ 145,854
Capital projects fund	$ 93,188		$ 584,279
Total capital projects fund	$ 93,188		$ 584,279
Nonmajor governmental funds			
Debt service			$ 9,378
Chairs of excellence	$ 195,730		
Criminal injuries		$ 7,357	
Wildlife resources	36,702	12,866	
Underground storage tanks	47,302	306	
Enhanced emergency 911	59,239	3,466	
Environmental protection		35,789	
Solid and hazardous waste	48	16,426	
Parks acquisition		32,561	
Other	8,931	24,266	
Total nonmajor governmental funds	$ 347,952	$ 133,037	$ 9,378

Budget stabilization accounts

The state maintains two stabilization accounts: (a) the general fund's Reserve for Revenue Fluctuations ("Rainy Day") and (b) the education fund's General Shortfall Reserve (Lottery for Education Account).

(a) General fund's Reserve for Revenue Fluctuations

In accordance with *Tennessee Code Annotated*, 9-4-211, the state established a reserve account in the general fund known as the "Reserve for Revenue Fluctuations." Beginning in fiscal year 1999, at least 10 percent of the estimated growth in state tax revenues to be allocated to the general and education funds must be allocated to this account. Once the amount equals 8 percent of the estimated state tax revenues allocated to the general fund and education fund, the following must be allocated to the account:

The lesser of:

(1) At least 10 percent of the estimated growth in state tax revenues to be allocated to the general fund and education fund.
(2) An amount to maintain the account at eight percent (8%) of the estimated tax revenues allocated to the general fund and education fund.

Amounts available in the revenue fluctuation reserve may be used by the Commissioner of Finance and Administration to offset shortfalls in state tax revenues which may occur and for which funds are not otherwise available. Upon determining that it is likely that amounts in the revenue fluctuation reserve will be required to be utilized to meet a shortfall of state tax revenue, the Commissioner shall report this determination immediately to the Chairs of the Finance, Ways, and Means Committees of the Senate and the House of Representatives. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of one hundred million dollars ($100,000,000) or one half (1/2) of the amount available in the reserve may be used by the Commissioner to meet expenditure requirements in excess of budgeted appropriation levels. The general fund's Reserve for Revenue Fluctuations is reported as unassigned fund balance and has a balance of $568 million as of June 30, 2016.

(b) Education fund's General Shortfall Reserve Account

In accordance with *Tennessee Code Annotated*, 4-51-111, the state transferred one hundred million dollars ($100,000,000) from the Lottery for Education Account to the General Shortfall Reserve Account. The resources of this account may be used when the net lottery proceeds are not sufficient to meet the amount appropriated for educational programs and other purposes consistent with Article XI, Section 5 of the Constitution of Tennessee. In the event this account is drawn upon in any fiscal year, the account shall be brought back to its prior level in subsequent fiscal years. In addition to the one hundred million dollars mentioned, the State Funding Board may recommend appropriation of funds to the account if it is deemed to have an inadequate balance. Likewise, the State Funding Board may recommend appropriation of funds from the account if adequate funds are deemed to be available in the account and if such funds are needed for educational programs and other authorized purposes, provided that the appropriation of funds from the account would not bring its balance below one hundred million dollars ($100,000,000). As of June 30, 2016, this account has a balance of $100 million and is reported as restricted fund balance in the education fund.

L. **Component units – condensed financial statements**

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2016 (expressed in thousands):

Condensed Statement of Net Position
Component Units

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, investments, and other assets	$ 2,302,353	$ 187,394	$ 1,034,293	$ 1,115,093	$ 468,705	$ 5,107,838
Due from primary government			18,043	28,534	1,326	47,903
Due from other component units					1,644,363	1,644,363
Restricted assets	172,850	7,006	838,672	1,415,157	215,243	2,648,928
Capital assets, net	1,175	3,099	2,768,299	2,502,816	52,023	5,327,412
Total assets	2,476,378	197,499	4,659,307	5,061,600	2,381,660	14,776,444
Deferred outflows	3,142		111,022	94,017	45,486	253,667
Liabilities						
Accounts payable and other current liabilities	44,928	85,767	233,303	289,283	38,839	692,120
Due to primary government	72	100,832	9,899	5,799	242	116,844
Due to other component units			736,863	907,500		1,644,363
Long-term liabilities	1,922,300	10,870	405,188	511,557	2,174,900	5,024,815
Total liabilities	1,967,300	197,469	1,385,253	1,714,139	2,213,981	7,478,142
Deferred inflows	1,288		48,022	35,987	4,630	89,927
Net position						
Net investment in capital assets	1,175	3,099	2,065,958	1,587,344	46,806	3,704,382
Restricted	430,114	30	628,395	1,379,042	29,409	2,466,990
Unrestricted	79,643	(3,099)	642,701	439,105	132,320	1,290,670
Total net position	$ 510,932	$ 30	$ 3,337,054	$ 3,405,491	$ 208,535	$ 7,462,042

Condensed Statement of Activities
Component Units

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component units:				
Housing Development Agency	$ 385,860	$ 107,287	$ 275,060	
Tennessee Education Lottery	1,515,430	1,515,176	37	
Board of Regents	2,454,272	986,795	755,476	$ 120,693
University of Tennessee	2,120,142	770,231	883,793	111,282
Nonmajor component units	393,778	142,773	151,979	512
Total	$ 6,869,482	$ 3,522,262	$ 2,066,345	$ 232,487
General revenues:				
Payments from primary government				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Contributions to permanent funds				
Change in net position				
Net position – July 1				
Net position – June 30				

Significant transactions between the major component units–Tennessee Board of Regents (TBR), University of Tennessee (UT) and the Tennessee Education Lottery Corporation (TELC)–and the primary government consist of the following:

State appropriations from the education fund in the amount of $703 million were made to the TBR and $519 million to the UT.

Capital project expenditures in the amount of $159 million were made for the TBR and $97.1 million to the UT in the form of expenditures in the capital projects fund for projects at these school systems.

The TBR paid the primary government $46.2 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of $382.4 million for the state's Lottery for Education Account.

Net (Expense) Revenue and Changes in Net Position					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ (3,513)					$ (3,513)
	$ (217)				(217)
		$ (591,308)			(591,308)
			$ (354,836)		(354,836)
				$ (98,514)	(98,514)
(3,513)	(217)	(591,308)	(354,836)	(98,514)	(1,048,388)
		697,255	518,655	81,033	1,296,943
		39,365	2,171	9,632	51,168
38	208	6,860	28,858	314	36,278
		5,537			5,537
38	208	749,017	549,684	90,979	1,389,926
		8,239	54,447		62,686
(3,475)	(9)	165,948	249,295	(7,535)	404,224
514,407	39	3,171,106	3,156,196	216,070	7,057,818
$ 510,932	$ 30	$ 3,337,054	$ 3,405,491	$ 208,535	$ 7,462,042

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the Tennessee Board of Regents to finance certain capital projects. At June 30, 2016, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 30,020	$ 702,163
University of Tennessee	36,486	865,002
Total	$ 66,506	$ 1,567,165

M. **Major component units – long-term debt**

Tennessee Housing Development Agency (THDA)

Bonds Payable at June 30, 2016, is shown below (expressed in thousands):

Homeownership program revenue bonds, housing finance program bonds, and residential finance program bonds, various series, .25% to 5.75%, due in amounts of principal and interest ranging from $102.468 million in 2017 to $16.709 million in 2046	$ 1,875,620
Plus unamortized bond premium	30,916
Less unamortized bond discount	(42)
Total bonds payable	$ 1,906,494

The revenue bonds listed above are not obligations of the state. They are secured by pledges from the facilities to which they relate and by certain other revenues, fees and assets of the THDA.

Bond sales during the year ended June 30, 2016, included the following issues:

October 2015—Residential Finance program bonds of $175.000 million
June 2016—Residential Finance program bonds of $150.000 million

Current refundings

During the year ended June 30, 2016, bonds were retired at par before maturity in the Homeownership Program in the amount of $70,935,000, in the Housing Finance Program in the amount of $84,975,000, and in the Residential Finance Program in the amount of $26,440,000. The respective carrying values of the bonds were $71,940,410, $85,625,000 and $27,205,277. This resulted in revenue to the Homeownership Program of $1,005,410, to the Housing Finance Program of $650,069, and to the Residential Finance Program of $765,277.

On June 11, 2016, the agency issued $150,000,000 in Residential Finance Program Bonds, Issue 2015-1. On January 1, 2016, the agency used $27,395,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $27,395,000 early redemption). The carrying amount of these bonds was $27,395,000. The refunding reduced the agency's debt service by $12,273,421 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $4,089,664.

On October 15, 2015, the agency issued $175,000,000 in Residential Finance Program Bonds, Issue 2015-2. On January 1, 2016, the agency used $43,070,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $43,070,000 early redemption). The carrying amount of these bonds was $43,184,624. The refunding reduced the agency's debt service by $17,407,979 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $5,246,191.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2016, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2017	$ 36,555	$ 65,913	$ 102,468
2018	62,810	65,922	128,732
2019	65,295	64,018	129,313
2020	66,785	61,979	128,764
2021	71,065	59,768	130,833
2022-2026	369,900	260,532	630,432
2027-2031	343,540	194,038	537,578
2032-2036	367,480	125,252	492,732
2037-2041	325,135	60,915	386,050
2042-2046	167,055	13,778	180,833
	$ 1,875,620	$ 972,115	$ 2,847,735

N. Nonmajor component units – long-term debt

Tennessee Local Development Authority (TLDA)

Bonds Payable at June 30, 2016, is shown below (expressed in thousands):

Revenue bonds, 3.62% to 5%, due in generally decreasing amounts of principal and interest from $936 thousand in 2017 to $21 thousand in 2029	$ 3,825
Plus unamortized bond premium	115
Less unamortized bond discount	(11)
Total bonds payable	$ 3,929

The revenue bonds listed above are not obligations of the state. They are secured by pledges of resources from the facilities to which they relate and by certain other revenues, fees and assets of TLDA.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2016, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2017	$ 775	$ 161	$ 936
2018	585	124	709
2019	495	100	595
2020	435	81	516
2021	285	63	348
2022-2026	1,195	166	1,361
2027-2029	55	5	60
	$ 3,825	$ 700	$ 4,525

Tennessee State School Bond Authority (TSSBA)

Bonds and Revolving Credit Facility Payable at June 30, 2016, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.86%, due in decreasing amounts of principal and interest from $131.232 million in 2017 to $13.292 million in 2046	$ 1,908,125
Plus unamortized bond premium	169,147
Less unamortized bond discount	(52)
Total bonds payable	$ 2,077,220
Revolving credit facility, interest rates ranging from .48% to .66%, varying maturities	$ 84,480

The revenue bonds and revolving credit facility 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 TSSBA.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2016, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Total Requirements
2017	$ 66,595	$ 64,637	$ 131,232
2018	68,265	62,372	130,637
2019	72,275	59,433	131,708
2020	68,665	56,313	124,978
2021	95,705	53,527	149,232
2022-2026	509,575	225,835	735,410
2027-2031	504,130	154,900	659,030
2032-2036	229,285	94,693	323,978
2037-2041	187,960	46,906	234,866
2042-2046	105,670	10,644	116,314
	$ 1,908,125	$ 829,260	$ 2,737,385

Revolving credit facility 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. On March 20, 2014, the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. The Revolving Credit Agreement permits loans (the revolving credit facility) to be made from time to time (and prepayments and reborrowings) in an aggregate principal amount outstanding at any time not to exceed $300,000,000. The Revolving Credit Agreement expires March 20, 2017, subject to extension. The revolving credit facility may be issued as tax-exempt or as taxable loans. At the program's inception, the revolving credit facility refinanced certain outstanding commercial paper proceeds that the Authority had previously issued to finance capital projects. At June 30, 2016, $75,367,383 of tax-exempt revolving credit facility and $9,112,778 of taxable revolving credit facility loans were outstanding.

O. Component units – changes in long-term liabilities

A summary of changes in long-term obligations for the year ended June 30, 2016, follows (expressed in thousands).

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds and loans payable:					
University of Tennessee (UT) loans payable	$ 785,801	$ 156,771	$ (41,085)	$ 901,487	$ 36,486
Tennessee Board of Regents (TBR) loans payable	743,247	35,757	(41,560)	737,444	30,321
Tennessee Housing Development Agency (THDA) bonds payable	1,979,170	306,897	(379,573)	1,906,494	100,360
Nonmajor component units bonds and loans payable	2,227,969	35,000	(92,123)	2,170,846	67,839
Total revenue bonds and loans payable	$ 5,736,187	$ 534,425	$ (554,341)	$ 5,716,271	$ 235,006
UT compensated absences	78,566	46,028	(43,485)	81,109	43,486
UT other postemployment benefits	100,042	5,871		105,913	
UT pension	88,070	184,471	(105,832)	166,709	
UT due to grantors, unearned revenue and annuities payable	71,404	155,665	(157,858)	69,211	
TBR compensated absences	64,319	39,372	(38,608)	65,083	16,775
TBR other postemployment benefits	101,039	2,873		103,912	
TBR pension	111,898	233,281	(134,134)	211,045	
TBR due to grantors, unearned revenue and other	19,968	1,203	(1,284)	19,887	
THDA escrow deposits, arbitrage rebate payable, and unearned revenue	5,356	3,613	(1,438)	7,531	89
THDA compensated absences	1,207	129	(92)	1,244	633
THDA other postemployment benefits	1,516	86		1,602	
THDA pension	2,964	5,970	(3,505)	5,429	
Tennessee Education Lottery Corporation (TELC) prizes annuities payable	7,047	269	(340)	6,976	392
TELC compensated absences	573	562	(537)	598	598
TELC unearned rent	3,500		(204)	3,296	165
Nonmajor component units compensated absences	1,312	551	(456)	1,407	799
Nonmajor component units other postemployment benefits	1,012	220		1,232	
Nonmajor component units pension	748	1,565	(898)	1,415	
Component units long-term liabilities	$ 6,396,728	$ 1,216,154	$ (1,043,012)	$ 6,569,870	$ 297,943

The Tennessee State School Bond Authority, a nonmajor component unit, issues revenue bonds to make loans to higher education institutions in the state. The nonmajor component units' bonds payable includes the indebtedness on which the University of Tennessee and the Tennessee Board of Regents' loans payable are based.

The University of Tennessee component units are not included in the above schedule. At year end, University of Tennessee foundations' long-term liabilities amounted to $88.615 million ($2.962 million due within one year).

P. Endowments – component units

If a donor has not provided specific instructions to the University of Tennessee and the Tennessee Board of Regents institutions, state law permits each institution to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the institution is required to consider the institution's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 4.5 percent of a four-year moving average of the fair value of endowment investments has been authorized for expenditure. In fiscal year 2016, the University began transitioning to a seven-year moving average, by adding one year's value to the moving average calculation. This transition will be complete with fiscal year 2019. The remaining amount after distributions, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2016, net appreciation of $113.516 million is available to be spent, of which $111.112 million is restricted to specific purposes.

While some Tennessee Board of Regents institutions/foundations spend all investment income, others choose to spend only a portion of the investment income (including changes in the value of investments) each year. Under the various spending plans established by each institution/foundation, different percentages and/or amounts have been authorized for expenditure. The remaining amounts, if any, are retained to be used in future years when the amounts computed using the spending plans exceed the investment income. At June 30, 2016, net appreciation of $16.263 million is available to be spent, of which $16.006 million is restricted to specific purposes.

NOTE 6 – Other information

A. Risk management

1. 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 and other education system employees 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, 2016, included 130 local education agencies and one education cooperative, with 50,699 active teachers and support personnel enrolled in one of four health care options: partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), limited preferred provider organization plan (PPO), or the healthsavings consumer driven health plan (CDHP). 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 laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure 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.

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. 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 Rosa L. Parks Avenue, 21st Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 532-5823.

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):

	2016	2015
Unpaid claims at beginning of year	$ 27,196	$ 26,966
Incurred claims:		
Provision for insured events of the current year	462,187	445,964
Increase (decrease) in provision for insured events of prior years	236	(681)
Total incurred claims expenses	462,423	445,283
Payments:		
Claims attributable to insured events of the current year	435,395	418,773
Claims attributable to insured events of prior years	27,427	26,280
Total payments	462,822	445,053
Total unpaid claims at end of the year	$ 26,797	$ 27,196

2. 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* 8-27-401, all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2016, included 66 counties, 152 municipalities and 135

quasi-governmental organizations, with 14,059 active employees maintaining coverage through one of four options: partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), limited preferred provider organization plan (PPO), or the healthsavings consumer driven health plan (CDHP). 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 laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure 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.

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. 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 Rosa L. Parks Avenue, 21st Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 532-5823.

As discussed, 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):

	2016	2015
Unpaid claims at beginning of year	$ 5,765	$ 6,032
Incurred claims:		
Provision for insured events of the current year	109,589	100,806
Increase (decrease) in provision for insured events of prior years	(1,062)	(224)
Total incurred claims expenses	108,527	100,582
Payments:		
Claims attributable to insured events of the current year	103,637	95,096
Claims attributable to insured events of prior years	4,702	5,753
Total payments	108,339	100,849
Total unpaid claims at end of the year	$ 5,953	$ 5,765

3. Risk Management – It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice liability and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1 million per occurrence. The state’s management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state’s officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the past three fiscal years. All agencies and authorities of the state participate in the RMF, except for the Dairy Promotion Board and the Certified Cotton Growers’ Organization. The Tennessee Education Lottery Corporation participates in the RMF for general liability purposes but is responsible for its own worker’s compensation coverage.

   The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was $142,321,000 (discounted at one percent) at June 30, 2016 and $140,117,000 (discounted at one percent) at June 30, 2015. The accrued liability for incurred property losses was $7,167,439 at June 30, 2016 and $3,575,452 at June 30, 2015. The changes in the balances of the claims liabilities during fiscal years 2015 and 2016 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
2015-2016	$ 143,692	$ 55,997	$ (49,671)	$ 150,018
2014-2015	$ 142,545	$ 48,903	$ (47,756)	$ 143,692

   The RMF held $142.9 million in cash at June 30, 2016 and $127.9 million in cash at June 30, 2015 that is designated for payment of these claims.

   The RMF 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.

4. 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 and certain former employees with work related injuries are eligible to participate. Fund members at June 30, 2016, included 60,561 active employees enrolled in one of four options: partnership preferred provider organization plan (PPO), standard preferred

provider organization plan (PPO), wellness healthsavings consumer driven health plan (CDHP), or the healthsavings consumer driven health plan (CDHP).

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. 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, 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, both allocated and unallocated. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2016	2015
Unpaid claims at beginning of year	$ 42,878	$ 44,250
Incurred claims:		
Provision for insured events of the current year	712,614	694,426
Increase (decrease) in provision for insured events of prior years	(4,347)	90
Total incurred claims expenses	708,267	694,516
Payments:		
Claims attributable to insured events of the current year	671,619	651,805
Claims attributable to insured events of prior years	38,526	44,083
Total payments	710,145	695,888
Total unpaid claims at end of the year	$ 41,000	$ 42,878

5. <u>CoverKids</u> – The CoverKids program was launched in 2007 as part of the federally funded Children's Health Insurance Program (CHIP) and provides healthcare to children and maternity coverage for pregnant women. In accordance with *Tennessee Code Annotated* 71-3-1101, the CoverKids program serves eligible uninsured children who are not eligible for health care services under any part of Tennessee's Medicaid program. Emphasis is placed on preventive care and the services most needed by children, including vaccinations, physician visits, and hospitalization in addition to vision and dental benefits. Enrollment in the CoverKids program totaled 70,589 at June 30, 2016.

   As part of the federally funded CHIP program, CoverKids receives the majority of funding from the Federal Government at an approximately 99/1 ratio match. There are no monthly premiums and the program has no deductibles. Members pay affordable co-pays for services. CoverKids members use the TennCareSelect Provider Network administered by BlueCross BlueShield.

The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2016	2015
Unpaid claims at beginning of year	$ 7,125	$ 7,839
Incurred claims:		
Provision for insured events of the current year	123,065	111,646
Increase (decrease) in provision for insured events of prior years	(7,158)	(7,717)
Total incurred claims expenses	115,907	103,929
Payments:		
Claims attributable to insured events of the current year	115,392	104,643
Claims attributable to insured events of prior years		
Total payments	115,392	104,643
Total unpaid claims at end of the year	$ 7,640	$ 7,125

B. 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, Tennessee Insurance Guaranty Association, Tennessee Life and Health Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., Tennessee Automobile Insurance Plan, and the Doe Mountain Recreation Authority.

C. Jointly governed organizations

The Southern Regional Education Compact has 16 member states. Tennessee paid $204,453 for 2016 membership dues.

The Compact for Education has 49 member states, plus Puerto Rico, the Virgin Islands, American Samoa, and the District of Columbia. Tennessee paid $77,300 for 2016 membership dues.

The Interstate Mining Compact has 24 member states. Tennessee paid $17,676 for 2016 membership dues.

The Southern States Nuclear Compact (also known as the Southern States Energy Compact) has 16 member states, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 for 2016 membership dues.

The Southeast Interstate Low Level Radioactive Waste Compact has 6 member states.

The Interstate Insurance Product Regulation Commission is comprised of 43 member states and Puerto Rico.

The Interstate Compact for Juveniles is comprised of 50 states, plus the District of Columbia and the Virgin Islands. Tennessee paid $17,000 for 2016 membership dues.

The Interstate Compact for Supervision of Adult Offenders is comprised of all 50 states, plus the District of Columbia, Puerto Rico, and the Virgin Islands. Tennessee paid $36,674 for 2016 membership dues.

The Interstate Compact on Educational Opportunities for Military Children has 50 member states and the District of Columbia. Tennessee paid $14,243 for 2016 membership dues.

The Nurse Licensure Compact is comprised of 25 states. Tennessee paid $6,000 for 2016 membership dues.

D. 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):

	2015	2014
Current assets	$ 545	$ 471
Capital assets, less depreciation	328	341
Total assets	873	812
Total liabilities	216	241
Net position	657	571
Total liabilities and net position	$ 873	$ 812
Revenues	$ 440	$ 446
Expenses	354	339
Excess of revenues over expenses	86	107
Beginning net position	571	464
Ending net position	$ 657	$ 571

E. Other postemployment benefits (OPEB)

Employer

Plan description

The State of Tennessee administers and participates in the Employee Group Plan and the Medicare Supplement Plan for retired employees' healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (TCA) 8-27-201 for the state plan and the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. State or higher education employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan.

Special funding situation

The state is legally responsible for contributions to the Teacher Group and Medicare Supplement Plans that cover the retirees of other governmental entities. The state provides a subsidy for retired higher education and local education agency (LEA) teachers in the plans. The state is not the sole employer for the LEA employees since some of these agencies provide additional direct subsidies and all provide implicit subsidies. However, the state is the sole contributor for the vast majority of LEA and higher education teachers that participate in the Medicare Supplement Plan.

Funding policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25.

Annual OPEB cost and net OPEB obligation—*Primary government*
(expressed in thousands)

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan	
			State	Teachers
Annual required contribution	$ 79,286	$ 28,703	$ 12,290	$ 9,942
Interest on the net OPEB obligation	16,166	2,735	2,842	1,879
Adjustment to the ARC	(16,231)	(2,746)	(2,854)	(1,887)
Annual OPEB cost	79,221	28,692	12,278	9,934
Amount of contribution	(44,826)	(15,948)	(7,047)	(5,846)
Increase in net OPEB obligation	34,395	12,744	5,231	4,088
Net OPEB obligation —beginning of year	431,103	72,930	75,781	50,114
Net OPEB obligation —end of year	$ 465,498	$ 85,674	$ 81,012	$ 54,202

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2014	Employee Group	$ 81,575	55%	$ 394,183
6/30/2015	Employee Group	84,433	56%	431,103
6/30/2016	Employee Group	79,221	57%	465,498
6/30/2014	Teacher Group (State Share)	30,402	58%	58,411
6/30/2015	Teacher Group (State Share)	31,495	54%	72,930
6/30/2016	Teacher Group (State Share)	28,692	56%	85,674
6/30/2014	Medicare Supp State	11,448	53%	70,309
6/30/2015	Medicare Supp State	11,831	54%	75,781
6/30/2016	Medicare Supp State	12,278	57%	81,012
6/30/2014	Medicare Supp Teachers	9,251	57%	46,332
6/30/2015	Medicare Supp Teachers	9,557	60%	50,114
6/30/2016	Medicare Supp Teachers	9,934	59%	54,202

Annual OPEB cost and net OPEB obligation—*Component units*
(expressed in thousands)

	Employee Group Plan	Local Government Group Plan
Annual required contribution	$ 42,837	$ 118
Interest on the net OPEB obligation	7,613	22
Adjustment to the ARC	(7,644)	(22)
Annual OPEB cost	42,806	118
Amount of contribution	(33,958)	(25)
Increase in net OPEB obligation	8,848	93
Net OPEB obligation —beginning of year	203,010	597
Net OPEB obligation —end of year	$ 211,858	$ 690

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2014	Employee Group	$ 41,623	76%	$ 194,330
6/30/2015	Employee Group	43,107	80%	203,010
6/30/2016	Employee Group	42,806	79%	211,858
6/30/2014	Local Government Group	66	20%	580
6/30/2015	Local Government Group	67	75%	597
6/30/2016	Local Government Group	118	21%	690

Funded status and funding progress

The funded status of the plans as of July 1, 2015, was as follows (expressed in thousands):

Primary government

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan State	Medicare Supplement Plan Teachers
Actuarial valuation date	7/1/2015	7/1/2015	7/1/2015	7/1/2015
Actuarial accrued liability (AAL)	$ 796,541	$ 274,798	$ 163,699	$ 145,417
Actuarial value of plan assets				
Unfunded actuarial accrued liability (UAAL)	$ 796,541	$ 274,798	$ 163,699	$ 145,417
Actuarial Value of Assets as a % of the AAL	0%	0%	0%	0%
Covered payroll (active plan members)	$ 1,617,940	N/A	N/A	N/A
UAAL as a percentage of covered payroll	49%	N/A	N/A	N/A

Covered payroll is N/A for the Teacher Group as the state does not have any payroll information for the participants. The state is assuming a liability because of a special funding situation that exists between the state and the Teacher Group Plan. Covered payroll for the Medicare Supplement plan is N/A as this plan only has retirees enrolled.

Component units

	Employee Group Plan	Local Government Group Plan
Actuarial valuation date	7/1/2015	7/1/2015
Actuarial accrued liability (AAL)	$ 370,869	$ 553
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	$ 370,869	$ 553
Actuarial Value of Assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	$ 1,568,846	$ 23,041
UAAL as a percentage of covered payroll	24%	2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial methods and assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2015, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially for the Employee Group plan and the Local Education Group plan. The rate decreases to 6 percent in fiscal year 2016, and then will reduce by decrements to an ultimate rate of 4.7 percent in fiscal year 2050. All rates include a 2.5 percent inflation assumption. Premium subsidies in the Medicare Supplement plan are projected to remain unchanged and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

Plan

Healthcare is the only “other postemployment benefit” (OPEB) provided to employees. The following plans, administered by the state, are reported as Agency Funds and are financially independent.

Each participating employer is required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer’s annual OPEB cost and contributions made, the funded status and funding progress of the employer’s individual plan, and actuarial methods and assumptions used.

1. Retiree health plan—State plan

   a. Plan description—State and higher education retired employees participate in the State Employee Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the State Employee Group Insurance Plan internal service fund and reported in an agency fund. The Employee Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan. Approximately 64 employers contribute to the plan.

      All retired employees and disability participants of the primary government and component units, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2016, there were 7,091 retirees and disability participants enrolled in one of three options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), or the healthsavings consumer driven health plan (CDHP). The state insurance committee establishes premiums annually.

   b. Summary of significant accounting policies—Premiums are recognized when due and benefits are recognized when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.

   c. Contributions and reserves—An insurance committee, created in accordance with *Tennessee Code Annotated* (TCA) 8-27-201, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Employee Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retiree premiums are based on years of service; therefore, retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. This plan is funded on a pay-as-you-go basis.

2. Retiree health plan—LEA plan

   a. Plan description—Retired teachers participate in the Teacher Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Teacher Group Insurance Plan enterprise fund and reported in an agency fund. The Teacher Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 130 local education agencies and one education cooperative participate in the plan.

      All retired teachers and disability participants of the local education agencies, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2016, there were 4,520 retirees and disability participants enrolled in one of four options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), the limited preferred provider organization plan (PPO), or the healthsavings consumer driven health plan (CDHP). The insurance committee establishes premiums annually.

   b. Summary of significant accounting policies—Premiums are recognized when due and benefits are recognized when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.

   c. Contributions and reserves—An insurance committee, created in accordance with *Tennessee Code Annotated* (TCA) 8-27-301, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as-you-go basis.

3. Retiree health plan—Local plan

   a. Plan description—Local government retired employees participate in the Local Government Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Local Government Group Insurance Plan enterprise fund and reported in an agency fund. The Local Government Group Insurance Plan is a cost-sharing, multiple-employer plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 66 counties, 152 municipalities, and 135 quasi-governmental organizations participate in the plan.

      All retired employees and disability participants of the local governments, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2016, there were 416 retirees and disability participants enrolled in one of four options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), the limited preferred provider organization plan (PPO), or the healthsavings consumer driven health plan (CDHP). The insurance committee establishes premiums annually.

   b. Summary of significant accounting policies—Premiums are recognized when due and benefits are recognized when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.

   c. Contributions and reserves—An insurance committee, created in accordance with *Tennessee Code Annotated* (TCA) 8-27-701, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Local Government Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as you-go basis.

4. Retiree health plan—Medicare Supplement

   a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. Prior to July 1, 2006, this plan was reported as an enterprise fund. The Medicare Supplement Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Employers who participate in the State Plan, LEA Plan, and Local Plan may participate in this plan. All retired employees who are Medicare eligible, by virtue of age and receive a retirement benefit from the Tennessee Consolidated Retirement System, and choose coverage, are included in this plan. At June 30, 2016, there were 31,549 retirees enrolled. The state insurance committee establishes premiums annually.

   b. Summary of significant accounting policies—Premiums are recognized when due and benefits are recognized when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.

c. Contributions and reserves—In accordance with *Tennessee Code Annotated* (TCA) 8-27-209, the state insurance committee establishes the contributions to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Employers contribute a fixed amount to retirees' premiums based on years of service; therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. This plan is funded on a pay-as-you-go basis.

5. 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 441 former employees during fiscal year 2015-2016, and the State Plan paid approximately $6.42 million in benefits to this group.

F. Pension plans

1. Tennessee Consolidated Retirement System (TCRS) – TCRS is a public employee retirement system comprised of defined benefit pension plans covering Tennessee state employees, employees of the state's higher education systems, teachers, and employees of political subdivisions in Tennessee. The TCRS was established in 1972 by a statutory enactment of the Tennessee General Assembly. The provisions of the TCRS are codified in *Tennessee Code Annotated* Title 8, chapters 34-37. In accordance with *Tennessee Code Annotated* Title 8, Chapter 34, Section 202, all funds invested, securities, cash, and other property of the TCRS are held in trust and can be expended only for the purposes of the trust. Although the assets for all pension plans within the TCRS are commingled for investment purposes, the assets of each separate plan may legally be used only for the payment of benefits to the members of that plan and for its administration, in accordance with the terms of the plan.

   The Tennessee Department of Treasury, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

2. Defined benefit plan

   Closed State and Higher Education Employee Pension Plan

   General information about the pension plan

   Plan description−Employees of the state and four of its discretely presented component units becoming members of TCRS before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is one of several comprising the TCRS administered Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. The four discretely presented component units are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the Tennessee Board of Regents, and the University of Tennessee.

   Benefits provided−*Tennessee Code Annotated* Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to the Social Security Integration Level)	**X**	1.50%	**X**	Years of Service Credit	**X**	105%

Plus

Average of Member's Highest Compensation for 5 Consecutive Years (over the Social Security Integration Level)	**X**	1.75%	**X**	Years of Service Credit	**X**	105%

A reduced early retirement benefit is available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

***Employees covered by benefit terms*−**At the measurement date of June 30, 2015, the following employees of the state and the four component units mentioned above were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	51,874
Inactive employees entitled to but not yet receiving benefits	39,243
Active employees	52,578
	143,695

***Contributions*−**Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees are non-contributory, except for a small group of public safety officers and judges. The state makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, employer contributions by the state were $253.36 million based on an average rate of 15.59 percent of covered payroll. For the year ended June 30, 2016, employer contributions by the four previously mentioned component units were $112.75 million based on an average rate of 15.03 percent of covered payroll.

By law, employer contributions are required to be paid. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

The net pension liability (asset) of the state, as well as that of the four previously mentioned component units, was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions−The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 3.71 to 8.97 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate−The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the state will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset) (expressed in thousands):

Primary government

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/14	$ 9,952,080	$ 9,465,811	$ 486,269
Effects of change in proportion	(46,672)	(44,392)	(2,280)
Adjusted balance at 6/30/2014	9,905,408	9,421,419	483,989
Changes for the year:			
Service cost	140,298		140,298
Interest	732,683		732,683
Differences between expected and actual experience	119,627		119,627
Contributions-employer		275,309	(275,309)
Contributions-employees		642	(642)
Net investment income		286,039	(286,039)
Benefit payments, including refunds of employee contributions	(553,199)	(553,199)	-
Administrative expense		(1,966)	1,966
Other		12,159	(12,159)
Net changes	$ 439,409	$ 18,984	$ 420,425
Balance at 6/30/15	$ 10,344,817	$ 9,440,403	$ 904,414

Component units

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/14	$ 4,168,551	$ 3,964,871	$ 203,680
Effects of change in proportion	46,672	44,392	2,280
Adjusted balance at 6/30/2014	4,215,223	4,009,263	205,960
Changes for the year:			
Service cost	59,703		59,703
Interest	311,793		311,793
Differences between expected and actual experience	50,907		50,907
Contributions-employer		117,157	(117,157)
Contributions-employees		273	(273)
Net investment income		121,723	(121,723)
Benefit payments, including refunds of employee contributions	(235,413)	(235,413)	-
Administrative expense		(837)	837
Other		5,174	(5,174)
Net changes	$ 186,990	$ 8,077	$ 178,913
Balance at 6/30/15	$ 4,402,213	$ 4,017,340	$ 384,873

Sensitivity of the net pension liability (asset) to changes in the discount rate**–**The following presents the net position liability (asset) of the State of Tennessee and the four mentioned component units calculated using the discount rate of 7.5 percent, as well as, what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage–point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate (expressed in thousands):

<u>Primary government</u>

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	$ 2,119,175	$ 904,414	$ (119,400)

<u>Component units</u>

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	$ 901,810	$ 384,873	$ (50,810)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows Related to Pensions

***Pension expense*−**For the year ended June 30, 2016, the state and the four mentioned component units recognized pension expense of $96.14 million and $42.50 million, respectively.

***Deferred outflows of resources and deferred inflows of resources*−**For the year ended June 30, 2016, the state and its four component units mentioned reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

<u>Primary government</u>

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 95,702	$ 78,307
Net difference between projected and actual earnings on pension plan investments		$ 116,265
Effects of change in proportion		$ 4,453
Contributions subsequent to the measurement date of June 30, 2015	$ 253,363	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:		
2017	$	(69,415)
2018		(69,415)
2019		(69,415)
2020		104,922
Thereafter		-
	$	(103,323)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Component units

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	40,726	$	33,323
Net difference between projected and actual earnings on pension plan investments			$	49,476
Effects of change in proportion	$	4,453		
Contributions subsequent to the measurement date of June 30, 2015	$	112,751		

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:		
2017	$	(27,953)
2018		(27,953)
2019		(27,953)
2020		46,239
Thereafter		-
	$	(37,620)

Payable to the Pension Plan

At June 30, 2016, the state reported a payable of $8.77 million and the four mentioned component units reported a payable of $9.11 million for the outstanding amount of contributions to the pension plan required at year ended June 30, 2016.

State and Higher Education Employee Retirement Plan

General information about the pension plan

Plan description−Employees of the state and four of its discretely presented component units becoming members of TCRS after June 30, 2014, are provided with pensions through the State and Higher Education Employee Retirement Plan. This plan is one of several comprising the TCRS administered Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The four discretely presented component units are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the Tennessee Board of Regents, and the University of Tennessee.

Benefits provided−*Tennessee Code Annotated* Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90, in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by multiplying the member's highest five consecutive year average compensation by 1.0 percent multiplied by the member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit, but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Members and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms−At the measurement date of June 30, 2015, the following employees of the state and the four component units mentioned above were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	1,238
Active employees	5,402
	6,640

Contributions−Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. Employers make contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the state for the year ended June 30, 2016, to the State and Higher Education Employee Retirement Plan were $8.48 million, which is 3.98 percent of covered payroll. Employer contributions by the four previously mentioned component units were $3.53 million, which is 3.83 percent of covered payroll.

The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as, an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

The net pension liability (asset) of the state, as well as that of the four previously mentioned component units, was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

***Actuarial assumptions*−**The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 3.71 to 8.97 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate**−**The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the state will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset) (expressed in thousands):

Primary government

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/14	$ -	$ -	$ -
Changes for the year:			
Service cost	5,280		5,280
Interest	198		198
Differences between expected and actual experience	(827)		(827)
Contributions-employer		2,994	(2,994)
Contributions-employees		3,662	(3,662)
Net investment income		101	(101)
Benefit payments, including refunds of employee contributions	(7)	(7)	-
Administrative expense		(130)	130
Net changes	$ 4,644	$ 6,620	$ (1,976)
Balance at 6/30/15	$ 4,644	$ 6,620	$ (1,976)

Component units

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/14	$ -	$ -	$ -
Changes for the year:			
Service cost	2,151		2,151
Interest	81		81
Differences between expected and actual experience	(337)		(337)
Contributions-employer		1,220	(1,220)
Contributions-employees		1,492	(1,492)
Net investment income		41	(41)
Benefit payments, including refunds of employee contributions	(3)	(3)	-
Administrative expense		(53)	53
Net changes	$ 1,892	$ 2,697	$ (805)
Balance at 6/30/15	$ 1,892	$ 2,697	$ (805)

Sensitivity of the net pension liability (asset) to changes in the discount rate**−**The following presents the net position liability (asset) of the State of Tennessee and the four previously mentioned component units calculated using the discount rate of 7.5 percent, as well as, what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage–point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate (expressed in thousands):

Primary government

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	$ (776)	$ (1,976)	$ (2,874)

Component units

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	$ (316)	$ (805)	$ (1,171)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows Related to Pensions

Pension expense**−**For the year ended June 30, 2016, the state and the four previously mentioned component units recognized pension expense of $1.64 million and $.67 million, respectively.

Deferred outflows of resources and deferred inflows of resources**−**For the year ended June 30, 2016, the state and its four component units mentioned reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ 735
Net difference between projected and actual earnings on pension plan investments	$ 115	
Contributions subsequent to the measurement date of June 30, 2015	$ 8,481	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:		
2017	$	(63)
2018		(63)
2019		(63)
2020		(63)
2021		(92)
Thereafter		(276)
	$	(620)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

<u>Component units</u>

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ 299
Net difference between projected and actual earnings on pension plan investments	$ 47	
Contributions subsequent to the measurement date of June 30, 2015	$ 3,534	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:		
2017	$	(26)
2018		(26)
2019		(26)
2020		(26)
2021		(37)
Thereafter		(111)
	$	(252)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2016, the state reported a payable of $0.01 million and the four previously mentioned component units reported a payable of $0.18 million for the outstanding amount of contributions to the pension plan required at year ended June 30, 2016.

3. Defined contribution plan

Optional Retirement Plan (ORP) – The ORP, administered by the Tennessee Department of Treasury, 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. The plan provisions 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. For employees employed prior to July 1, 2014, plan members are noncontributory. The State of Tennessee institutions of higher education contribute 10 percent of the employee's base salary up to the social security wage base and 11 percent above the social security wage base. The required contributions made by the State of Tennessee institutions of higher education to the ORP were $93.8 million for the year ended June 30, 2016. For employees hired after June 30, 2014, plan members will contribute 5 percent to the ORP and the State of Tennessee institutions of higher education will contribute 9 percent of the employee's base salary.

Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The Tennessee Department of Treasury has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The state has no discretion over these funds other than to make the initial contributions. Accordingly, the state is not acting in a trustee capacity nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Internal Revenue Code (IRC) Section 401(k) and 457 Plans – 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 Deferred Compensation program is part of the Tennessee Department of Treasury. The Treasurer's Office administers this supplemental retirement savings program along with a chosen record-keeper, who is currently Empower.

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Employees will vest immediately to both the employee and the employer match. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. For the fiscal year ended June 30, 2016, state and higher education employees participating in the 401(k) plan are eligible for a state matching contribution of up to $50 per month. The funding of this match is subject to state appropriations each year. There is no employer matching for employees who participate in the 457 plan.

For fiscal year ended June 30, 2016, a total of $127.7 million was contributed to Section 401(k) plan by the State, higher education institutions, and employees. The state recognized pension expenses of $14.7 million for its contributions to the Section 401(k) plans and had no related liability at June 30, 2016.

Pursuant to Public Chapter No. 259 of Public Acts of 2013, state employees hired after June 30, 2014, are automatically enrolled to contribute 2 percent of salary to the state's 401(k) plan with the employer contributing an additional 5 percent to the plan. Employees may opt out of the 2 percent auto enrollment.

Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5 percent employer contribution to the 401(k) plan.

Employees will vest immediately to both the employee and employer contributions. For fiscal year ended June 30, 2016, the state and its employees contributed $17.37 million to the plan. The state recognized pension expenses of $12.99 million for employer contributions and had no related liability at June 30, 2016.

G. **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.
The Intermediate Term Investment Fund (ITIF) is an external investment pool sponsored by the State of Tennessee. All funds in the ITIF at June 30, 2016, consist of funds belonging to entities outside of the state's financial reporting entity, and have been included as a separate investment trust fund.

The Tennessee Retiree Group Trust (TRGT) is an external investment pool sponsored by the State of Tennessee. The external portion of the TRGT is the External Retirement Investment Fund (ERIF) which is reported as a separate investment trust fund. The internal portion, consisting of funds belonging to the state, has been included in the various funds.

A copy of the SPIF, TRGT and ITIF report can be obtained at www.treasury.tn.gov/ or by calling (615) 741-2956.

H. **Contingencies**

1. Litigation

   The state is involved in various pending litigation matters in which it is contesting vigorously. Some of these cases could include claims which normally recur in governmental operations and may result in future losses to the state or have a future budgetary programmatic impact. Those unfavorable outcomes which could result in future programmatic costs will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the state approximately $11 million. This would have a .03% impact on the budget.

   The state is also involved in multiple cases that challenges the tax presently imposed by the Tennessee Transportation Fuel Equity Act, which places railroads under the same tax obligations as trucking companies. These cases contend that the new law singles out railroads and violates the federal Railway Revitalization and Regulatory Reform Act (the "4-R Act"). The federal district court denied the railroads' motions for preliminary injunctions but stayed collection pending appeal. The Sixth Circuit has now affirmed the decision that the new Tennessee law does not single out railroads but has remanded to the district court for further consideration of the railroads' claims of discrimination as compared to their ostensible competitors, water carriers, which are exempt from the new act but still pay sales tax on their fuel purchases. The railroads have filed Petitions for Panel Rehearing which are pending. Collection of the tax under the current law remains stayed. In light of the principles announced in the U.S. Supreme Court and Sixth Circuit decisions, the state believes it will eventually prevail in all of these cases, that the Chancery Court refund actions will be dismissed, and that it will be able to collect the amounts presently being withheld by the railroads and paid into escrow under a private arrangement of the railroad companies. However, there is no guarantee of such a result.

2. Tobacco settlement

   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 (MSA) includes base payments to all states and territories through 2025, and continues in perpetuity. Tennessee's share of the base payments was originally projected at $4.8 billion through the year 2025. Since the agreement is complex, the annual payments have, and will continue to be, subject to a number of adjustments including inflation, volume, previously settled states and non-participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the State receiving higher payments. Other factors, such as volume adjustment and the market share adjustment can work to reduce annual payments. Third party lawsuits may also affect future payments. The net effect of potential adjustments, and therefore the amount that Tennessee will actually receive each year from this settlement, remains uncertain.

One of the adjustments built into the agreement, the non-participating manufacturer (NPM) adjustment, can potentially reduce state MSA revenues for years in which participating manufacturers (PM) lose market share to the NPMs because of the MSA, and has been the subject of several years of hearings and review. The PMs and states previously settled NPM adjustments through 2002; and, in March 2013, Tennessee and 23 other states resolved the NPM adjustments disputes for 2003-2014 in a settlement with the PMs. One of the provisions of this settlement requires the use of the annual payments in splitting amounts previously deposited in the disputed payments account between states and tobacco companies. These amounts were released to the participating states in 2013, and the tobacco companies are receiving their share by taking credits against their annual payments through 2017.

Starting with sales year 2015, Tennessee is again subject to the potential for an NPM adjustment to be applied. Because 2004-2014 arbitration for the states who did not join the most recent settlement is in the preliminary stage, any arbitration for 2015 most likely would not begin for a number of years.

3. Pollution remediation obligations

The state has recognized a liability for its pollution remediation obligations based on guidance in GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. A pollution remediation obligation is a liability to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments, site cleanups, and postremediation monitoring. The recognition of a pollution remediation obligation is required when any of the following obligating events occur:

- The state is compelled to take remediation action because of imminent danger to the public;
- The state is in violation of pollution related permit or license;
- The state is identified as a responsible party or potentially responsible party by a regulator;
- The state is named or has evidence that it will be named in a lawsuit; or
- The state commences or legally obligates itself to commence pollution remediation activities.

The pollution remediation obligation is an estimate and this estimate is subject to change resulting from price increases or decreases, changes in technology, or changes in legal or regulatory requirements. In addition, recoveries from other responsible parties can reduce the state’s obligation. Several agencies within state government have programs to investigate and oversee remediation activities. These program personnel have the expertise to estimate the remediation obligations based on prior experience with similar remediation activities. These obligations are measured at current value using the expected cash flow technique. In addition, historical data is used in the estimation process for common sites with which the state has experience.

The state’s pollution remediation obligations are primarily from chemical, fuel, and asbestos contamination. These obligations are the result of violations of various federal and state environmental laws.

During the fiscal year, the state spent $1.5 million for remediation activities and had an expected recovery of $1.9 million from responsible parties. At June 30, 2016, the state had a pollution remediation obligation of $67 million and an estimated potential recovery of $5.5 million from other responsible parties.

4. 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 fund liabilities when the loss becomes probable and reasonably estimable.

I. Subsequent events

Primary government

Subsequent to June 30, the State issued $25 million in general obligation commercial paper. In July 2016, the State issued 2016 Series A tax-exempt general obligation bonds in the amount of $175.9 million at a premium of $42.5 million, 2016 Series B refunding tax-exempt general obligation bonds in the amount of $124.9 million at a premium of $35.7 million and 2016 Series C refunding taxable general obligation bonds in the amount of $65.4 million at par. The Series A issuance was used to redeem commercial paper. The Series B issuance was used to refund a portion of 2010 Series A and 2011 Series A. The Series C issuance was used to refund a portion of 2008 Series B, 2009 Series D, and 2011 Series A.

The Focus on College and University Success (FOCUS) Act became effective July 1, 2016. One feature of this Act is to reorganize the state university and community college system by authorizing the creation of local boards for the six universities. During the transition period, July 1, 2016 through November 30, 2017, the Tennessee Board of Regents will maintain governance of the six universities.

Component units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuance: 2016-2 in October 2016 in the amount of $125 million and 2016-3 in November 2016 in the amount of $62 million.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued $115.8 million in revolving credit facility.

This Page Intentionally Left Blank

REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Reported Using the Modified Approach

ROADWAYS

Measurement Scale
The state uses a Maintenance Rating Index (MRI) that addresses all elements of the roadway system. A statistical sample of randomly selected highway segments, representative of the entire subsystem, is inspected annually and rated in accordance with the MRI criteria. The following elements are rated: traveled pavement; shoulders; various roadside elements such as debris, grass height, slope erosion, and fencing; drainage elements such as culverts, cross drain pipes, and drain inlets; and traffic services such as signage, pavement markings, and guardrails. The MRI is a numerical score from 1 to 100, with 100 being a perfect score. The average MRI of all the rated segments is the reported condition level.

Established Condition Level
The state intends to maintain roadways so that the reported condition level each year does not fall below 75.

Assessed Conditions
The following table presents the average MRI of all rated segments.

For the Period Ended	Maintenance Rating Index
June 30, 2016	85.40
June 30, 2015	86.70
June 30, 2014	88.90

BRIDGES

Measurement Scale
The state maintains information on its 8,358 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy, is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level
The state intends to maintain bridges so that 75 percent or more of the total deck area is not classified as structurally deficient or functionally obsolete.

Assessed Conditions
The following table presents the percentage of deck area whose condition assessment did not meet the criteria of structurally deficient or functionally obsolete according to the NBI.

For the Two-Year Period Ended	Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete
June 30, 2016	85%
June 30, 2014	84%
June 30, 2012	83%

ESTIMATED AND ACTUAL COSTS TO MAINTAIN

The following table presents the state's estimate of spending to preserve and maintain the roadways and bridges at, or above, the "Established Condition Level" cited above, and the actual amount spent (in thousands):

For the Period Ended June 30	Roadways Estimated	Roadways Actual	Bridges Estimated	Bridges Actual
2016	$ 418,114	$ 419,630	$ 37,945	$ 52,098
2015	418,114	477,516	37,945	51,346
2014	419,214	511,204	37,945	54,260
2013	391,114	441,582	33,404	42,175
2012	387,204	411,633	36,904	33,332
2011	376,965	482,271	36,904	11,044

Actual and estimated maintenance/preservation expenses are determined using the accrual basis of accounting.

Other Post-Employment Benefits Schedule of Funding Progress—*Primary Government*

(expressed in thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2011	Employee Grp	$ 0	$ 1,023,529	$ 1,023,529	0%	$ 1,613,128	63%
7/1/2013	Employee Grp	0	855,642	855,642	0%	1,568,285	55%
7/1/2015	Employee Grp	0	796,541	796,541	0%	1,617,940	49%
7/1/2011	Teacher Grp	0	216,600	216,600	0%	N/A	N/A
7/1/2013	Teacher Grp	0	294,798	294,798	0%	N/A	N/A
7/1/2015	Teacher Grp	0	274,798	274,798	0%	N/A	N/A
7/1/2011	MedSupp- State	0	220,509	220,509	0%	N/A	N/A
7/1/2013	MedSupp- State	0	154,051	154,051	0%	N/A	N/A
7/1/2015	MedSupp- State	0	163,699	163,699	0%	N/A	N/A
7/1/2011	MedSupp- Teacher	0	163,305	163,305	0%	N/A	N/A
7/1/2013	MedSupp- Teacher	0	137,317	137,317	0%	N/A	N/A
7/1/2015	MedSupp- Teacher	0	145,417	145,417	0%	N/A	N/A

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

Other Post-Employment Benefits Schedule of Funding Progress—*Component Units*
(expressed in thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2011	Employee Grp	$ 0	$ 452,669	$ 452,669	0%	$ 1,445,364	31%
7/1/2013	Employee Grp	0	369,470	369,470	0%	1,514,097	24%
7/1/2015	Employee Grp	0	370,869	370,869	0%	1,568,846	24%
7/1/2011	Local Govt	0	363	363	0%	21,458	2%
7/1/2013	Local Govt	0	238	238	0%	22,584	1%
7/1/2015	Local Govt	0	553	553	0%	23,041	2%

State of Tennessee
Tennessee Consolidated Retirement Fund
Schedule of Changes in the State of Tennessee's Net Pension Liability (Asset) and Related Ratios Based on Participation in the Closed State and Higher Education Employee Pension Plan of TCRS[3]
(expressed in thousands)

	2015[1]	2016[2]
Total pension liability		
Service cost	$ 201,090	$ 200,001
Interest	1,024,003	1,044,475
Differences between actual and expected experience	(186,051)	170,534
Benefit payments, including refunds of employee contributions	(741,380)	(788,612)
Net change in total pension liability	297,662	626,398
Total pension liability-beginning	13,822,970	14,120,632
Total pension liability-ending (a)	$ 14,120,632	$ 14,747,030
Plan fiduciary net position		
Contributions-employer	$ 410,608	$ 392,466
Contributions-employee	1,676	915
Net investment income	1,931,471	407,762
Benefit payments, including refunds of employee contributions	(741,380)	(788,612)
Administrative expense	(2,791)	(2,803)
Other	-	17,333
Net change in plan fiduciary net position	1,599,584	27,061
Plan fiduciary net position-beginning	11,831,098	13,430,682
Plan fiduciary net position-ending (b)	$ 13,430,682	$ 13,457,743
Net pension liability (asset)-ending (a)-(b)	$ 689,950	$ 1,289,287
Plan fiduciary net position as a percentage of total pension liability	95.11%	91.26%
Covered payroll	$ 2,658,354	$ 2,540,327
Net pension liability (asset) as a percentage of covered payroll	25.95%	50.75%

Schedule of the State of Tennessee's Contributions
Closed State and Higher Education Employee Pension Plan[3]
(expressed in thousands)

	2014	2015	2016
Actuarially determined contribution	$ 410,608	$ 392,466	$ 366,114
Contributions in relation of the actuarially determined contribution	410,608	392,466	366,114
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	2,658,354	2,540,327	2,375,501
Contributions as a percentage of covered payroll	15.45%	15.45%	15.41%

Notes to schedule

Valuation date: Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2013, actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	13 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 3.71 to 8.97 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

Schedule of Changes in the State of Tennessee's Net Pension Liability (Asset) and Related Ratios Based on Participation in the State and Higher Education Employee Pension Plan of TCRS[3]
(expressed in thousands)

		2016[2]
Total pension liability		
Service cost	$	7,431
Interest		279
Differences between actual and expected experience		(1,164)
Benefit payments, including refunds of employee contributions		(10)
Net change in total pension liability		6,536
Total pension liability-beginning		-
Total pension liability-ending (a)	$	6,536
Plan fiduciary net position		
Contributions-employer	$	4,214
Contributions-employee		5,154
Net investment income		142
Benefit payments, including refunds of employee contributions		(10)
Administrative expense		(183)
Net change in plan fiduciary net position		9,317
Plan fiduciary net position-beginning		-
Plan fiduciary net position-ending (b)	$	9,317
Net pension liability (asset)-ending (a)-(b)	$	(2,781)
Plan fiduciary net position as a percentage of total pension liability		142.55%
Covered payroll	$	107,086
Net pension liability (asset) as a percentage of covered payroll		(2.60%)

1. This column is presented based on measurement period ended June 30, 2014.
2. This column is presented based on measurement period ended June 30, 2015.

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

Schedule of the State of Tennessee's Contributions
State and Higher Education Employee Retirement Plan[3]
(expressed in thousands)

	2015	2016
Actuarially determined contribution	$ 2,142	$ 6,446
Contributions in relation of the actuarially determined contribution	4,255	12,016
Contribution deficiency (excess)	$ (2,113)	$ (5,570)
Covered payroll	107,086	305,424
Contributions as a percentage of covered payroll	3.97%	3.93%

Notes to schedule

Valuation date: Actuarially determined contribution rates for 2016 were calculated based on data as of March 28, 2014 as used for the Closed State and Higher Education Employee Pension Plan as applicable.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	N/A
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation	N/A
Inflation	3.0 percent
Salary increases	Graded salary ranges from 3.71 to 8.97 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

3. The above schedules include information from the four component units of the state.

STATE OF TENNESSEE

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Required Supplementary Information
Major Governmental Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	General			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget- Favorable (Unfavorable)
REVENUES				
Taxes	$ 7,582,883	$ 7,582,883	$ 8,224,030	$ 641,147
Licenses, fines, fees, and permits	403,043	403,043	421,319	18,276
Investment income	3,709	3,709	24,841	21,132
Federal	10,369,481	10,872,096	10,115,580	(756,516)
Departmental services	1,705,342	1,922,208	1,919,987	(2,221)
Other	187,404	187,404	237,190	49,786
Total revenues	20,251,862	20,971,343	20,942,947	(28,396)
EXPENDITURES				
General government				
Legislative	94,893	90,868	39,580	51,288
Secretary of State	61,899	61,909	38,488	23,421
Comptroller	121,098	123,906	88,069	35,837
Treasurer	76,055	82,679	70,939	11,740
Governor	5,379	5,316	5,084	232
Commissions	78,485	78,667	68,258	10,409
Finance and Administration	186,673	180,315	106,956	73,359
General Services	48,040	48,144	25,759	22,385
Revenue	118,719	122,149	105,450	16,699
Miscellaneous Appropriations	1,904	1,939	124	1,815
Health and social services				
Veterans Services	7,369	7,536	6,871	665
Labor and Workforce Development	276,172	285,122	169,600	115,522
TennCare	10,999,253	11,541,063	11,157,535	383,528
Mental Health	325,667	331,049	311,537	19,512
Intellectual Disabilities	186,393	192,386	178,422	13,964
Health	607,477	612,982	562,750	50,232
Human Services	3,091,437	3,103,555	2,448,144	655,411
Children's Services	742,027	781,080	765,852	15,228
Law, justice, and public safety				
Judicial	340,552	347,553	324,952	22,601
Correction	928,975	913,766	892,429	21,337
Probation and Paroles	7,473	7,532	7,199	333
Military	69,536	138,010	121,207	16,803
Bureau of Criminal Investigation	75,915	78,568	75,452	3,116
Safety	199,247	200,905	189,061	11,844
Recreation and resources development				
Agriculture	102,250	104,473	76,832	27,641
Tourist Development	28,342	28,407	24,497	3,910
Environment and Conservation	256,571	301,893	276,209	25,684
Economic and Community Development	516,000	550,170	193,966	356,204
Regulation of business and professions				
Commerce and Insurance	96,510	102,396	88,203	14,193
Financial Institutions	20,809	20,960	16,962	3,998
Intergovernmental revenue sharing	735,907	735,907	735,907	-
Total expenditures	20,407,027	21,181,205	19,172,294	2,008,911
Excess (deficiency) of revenues over (under) expenditures	(155,165)	(209,862)	1,770,653	1,980,515
OTHER FINANCING SOURCES (USES)				
Insurance claims recoveries	84	1,195	1,195	-
Transfers in	113,067	113,067	113,067	-
Transfers out	(1,479,358)	(1,207,323)	(1,207,323)	-
Total other financing sources (uses)	(1,366,207)	(1,093,061)	(1,093,061)	-
Net change in fund balances	(1,521,372)	(1,302,923)	677,592	1,980,515
Fund balances (budgetary basis), July 1	2,563,487	2,563,487	2,563,487	-
Fund balances (budgetary basis), June 30	$ 1,042,115	$ 1,260,564	$ 3,241,079	$ 1,980,515

STATE OF TENNESSEE

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Required Supplementary Information
Major Governmental Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Education			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget - Favorable (Unfavorable)
REVENUES				
Taxes	$ 4,794,300	$ 4,794,300	$ 5,046,441	$ 252,141
Licenses, fines, fees, and permits	4,148	4,148	3,813	(335)
Investment income	175	175	640	465
Federal	1,086,313	1,121,490	1,087,873	(33,617)
Departmental services	68,835	78,893	114,164	35,271
Other	351,900	358,900	402,201	43,301
Total revenues	6,305,671	6,357,906	6,655,132	297,226
EXPENDITURES				
Education	5,676,952	5,722,664	5,657,899	64,765
Higher education	1,649,707	1,654,979	1,640,632	14,347
Total expenditures	7,326,659	7,377,643	7,298,531	79,112
Excess (deficiency) of revenues over (under) expenditures	(1,020,988)	(1,019,737)	(643,399)	376,338
OTHER FINANCING SOURCES (USES)				
Insurance claims recoveries	-	93	93	-
Transfers in	994,332	994,332	722,298	(272,034)
Transfers out	(25,064)	(25,073)	(25,073)	-
Total other financing sources (uses)	969,268	969,352	697,318	(272,034)
Net change in fund balance	(51,720)	(50,385)	53,919	104,304
Fund balances (budgetary basis), July 1	198,709	198,709	198,709	-
Fund balances (budgetary basis), June 30	$ 146,989	$ 148,324	$ 252,628	$ 104,304

	Highway			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget - Favorable (Unfavorable)
REVENUES				
Taxes	$ 795,100	$ 795,100	$ 805,988	$ 10,888
Licenses, fines, fees, and permits	224,790	224,790	243,989	19,199
Federal	960,037	3,482,768	877,409	(2,605,359)
Departmental services	33,199	205,329	54,325	(151,004)
Other	3,486	3,486	8,580	5,094
Total revenues	2,016,612	4,711,473	1,990,291	(2,721,182)
EXPENDITURES				
Transportation	2,294,989	4,989,850	1,672,379	3,317,471
Intergovernmental revenue sharing	295,300	295,300	309,188	(13,888)
Total expenditures	2,590,289	5,285,150	1,981,567	3,303,583
Excess (deficiency) of revenues over (under) expenditures	(573,677)	(573,677)	8,724	582,401
OTHER FINANCING SOURCES (USES)				
Bond authorizations	83,800	-	-	-
Transfers in	-	218,800	218,800	-
Transfers out	(2,039)	(2,039)	(2,039)	-
Total other financing sources (uses)	81,761	216,761	216,761	-
Net change in fund balance	(491,916)	(356,916)	225,485	582,401
Fund balances (budgetary basis), July 1	500,688	500,688	500,688	-
Fund balances (budgetary basis), June 30	$ 8,772	$ 143,772	$ 726,173	$ 582,401

STATE OF TENNESSEE
Required Supplementary Information
Note to RSI
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

1. Explanation for differences between the budgetary revenues, expenditures, and other financing sources (uses) and the GAAP revenues, expenditures, and other financing sources (uses).

	Education
Revenues	
Actual amount (budgetary basis)	$ 6,655,132
The revenues for the Tennessee Promise Scholarship Endowment Fund are not included in the annually adopted budget.	20,203
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 6,675,335
Expenditures	
Actual amount (budgetary basis)	$ 7,298,531
The expenditures for the Tennessee Promise Scholarship Endowment Fund are not included in the annually adopted budget.	15,554
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 7,314,085
Other financing sources (uses)	
Actual amount (budgetary basis)	$ 697,318
The transfers out to the Tennessee Promise Scholarship Endowment Fund were eliminated in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	25,064
Total other financing sources (uses) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 722,382

2. Budgetary process

The law requires the Governor to submit a recommended budget to the General Assembly annually. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the departments in the general fund and the special revenue funds (except Fraud and Economic Crime, Agricultural Promotion Boards, and Tennessee Promise Scholarship Endowment Fund, included in the Education Trust Fund), and for the debt service fund. 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 department 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.

Generally, appropriations lapse at the end of each fiscal year. It is the state's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment for the highway fund and these appropriations do not lapse at year-end but are reappropriated for subsequent year expenditure. Of the $726.2 million fund balance remaining in the highway fund, $715.2 million will be reappropriated in the next year. There were no outstanding encumbrances reported as of June 30, 2016. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $48.5 million were required.

This Page Intentionally Left Blank

SUPPLEMENTARY INFORMATION

This Page Intentionally Left Blank

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds—A description of these funds is found later in this section.

Debt Service Fund—The debt service fund is maintained to account for accumulation of resources for, and the payment of, principal and interest on general long-term debt.

Permanent Funds—A description of these funds is found later in this section.

STATE OF TENNESSEE

Combining Balance Sheet

Nonmajor Governmental Funds - By Fund Type
June 30, 2016
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 308,224	$ 4,097	$ 6,895	$ 319,216
Investments	16,175	-	342,088	358,263
Receivables, net	16,021	6,116	724	22,861
Due from other funds	72	-	-	72
Due from component units	-	-	1,039	1,039
Loans receivable	-	8,669	-	8,669
Prepayments and others	19	-	-	19
Total assets	$ 340,511	$ 18,882	$ 350,746	$ 710,139
LIABILITIES				
Accounts payable and accruals	54,461	154	-	54,615
Due to other funds	677	-	117	794
Due to component units	309	-	2,132	2,441
Unearned revenue	14	-	-	14
Total liabilities	55,461	154	2,249	57,864
DEFERRED INFLOWS OF RESOURCES	-	9,350	-	9,350
FUND BALANCES				
Nonspendable				
Permanent fund and endowment corpus	$ -	$ -	$ 152,558	$ 152,558
Restricted	152,013	-	195,939	347,952
Committed	133,037	-	-	133,037
Assigned	-	9,378	-	9,378
Total fund balances	285,050	9,378	348,497	642,925
Total liabilities, deferred inflows of resources and fund balances	$ 340,511	$ 18,882	$ 350,746	$ 710,139

STATE OF TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds - By Fund Type
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes:				
Sales and use	$ -	$ 58,746	$ -	$ 58,746
Fuel	19,455	88,800	-	108,255
Business	521	258,754	-	259,275
Other	34,205	-	-	34,205
Licenses, fines, fees, and permits	238,625	2,700	3,089	244,414
Investment income	1,243	-	9,781	11,024
Federal	41,454	-	-	41,454
Departmental services	14,243	1,256	-	15,499
Other	24	-	1	25
Total revenues	349,770	410,256	12,871	772,897
EXPENDITURES				
General government	24,768	-	-	24,768
Education	-	-	8,194	8,194
Law, justice and public safety	8,369	-	-	8,369
Recreation and resources development	205,482	-	762	206,244
Regulation of business and professions	100,665	-	-	100,665
Debt service:				
Principal	-	136,293	-	136,293
Interest	-	67,409	-	67,409
Debt issuance costs	-	2,324	-	2,324
Total expenditures	339,284	206,026	8,956	554,266
Excess (deficiency) of revenues over (under) expenditures	10,486	204,230	3,915	218,631
OTHER FINANCING SOURCES (USES)				
Bond premium	-	639	-	639
Refunding bond proceeds	-	98,390	-	98,390
Refunding payment to escrow	-	(98,159)	-	(98,159)
Transfers in	2,485	3,835	-	6,320
Transfers out	(451)	(209,265)	-	(209,716)
Total other financing sources (uses)	2,034	(204,560)	-	(202,526)
Net change in fund balances	12,520	(330)	3,915	16,105
Fund balances, July 1	272,530	9,708	344,582	626,820
Fund balances, June 30	$ 285,050	$ 9,378	$ 348,497	$ 642,925

This Page Intentionally Left Blank

STATE OF TENNESSEE
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ 406,300	$ 406,300	$ -
Licenses, fines, fees, and permits	2,700	2,700	-
Departmental services	1,256	1,256	-
Total revenues	410,256	410,256	-
EXPENDITURES			
Debt service	208,375	206,026	2,349
Total expenditures	208,375	206,026	2,349
Excess (deficiency) of revenues over (under) expenditures	201,881	204,230	2,349
OTHER FINANCING SOURCES (USES)			
Bond premium	639	639	-
Refunding bond proceeds	231	231	-
Transfers in	3,835	3,835	-
Transfers out	(209,265)	(209,265)	-
Total other financing sources (uses)	(204,560)	(204,560)	-
Net change in fund balances	(2,679)	(330)	2,349
Fund balances (budgetary basis), July 1	9,708	9,708	-
Fund balances (budgetary basis), June 30	$ 7,029	$ 9,378	$ 2,349

NONMAJOR SPECIAL REVENUE FUNDS

Specific revenues, earmarked to finance particular activities of government, are accounted for in the Special Revenue Funds. A brief description of each fund follows.

Wildlife Resources Agency—This agency is responsible for the preservation, management, enhancement and protection of the state's wildlife resources and their environs. An additional responsibility is the enforcement of boating safety on state lakes and streams. Revenues are derived principally from hunting and fishing licenses, fees and permits.

Criminal Injuries Compensation—The Treasury Department administers this fund for the award of compensation to victims (or their dependents) who suffer personal injury or death as a result of a criminal act. The primary revenue source is the privilege tax levied by the courts at the time of conviction of the offender.

Solid Waste—This program is administered by the Department of Environment and Conservation. Revenues collected for a tipping fee on solid waste are used to provide grants to local governments to reduce the solid waste going into landfills.

Help America Vote—This program is administered by the Secretary of State. Federal funds, along with state matching dollars, are used in implementing the provisions of the federal Help America Vote Act. The provisions of the act require the funds be used to improve election administration and to replace punch card and lever voting machines.

Environmental Protection—This program is administered by the Department of Environment and Conservation. Revenues collected from the various fees under the environmental protection fund are used to offset the cost of administering regulatory environmental programs.

Hazardous Waste—This program is administered by the Department of Environment and Conservation. Revenues collected from applicants and holders of storage, treatment or disposal permits of hazardous waste are used to supervise the construction, operation, maintenance, closure and, where necessary, the post-closure care of hazardous waste facilities.

Parks Acquisition—This program is administered jointly by the Departments of Environment and Conservation, Agriculture and Wildlife Resources. Revenues collected from the transfer of real property are used to acquire parks by both local and state governments.

Supreme Court Boards—This organization was formed by the Tennessee Supreme Court to consider and investigate alleged grounds for discipline or alleged incapacity of any attorney and to provide continuing legal education for attorneys. Revenues are collected from attorneys.

Underground Storage Tanks—This program is administered by the Department of Environment and Conservation. Revenues are collected primarily from a tax of four tenths of a cent per gallon on petroleum products and an annual fee on owners and operators of underground storage tanks containing petroleum substances.

Enhanced Emergency 911 Service—This program is administered by the Department of Commerce and Insurance. Revenues are collected from a monthly fee on users of cellular telephone services. This fee is used to enhance the effectiveness of response times when a cellular user calls 911.

Driver Education—This program is designed and coordinated by the Department of Safety. Highway safety is promoted by providing driver education, instruction and training in schools, colleges and community organizations. The $2 fee for moving traffic violations is the source of funding for this program.

Abandoned Land Program—This program is administered by the Department of Environment and Conservation. Revenues collected from surface mining permit fees and forfeited performance bonds are used to reclaim and restore lands affected by abandoned mining operations.

Agricultural Non-Point Water Pollution—This program is administered by the Department of Agriculture. Revenues collected from the transfer of real property are used to abate pollution from agricultural sources.

Salvage Title Enforcement—This program is administered by the Department of Revenue. Revenues are collected on the titlement of salvage vehicles and are used to enforce motor vehicle title and salvage laws and inspection of rebuilt vehicles.

Agricultural Promotion Boards—These boards were formed to promote the consumption of agricultural products. Revenue is derived from an assessment levied on the commercial producers of certain agricultural products.

Drycleaner's Environmental Response—This program is administered by the Department of Environment and Conservation. Revenues collected from drycleaners are an annual registration fee and a fee for the various dry-cleaning solvents used.

Agricultural Regulatory Fund—This program is administered by the Department of Agriculture. Revenues are collected from fees on the various agricultural related industries regulated by the department. These fees are then used in the administration of this regulatory function.

Tennessee Regulatory Authority—The authority is responsible for executing and enforcing all statutes governing utilities. Revenues are derived principally from inspection and supervision fees.

Fraud and Economic Crime—This program is administered by the District Attorneys General of the State. Revenues are collected from individuals prosecuted for bad checks. These monies are used to increase resources available to prosecute bad check cases.

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016
(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote
ASSETS				
Cash and cash equivalents	$ 38,127	$ 10,216	$ 12,810	$ 31,285
Investments	16,175	-	-	-
Receivables, net	4,758	4,165	575	99
Due from other funds	-	-	-	-
Prepayments and others	-	-	-	-
Total assets	$ 59,060	$ 14,381	$ 13,385	$ 31,384
LIABILITIES				
Accounts payable and accruals	8,781	6,970	1,943	29,901
Due to other funds	408	54	4	-
Due to component units	303	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	9,492	7,024	1,947	29,901
FUND BALANCES				
Restricted	$ 36,702	$ -	$ -	$ 1,483
Committed	12,866	7,357	11,438	-
Total fund balances	49,568	7,357	11,438	1,483
Total liabilities and fund balances	$ 59,060	$ 14,381	$ 13,385	$ 31,384

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016
(Expressed in Thousands)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service
$ 35,793	$ 5,124	$ 32,738	$ 4,009	$ 48,437	$ 62,264
-	-	-	-	-	-
-	89	1,329	8	1,823	1,980
-	-	-	-	-	-
-	-	-	-	-	-
$ 35,793	$ 5,213	$ 34,067	$ 4,017	$ 50,260	$ 64,244
4	161	1,467	41	2,602	1,463
-	16	39	-	50	76
-	-	-	-	-	-
-	-	-	13	-	-
4	177	1,506	54	2,652	1,539
$ -	$ 48	$ -	$ 3,963	$ 47,302	$ 59,239
35,789	4,988	32,561	-	306	3,466
35,789	5,036	32,561	3,963	47,608	62,705
$ 35,793	$ 5,213	$ 34,067	$ 4,017	$ 50,260	$ 64,244

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016
(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Salvage Title Enforcement
ASSETS				
Cash and cash equivalents	$ 1,180	$ 3,903	$ 5,772	$ 1,269
Investments	-	-	-	-
Receivables, net	75	-	614	-
Due from other funds	-	-	-	-
Prepayments and others	-	-	-	-
Total assets	$ 1,255	$ 3,903	$ 6,386	$ 1,269
LIABILITIES				
Accounts payable and accruals	39	35	573	70
Due to other funds	1	-	-	5
Due to component units	-	-	6	-
Unearned revenue	-	-	-	-
Total liabilities	40	35	579	75
FUND BALANCES				
Restricted	$ -	$ 3,276	$ -	$ -
Committed	1,215	592	5,807	1,194
Total fund balances	1,215	3,868	5,807	1,194
Total liabilities and fund balances	$ 1,255	$ 3,903	$ 6,386	$ 1,269

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016
(Expressed in Thousands)

Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 507	$ 1,094	$ 4,585	$ 5,455	$ 3,656	$ 308,224
-	-	-	-	-	16,175
66	-	-	440	-	16,021
-	-	-	72	-	72
19	-	-	-	-	19
$ 592	$ 1,094	$ 4,585	$ 5,967	$ 3,656	$ 340,511
38	82	2	289	-	54,461
-	1	-	23	-	677
-	-	-	-	-	309
-	-	-	1	-	14
38	83	2	313	-	55,461
$ -	$ -	$ -	$ -	$ -	$ 152,013
554	1,011	4,583	5,654	3,656	133,037
554	1,011	4,583	5,654	3,656	285,050
$ 592	$ 1,094	$ 4,585	$ 5,967	$ 3,656	$ 340,511

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote
REVENUES				
Taxes:				
Fuel	$ 567	$ -	$ -	$ -
Business	521	-	-	-
Other	12,488	-	2,325	-
Licenses, fines, fees, and permits	44,850	8,991	5,916	-
Investment income	720	25	28	4
Federal	32,098	3,622	-	1,256
Departmental services	7,612	-	3	-
Other	-	7	-	-
Total revenues	98,856	12,645	8,272	1,260
EXPENDITURES				
General government	-	14,453	-	1,284
Law, justice and public safety	-	-	-	-
Recreation and resources development	105,850	-	6,063	-
Regulation of business and professions	-	-	-	-
Total expenditures	105,850	14,453	6,063	1,284
Excess (deficiency) of revenues over (under) expenditures	(6,994)	(1,808)	2,209	(24)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,485	-	-	-
Transfers out	(109)	-	-	-
Total other financing sources (uses)	1,376	-	-	-
Net change in fund balances	(5,618)	(1,808)	2,209	(24)
Fund balances, July 1	55,186	9,165	9,229	1,507
Fund balances, June 30	$ 49,568	$ 7,357	$ 11,438	$ 1,483

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service
$ -	$ -	$ -	$ -	$ 18,888	$ -
-	-	-	-	-	-
-	-	12,487	-	-	-
45,951	-	-	5,266	2,451	102,771
78	12	68	10	110	153
-	1,442	-	-	1,645	-
-	3,198	11	266	1,166	-
-	-	-	17	-	-
46,029	4,652	12,566	5,559	24,260	102,924
-	-	-	-	-	-
-	-	-	4,984	-	-
42,208	6,648	6,968	-	22,678	-
-	-	-	-	-	100,665
42,208	6,648	6,968	4,984	22,678	100,665
3,821	(1,996)	5,598	575	1,582	2,259
-	1,000	-	-	-	-
-	-	(342)	-	-	-
-	1,000	(342)	-	-	-
3,821	(996)	5,256	575	1,582	2,259
31,968	6,032	27,305	3,388	46,026	60,446
$ 35,789	$ 5,036	$ 32,561	$ 3,963	$ 47,608	$ 62,705

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Salvage Title Enforcement
REVENUES				
Taxes:				
Fuel	$ -	$ -	$ -	$ -
Business	-	-	-	-
Other	-	-	5,764	-
Licenses, fines, fees, and permits	676	16	-	2,026
Investment income	-	9	12	-
Federal	-	437	-	-
Departmental services	-	35	-	-
Other	-	-	-	-
Total revenues	676	497	5,776	2,026
EXPENDITURES				
General government	-	-	-	1,611
Law, justice and public safety	683	-	-	-
Recreation and resources development	-	138	5,216	-
Regulation of business and professions	-	-	-	-
Total expenditures	683	138	5,216	1,611
Excess (deficiency) of revenues over (under) expenditures	(7)	359	560	415
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(7)	359	560	415
Fund balances, July 1	1,222	3,509	5,247	779
Fund balances, June 30	$ 1,215	$ 3,868	$ 5,807	$ 1,194

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ -	$ -	$ -	$ -	$ -	$ 19,455
-	-	-	-	-	521
1,141	-	-	-	-	34,205
-	827	10,396	5,142	3,346	238,625
1	3	9	-	1	1,243
-	-	-	954	-	41,454
4	-	33	1,900	15	14,243
-	-	-	-	-	24
1,146	830	10,438	7,996	3,362	349,770
-	-	-	7,420	-	24,768
-	-	-	-	2,702	8,369
1,098	833	7,782	-	-	205,482
-	-	-	-	-	100,665
1,098	833	7,782	7,420	2,702	339,284
48	(3)	2,656	576	660	10,486
-	-	-	-	-	2,485
-	-	-	-	-	(451)
-	-	-	-	-	2,034
48	(3)	2,656	576	660	12,520
506	1,014	1,927	5,078	2,996	272,530
$ 554	$ 1,011	$ 4,583	$ 5,654	$ 3,656	$ 285,050

STATE OF TENNESSEE

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)

All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ 7,944	$ 13,576	$ 5,632
Licenses, fines, fees, and permits	40,614	44,850	4,236
Investment income	-	720	720
Federal	29,001	32,098	3,097
Departmental services	8,773	7,612	(1,161)
Other	-	-	-
Total revenues	86,332	98,856	12,524
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	121,907	105,850	16,057
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	121,907	105,850	16,057
Excess (deficiency) of revenues over (under) expenditures	(35,575)	(6,994)	28,581
OTHER FINANCING SOURCES (USES)			
Transfers in	1,485	1,485	-
Transfers out	(109)	(109)	-
Total other financing sources (uses)	1,376	1,376	-
Net change in fund balances	(34,199)	(5,618)	28,581
Fund balances (budgetary basis), July 1	55,186	55,186	-
Fund balances (budgetary basis), June 30	$ 20,987	$ 49,568	$ 28,581

STATE OF TENNESSEE
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ 6,770	$ 2,325	$ (4,445)
12,569	8,991	(3,578)	5,644	5,916	272
-	25	25	-	28	28
3,774	3,622	(152)	-	-	-
-	-	-	1	3	2
7	7	-	-	-	-
16,350	12,645	(3,705)	12,415	8,272	(4,143)
-	-	-	-	-	-
-	-	-	-	-	-
16,350	14,453	1,897	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	12,624	6,063	6,561
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,350	14,453	1,897	12,624	6,063	6,561
-	(1,808)	(1,808)	(209)	2,209	2,418
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	(1,808)	(1,808)	(209)	2,209	2,418
9,165	9,165	-	9,229	9,229	-
$ 9,165	$ 7,357	$ (1,808)	$ 9,020	$ 11,438	$ 2,418

STATE OF TENNESSEE
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Help America Vote		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	-	-	-
Investment income	-	4	4
Federal	26,500	1,256	(25,244)
Departmental services	-	-	-
Other	-	-	-
Total revenues	26,500	1,260	(25,240)
EXPENDITURES			
Judicial	-	-	-
Secretary of State	27,500	1,284	26,216
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	27,500	1,284	26,216
Excess (deficiency) of revenues over (under) expenditures	(1,000)	(24)	976
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(1,000)	(24)	976
Fund balances (budgetary basis), July 1	1,507	1,507	-
Fund balances (budgetary basis), June 30	$ 507	$ 1,483	$ 976

STATE OF TENNESSEE
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ -	$ -	$ -
48,806	45,951	(2,855)	-	-	-
-	78	78	-	12	12
-	-	-	1,890	1,442	(448)
-	-	-	3,653	3,198	(455)
-	-	-	-	-	-
48,806	46,029	(2,777)	5,543	4,652	(891)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
49,181	42,208	6,973	9,576	6,648	2,928
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
49,181	42,208	6,973	9,576	6,648	2,928
(375)	3,821	4,196	(4,033)	(1,996)	2,037
-	-	-	1,000	1,000	-
-	-	-	-	-	-
-	-	-	1,000	1,000	-
(375)	3,821	4,196	(3,033)	(996)	2,037
31,968	31,968	-	6,032	6,032	-
$ 31,593	$ 35,789	$ 4,196	$ 2,999	$ 5,036	$ 2,037

STATE OF TENNESSEE
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ 6,931	$ 12,487	$ 5,556
Licenses, fines, fees, and permits	-	-	-
Investment income	-	68	68
Federal	-	-	-
Departmental services	-	11	11
Other	-	-	-
Total revenues	6,931	12,566	5,635
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	7,291	6,968	323
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	7,291	6,968	323
Excess (deficiency) of revenues over (under) expenditures	(360)	5,598	5,958
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(342)	(342)	-
Total other financing sources (uses)	(342)	(342)	-
Net change in fund balances	(702)	5,256	5,958
Fund balances (budgetary basis), July 1	27,305	27,305	-
Fund balances (budgetary basis), June 30	$ 26,603	$ 32,561	$ 5,958

STATE OF TENNESSEE
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ 18,500	$ 18,888	$ 388
4,899	5,266	367	5,005	2,451	(2,554)
-	10	10	-	110	110
-	-	-	1,973	1,645	(328)
-	266	266	-	1,166	1,166
-	17	17	-	-	-
4,899	5,559	660	25,478	24,260	(1,218)
5,045	4,984	61	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	26,448	22,678	3,770
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
5,045	4,984	61	26,448	22,678	3,770
(146)	575	721	(970)	1,582	2,552
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(146)	575	721	(970)	1,582	2,552
3,388	3,388	-	46,026	46,026	-
$ 3,242	$ 3,963	$ 721	$ 45,056	$ 47,608	$ 2,552

STATE OF TENNESSEE
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	111,892	102,771	(9,121)
Investment income	-	153	153
Federal	-	-	-
Departmental services	-	-	-
Other	-	-	-
Total revenues	111,892	102,924	(8,968)
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	117,729	100,665	17,064
Revenue	-	-	-
Total expenditures	117,729	100,665	17,064
Excess (deficiency) of revenues over (under) expenditures	(5,837)	2,259	8,096
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(5,837)	2,259	8,096
Fund balances (budgetary basis), July 1	60,446	60,446	-
Fund balances (budgetary basis), June 30	$ 54,609	$ 62,705	$ 8,096

STATE OF TENNESSEE
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ -	$ -	$ -
783	676	(107)	500	16	(484)
-	-	-	-	9	9
-	-	-	-	437	437
-	-	-	-	35	35
-	-	-	-	-	-
783	676	(107)	500	497	(3)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
784	683	101	-	-	-
-	-	-	-	-	-
-	-	-	500	138	362
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
784	683	101	500	138	362
(1)	(7)	(6)	-	359	359
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(1)	(7)	(6)	-	359	359
1,222	1,222	-	3,509	3,509	-
$ 1,221	$ 1,215	$ (6)	$ 3,509	$ 3,868	$ 359

STATE OF TENNESSEE

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)

All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
REVENUES			
Taxes	$ 3,188	$ 5,764	$ 2,576
Licenses, fines, fees, and permits	-	-	-
Investment income	-	12	12
Federal	-	-	-
Departmental services	-	-	-
Other	-	-	-
Total revenues	3,188	5,776	2,588
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	8,188	5,216	2,972
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	8,188	5,216	2,972
Excess (deficiency) of revenues over (under) expenditures	(5,000)	560	5,560
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(5,000)	560	5,560
Fund balances (budgetary basis), July 1	5,247	5,247	-
Fund balances (budgetary basis), June 30	$ 247	$ 5,807	$ 5,560

STATE OF TENNESSEE
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Salvage Title Enforcement			Drycleaner's Environmental Response		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
	$ -	$ -	$ -	$ -	$ -	$ -
	1,646	2,026	380	1,893	827	(1,066)
	-	-	-	-	3	3
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	1,646	2,026	380	1,893	830	(1,063)
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	1,895	833	1,062
	-	-	-	-	-	-
	-	-	-	-	-	-
	1,759	1,611	148	-	-	-
	1,759	1,611	148	1,895	833	1,062
	(113)	415	528	(2)	(3)	(1)
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	(113)	415	528	(2)	(3)	(1)
	779	779	-	1,014	1,014	-
	$ 666	$ 1,194	$ 528	$ 1,012	$ 1,011	$ (1)

STATE OF TENNESSEE
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	6,761	10,396	3,635
Investment income	-	9	9
Federal	-	-	-
Departmental services	2	33	31
Other	-	-	-
Total revenues	6,763	10,438	3,675
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	7,783	7,782	1
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	7,783	7,782	1
Excess (deficiency) of revenues over (under) expenditures	(1,020)	2,656	3,676
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(1,020)	2,656	3,676
Fund balances (budgetary basis), July 1	1,927	1,927	-
Fund balances (budgetary basis), June 30	$ 907	$ 4,583	$ 3,676

STATE OF TENNESSEE

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)

All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Tennessee Regulatory Authority			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ 43,333	$ 53,040	$ 9,707
6,345	5,142	(1,203)	247,357	235,279	(12,078)
-	-	-	-	1,241	1,241
838	954	116	63,976	41,454	(22,522)
1,431	1,900	469	13,860	14,224	364
-	-	-	7	24	17
8,614	7,996	(618)	368,533	345,262	(23,271)
-	-	-	5,045	4,984	61
-	-	-	27,500	1,284	26,216
-	-	-	16,350	14,453	1,897
8,660	7,420	1,240	8,660	7,420	1,240
-	-	-	784	683	101
-	-	-	15,971	12,998	2,973
-	-	-	107,515	85,536	21,979
-	-	-	121,907	105,850	16,057
-	-	-	117,729	100,665	17,064
-	-	-	1,759	1,611	148
8,660	7,420	1,240	423,220	335,484	87,736
(46)	576	622	(54,687)	9,778	64,465
-	-	-	2,485	2,485	-
-	-	-	(451)	(451)	-
-	-	-	2,034	2,034	-
(46)	576	622	(52,653)	11,812	64,465
5,078	5,078	-	269,028	269,028	-
$ 5,032	$ 5,654	$ 622	$ 216,375	$ 280,840	$ 64,465

This Page Intentionally Left Blank

PERMANENT FUNDS

Chairs of Excellence Fund—This fund was created by the General Assembly in 1986. Its purpose is to endow faculty chairs at the Tennessee Board of Regents and University of Tennessee campuses in order to attract more highly qualified professors. For a chair to be established, private contributions which a school collects are matched by monies the state has appropriated to fund this program. The chair also receives the interest earned from investment of these matched monies.

Other—This column includes various smaller funds in which legal restrictions require that the principal remain intact and only the earnings may be spent.

STATE OF TENNESSEE
Combining Balance Sheet
Permanent Funds
June 30, 2016
(Expressed in Thousands)

	Chairs of Excellence	Other Permanent Funds	Total Permanent Funds
ASSETS			
Cash and cash equivalents	$ 4,794	$ 2,101	$ 6,895
Investments	291,796	50,292	342,088
Receivables, net	708	16	724
Due from component units	1,039	-	1,039
Total assets	$ 298,337	$ 52,409	$ 350,746
LIABILITIES			
Due to other funds	117	-	117
Due to component units	2,132	-	2,132
Total liabilities	2,249	-	2,249
FUND BALANCES			
Nonspendable			
Permanent fund and endowment corpus	$ 100,358	$ 52,200	$ 152,558
Restricted	195,730	209	195,939
Total fund balances	296,088	52,409	348,497
Total liabilities and fund balances	$ 298,337	$ 52,409	$ 350,746

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Chairs of Excellence	Other Permanent Funds	Total Permanent Funds
REVENUES			
Licenses, fines, fees, and permits	$ -	$ 3,089	$ 3,089
Investment income	8,018	1,763	9,781
Other	-	1	1
Total revenues	8,018	4,853	12,871
EXPENDITURES			
Education	8,194	-	8,194
Recreation and resources development	-	762	762
Total expenditures	8,194	762	8,956
Excess (deficiency) of revenues over (under) expenditures	(176)	4,091	3,915
Net change in fund balances	(176)	4,091	3,915
Fund balances, July 1	296,264	48,318	344,582
Fund balances, June 30	$ 296,088	$ 52,409	$ 348,497

This Page Intentionally Left Blank

NONMAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for the operations of state agencies that provide goods or services to the general public on a user charge basis. The state's nonmajor enterprise operations are described below.

Energy Loan Program—Created in 1988, this program makes loans to small businesses and local governments to improve energy efficiency.

Teacher Group Insurance—Established in January 1986, this fund is used to account for revenues received and claims paid on behalf of currently employed teachers of political subdivisions of the state who have elected coverage under a group medical plan similar to that offered state employees.

Local Government Group Insurance—Established in July 1991, this fund is used to account for revenues received and claims paid on behalf of active employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on the behalf of state and local governments. This plan is similar to the plan offered to state employees.

Drinking Water Loan—Created in 1998, this fund provides loans to local governments and utility districts for the improvement of drinking water systems. The initial sources of the monies are federal grants and state appropriations.

Grain Indemnity—This program is administered by the Department of Agriculture. Revenues are collected from fees on grain sold by producers. These revenues are to be used to protect commodity producers in the event of the financial failure of a commodity dealer or warehouseman.

Energy Efficient Schools Initiative—Created to award grants and loans to local school systems for capital outlay projects which meet established energy efficient design and technology guidelines for school facilities.

Client Protection—Created by the Tennessee Supreme Court, this fund provides services to protect clients from dishonest conduct by attorneys. Revenue is mainly generated through annual registration fees for attorneys.

STATE OF TENNESSEE
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2016
(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
ASSETS				
Current assets:				
Cash and cash equivalents	$ 21,163	$ 177,622	$ 43,794	$ 86,104
Receivables:				
Accounts receivable	-	5,046	1,863	-
Loans receivable	75	-	-	6,696
Total current assets	21,238	182,668	45,657	92,800
Noncurrent assets:				
Loans receivable	-	-	-	104,233
Total noncurrent assets	-	-	-	104,233
Total assets	21,238	182,668	45,657	197,033
LIABILITIES				
Current liabilities:				
Accounts payable and accruals	-	30,479	6,701	7
Unearned revenue	-	68	37	-
Total current liabilities	-	30,547	6,738	7
Noncurrent liabilities:				
Others	-	-	-	3,156
Total noncurrent liabilities	-	-	-	3,156
Total liabilities	-	30,547	6,738	3,163
NET POSITION				
Unrestricted	21,238	152,121	38,919	193,870
Total net position	$ 21,238	$ 152,121	$ 38,919	$ 193,870

STATE OF TENNESSEE

Combining Statement of Net Position

Nonmajor Enterprise Funds
June 30, 2016
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 6,653	$ 25,752	$ 2,440	$ 363,528
-	-	-	6,909
-	6,315	-	13,086
6,653	32,067	2,440	383,523
-	38,139	-	142,372
-	38,139	-	142,372
6,653	70,206	2,440	525,895
-	45	48	37,280
-	16	-	121
-	61	48	37,401
-	-	-	3,156
-	-	-	3,156
-	61	48	40,557
6,653	70,145	2,392	485,338
$ 6,653	$ 70,145	$ 2,392	$ 485,338

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Operating revenues				
Charges for services	$ -	$ -	$ -	$ 1,631
Investment income	53	-	-	185
Premiums	-	449,572	114,287	-
Total operating revenues	53	449,572	114,287	1,816
Operating expenses				
Contractual services	-	27,637	6,572	741
Benefits	-	440,987	102,326	-
Other	-	6,776	1,347	-
Total operating expenses	-	475,400	110,245	741
Operating income (loss)	53	(25,828)	4,042	1,075
Nonoperating revenues (expenses)				
Grants	-	-	-	26,690
Interest income	-	394	87	-
Other	-	-	-	(5,221)
Total nonoperating revenues (expenses)	-	394	87	21,469
Income (loss) before contributions and transfers	53	(25,434)	4,129	22,544
Transfers in	303	-	-	1,662
Transfers out	(2,298)	-	-	-
Change in net position	(1,942)	(25,434)	4,129	24,206
Net position, July 1	23,180	177,555	34,790	169,664
Net position, June 30	$ 21,238	$ 152,121	$ 38,919	$ 193,870

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,315	$ 303	$ 239	$ 3,488
-	56	-	294
-	-	-	563,859
1,315	359	239	567,641
112	30	367	35,459
-	-	-	543,313
-	-	-	8,123
112	30	367	586,895
1,203	329	(128)	(19,254)
-	-	-	26,690
15	-	6	502
-	-	-	(5,221)
15	-	6	21,971
1,218	329	(122)	2,717
-	-	-	1,965
-	-	-	(2,298)
1,218	329	(122)	2,384
5,435	69,816	2,514	482,954
$ 6,653	$ 70,145	$ 2,392	$ 485,338

STATE OF TENNESSEE

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

For the Fiscal Year Ended June 30, 2016

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	$ -	$ 457,192	$ 116,583	$ -
Payments to suppliers	-	(484,024)	(113,189)	-
Payments for interfund services used	-	(702)	(132)	(741)
Net cash provided by (used for) operating activities	-	(27,534)	3,262	(741)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants received	-	-	-	26,690
Transfers in	303	-	-	1,662
Transfers out	(2,298)	-	-	-
Net cash provided by (used for) noncapital financing activities	(1,995)	-	-	28,352
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans issued and other disbursements to borrowers	-	-	-	(32,093)
Collection of loan principal	723	-	-	8,630
Interest received	53	394	86	1,823
Net cash provided by (used for) investing activities	776	394	86	(21,640)
Net increase (decrease) in cash and cash equivalents	(1,219)	(27,140)	3,348	5,971
Cash and cash equivalents, July 1	22,382	204,762	40,446	80,133
Cash and cash equivalents, June 30	$ 21,163	$ 177,622	$ 43,794	$ 86,104
Reconciliation of operating income to net cash provided by (used for) operating activities				
Operating income (loss)	$ 53	$ (25,828)	$ 4,042	$ 1,075
Adjustment to reconcile operating income (loss) to net cash from operating activities:				
Interest income	-	-	-	(1,631)
Investment income	(53)	-	-	(185)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:				
(Increase) decrease in receivables	-	(1,187)	(988)	-
Increase (decrease) in accounts payable	-	(482)	198	-
Increase (decrease) in unearned revenue	-	(37)	10	-
Total adjustments	(53)	(1,706)	(780)	(1,816)
Net cash provided by (used for) operating activities	$ -	$ (27,534)	$ 3,262	$ (741)

STATE OF TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,315	$ 30	$ 239	$ 575,359
(112)	-	(321)	(597,646)
-	(30)	-	(1,605)
1,203	-	(82)	(23,892)
-	-	-	26,690
-	-	-	1,965
-	-	-	(2,298)
-	-	-	26,357
-	(1,645)	-	(33,738)
-	6,434	-	15,787
15	323	6	2,700
15	5,112	6	(15,251)
1,218	5,112	(76)	(12,786)
5,435	20,640	2,516	376,314
$ 6,653	$ 25,752	$ 2,440	$ 363,528
$ 1,203	$ 329	$ (128)	$ (19,254)
-	(273)	-	(1,904)
-	(56)	-	(294)
-	-	-	(2,175)
-	-	46	(238)
-	-	-	(27)
-	(329)	46	(4,638)
$ 1,203	$ -	$ (82)	$ (23,892)

This Page Intentionally Left Blank

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis. The following operations are included in these funds:

Strategic Technology Solutions—A division of the Department of Finance and Administration, functions as the data and voice service bureau for state government.

Risk Management—Administered by the Treasury Department, this fund is used to pay awards for claims made against the state and for damage to state owned property.

Motor Vehicle Management—A division of the Department of General Services, is responsible for administering a uniform program for the operation and maintenance of all state vehicles.

General Services Printing—A division of the Department of General Services, operates a printing facility to provide such services as general printing, typesetting and binding for state agencies located in Nashville. In addition, this division provides photographic services to the various state agencies.

Facilities Revolving Fund—Created in 1989, this fund provides the maintenance, repair and total housing needs of state government for all office and warehouse space in the state, except institutional space.

Employee Group Insurance Fund—Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. This fund primarily includes employees of the state, University of Tennessee, and the Tennessee Board of Regents System. Group life and accident insurance premiums, dental premiums, and long-term care premiums paid to private insurance companies are also recorded in this fund.

Postal Services—A division of the Department of General Services, is responsible for processing and distributing incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

Purchasing—A division of the Department of General Services, is responsible for the procurement of supplies, equipment and certain specialized services.

Warehousing and Distribution—A division of the Department of General Services, is responsible for the purchasing of office supplies and the receipt and distribution of surplus property for all state government and quasi-governmental entities that opt to use this service.

Records Management—A division of the Secretary of State, is responsible for the retention and disposal of official records for state government.

Human Resources—This fund’s responsibilities include providing departments with applicants for employment, providing training to state employees, and administering the Sick Leave Bank.

Division of Accounts—A division of the Department of Finance and Administration, is responsible for the centralized accounting function for the state.

TRICOR (Tennessee Rehabilitative Initiative in Correction)—Manages correctional industry, agriculture, food, and service operations. Its purpose is to employ and train inmates and provide products and services to state agencies, local governments, and not for profit organizations.

Edison—Maintained by the Department of Finance and Administration’s Enterprise Resource Planning division, is the state’s integrated software package for administrative business functions such as financials and accounting, procurement, payroll, benefits, and personnel administration.

STATE OF TENNESSEE
Combining Statement of Net Position
Internal Service Funds
June 30, 2016
(Expressed in Thousands)

	Strategic Technology Solutions	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
ASSETS						
Current assets:						
Cash and cash equivalents	$ 120,643	$ 142,976	$ 47,919	$ 3,338	$ 417,356	$ 301,082
Receivables, net	406	-	55	4	846	7,569
Due from other funds	728	-	-	-	48	-
Inventories, at cost	663	-	-	142	-	-
Prepayments	-	-	-	-	-	-
Total current assets	122,440	142,976	47,974	3,484	418,250	308,651
Noncurrent assets:						
Accounts receivable	-	10,328	-	-	-	-
Due from other funds	1,575	-	-	-	-	-
Net investment in capital leases	-	-	-	-	9,352	-
Restricted net pension assets	7	-	-	2	-	-
Capital assets:						
Land, at cost	-	-	-	-	57,995	-
Structures and improvements, at cost	-	-	-	-	530,075	-
Machinery and equipment, at cost	96,285	-	158,685	4,977	1,252	-
Less: Accumulated depreciation	(78,968)	-	(96,157)	(4,223)	(269,287)	-
Construction in progress	-	-	-	-	17,136	-
Total noncurrent assets	18,899	10,328	62,528	756	346,523	-
Total assets	141,339	153,304	110,502	4,240	764,773	308,651
DEFERRED OUTFLOWS OF RESOURCES	4,983	-	145	429	6,868	-
LIABILITIES						
Current liabilities:						
Accounts payable	13,001	616	5,008	323	12,883	49,026
Accrued payroll and related deductions	2,608	-	58	191	-	-
Due to other funds	156	7	3	12	5,809	-
Due to component units	35	252	-	-	-	-
Lease obligations payable	-	-	-	-	292	-
Bond payable	-	-	-	-	15,872	-
Unearned revenue	-	1	-	-	5,000	40,439
Others	-	35,408	-	-	-	-
Total current liabilities	15,800	36,284	5,069	526	39,856	89,465
Noncurrent liabilities:						
Pension	10,722	-	487	961	-	-
Lease obligations payable	-	-	-	-	8,086	-
Commercial paper payable	-	-	-	-	4,171	-
Bonds payable	-	-	-	-	193,198	-
Others	5,625	114,611	426	522	-	-
Total noncurrent liabilities	16,347	114,611	913	1,483	205,455	-
Total liabilities	32,147	150,895	5,982	2,009	245,311	89,465
DEFERRED INFLOWS OF RESOURCES	2,310	-	105	207	44	-
NET POSITION						
Net investment in capital assets	17,317	-	62,528	754	122,377	-
Restricted for:						
Capital projects	-	-	-	-	743	-
Pensions	7	-	-	2	-	-
Unrestricted	94,541	2,409	42,032	1,697	403,166	219,186
Total net position	$ 111,865	$ 2,409	$ 104,560	$ 2,453	$ 526,286	$ 219,186

STATE OF TENNESSEE
Combining Statement of Net Position
Internal Service Funds
June 30, 2016
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 2,307	$ 4,515	$ 1,353	$ 231	$ 20,568	$ 7,733	$ 8,756	$ 26,146	$ 1,104,923
-	1	59	-	-	2	684	1	9,627
-	-	-	-	-	27	-	-	803
186	-	89	-	-	-	3,026	-	4,106
232	-	-	-	-	-	-	-	232
2,725	4,516	1,501	231	20,568	7,762	12,466	26,147	1,119,691
-	-	-	-	-	-	-	-	10,328
-	-	-	-	-	-	-	-	1,575
-	-	-	-	-	-	-	-	9,352
3	6	2	-	3	4	8	4	39
-	-	-	-	-	-	961	-	58,956
-	-	-	-	-	-	17,331	-	547,406
4,491	21	99	12	161	416	13,428	111,369	391,196
(3,420)	(4)	(80)	(4)	(137)	(288)	(19,412)	(83,938)	(555,918)
-	-	-	-	-	-	-	-	17,136
1,074	23	21	8	27	132	12,316	27,435	480,070
3,799	4,539	1,522	239	20,595	7,894	24,782	53,582	1,599,761
162	798	182	68	1,325	1,468	695	1,443	18,566
115	150	6	27	160	44	2,182	706	84,247
83	372	68	8	656	804	462	761	6,071
5	23	5	-	50	49	28	44	6,191
-	-	-	-	46	-	6	-	339
-	-	-	-	-	-	-	-	292
-	-	-	-	-	-	-	-	15,872
-	-	-	-	-	-	-	-	45,440
-	-	-	-	-	-	-	-	35,408
203	545	79	35	912	897	2,678	1,511	193,860
486	1,839	432	139	2,683	3,234	2,592	3,185	26,760
-	-	-	-	-	-	-	-	8,086
-	-	-	-	-	-	-	13,140	17,311
-	-	-	-	-	-	-	-	193,198
690	385	535	131	883	1,224	1,385	1,672	128,089
1,176	2,224	967	270	3,566	4,458	3,977	17,997	373,444
1,379	2,769	1,046	305	4,478	5,355	6,655	19,508	567,304
106	398	93	29	579	697	561	687	5,816
1,071	17	19	8	24	128	12,308	14,291	230,842
-	-	-	-	-	-	-	-	743
3	6	2	-	3	4	8	4	39
1,402	2,147	544	(35)	16,836	3,178	5,945	20,535	813,583
$ 2,476	$ 2,170	$ 565	$ (27)	$ 16,863	$ 3,310	$ 18,261	$ 34,830	$ 1,045,207

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Strategic Technology Solutions	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Operating revenues						
Charges for services	$ 150,023	$ 65,556	$ 41,185	$ 7,282	$ 126,944	$ 1,000
Premiums	-	-	-	-	-	731,825
Total operating revenues	150,023	65,556	41,185	7,282	126,944	732,825
Operating expenses						
Personal services	32,384	-	1,347	2,970	-	-
Contractual services	99,447	10,536	5,732	1,699	92,184	39,441
Materials and supplies	7,381	-	14,589	1,445	2,404	-
Rentals and insurance	13	5,933	7,101	6	42,992	-
Depreciation and amortization	8,537	-	13,304	185	12,130	-
Benefits	-	39,939	182	-	-	685,050
Other	694	-	-	10	51	8,854
Total operating expenses	148,456	56,408	42,255	6,315	149,761	733,345
Operating income (loss)	1,567	9,148	(1,070)	967	(22,817)	(520)
Nonoperating revenues (expenses)						
Taxes	-	1	-	-	-	-
Grants	-	273	-	-	-	-
Insurance claims recoveries	-	-	339	-	31	-
Gain on sales of capital assets	-	-	-	-	1,122	-
Interest income	-	259	-	-	852	617
Interest expense	-	-	-	-	(9,592)	-
Total nonoperating revenues (expenses)	-	533	339	-	(7,587)	617
Income (loss) before contributions and transfers	1,567	9,681	(731)	967	(30,404)	97
Capital contributions	-	-	712	-	2,478	-
Transfers in	2,343	-	3,849	322	181,063	-
Transfers out	(933)	-	-	-	-	-
Change in net position	2,977	9,681	3,830	1,289	153,137	97
Net position, July 1	108,888	(7,272)	100,730	1,164	373,149	219,089
Net position, June 30	$ 111,865	$ 2,409	$ 104,560	$ 2,453	$ 526,286	$ 219,186

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and
Changes in Fund Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 18,467	$ 5,864	$ 3,595	$ 820	$ 14,585	$ 13,457	$ 48,843	$ 33,867	$ 531,488
-	-	-	-	-	-	-	-	731,825
18,467	5,864	3,595	820	14,585	13,457	48,843	33,867	1,263,313
1,459	5,221	1,391	411	10,838	11,179	7,365	7,864	82,429
1,795	2,744	1,003	455	2,536	2,242	10,532	9,697	280,043
13,681	102	864	12	218	22	24,563	467	65,748
11	9	4	2	46	6	784	4	56,911
420	3	17	3	7	93	1,733	12,695	49,127
-	-	-	-	-	-	-	-	725,171
142	15	3	1	166	15	174	14	10,139
17,508	8,094	3,282	884	13,811	13,557	45,151	30,741	1,269,568
959	(2,230)	313	(64)	774	(100)	3,692	3,126	(6,255)
-	-	-	-	-	-	-	-	1
-	-	-	-	-	-	-	-	273
-	-	-	-	-	-	-	-	370
-	-	-	-	-	-	-	-	1,122
-	-	-	-	-	-	-	-	1,728
-	-	-	-	-	-	-	(24)	(9,616)
-	-	-	-	-	-	-	(24)	(6,122)
959	(2,230)	313	(64)	774	(100)	3,692	3,102	(12,377)
-	-	-	-	24	-	54	-	3,268
-	-	-	-	-	1,692	-	-	189,269
-	-	-	-	-	-	-	-	(933)
959	(2,230)	313	(64)	798	1,592	3,746	3,102	179,227
1,517	4,400	252	37	16,065	1,718	14,515	31,728	865,980
$ 2,476	$ 2,170	$ 565	$ (27)	$ 16,863	$ 3,310	$ 18,261	$ 34,830	$ 1,045,207

STATE OF TENNESSEE

Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Strategic Technology Solutions	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 3,176	$ 16,888	$ 478	$ 21	$ 1,149	$ 366,592
Receipts from interfund services provided	146,535	48,660	40,227	7,261	125,830	401,259
Payments to suppliers	(98,343)	(43,803)	(21,785)	(2,813)	(73,223)	(769,260)
Payments to employees	(33,718)	-	(1,436)	(3,100)	(1)	-
Payments for interfund services used	(10,845)	(6,966)	(5,702)	(387)	(60,982)	(2,067)
Net cash provided by (used for) operating activities	6,805	14,779	11,782	982	(7,227)	(3,476)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	2,343	-	3,849	322	180,130	-
Tax revenues received	-	1	-	-	-	-
Net cash provided by (used for) noncapital financing activities	2,343	1	3,849	322	180,130	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of capital assets	(7,805)	-	(21,806)	(253)	(24,726)	-
Bond and commercial paper proceeds	-	-	-	-	10,293	-
Proceeds from sale of capital assets	-	-	2,303	-	4,585	-
Insurance claims recoveries	-	-	339	-	31	-
Bond issuance cost	-	-	-	-	(46)	-
Principal payments	-	-	-	-	(24,441)	-
Interest paid	-	-	-	-	(9,331)	-
Capital contributions	-	-	644	-	-	-
Net cash provided by (used for) capital and related financing activities	(7,805)	-	(18,520)	(253)	(43,635)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	-	259	-	-	852	617
Net cash provided by (used for) investing activities	-	259	-	-	852	617
Net increase (decrease) in cash and cash equivalents	1,343	15,039	(2,889)	1,051	130,120	(2,859)
Cash and cash equivalents, July 1	119,300	127,937	50,808	2,287	287,236	303,941
Cash and cash equivalents, June 30	$ 120,643	$ 142,976	$ 47,919	$ 3,338	$ 417,356	$ 301,082
Reconciliation of operating income to net cash provided by (used for) operating activities						
Operating income (loss)	$ 1,567	$ 9,148	$ (1,070)	$ 967	$ (22,817)	$ (520)
Adjustment to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	8,537	-	13,304	185	12,130	-
Loss (gain) on disposal of capital assets	610	-	(451)	-	-	-
Bond issuance costs	-	-	-	-	46	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:						
(Increase) decrease in receivables	35	-	(30)	-	-	(609)
(Increase) decrease in due from other funds	(348)	-	-	-	35	-
(Increase) decrease in inventories	7	-	-	(13)	-	-
(Increase) decrease in prepaids	-	-	-	-	-	-
(Increase) decrease in net pension assets	(7)	-	-	(2)	-	-
(Increase) decrease in deferred outflows of resources	(1,709)	-	4	(133)	-	-
Increase (decrease) in accounts payable	3,809	6,064	303	469	783	(1,796)
Increase (decrease) in due to other funds	(58)	3	(3)	-	2,596	-
Increase (decrease) in due to component units	(5)	(429)	-	-	-	-
Increase (decrease) in deferred inflows of resources	(5,633)	-	(275)	(491)	-	-
Increase (decrease) in unearned revenue	-	(7)	-	-	-	(551)
Total adjustments	5,238	5,631	12,852	15	15,590	(2,956)
Net cash provided by (used for) operating activities	$ 6,805	$ 14,779	$ 11,782	$ 982	$ (7,227)	$ (3,476)
Schedule of noncash capital and related financing activities						
Contributions of capital assets	$ (990)	$ -	$ 68	$ -	$ 3,411	$ -
Refunding bond premium	-	-	-	-	1,642	-
Refunding bond proceeds	-	-	-	-	12,454	-
Total noncash capital and related financing activities	$ (990)	$ -	$ 68	$ -	$ 17,507	$ -

STATE OF TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 209	$ 2,421	$ 1,661	$ 13	$ 37	$ 127	$ 12,029	$ 173	$ 404,974
18,257	3,441	1,957	807	14,549	13,303	36,866	33,695	892,647
(14,457)	(1,435)	(676)	(342)	(1,539)	(936)	(33,613)	(5,126)	(1,067,351)
(1,530)	(5,564)	(1,457)	(441)	(11,241)	(11,627)	(8,073)	(8,238)	(86,426)
(1,008)	(1,415)	(882)	(127)	(1,207)	(1,388)	(1,542)	(4,524)	(99,042)
1,471	(2,552)	603	(90)	599	(521)	5,667	15,980	44,802
-	-	-	-	-	1,692	-	-	188,336
-	-	-	-	-	-	-	-	1
-	-	-	-	-	1,692	-	-	188,337
(49)	(6)	-	-	-	-	(385)	(2,636)	(57,666)
-	-	-	-	-	-	-	-	10,293
-	-	-	-	-	-	-	-	6,888
-	-	-	-	-	-	-	-	370
-	-	-	-	-	-	-	-	(46)
-	-	-	-	-	-	-	(4,380)	(28,821)
-	-	-	-	-	-	-	(25)	(9,356)
-	-	-	-	-	-	-	-	644
(49)	(6)	-	-	-	-	(385)	(7,041)	(77,694)
-	-	-	-	-	-	-	-	1,728
-	-	-	-	-	-	-	-	1,728
1,422	(2,558)	603	(90)	599	1,171	5,282	8,939	157,173
885	7,073	750	321	19,969	6,562	3,474	17,207	947,750
$ 2,307	$ 4,515	$ 1,353	$ 231	$ 20,568	$ 7,733	$ 8,756	$ 26,146	$ 1,104,923
$ 959	$ (2,230)	$ 313	$ (64)	$ 774	$ (100)	$ 3,692	$ 3,126	$ (6,255)
420	3	17	3	7	93	1,733	12,695	49,127
142	-	-	-	-	-	-	1	302
-	-	-	-	-	-	-	-	46
-	(1)	24	-	-	-	52	-	(529)
-	-	-	-	-	(27)	-	-	(340)
(4)	-	430	-	-	-	1,350	-	1,770
24	-	-	-	-	-	-	-	24
(3)	(6)	(2)	-	(3)	(4)	(8)	(4)	(39)
(10)	(229)	(49)	(26)	(503)	(477)	106	(467)	(3,493)
225	871	94	64	1,638	1,782	374	2,303	16,983
(1)	(2)	(1)	-	5	6	(5)	3	2,543
-	-	-	-	5	-	(2)	-	(431)
(281)	(958)	(223)	(67)	(1,324)	(1,794)	(1,625)	(1,677)	(14,348)
-	-	-	-	-	-	-	-	(558)
512	(322)	290	(26)	(175)	(421)	1,975	12,854	51,057
$ 1,471	$ (2,552)	$ 603	$ (90)	$ 599	$ (521)	$ 5,667	$ 15,980	$ 44,802
$ -	$ -	$ -	$ -	$ 24	$ -	$ 54	$ -	$ 2,567
-	-	-	-	-	-	-	-	1,642
-	-	-	-	-	-	-	-	12,454
$ -	$ -	$ -	$ -	$ 24	$ -	$ 54	$ -	$ 16,663

FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the state in a fiduciary capacity.

Pension and Other Employee Benefit Trust:

Pension Trust Fund—The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. The level of contributions is determined by actuarial valuation.

Employee Flexible Benefits—Established in January 1988, this fund is used to account for monies contributed by employees under the IRC Section 125 cafeteria plan.

Investment Trust Funds:

Local Government Investment Pool—This fund was created in July 1980 to account for local government deposits with the state treasurer and the related interest earning. Through this program, the participating local governments achieve higher investment income by pooling their funds than they realize individually.

Intermediate Term Investment Fund—This fund was created for deposits with the state treasurer to be a longer-term option for investment of funds as an alternative to the State Pooled Investment Fund, which includes the Local Government Investment Pool (“LGIP”).

External Retirement Investment Fund—This fund accounts for assets in the custody of the Treasurer, solely for investment purposes, that consist exclusively of assets of individual retirement accounts.

Private-Purpose Trust Funds:

College Savings Plans—The Baccalaureate Education System Trust (BEST) was created by the General Assembly in 1996, for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. No other state programs are supported from this trust. As of November 22, 2010, the BEST Board of Trustees voted to stop selling new tuition units in the prepaid plan. In September 2012, the State of Tennessee introduced the Tennessee Stars College Savings 529 Program (TNStars). This program offers parents and other interested persons a way to save for children’s college expenses with investment options and special tax advantages. The program is not guaranteed by the State of Tennessee or any other entity.

Children in State Custody—This fund accounts for monies held and used for the benefit of children in the custody of the state. Monies held are from various sources including the Social Security Administration.

Oak Ridge Monitoring—Created in 2000 through a consent order won by the state with the United States Department of Energy (DOE), this fund is used to account for monies paid annually through fiscal year 2015 by the federal government to the state for future expenses at the Environmental Management Waste Management Facility at Oak Ridge. After the federal landfill is closed, the income generated from the corpus is to be used for monitoring and maintenance of the facility to ensure there is no radioactive leakage.

TNInvestco—Established in 2009, this fund was created by the General Assembly for the purpose of increasing the flow of capital to innovative new companies in Tennessee that are in the early stages of development. This fund accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act.

Insurance Receiverships—The Commissioner of Commerce and Insurance is designated the statutory receiver of insurers ordered into receivership and is charged with the duty to secure and distribute the assets for the benefit of policy holders, creditors, and other claimants under court supervision.

Other—These funds account for trust arrangements under which the principal and income benefit individuals or private organizations.

Agency Funds:

Local Government Fund—The purpose of the Local Government Fund is to serve as a clearing mechanism for state-shared taxes and other funds distributed to the various counties and cities of the state.

Contingent Revenue Fund—This fund is used to account for refundable deposits and other receipts held in trust until the state has the right to transfer them to operating funds or until there is proper authorization to disburse them directly to others.

Retiree Health Funds—These funds are used to account for funding received and claims paid on behalf of retirees who elect coverage. Pre- and post-65 retired employees of the state, local education, and local government employers are included.

External Pension Plan—This fund is used to account for activities and balances of an external retirement plan whose administrative and investing functions have been contracted to the Department of Treasury of the State of Tennessee.

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2016
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Teacher Hybrid Pension Plan	Total Pension
ASSETS				
Cash and cash equivalents	$ 12,613	$ 12,136	$ 31	$ 24,780
Cash collateral on loaned securities	3,825,099	3,680,321	9,445	7,514,865
Receivables:				
Employer contributions	20,517	32,809	1,676	55,002
Member contributions	6,264	17,862	2,076	26,202
Due from other funds	9,328	-	-	9,328
Due from component units	9,784	-	-	9,784
Investments, at fair value:				
Net investment in TRGT	21,980,213	21,148,272	54,272	43,182,757
Capital assets, at cost:				
Machinery and equipment	18,904	18,188	46	37,138
Less - accumulated depreciation	(4,635)	(4,459)	(11)	(9,105)
Total assets	25,878,087	24,905,129	67,535	50,850,751
LIABILITIES				
Accounts payable and accruals	14,800	14,769	107	29,676
Securities lending collateral	3,825,099	3,680,321	9,445	7,514,865
Total liabilities	3,839,899	3,695,090	9,552	7,544,541
NET POSITION				
Restricted for				
Pension benefits	22,038,188	21,210,039	57,983	43,306,210
Employees' flexible benefits	-	-	-	-
Total net position	$ 22,038,188	$ 21,210,039	$ 57,983	$ 43,306,210

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2016
(Expressed in Thousands)

Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
$ 1,039	$ 25,819
-	7,514,865
-	55,002
-	26,202
191	9,519
3	9,787
-	43,182,757
-	37,138
-	(9,105)
1,233	50,851,984
9	29,685
-	7,514,865
9	7,544,550
-	43,306,210
1,224	1,224
$ 1,224	$ 43,307,434

STATE OF TENNESSEE

Combining Statement of Changes in Fiduciary Net Position

Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Teacher Hybrid Pension Plan	Total Pension
ADDITIONS				
Contributions:				
Members	$ 90,919	$ 181,763	$ 21,856	$ 294,538
Employers	655,526	327,522	17,539	1,000,587
Other	2,158	-	-	2,158
Total contributions	748,603	509,285	39,395	1,297,283
Investment income:				
Net increase in fair value of investments	590,437	569,538	1,027	1,161,002
Securities lending income	24,532	23,664	43	48,239
Total investment income	614,969	593,202	1,070	1,209,241
Less: Investment expenses	(24,512)	(23,645)	(43)	(48,200)
Securities lending expense	(9,093)	(8,772)	(16)	(17,881)
Net investment income	581,364	560,785	1,011	1,143,160
Total additions	1,329,967	1,070,070	40,406	2,440,443
DEDUCTIONS				
Annuity benefits	1,193,591	1,113,510	-	2,307,101
Death benefits	3,292	2,312	-	5,604
Other	-	-	-	-
Refunds	22,813	22,192	283	45,288
Administrative expenses	12,466	6,894	820	20,180
Total deductions	1,232,162	1,144,908	1,103	2,378,173
Change in net position	97,805	(74,838)	39,303	62,270
Net position, July 1	21,940,383	21,284,877	18,680	43,243,940
Net position, June 30	$ 22,038,188	$ 21,210,039	$ 57,983	$ 43,306,210

STATE OF TENNESSEE

Combining Statement of Changes in Fiduciary Net Position

Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
$ 5,748	$ 300,286
-	1,000,587
-	2,158
5,748	1,303,031
-	1,161,002
-	48,239
-	1,209,241
-	(48,200)
-	(17,881)
-	1,143,160
5,748	2,446,191
-	2,307,101
-	5,604
5,458	5,458
-	45,288
135	20,315
5,593	2,383,766
155	62,425
1,069	43,245,009
$ 1,224	$ 43,307,434

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Investment Trust Funds
June 30, 2016
(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	External Retirement Investment Fund	Total Investment Trust Funds
ASSETS				
Cash and cash equivalents	$ 985,985	$ 1,148	$ -	$ 987,133
Receivables:				
Interest and dividends	1,988	284	-	2,272
Investments, at fair value:				
Government bonds	-	60,881	-	60,881
Net investment in TRGT	-	-	2,998	2,998
Investments, at amortized cost:				
Short-term investments	1,014,366	-	-	1,014,366
Total assets	2,002,339	62,313	2,998	2,067,650
NET POSITION				
Amounts held in trust for:				
Pool participants	2,002,339	62,313	2,998	2,067,650
Total net position	$ 2,002,339	$ 62,313	$ 2,998	$ 2,067,650

STATE OF TENNESSEE
Combining Statement of Changes in Fiduciary Net Position
Investment Trust Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	External Retirement Investment Fund	Total Investment Trust Funds
ADDITIONS				
Investment income:				
Interest	$ 5,263	$ 497	$ 109	$ 5,869
Total investment income	5,263	497	109	5,869
Less: Investment expenses	(809)	(32)	(2)	(843)
Net investment income	4,454	465	107	5,026
Capital share transactions:				
Shares sold	3,164,671	-	2,891	3,167,562
Less: Shares redeemed	(2,891,852)	(100,000)	-	(2,991,852)
Net capital share transactions	272,819	(100,000)	2,891	175,710
Total additions	277,273	(99,535)	2,998	180,736
Change in net position	277,273	(99,535)	2,998	180,736
Net position, July 1	1,725,066	161,848	-	1,886,914
Net position, June 30	$ 2,002,339	$ 62,313	$ 2,998	$ 2,067,650

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2016
(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco
ASSETS				
Cash and cash equivalents	$ 7,695	$ 4,798	$ 17,624	$ 12,851
Receivables:				
Taxes	-	-	-	-
Interest and dividends	-	-	-	-
Other	34	-	-	-
Due from other funds	3	-	-	-
Investments, at fair value:				
Mutual funds	104,869	-	-	-
Government bonds	-	-	-	-
Corporate bonds	-	-	-	-
Total assets	112,601	4,798	17,624	12,851
LIABILITIES				
Accounts payable and accruals	164	2	-	-
Due to other funds	3	-	-	-
Total liabilities	167	2	-	-
NET POSITION				
Restricted for:				
Individuals, organizations and other governments	112,434	4,796	17,624	12,851
Total net position	$ 112,434	$ 4,796	$ 17,624	$ 12,851

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2016
(Expressed in Thousands)

Insurance Receiverships	Other	Total Private-Purpose Trust Funds
$ 12,784	$ 3,276	$ 59,028
-	57	57
7	-	7
-	-	34
-	-	3
176	38	105,083
371	-	371
1,207	-	1,207
14,545	3,371	165,790
14,545	-	14,711
-	-	3
14,545	-	14,714
-	3,371	151,076
$ -	$ 3,371	$ 151,076

STATE OF TENNESSEE

Combining Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco
ADDITIONS				
Contributions:				
Federal	$ -	$ 5,986	$ -	$ -
Private	33,928	-	-	-
State	803	-	-	-
Other	-	20,639	-	3,241
Total contributions	34,731	26,625	-	3,241
Investment income:				
Net increase/(decrease) in fair value of investments	(948)	-	-	-
Interest	3,609	9	41	35
Total investment income	2,661	9	41	35
Total additions	37,392	26,634	41	3,276
DEDUCTIONS				
Payments made under trust agreements	12,157	4,205	-	6,923
Refunds	24,826	1,639	-	-
Administrative expenses	330	17,130	-	2,662
Total deductions	37,313	22,974	-	9,585
Change in net position	79	3,660	41	(6,309)
Net position, July 1	112,355	1,136	17,583	19,160
Net position, June 30	$ 112,434	$ 4,796	$ 17,624	$ 12,851

STATE OF TENNESSEE
Combining Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Insurance Receiverships	Other	Total Private-Purpose Trust Funds
$ -	$ -	$ 5,986
-	392	34,320
-	-	803
-	74	23,954
-	466	65,063
8	-	(940)
80	7	3,781
88	7	2,841
88	473	67,904
88	348	23,721
-	-	26,465
-	-	20,122
88	348	70,308
-	125	(2,404)
-	3,246	153,480
$ -	$ 3,371	$ 151,076

This Page Intentionally Left Blank

STATE OF TENNESSEE

Combining Statement of Assets and Liabilities

Agency Funds
June 30, 2016
(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	External Pension Plan	Total Agency Funds
ASSETS					
Cash and cash equivalents	$ 371,242	$ 114,730	$ 34,994	$ -	$ 520,966
Receivables:					
Account	-	26	3,467	-	3,493
Taxes	437,793	-	-	-	437,793
Due from other funds	-	6	-	-	6
Investments, at fair value:					
Net investment in TRGT	-	-	-	23,584	23,584
Total assets	809,035	114,762	38,461	23,584	985,842
LIABILITIES					
Accounts payable and accruals	809,035	12,653	16,996	-	838,684
Amount held in custody for others	-	102,109	21,465	23,584	147,158
Total liabilities	$ 809,035	$ 114,762	$ 38,461	$ 23,584	$ 985,842

STATE OF TENNESSEE
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Local Government Fund	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 363,902	$ 12,010,857	$ (12,003,517)	$ 371,242
Accounts receivable	420,772	512,203	(495,182)	437,793
Total assets	784,674	12,523,060	(12,498,699)	809,035
Liabilities				
Accounts payable and accruals	784,674	5,747,852	(5,723,491)	809,035
Total liabilities	$ 784,674	$ 5,747,852	$ (5,723,491)	$ 809,035

Contingent Revenue Fund	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 123,148	$ 2,323,683	$ (2,332,101)	$ 114,730
Accounts receivable	7	79	(60)	26
Due from other funds	9	6	(9)	6
Total assets	123,164	2,323,768	(2,332,170)	114,762
Liabilities				
Accounts payable and accruals	12,348	329,574	(329,269)	12,653
Amounts held in custody for others	110,816	615,360	(624,067)	102,109
Total liabilities	$ 123,164	$ 944,934	$ (953,336)	$ 114,762

Retiree Health Plans	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 30,646	$ 254,440	$ (250,092)	$ 34,994
Accounts receivable	2,696	14,433	(13,662)	3,467
Total assets	33,342	268,873	(263,754)	38,461
Liabilities				
Accounts payable and accruals	17,230	30,191	(30,425)	16,996
Amounts held in custody for others	16,112	257,997	(252,644)	21,465
Total liabilities	$ 33,342	$ 288,188	$ (283,069)	$ 38,461

External Pension Plan	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ -	$ 1,742	$ (1,742)	$ -
Accounts receivable	-	300	(300)	-
Investments, at fair value:				
Net investment in TRGT	-	24,322	(738)	23,584
Total assets	-	26,364	(2,780)	23,584
Liabilities				
Accounts payable and accruals	-	733	(733)	-
Amounts held in custody for others	-	25,165	(1,581)	23,584
Total liabilities	$ -	$ 25,898	$ (2,314)	$ 23,584

STATE OF TENNESSEE
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Total - All Agency Funds	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 517,696	$ 14,590,722	$ (14,587,452)	$ 520,966
Accounts receivable	423,475	527,015	(509,204)	441,286
Due from other funds	9	6	(9)	6
Investments, at fair value:				
Net investment in TRGT	-	24,322	(738)	23,584
Total assets	941,180	15,142,065	(15,097,403)	985,842
Liabilities				
Accounts payable and accruals	814,252	6,108,350	(6,083,918)	838,684
Amounts held in custody for others	126,928	898,522	(878,292)	147,158
Total liabilities	$ 941,180	$ 7,006,872	$ (6,962,210)	$ 985,842

COMPONENT UNITS

Tennessee Student Assistance Corporation (TSAC) —The corporation was created by the legislature in 1974 and is responsible for administering student financial assistance programs supported by federal and state funds.

Tennessee Community Services Agency—In 1989, the Legislature created twelve Community Services Agencies which are to provide a mechanism to coordinate health care for indigents. In 1996, the title and focus of these agencies changed to that of facilitating the providing of services to children and other citizens from state agencies. The state has significant oversight responsibilities for these agencies, therefore, they have been incorporated into the Comprehensive Annual Financial Report. In 2009, all CSAs merged operations into one agency.

Tennessee Housing Development Agency—Created by the legislature in 1973, the purpose of this agency is to improve the quality of housing available to lower and moderate income Tennesseans. This objective is accomplished in part by (1) making funds available for loans for residential construction or rehabilitation, (2) making or participating in the making of insured mortgage loans, and (3) purchasing existing mortgages from lending institutions. These programs are funded primarily from the sale of revenue bonds or notes.

Tennessee Education Lottery Corporation—Created by the General Assembly in 2003, the purpose of the corporation is to operate a state lottery with net proceeds to be transferred to the state to be used for education programs and purposes in accordance with the Constitution of Tennessee, consisting primarily of financial assistance to Tennessee citizens to enable such citizens to attend post-secondary educational institutions within Tennessee.

Tennessee Board of Regents—The Tennessee University and Community College System was created by the General Assembly in 1972. Its member institutions (six universities, thirteen community colleges, and twenty-seven colleges of applied technology) serve the state and its citizenry by providing education opportunities, research, continuing education and public activities. As a system, the institutions span the state and operate as a coordinated network of public education with each campus offering unique characteristics and services. The system consists of the following institutions:

UNIVERSITIES

Austin Peay State University, Clarksville
East Tennessee State University, Johnson City
Middle Tennessee State University, Murfreesboro
Tennessee State University, Nashville
Tennessee Technological University, Cookeville
University of Memphis, Memphis

COMMUNITY COLLEGES

Chattanooga State Community College, Chattanooga
Cleveland State Community College, Cleveland
Columbia State Community College, Columbia
Dyersburg State Community College, Dyersburg
Jackson State Community College, Jackson
Motlow State Community College, Tullahoma
Nashville State Community College, Nashville
Northeast State Community College, Blountville
Pellissippi State Community College, Knoxville
Roane State Community College, Harriman
Southwest Tennessee Community College, Memphis
Volunteer State Community College, Gallatin
Walters State Community College, Morristown

COLLEGES OF APPLIED TECHNOLOGY

Athens	Crump	Hartsville	Knoxville	Memphis	Newbern	Ripley
Chattanooga	Dickson	Hohenwald	Livingston	Morristown	Oneida	Shelbyville
Covington	Elizabethton	Jacksboro	McKenzie	Murfreesboro	Paris	Whiteville
Crossville	Harriman	Jackson	McMinnville	Nashville	Pulaski	

The purpose of these colleges is to provide occupational and technical training for current and future employees of existing and prospective industries and businesses of this state.

The University of Tennessee Board of Trustees—The University of Tennessee was first established in 1794 by the Legislature of the Federal Territory. Since that time, it has grown into an institution of twenty-four different colleges and schools. The locations of its four primary campuses, various experimental stations and extension services have made the university state-wide in physical presence as well as in services. The main campus is located in Knoxville. The other primary campuses are located in Memphis, Martin and Chattanooga.

Local Development Authority—This authority was created in 1978 for the purpose of providing to local governments, through the issuing of revenue bonds or notes, the financing assistance previously provided by the State Loan Program. The Authority has also issued bonds to assist non-profit corporations in the construction of mental health, developmental disabilities, or alcohol and drug facilities. In addition, the Authority may assist small business concerns in financing pollution control facilities, farmers in financing certain capital improvements and airport authorities and municipal airports in financing improvements.

Tennessee Veterans' Homes Board—Created in 1988, the primary purpose of the homes is to provide support and care for honorably discharged veterans of the United States Armed Forces. The revenue sources are the Veterans' Administration, Medicaid, and a user fee.

Federal Family Education Loan Program – This program is administered by TSAC, the state's designated federal guaranty agency. As part of the program, TSAC guarantees student loans made by lending institutions to students attending post-secondary schools as authorized by Title IV of the Higher Education Act of 1965.

Tennessee State School Bond Authority (TSSBA)—Established in 1965, the TSSBA provides a mechanism for financing building projects for the state's higher education institutions. Agreements are executed between the governing boards of the institutions and the TSSBA, and revenue bonds are issued using the constructed facilities as collateral. Charges levied on the universities provide the funds necessary for payment of principal and interest on bonds. The Authority also issues Qualified Zone Academy Bonds, which are part of a federal government program to finance loans to qualifying K-12 schools in the state. In addition, under the American Recovery and Reinvestment Act of 2009, the Authority issued Qualified School Construction Bonds to finance the construction, repair, or rehabilitation of public school facilities.

Certified Cotton Growers' Organization—This organization was formed to aid in the eradication of the boll weevil. Revenues are collected from assessments on cotton growers and from state appropriations.

Access Tennessee—Established in 2007, this health insurance pool offers health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions.

.

STATE OF TENNESSEE
Combining Statement of Net Position
Component Units
June 30, 2016
(Expressed in Thousands)

	Governmental Fund Types		Proprietary Fund Types			
	Tennessee Student Assistance Corporation	Tennessee Community Services Agency	Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee
ASSETS						
Cash and cash equivalents	$ 1,776	$ 211	$ 217,991	$ 111,760	$ 753,091	$ 944,323
Investments	-	-	116,864	-	189,590	71,436
Receivables, net	6,348	367	42,365	68,670	79,475	82,881
Due from primary government	-	726	-	-	18,043	28,534
Inventories, at cost	-	-	-	-	2,811	7,840
Prepayments	-	2	1	6,964	8,885	3,610
Loans receivable	-	-	1,925,132	-	-	-
Fair value of derivatives	-	-	-	-	-	-
Other	-	-	-	-	441	5,003
Restricted assets:						
Cash and cash equivalents	-	-	13,647	30	243,865	230,145
Investments	-	-	157,864	6,976	484,499	948,383
Receivables, net	-	-	1,326	-	109,848	236,303
Net pension assets	3	8,729	13	-	460	326
Capital assets:						
Land, at cost	-	-	-	-	155,692	90,202
Infrastructure	-	-	-	-	435,514	178,214
Structures and improvements, at cost	-	-	-	2,579	3,208,835	2,680,460
Machinery and equipment, at cost	91	190	2,631	5,767	491,135	588,066
Less accumulated depreciation	(25)	(97)	(1,456)	(5,247)	(1,688,705)	(1,461,220)
Construction in progress	-	-	-	-	165,828	427,094
Total assets	8,193	10,128	2,476,378	197,499	4,659,307	5,061,600
DEFERRED OUTFLOWS OF RESOURCES	629	37	3,142	-	111,022	94,017
LIABILITIES						
Accounts payable and accruals	1,873	105	43,767	84,403	149,784	189,217
Due to primary government	22	13	72	100,832	9,899	5,799
Unearned revenue	-	-	1,161	1,364	71,308	90,658
Other	-	-	-	-	16,891	15,420
Noncurrent liabilities:						
Due within one year	192	86	101,082	1,155	47,096	82,934
Due in more than one year	2,022	364	1,821,218	9,715	1,090,275	1,330,111
Total liabilities	4,109	568	1,967,300	197,469	1,385,253	1,714,139
DEFERRED INFLOWS OF RESOURCES	306	1,571	1,288	-	48,022	35,987
NET POSITION						
Net investment in capital assets	66	93	1,175	3,099	2,065,958	1,587,344
Restricted for:						
Debt service	-	-	-	-	3,521	870
Capital projects	-	-	-	-	42,003	52,024
Single family bond programs	-	-	417,331	-	-	-
Pensions	3	8,729	13	-	460	326
Other	6,276	-	12,770	30	227,518	444,882
Permanent and endowment:						
Expendable	-	-	-	-	16,263	113,516
Nonexpendable	-	-	-	-	338,630	767,424
Unrestricted	(1,938)	(796)	79,643	(3,099)	642,701	439,105
Total net position	$ 4,407	$ 8,026	$ 510,932	$ 30	$ 3,337,054	$ 3,405,491

STATE OF TENNESSEE

Combining Statement of Net Position
Component Units
June 30, 2016
(Expressed in Thousands)

Proprietary Fund Types						
Local Development Authority	Tennessee Veterans' Homes Board	Federal Family Education Loan Program	Tennessee State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
$ 15,053	$ 11,619	$ 39,214	$ 80,825	$ 341	$ 56,198	$ 2,232,402
-	-	-	-	4,045	-	381,935
-	4,266	7,241	14,347	21	248	306,229
-	600	-	-	-	-	47,903
-	165	-	-	-	-	10,816
-	240	-	-	-	-	19,702
2,991	-	-	1,865,256	-	-	3,793,379
-	-	-	1,791	-	-	1,791
-	493	-	-	10	-	5,947
936	3,469	3,723	10,441	-	-	506,256
-	-	-	185,259	-	-	1,782,981
-	-	-	-	-	-	347,477
-	2,683	-	-	-	-	12,214
-	1,655	-	-	-	-	247,549
-	2,035	-	-	-	-	615,763
-	54,508	-	-	-	-	5,946,382
-	7,472	-	-	-	-	1,095,352
-	(16,926)	-	-	-	-	(3,173,676)
-	3,120	-	-	-	-	596,042
18,980	75,399	50,178	2,157,919	4,417	56,446	14,776,444
179	1,871	-	42,770	-	-	253,667
113	2,495	11,737	16,978	200	2,945	503,617
-	145	-	-	62	-	116,844
-	-	-	2,252	-	-	166,743
-	141	-	-	-	-	32,452
775	989	-	66,595	-	-	300,904
3,154	5,618	-	2,095,105	-	-	6,357,582
4,042	9,388	11,737	2,180,930	262	2,945	7,478,142
-	962	-	1,791	-	-	89,927
-	46,647	-	-	-	-	3,704,382
-	375	-	-	-	-	4,766
-	-	-	-	-	-	94,027
-	-	-	-	-	-	417,331
-	2,683	-	-	-	-	12,214
-	7,620	3,723	-	-	-	702,819
-	-	-	-	-	-	129,779
-	-	-	-	-	-	1,106,054
15,117	9,595	34,718	17,968	4,155	53,501	1,290,670
$ 15,117	$ 66,920	$ 38,441	$ 17,968	$ 4,155	$ 53,501	$ 7,462,042

STATE OF TENNESSEE
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2016
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Component units					
Higher education institutions:					
Tennessee Board of Regents	$ 2,454,272	$ 986,795	$ 755,476	$ 120,693	$ (591,308)
University of Tennessee	2,120,142	770,231	883,793	111,282	(354,836)
Total higher education institutions	4,574,414	1,757,026	1,639,269	231,975	(946,144)
Loan programs:					
Tennessee Student Assistance Corporation	86,366	3,522	7,230	-	(75,614)
Tennessee Housing Development Agency	385,860	107,287	275,060	-	(3,513)
Local Development Authority	1,023	297	39	-	(687)
Federal Family Education Loan Program	163,825	21,564	125,909	-	(16,352)
Tennessee State School Bond Authority	90,512	75,210	15,146	-	(156)
Total loan programs	727,586	207,880	423,384	-	(96,322)
Tennessee Education Lottery	1,515,430	1,515,176	37	-	(217)
Other programs:					
Tennessee Community Services Agency	4,306	842	3,619	-	155
Access Tennessee Insurance Plan	1,888	(2,392)	-	-	(4,280)
Tennessee Veterans' Homes Board	45,379	43,522	36	512	(1,309)
Certified Cotton Growers'	479	208	-	-	(271)
Total other programs	52,052	42,180	3,655	512	(5,705)
Total	$ 6,869,482	$ 3,522,262	$ 2,066,345	$ 232,487	$ (1,048,388)

STATE OF TENNESSEE
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2016
(Expressed in Thousands)

General Revenues							
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change in Net Position	Net Position July 1	Net Position June 30
$ 697,255	$ 39,365	$ 6,860	$ 5,537	$ 8,239	$ 165,948	$ 3,171,106	$ 3,337,054
518,655	2,171	28,858	-	54,447	249,295	3,156,196	3,405,491
1,215,910	41,536	35,718	5,537	62,686	415,243	6,327,302	6,742,545
75,825	-	-	-	-	211	4,196	4,407
-	-	38	-	-	(3,475)	514,407	510,932
-	-	-	-	-	(687)	15,804	15,117
1,259	-	139	-	-	(14,954)	53,395	38,441
-	9,589	-	-	-	9,433	8,535	17,968
77,084	9,589	177	-	-	(9,472)	596,337	586,865
-	-	208	-	-	(9)	39	30
-	-	1	-	-	156	7,870	8,026
3,949	-	123	-	-	(208)	53,709	53,501
-	43	-	-	-	(1,266)	68,186	66,920
-	-	51	-	-	(220)	4,375	4,155
3,949	43	175	-	-	(1,538)	134,140	132,602
$ 1,296,943	$ 51,168	$ 36,278	$ 5,537	$ 62,686	$ 404,224	$ 7,057,818	$ 7,462,042

This Page Intentionally Left Blank

STATE OF TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Type Component Units
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee Community Services Agency	Total Governmental Fund Type Component Units
REVENUES			
Interest on investments	$ 427	$ 1	$ 428
Departmental services	86,146	4,461	90,607
Other	3	-	3
Total revenues	86,576	4,462	91,038
EXPENDITURES			
Education	86,642	-	86,642
Health and social services	-	4,765	4,765
Total expenditures	86,642	4,765	91,407
Excess (deficiency) of revenues over (under) expenditures	(66)	(303)	(369)
Fund balances, July 1	6,295	1,491	7,786
Fund balances, June 30	$ 6,229	$ 1,188	$ 7,417
Reconciliation to net position:			
Fund balances per above	$ 6,229	$ 1,188	$ 7,417
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	66	93	159
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(799)	(450)	(1,249)
Resources and obligations related to pension are not available nor due and payable, respective, in the current period and therefore are not reported in the fund.	(1,089)	7,195	6,106
Net position on statement of net position	$ 4,407	$ 8,026	$ 12,433

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 107,287	$ 1,514,913	$ 1,168,915	$ 1,313,046	$ 297
Investment income	5,872	-	5,535	8,440	39
Grants and contributions	-	-	-	-	-
Other	-	263	57,160	121,287	-
Total operating revenues	113,159	1,515,176	1,231,610	1,442,773	336
Operating expenses					
Personal services	15,845	14,273	1,494,556	1,358,982	-
Contractual services	4,989	139,828	-	-	176
Mortgage service fees	6,755	-	-	-	-
Materials and supplies	1,233	-	558,171	533,340	-
Rentals and insurance	18	1,723	-	-	-
Interest	62,045	-	-	-	200
Depreciation and amortization	2,822	544	103,681	118,731	-
Lottery prizes	-	954,403	-	-	-
Nursing home services	-	-	-	-	-
Scholarships and fellowships	-	-	263,907	58,368	-
Benefits	-	-	-	-	-
Other	10,254	10,565	-	-	8
Total operating expenses	103,961	1,121,336	2,420,315	2,069,421	384
Operating income (loss)	9,198	393,840	(1,188,705)	(626,648)	(48)
Nonoperating revenues (expenses)					
Grant income	269,226	-	553,646	199,916	-
Grant expense	(281,899)	-	-	-	-
Interest expense	-	-	(25,235)	(39,294)	-
Interest income	-	208	(8,183)	16,691	-
Payments from primary government	-	-	697,255	518,655	-
Gifts	-	-	8,811	9,980	-
Payments to primary government	-	(394,048)	-	-	(639)
Other	-	(9)	(2,865)	(15,673)	-
Total nonoperating revenues (expenses)	(12,673)	(393,849)	1,223,429	690,275	(639)
Income (loss) before capital grants and contributions	(3,475)	(9)	34,724	63,627	(687)
Capital payments from primary government	-	-	109,523	97,052	-
Capital grants and gifts	-	-	13,463	14,230	-
Additions to permanent endowments	-	-	8,238	54,446	-
Other	-	-	-	19,940	-
Change in net position	(3,475)	(9)	165,948	249,295	(687)
Net position, July 1, restated	514,407	39	3,171,106	3,156,196	15,804
Net position, June 30	$ 510,932	$ 30	$ 3,337,054	$ 3,405,491	$ 15,117

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

Tennessee Veterans' Homes Board	Federal Family Education Loan Program	Tennessee State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
$ 39,497	$ 21,564	$ 75,210	$ 208	$ (2,392)	$ 4,238,545
-	-	15,146	-	-	35,032
-	125,909	-	-	-	125,909
50	-	-	-	-	178,760
39,547	147,473	90,356	208	(2,392)	4,578,246
28,466	-	-	-	-	2,912,122
-	145,250	994	479	109	291,825
-	-	-	-	-	6,755
-	-	-	-	-	1,092,744
-	-	-	-	1,874	3,615
-	-	75,579	-	-	137,824
1,785	-	-	-	-	227,563
-	-	-	-	-	954,403
14,904	-	-	-	-	14,904
-	-	-	-	-	322,275
-	-	-	-	(95)	(95)
-	-	13,939	-	-	34,766
45,155	145,250	90,512	479	1,888	5,998,701
(5,608)	2,223	(156)	(271)	(4,280)	(1,420,455)
3,975	-	9,589	-	-	1,036,352
-	-	-	-	-	(281,899)
(220)	-	-	-	-	(64,749)
37	139	-	51	123	9,066
-	1,259	-	-	3,949	1,221,118
43	-	-	-	-	18,834
-	(7,000)	-	-	-	(401,687)
(5)	(11,575)	-	-	-	(30,127)
3,830	(17,177)	9,589	51	4,072	1,506,908
(1,778)	(14,954)	9,433	(220)	(208)	86,453
-	-	-	-	-	206,575
512	-	-	-	-	28,205
-	-	-	-	-	62,684
-	-	-	-	-	19,940
(1,266)	(14,954)	9,433	(220)	(208)	403,857
68,186	53,395	8,535	4,375	53,709	7,045,752
$ 66,920	$ 38,441	$ 17,968	$ 4,155	$ 53,501	$ 7,449,609

SUPPLEMENTARY SCHEDULES

STATE OF TENNESSEE
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2016
(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt Principal	General Long-Term Debt Interest	General Long-Term Debt Total Requirements	Facilities Revolving Fund Debt Principal	Facilities Revolving Fund Debt Interest	Facilities Revolving Fund Debt Total Requirements
2017	$ 144,402	$ 72,709	$ 217,111	$ 15,872	$ 8,038	$ 23,910
2018	135,918	66,221	202,139	15,662	7,347	23,009
2019	127,078	60,290	187,368	14,187	6,655	20,842
2020	124,578	54,745	179,323	13,702	6,028	19,730
2021	118,723	49,250	167,973	12,817	5,395	18,212
2022	118,925	43,813	162,738	12,865	4,771	17,636
2023	112,049	38,542	150,591	12,132	4,162	16,294
2024	112,450	33,941	146,391	12,215	3,657	15,872
2025	103,638	29,460	133,098	11,752	3,148	14,900
2026	103,548	25,162	128,710	11,722	2,663	14,385
2027	96,727	20,817	117,544	9,818	2,173	11,991
2028	92,752	16,797	109,549	9,223	1,749	10,972
2029	87,369	12,989	100,358	8,091	1,381	9,472
2030	63,965	9,499	73,464	6,640	1,047	7,687
2031	54,225	6,879	61,104	5,185	782	5,967
2032	46,369	4,493	50,862	3,711	551	4,262
2033	23,554	2,919	26,473	3,311	384	3,695
2034	16,967	1,972	18,939	2,893	233	3,126
2035	16,967	1,124	18,091	2,893	88	2,981
2036	13,992	350	14,342	318	8	326
Totals	$ 1,714,196	$ 551,972	$ 2,266,168	$ 185,009	$ 60,260	$ 245,269

STATE OF TENNESSEE

Schedule 2

Schedule of Outstanding Debt

All Fund Types
For the Last Five Fiscal Years
(Expressed in Thousands)

	June 30				
	2012	**2013**	**2014**	**2015**	**2016**
Internal service funds:					
General obligation commercial paper	$ 51,318	$ 40,591	$ 59,930	$ 26,564	$ 17,310
Facilities Revolving Fund general obligation bonds	198,512	180,516	161,299	196,080	185,009
	249,830	221,107	221,229	222,644	202,319
General long-term debt:					
General obligation bonds	$ 1,914,090	$ 1,797,894	$ 1,656,651	$ 1,575,935	$ 1,714,196
General obligation commercial paper	146,452	174,555	264,436	171,122	228,226
	2,060,542	1,972,449	1,921,087	1,747,057	1,942,422
Totals for primary government	$ 2,310,372	$ 2,193,556	$ 2,142,316	$ 1,969,701	$ 2,144,741

STATE OF TENNESSEE

Schedule 3

Schedule of General Obligation Commercial Paper Outstanding - By Purpose

All Fund Types
June 30, 2016
(Expressed in Thousands)

General obligation commercial paper - Tax exempt	$ 221,073
Purpose: To finance the construction, improvements, repairs, and replacements of buildings and facilities and the acquisition of land, equipment and other property of the state.	
General obligation commercial paper - Taxable	24,463
Purpose: To finance improvements to mental health and mental retardation facilities and grants to local governments.	
Total Outstanding	$ 245,536

STATE OF TENNESSEE
Schedule of Outstanding Debt
Component Units
For the Last Five Fiscal Years
(Expressed in Thousands)

	June 30				
	2012	**2013**	**2014**	**2015**	**2016**
Component Units:					
Local Development Authority bonds	$ 7,406	$ 6,585	$ 5,674	$ 4,737	$ 3,929
Tennessee Housing Development Agency bonds	2,015,181	2,116,905	1,962,990	1,948,970	1,875,620
Veterans' Homes Board loan	5,310	5,089	6,157	5,685	5,217
Tennessee State School Bond Authority bonds	1,423,166	1,601,480	1,780,558	2,155,864	2,077,220
Tennessee State School Bond Authority revolving credit	253,676	209,429	157,584	61,682	84,480
University of Tennessee notes	167	150	133	113	94
University of Tennessee bonds	80,449	80,365	77,171	75,269	70,814
Tennessee Board of Regents notes	1,987	1,866	2,492	1,063	941
Tennessee Board of Regents bonds	500	400	300	200	100
Tennessee Board of Regents commercial paper	4,271	4,085	3,955	3,801	3,362
	$ 3,792,113	$ 4,026,354	$ 3,997,014	$ 4,257,384	$ 4,121,777

STATE OF TENNESSEE
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2016 and 2015
(Expressed in Thousands)

Revenue by Source	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015
Taxes:		
Sales and use	$ 3,419,440	$ 3,176,796
Gasoline	10,501	9,702
Motor fuel	2,507	3,136
Gasoline inspection	729	693
Total fuel taxes	13,737	13,531
Franchise	796,493	728,787
Excise	1,256,458	1,207,661
Gross receipts	365,189	372,812
Beer	15,187	14,761
Alcoholic beverage	62,250	56,993
Mixed drink	48,138	42,994
Tobacco	29,735	30,777
Business	154,622	153,341
Insurance companies premium	866,082	790,608
Retaliatory	(9,703)	14,135
Workers compensation premium	43,381	44,122
Enhanced coverage	448,616	448,340
Medicaid provider	11,475	11,720
Other	1,669	2,443
Total business tax	4,089,592	3,919,494
Income	322,356	303,353
Privilege	323,546	313,177
Inheritance and estate	55,353	70,173
Other	6	1
Total other taxes	701,261	686,704
Total taxes	8,224,030	7,796,525
Licenses, fines, fees and permits:		
Motor vehicle registration	44,729	44,500
Motor vehicle title registration fees	20,081	9,398
Drivers licenses	32,538	26,342
Arrests, fines and fees	8,138	8,210
Regulatory board fees	163,598	154,321
Other	152,235	115,159
Total licenses, fines, fees and permits	421,319	357,930
Investment income	24,841	10,173
Federal	10,115,580	9,542,772
Departmental services:		
Charges to the public	337,049	359,090
Interdepartmental charges	793,885	782,399
Charges to cities, counties, etc.	789,053	724,962
Total departmental services	1,919,987	1,866,451
Other	237,190	220,923
Total revenues by source	$ 20,942,947	$ 19,794,774

Schedule 6

STATE OF TENNESSEE

Comparative Schedules of Expenditures by Function and Department

General Fund
For the Fiscal Years Ended June 30, 2016 and 2015
(Expressed in Thousands)

	For the Year Ended	
Expenditures by Function and Department	**June 30, 2016**	**June 30, 2015**
General government:		
Legislative	$ 39,580	$ 38,028
Secretary of State	38,488	38,789
Comptroller	88,069	97,366
Treasurer	70,939	76,649
Governor	5,084	4,891
Commissions	68,258	65,813
Finance and Administration	106,956	96,926
General Services	25,759	24,623
Revenue	105,450	101,713
Miscellaneous Appropriations	124	98
Total general government	548,707	544,896
Health and social services:		
Veterans Services	6,871	6,455
Labor and Workforce Development	169,600	164,303
TennCare	11,157,535	10,224,764
Mental Health	311,537	306,181
Intellectual Disabilities	178,422	191,003
Health	562,750	559,803
Human Services	2,448,144	2,692,907
Children's Services	765,852	760,997
Total health and social services	15,600,711	14,906,413
Law, justice and public safety:		
Judicial	324,952	313,582
Correction	892,429	864,352
Probation and Paroles	7,199	7,105
Military	121,207	97,330
Bureau of Criminal Investigation	75,452	75,436
Safety	189,061	188,319
Total law, justice and public safety	1,610,300	1,546,124
Recreation and resource development:		
Agriculture	76,832	80,428
Tourist Development	24,497	22,922
Environment and Conservation	276,209	239,192
Economic and Community Development	193,966	230,283
Total recreation and resources development	571,504	572,825
Regulation of business and professions:		
Commerce and Insurance	88,203	79,902
Financial Institutions	16,962	17,678
Total regulation of business and professions	105,165	97,580
Intergovernmental revenue sharing	735,907	683,485
Total expenditures by function and department	$ 19,172,294	$ 18,351,323

STATISTICAL SECTION

STATISTICAL SECTION

This part of the State of Tennessee's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the state's overall financial health.

Contents **Page**

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. No adjustments have been made for prior period adjustments.

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2007	**2008**	**2009**	**2010**
Expenses				
Governmental activities:				
General government	$ 738,897	$ 837,250	$ 988,309	$ 1,078,294
Education	5,884,841	6,464,564	6,520,569	6,893,801
Health and social services (4)	10,448,373	11,125,967	11,697,900	12,849,335
Law, justice, and public safety	1,221,175	1,325,500	1,338,869	1,365,134
Recreation and resources development (1)	485,852	613,902	538,386	499,080
Regulation of business and professions	129,107	123,391	126,003	132,784
Transportation	835,751	808,591	979,454	1,010,029
Intergovernmental revenue sharing	815,832	842,096	810,063	874,094
Interest on long-term debt	50,003	51,086	51,977	60,566
Payments to fiduciary fund	25,950			19,747
Total governmental activities expenses	20,635,781	22,192,347	23,051,530	24,782,864
Business-type activities:				
Employment security (2)	467,327	541,573	1,427,713	2,135,537
Insurance programs	413,483	469,491	514,065	557,371
Loan programs	1,473	1,655	1,345	1,406
Other	2,595	2,744	2,265	1,385
Total business-type activities expenses	884,878	1,015,463	1,945,388	2,695,699
Total primary government expenses	$ 21,520,659	$ 23,207,810	$ 24,996,918	$ 27,478,563
Program Revenues				
Governmental activities:				
Charges for services:				
General government	$ 524,306	$ 672,892	$ 753,066	$ 778,352
Education	34,819	35,405	35,124	44,813
Health and social services	521,508	548,570	615,871	499,694
Law, justice, and public safety	130,885	117,536	122,064	121,201
Recreation and resources development	153,048	142,128	142,657	141,278
Regulation of business and professions	142,805	143,646	151,095	148,788
Transportation	22,542	18,778	15,936	28,322
Operating grants and contributions (3)	8,481,473	8,612,838	9,758,691	12,076,579
Capital grants and contributions	708,384	600,404	592,719	782,188
Total governmental activities program revenues	10,719,770	10,892,197	12,187,223	14,621,215
Business-type activities:				
Charges for services:				
Employment security	356,064	413,741	585,668	710,113
Insurance programs	438,275	480,803	504,130	525,662
Loan programs	13,803	15,137	15,684	16,584
Other	2,644	2,324	1,543	1,043
Operating grants and contributions (3)	116,569	124,576	508,249	1,482,113
Total business-type activities program revenues	927,355	1,036,581	1,615,274	2,735,515
Total primary government program revenues	$ 11,647,125	$ 11,928,778	$ 13,802,497	$ 17,356,730
Net (Expense)/Revenue				
Governmental activities	$ (9,916,011)	$ (11,300,150)	$ (10,864,307)	$ (10,161,649)
Business-type activities	42,477	21,118	(330,114)	39,816
Total primary government net expense	$ (9,873,534)	$ (11,279,032)	$ (11,194,421)	$ (10,121,833)

Schedule 1

(continued on next page)

FOR THE FISCAL YEAR ENDED JUNE 30,					
2011	2012	2013	2014	2015	2016
$ 1,048,423	$ 942,465	$ 987,800	$ 959,641	$ 858,569	$ 981,862
7,127,705	7,018,189	7,083,806	7,383,077	7,302,492	7,507,413
13,739,733	13,952,342	14,079,899	13,912,421	14,258,216	14,930,669
1,436,045	1,567,730	1,539,288	1,612,248	1,522,333	1,605,231
606,317	646,494	554,421	646,781	666,997	665,491
127,887	126,395	158,228	158,644	175,667	194,662
911,666	1,012,399	1,062,091	1,126,744	1,126,447	1,045,959
825,777	851,535	844,628	897,312	980,258	1,045,095
63,555	62,119	71,933	67,520	60,622	60,891
63114	58,453	22,386	827	400	680
25,950,222	26,238,121	26,404,480	26,765,215	26,952,001	28,037,953
1,613,716	1,232,324	750,529	451,470	289,415	241,852
552,626	540,746	544,250	541,205	556,634	585,757
1,561	1,757	1,577	1,469	1,493	1,865
25	620	163	76	68	367
2,167,928	1,775,447	1,296,519	994,220	847,610	829,841
$ 28,118,150	$ 28,013,568	$ 27,700,999	$ 27,759,435	$ 27,799,611	$ 28,867,794
$ 856,264	$ 673,945	$ 775,135	$ 812,528	$ 787,280	$ 796,608
50,052	56,898	85,722	73,276	58,961	50,274
724,971	772,850	714,788	756,038	957,133	1,030,133
120,137	125,879	139,622	140,123	137,905	161,110
139,302	151,545	155,422	145,675	153,788	164,390
149,090	168,590	154,896	165,611	182,959	200,087
29,769	29,601	35,470	31,863	45,840	56,466
12,677,291	11,897,517	11,697,733	11,355,859	11,291,412	11,930,270
901,798	903,281	772,061	762,251	727,573	686,774
15,648,674	14,780,106	14,530,849	14,243,224	14,342,851	15,076,112
754,108	769,446	632,408	370,752	343,808	290,005
547,207	542,756	569,982	598,209	581,436	565,174
17,350	15,600	12,450	8,897	8,865	9,214
206	133	231	221	230	239
1,035,693	749,005	327,928	134,026	64,053	85,287
2,354,564	2,076,940	1,542,999	1,112,105	998,392	949,919
$ 18,003,238	$ 16,857,046	$ 16,073,848	$ 15,355,329	$ 15,341,243	$ 16,026,031
$ (10,301,548)	$ (11,458,015)	$ (11,873,631)	$ (12,521,991)	$ (12,609,150)	$ (12,961,841)
186,636	301,493	246,480	117,885	150,782	120,078
$ (10,114,912)	$ (11,156,522)	$ (11,627,151)	$ (12,404,106)	$ (12,458,368)	$ (12,841,763)

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN NET POSTION (continued)
LAST TEN FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2007	**2008**	**2009**	**2010**
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Sales and use	$ 6,819,570	$ 6,851,481	$ 6,326,857	$ 6,170,977
Fuel	867,520	865,181	817,873	874,511
Business (5)	2,799,751	2,913,227	2,671,226	2,944,465
Other	734,026	734,029	563,501	504,750
Unrestricted investment earnings	113,940	120,523	42,883	7,245
Miscellaneous	250,344	275,499	226,907	195,414
Contributions to permanent funds	270	239	217	196
Transfers	(5,028)	(4,110)	(3,541)	(3,608)
Total governmental activities	11,580,393	11,756,069	10,645,923	10,693,950
Business-type activities:				
Transfers	5,028	4,110	3,541	3,608
Total business-type activities	5,028	4,110	3,541	3,608
Total primary government general revenues and other changes in net position	$ 11,585,421	$ 11,760,179	$ 10,649,464	$ 10,697,558
Changes in Net Position				
Governmental activities	$ 1,664,382	$ 455,919	$ (218,384)	$ 532,301
Business-type activities	47,505	25,228	(326,573)	43,424
Total primary government	$ 1,711,887	$ 481,147	$ (544,957)	$ 575,725

(1) The increase in expenses of the recreation and resources development function between fiscal years 2007 and 2008 resulted from the acquisition of conservation easements for wilderness protection.

(2) The increase in expenses of the employment security program between fiscal years 2008 and 2009 was due to a significant increase in the demand for unemployment benefits. Between 2010 and 2011, continued weeks unemployment claims decreased resulting in a significant decrease in expenses in the Employment security program.

(3) The significant increase in operating grants and contributions revenue for both governmental and business-type activities between fiscal years 2008 and 2009 was due to the increase in federal funds received as a result of the American Recovery and Reinvestment Act. The decline in operating grants for business-type activities between 2010 and 2011 was due to a significant decline in continued weeks unemployment claims. The rise in operating grants and contributions from fiscal year 2010 to 2011 for governmental activities was due to the increase in federal funds for reimbursement of medical and pharmacy costs which increased significantly.

(4) From fiscal years 2010 to 2011, expenses for health and social services have increased due to rising medical and pharmacy program costs.

(5) A new dedicated hospital coverage assessment to fund the TennCare program resulted in an increase in the Business taxes from 2010 to 2011.

Schedule 1

FOR THE FISCAL YEAR ENDED JUNE 30,					
2011	**2012**	**2013**	**2014**	**2015**	**2016**
$ 6,461,461	$ 6,884,762	$ 7,018,128	$ 7,276,443	$ 7,713,695	$ 8,258,134
846,384	842,133	834,956	843,164	862,156	899,631
3,536,200	3,926,566	4,122,814	3,948,253	4,336,333	4,631,629
525,192	608,762	648,193	641,244	719,370	722,040
4,602	772	4,144	7,079	6,121	15,076
217,630	253,489	282,705	221,138	224,064	243,432
180	174	180	547	136	170
(2,134)	(4,655)	(4,256)	(4,622)	(8,046)	(1,096)
11,589,515	12,512,003	12,906,864	12,933,246	13,853,829	14,769,016
2,134	4,655	4,256	4,622	8,046	1,096
2,134	4,655	4,256	4,622	8,046	1,096
$ 11,591,649	$ 12,516,658	$ 12,911,120	$ 12,937,868	$ 13,861,875	$ 14,770,112
$ 1,287,967	$ 1,053,988	$ 1,033,233	$ 411,255	$ 1,244,679	$ 1,807,175
188,770	306,148	250,736	122,507	158,828	121,174
$ 1,476,737	$ 1,360,136	$ 1,283,969	$ 533,762	$ 1,403,507	$ 1,928,349

STATE OF TENNESSEE
FINANCIAL TRENDS - NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2007	2008	2009	2010
Governmental activities				
Net investment in capital assets	$ 21,078,481	$ 21,796,151	$ 22,575,852	$ 23,360,007
Restricted	792,542	864,270	965,292	924,902
Unrestricted (1)(2)	2,964,957	2,631,478	1,495,656	1,284,192
Total governmental activities net position	$ 24,835,980	$ 25,291,899	$ 25,036,800	$ 25,569,101
Business-type activities				
Net investment in capital assets	$	$ 51.00	$	$
Unrestricted	1,643,706	1,668,883	1,342,361	1,385,785
Total business-type activities net position	$ 1,643,706	1,668,934	$ 1,342,361	$ 1,385,785
Primary Government				
Net investment in capital assets	$ 21,078,481	$ 21,796,202	$ 22,575,852	$ 23,360,007
Restricted	792,542	864,270	965,292	924,902
Unrestricted	4,608,663	4,300,361	2,838,017	2,669,977
Total primary government net position	$ 26,479,686	$ 26,960,833	$ 26,379,161	$ 26,954,886

(1) The decrease in unrestricted net position between fiscal years 2008 and 2009 was mostly attributable to the decrease in cash and cash equivalents caused by a reduction in revenue collections from business and sales taxes and interest on investments.

(2) The increase in unrestricted net position between fiscal years 2015 and 2016 was mostly attributable to the increase in cash and cash equivalents caused by a increase in revenue collections from business and sales taxes.

Schedule 2

FOR THE FISCAL YEAR ENDED JUNE 30,					
2011	**2012**	**2013**	**2014**	**2015**	**2016**
$ 24,346,493	$ 25,628,600	$ 26,326,451	$ 26,855,523	$ 27,432,234	$ 28,201,282
1,179,519	1,172,812	1,193,341	1,242,324	1,150,817	1,595,049
1,330,947	1,183,704	1,458,291	1,299,446	940,922	1,534,817
$ 26,856,959	$ 27,985,116	$ 28,978,083	$ 29,397,293	$ 29,523,973	$ 31,331,148
$	$	$	$	$	$
1,574,664	1,880,812	2,134,924	2,264,747	2,420,530	2,541,704
$ 1,574,664	$ 1,880,812	$ 2,134,924	$ 2,264,747	$ 2,420,530	$ 2,541,704
$ 24,346,493	$ 25,628,600	$ 26,326,451	$ 26,855,523	$ 27,432,234	$ 28,201,282
1,179,519	1,172,812	1,193,341	1,242,324	1,150,817	1,595,049
2,905,611	3,064,516	3,593,215	3,564,193	3,361,452	4,076,521
$ 28,431,623	$ 29,865,928	$ 31,113,007	$ 31,662,040	$ 31,944,503	$ 33,872,852

Schedule 3

STATE OF TENNESSEE
FINANCIAL TRENDS - FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Nonspendable	N/A	N/A	N/A	N/A	$ 19,343	$ 18,609	$ 21,349	$ 21,075	$ 20,184	$ 18,765
Restricted	N/A	N/A	N/A	N/A	100,942	63,192	73,346	68,331	69,540	71,304
Committed	N/A	N/A	N/A	N/A	235,301	286,918	355,546	281,969	302,603	314,545
Assigned	N/A	N/A	N/A	N/A	1,179,652	1,250,677	1,585,964	1,138,496	1,285,945	1,612,001
Unassigned	N/A	N/A	N/A	N/A	507,501	698,663	476,264	567,286	885,215	1,224,464
Total general fund					$ 2,042,739	$ 2,318,059	$ 2,512,469	$ 2,077,157	$ 2,563,487	$ 3,241,079
All Other Governmental Funds										
Nonspendable	N/A	N/A	N/A	N/A	$ 144,426	$ 147,468	$ 150,579	$ 153,004	$ 519,590	$ 525,078
Restricted	N/A	N/A	N/A	N/A	951,222	980,972	990,317	1,024,350	575,853	1,020,805
Committed	N/A	N/A	N/A	N/A	191,557	344,696	398,864	396,298	389,401	373,312
Assigned	N/A	N/A	N/A	N/A	710,582	672,610	575,300	759,845	736,691	787,006
Unassigned	N/A	N/A	N/A	N/A						
Total all other governmental funds					$ 1,997,787	$ 2,145,746	$ 2,115,060	$ 2,333,497	$ 2,221,535	$ 2,706,201

(1) The schedule was changed due to the implementation of GASB 54, which reclassified fund balance into the five following categories: nonspendable, restricted, committed, assigned, and unassigned. It was determined that Statistical Schedule 3 would not be restated for the years prior to 2011.

Schedule 4

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting, expressed in thousands)

FOR THE FISCAL YEAR ENDED JUNE 30,

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Taxes	$ 11,249,773	$ 11,333,507	$ 10,376,455	$ 10,445,363	$ 11,422,284	$ 12,280,198	$ 12,605,171	$ 12,762,694	$ 13,717,684	$ 14,536,940
Licenses, fines, fees, and permits	660,888	672,486	677,766	675,009	693,702	731,752	725,785	727,158	799,462	913,535
Interest on investments	178,080	127,152	23,964	36,443	45,089	17,411	35,987	67,117	27,865	56,708
Federal (2)	8,763,302	8,807,036	10,013,033	12,471,642	13,062,451	12,334,256	12,085,185	11,750,878	11,601,522	12,126,450
Departmental services	2,233,450	2,339,870	2,352,198	2,195,707	2,335,508	2,077,429	1,933,141	1,994,334	2,108,043	2,170,683
Other	537,816	570,634	535,534	519,936	513,919	595,305	630,355	604,336	584,672	647,996
Total revenues	23,623,309	23,850,685	23,978,950	26,344,100	28,072,953	28,036,351	28,015,624	27,906,517	28,839,248	30,452,312
Expenditures										
Current:										
General government	555,545	617,056	581,364	558,013	563,195	575,919	538,243	553,807	565,415	573,475
Education	5,775,363	6,318,858	6,335,343	6,682,173	6,978,436	6,828,619	6,875,325	7,182,444	7,140,936	7,322,279
Health and social services	11,662,476	12,297,128	12,891,353	14,017,403	14,873,339	14,807,999	14,668,483	14,493,610	14,906,413	15,600,711
Law, justice, and public safety	1,275,402	1,278,752	1,294,717	1,302,252	1,400,825	1,528,766	1,499,252	1,555,028	1,552,156	1,618,669
Recreation and resources development	525,885	707,866	599,885	555,717	682,531	705,043	655,168	711,526	757,166	777,748
Regulation of business and professions	134,955	129,688	131,614	139,200	136,644	135,877	164,673	165,238	187,360	205,830
Transportation	1,541,850	1,459,231	1,593,643	1,815,822	1,882,068	1,952,887	1,864,946	1,753,581	1,708,328	1,672,379
Intergovernmental revenue sharing	815,832	842,096	810,063	874,094	825,777	851,535	844,628	897,312	980,258	1,045,095
Debt service:										
Principal	81,790	79,107	83,960	101,804	112,234	115,935	274,858	142,643	313,050	246,503
Interest	50,363	51,872	52,110	64,344	68,496	65,471	76,041	75,155	68,325	67,409
Debt issuance costs	1,173	980	4,362	4,837	4,363	4,793	2,659	1,452	1,741	2,324
Capital outlay	343,712	359,118	472,451	485,937	391,519	483,279	515,999	491,077	406,396	469,307
Total expenditures	22,764,346	24,141,752	24,850,865	26,601,596	27,919,427	28,056,123	27,980,275	28,022,873	28,587,544	29,601,729
Revenues over (under) expenditures	858,963	(291,067)	(871,915)	(257,496)	153,526	(19,772)	35,349	(116,356)	251,704	850,583
Other Financing Sources (Uses)										
Bonds and commercial paper issued	196,290	340,021	601,664	415,033	307,318	637,868	290,178	91,281	143,200	447,222
Commercial paper redeemed	(103,498)	(129,333)	(273,443)	(155,973)	(155,382)	(201,235)				
Insurance claim recoveries	4,013	2,361	251			2,734	1,061	1,335	1,597	1,288
Premium on bond sale	2,049	2,760	30,147	26,358	11,132	37,069			10,308	53,170
Refunding bonds issued (3) (4)			91,536	43,985	43,014	464,809	25,713			
Refunding bond premium (3) (4)			10,670		2,122	88,775	11,672		81,321	98,390
Refunding payment to escrow (3) (4)			(101,707)	(43,985)	(44,816)	(552,898)	(25,473)		(81,092)	(98,159)
Other				21,146	52,741					
Proceeds from pledged revenue						58,453	22,183	472		
Transfers in (1)	898,244	1,526,581	1,810,209	1,332,847	1,506,489	1,285,701	1,361,860	1,561,780	1,173,753	1,229,231
Transfers out (1) (5)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)	(1,613,711)	(1,366,400)	(1,545,068)	(1,763,423)	(1,206,423)	(1,419,467)
Total other financing sources (uses)	13,680	169,015	299,864	259,814	108,907	454,876	142,126	(108,555)	122,664	311,675
Net Change in Fund Balances	$ 872,643	$ (122,052)	$ (572,051)	$ 2,318	$ 262,433	$ 435,104	$ 177,475	$ (224,911)	$ 374,368	$ 1,162,258
Debt Service as a Percentage of Noncapital Expenditures	0.6566%	0.6055%	0.5620%	0.5659%	0.6467%	0.6748%	1.3059%	0.8036%	1.3784%	1.0865%

(1) The increase in transfers in and transfers out between 2007 and 2008 was due to transfers from the General fund to the Education Trust fund for an increase in appropriation requirements and to the Capital Projects fund for capital outlay appropriations.

(2) The increase in federal revenue between 2009 and 2010 is the result of funding provided by the American Recovery and Reinvestment Act.

(3) The state issued approximately $500 million more in refunding bonds in FY 2012 than in the prior year resulting in significant increases to refunding bonds issued, premiums and payments to escrow.

(4) The state issued approximately $500 million less in refunding bonds in FY 2013 than in the prior year resulting in significant decreases to refunding bonds issued, premiums and payments to escrow.

(5) The decrease in transfers out between 2014 and 2015 was due primarily to a reduction of transfers out from the General Fund to the Capital Projects fund, to the Debt Service fund, and transfers out for the leasing of buildings.

Schedule 5

STATE OF TENNESSEE

REVENUE CAPACITY - TAXABLE SALES BY CLASSIFICATION

LAST TEN CALENDAR YEARS

(expressed in millions)

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Auto dealers	$ 9,389	$ 9,503	$ 7,938	$ 6,725	$ 7,672	$ 8,431	$ 9,279	$ 9,836	$ 10,572	$ 11,762
Purchases from manufacturers	4,679	4,745	4,497	3,491	3,654	4,009	4,047	4,172	4,461	4,836
Miscellaneous durable goods	17,208	17,440	16,347	13,747	14,494	15,583	16,375	16,810	17,555	18,454
Eating and drinking places	8,464	8,880	8,973	8,840	9,057	9,508	10,200	10,576	11,194	11,989
Food stores	8,419	8,731	8,601	8,821	8,885	9,217	9,690	10,083	10,351	10,785
Liquor stores	548	594	636	657	685	728	793	836	894	965
Hotels and motels	2,218	2,355	2,313	2,038	2,067	2,333	2,489	2,540	2,883	3,231
Other retail and service	27,134	28,304	28,237	26,806	37,316	28,758	30,184	31,000	32,614	34,376
Miscellaneous nondurable goods	7,293	7,758	7,784	7,364	7,646	7,989	8,425	8,693	9,044	9,464
Transportation, communication	7,353	7,689	7,910	7,729	6,921	7,085	6,560	6,396	6,308	6,552
Total taxable sales	$ 92,705	$ 95,999	$ 93,236	$ 86,218	$ 98,397	$ 93,641	$ 98,042	$ 100,942	$ 105,876	$ 112,414

Source: An Economic Report to the Governor of the State of Tennessee January 2016

Schedule 6

STATE OF TENNESSEE

REVENUE CAPACITY - SALES AND USE TAX RATES

LAST TEN FISCAL YEARS

(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:										
Retail sale of food and food ingredients for human consumption (except vending machines)	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%	5.00%	5.00%
Energy fuels used by manufacturers and nurserymen	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Cable and wireless TV (between $15 and $27.50) and satellite services	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Additional tax added to the general rate for single article sales of personal property ($1,601 to $3,200)	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

Source: State of Tennessee Budget; Department of Finance and Administration, Division of Budget

Schedule 7

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX COLLECTIONS BY TAXPAYER CLASSIFICATION
LAST TEN FISCAL YEARS
(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retail:										
Building materials	$ 423,160	$ 391,271	$ 333,737	$ 311,332	$ 316,016	$ 355,263	$ 354,513	$ 371,086	$ 392,853	$ 430,312
General merchandise	820,549	829,576	810,503	799,387	817,350	840,896	836,055	845,407	854,971	889,297
Food stores	526,981	529,977	520,280	510,104	517,420	539,402	546,972	555,692	579,660	595,739
Auto dealers and service stations	856,109	835,035	672,112	690,797	760,119	830,875	869,748	933,751	1,013,333	1,123,746
Apparel and accessory stores	200,131	200,745	191,132	191,110	194,172	205,480	215,308	217,170	228,680	238,993
Furniture and home furnishings	246,569	244,312	215,352	207,398	214,575	224,096	221,025	228,231	250,667	268,657
Eating and drinking places	585,490	605,544	596,893	598,562	615,741	653,210	681,255	706,095	757,929	809,367
Miscellaneous retail stores	580,936	597,649	568,197	560,527	578,884	613,097	637,761	664,927	736,728	812,020
Total retail	4,239,925	4,234,109	3,908,206	3,869,217	4,014,277	4,262,319	4,362,637	4,522,359	4,814,821	5,168,131
Services:										
Hotels and lodging places	154,081	160,909	146,253	137,973	144,129	160,868	164,403	175,227	198,123	224,621
Personal services	51,099	51,151	46,564	46,777	46,923	47,932	49,145	49,724	52,239	52,236
Business services	245,387	254,506	239,143	224,044	236,982	249,083	260,000	273,397	276,961	298,046
Auto repair, services, and parking	174,680	173,481	157,972	153,781	160,268	176,923	172,698	178,693	189,611	204,497
Miscellaneous repair services	28,387	28,441	25,321	22,801	23,189	24,384	25,636	26,807	27,823	31,070
Motion pictures	22,178	21,498	21,512	19,803	17,794	18,972	18,323	18,900	18,160	19,341
Amusement services	59,578	59,636	58,225	57,636	60,071	63,922	69,280	73,891	81,249	90,027
Health services	13,123	13,676	14,228	14,305	13,683	15,122	10,750	15,463	14,956	17,232
Other services	34,400	37,740	43,434	36,802	40,752	42,200	37,140	40,659	45,803	46,006
Total services	782,913	801,038	752,652	713,922	743,791	799,406	807,375	852,761	904,925	983,076
Non-retail, non-services:										
Agriculture, forestry, fishing	7,261	7,451	7,381	7,312	7,259	7,257	7,096	7,304	7,189	7,957
Mining	6,302	7,117	6,126	5,933	5,741	6,491	5,814	6,765	6,822	7,727
Construction	54,075	59,119	52,415	44,038	48,503	49,782	51,094	54,483	56,717	65,278
Manufacturing	305,558	299,223	256,995	225,530	241,844	255,062	256,157	264,955	289,940	317,036
Transportation	46,688	53,866	69,930	34,556	38,345	43,525	40,728	29,009	35,272	33,769
Communications	457,116	475,675	477,281	443,576	430,847	416,347	387,780	379,013	393,980	391,511
Electric, gas, and sanitary services	203,789	215,552	236,692	215,020	237,479	239,531	239,441	245,644	252,014	247,867
Wholesale trade	451,777	450,898	393,100	361,217	398,111	438,113	436,411	447,524	460,079	499,421
Finance, insurance, real estate	17,830	17,908	12,981	17,766	14,027	13,847	14,620	15,207	18,676	22,661
Total non-retail, non-services	1,550,396	1,586,809	1,512,901	1,354,948	1,422,156	1,469,955	1,439,141	1,449,904	1,520,689	1,593,227
County Clerk	126,081	125,355	101,136	110,328	120,986	134,188	133,101	143,818	152,856	172,516
Consumer Use Tax	5,071	4,641	5,250	4,322	4,695	6,334	4,293	5,636	6,006	6,138
Flood Relief Tax Rebate	N/A	N/A	N/A	N/A	(2,649)	N/A	N/A	N/A	N/A	N/A
Disaster Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	(121)	N/A	N/A	N/A	N/A
Unclassified	N/A	N/A	N/A	N/A	N/A	208,275	258,465	279,555	278,851	305,095
Grand Total	$ 6,704,386	$ 6,751,952	$ 6,280,145	$ 6,052,737	$ 6,303,256	$ 6,880,356	$ 7,005,012	$ 7,254,033	$ 7,678,148	$ 8,228,183

Source: Revenue Collections Reports, Tennessee Department of Revenue

Notes: N/A means not available.

Disaster relief includes May 2010 flood tax rebate, April 2011 disaster relief, and sales tax rebate on storm shelters.

The 2012 report differed from the 2013 report in that it did not include Unclassified as a category. However, the 2013 report included the amount for 2012 and 2013. FY 2012 grand total was revised to include this amount.

Schedule 8

STATE OF TENNESSEE
DEBT CAPACITY - RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(expressed in thousands; except for per capita)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities debt:										
General obligation bonds	$ 1,115,488	$ 1,175,403	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458	$ 1,960,437	$ 2,124,897
General obligation commercial paper	130,824	240,626	176,308	241,390	214,217	197,770	215,146	324,366	197,686	245,536
Capital leases	3,943	11,743	10,810	16,301	15,503	14,666	13,790	21,798	20,599	19,420
Total governmental activities debt	1,250,255	1,427,772	1,726,060	1,946,511	1,983,928	2,325,038	2,401,566	2,342,622	2,178,722	2,389,853
Business-type activities debt:										
General obligation bonds	2,534	1,655								
Total business-type activities debt	2,534	1,655								
Total primary government debt	$ 1,252,789	$ 1,429,427	$ 1,726,060	$ 1,946,511	$ 1,983,928	$ 2,325,038	$ 2,401,566	$ 2,342,622	$ 2,178,722	$ 2,389,853
Debt Ratios										
Personal income	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	$ 266,467,000	277,316,000	N/A
Ratio of total debt to personal income	0.61%	0.67%	0.79%	0.87%	0.85%	0.96%	0.94%	0.88%	0.79%	
Population	6,157	6,215	6,296	6,346	6,403	6,456	6,496	6,549	6,600	N/A
Net general bonded debt per capita	$ 203	$ 228	$ 270	$ 304	$ 307	$ 358	$ 368	$ 354	327	
General Bonded Debt:										
General obligation bonds	$ 1,118,022	$ 1,177,058	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458	$ 1,960,437	$ 2,124,897
General obligation commercial paper	130,824	240,626	176,308	241,390	214,217	197,770	215,146	324,366	197,686	245,536
Assets restricted for debt principal			(14,509)							
Total net bonded debt	$ 1,248,846	$ 1,417,684	$ 1,700,741	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,387,776	$ 2,320,824	$ 2,158,123	$ 2,370,433
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	80.92%	71.22%	46.38%	38.01%	41.09%	41.65%	43.11%	42.55%	50.24%	49.20%

Source: State of Tennessee Comprehensive Annual Financial Report
and the University of Tennessee Economic Report to the Governor

Notes: (1) N/A - not available because the source did not provide the data.
(2) See Schedule 10 for personal income and population data.
(3) Details of the state's debt can be found in Note 5I in the basic financial statements.

Schedule 9

STATE OF TENNESSEE
DEBT CAPACITY - LEGAL DEBT SERVICE MARGIN INFORMATION
LAST TEN FISCAL YEARS
(expressed in thousands)

Debt Capacity(1)*

State tax revenues allocated for FYE June 30, 2015 to:		
General fund	$ 10,607,106 *	
Debt service fund	378,599 *	
Highway fund	701,603 *	
Total allocated revenues		$ 11,687,308
Legal debt service limit (10% of total allocated revenues)		1,168,731
Less: maximum annual debt service at June 30, 2016		241,023 *
Legal debt service margin		$ 927,708

* Obtained from the Office of State and Local Finance

Debt Capacity- Ten Year Trend(1)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit	$ 673,748	$ 673,070	$ 525,905	$ 489,075	$ 557,098	$ 641,583	$ 686,288	$ 648,934	$ 637,424	$ 1,168,731
Total net debt service applicable to limit	145,975	145,721	154,803	186,684	203,866	209,820	243,779	227,401	225,620	241,023
Legal debt service margin	$ 527,773	$ 527,349	$ 371,102	$ 302,391	$ 353,232	$ 431,763	$ 442,509	$ 421,533	$ 411,804	$ 927,708
Legal debt service margin as a percentage of the debt limit	78.33%	78.35%	70.56%	61.83%	63.41%	67.30%	64.48%	64.96%	64.60%	79.38%

(1) Prior to July 1, 2013, in order to issue debt, the state had to have accumulated 150% of the amount necessary to pay annual interest and principal on debt obligations. As of July 1, 2013, the debt capacity test will be calculated as shown under the debt capacity heading. The debt capacity test is based on the allocated tax revenues of the immediately preceding fiscal year.

Pledged Revenues(2)

	Collections for Fiscal Year 2016		
	Portion Pledged	All Governmental Fund Types	Fiscal Year 2016 Pledged Amount
Gasoline tax	25%	$ 659,348	$ 164,837
Petroleum products fee	100%	67,380	67,380
Motor vehicle registration fee	50%	238,962	119,481
Franchise tax	100%	814,493	814,493
		$ 1,780,183	$ 1,166,191

(2) This pledge of "Special Taxes" is made for general obligation bonds issued prior to July 1, 2013. The final maturity of such bonds is October 1, 2032. Thereafter (or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013) this pledge of special taxes will expire. All state general obligation bonds and notes constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state.

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE LAST TEN CALENDAR YEARS
(expressed in thousands; except per capita)

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Population	6,039	6,157	6,215	6,296	6,346	6,403 (est)	6,456 (est)	6,496 (est)	6,549 (est)	6,600 (est)
Total personal income	$ 195,656,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	$ 266,467,000	$ 277,316,000
Per capita personal income	$ 32,474	$ 33,746	$ 34,995	$ 35,065	$ 36,489	$ 38,233	$ 39,682	$ 40,734	$ 42,241	$ 44,209
Unemployment rate	4.5%	5.3%	7.9%	10.9%	9.4%	9.1%	8.0%	8.2%	6.9%	5.9%
Unemployment rate by sector:										
Trade, Transportation, and Utilities	9.5%	8.1%	10.0%	16.4%	15.0%	12.9%	11.6%	12.3%	11.9%	N/A
Government	2.3%	2.0%	1.9%	2.4%	4.9%	4.4%	5.6%	5.1%	3.3%	N/A
Education and Health Services	2.3%	2.6%	3.7%	4.1%	3.6%	5.0%	4.9%	5.1%	4.6%	N/A
Professional and Business Services	8.0%	5.1%	7.1%	14.4%	9.0%	11.8%	7.3%	10.1%	8.0%	N/A
Manufacturing	5.2%	5.0%	8.4%	14.3%	13.2%	10.2%	7.7%	6.6%	6.9%	N/A
Leisure and Hospitality	8.1%	7.5%	10.4%	17.6%	12.2%	14.3%	12.2%	7.6%	7.0%	N/A
Financial Activities	1.6%	2.3%	2.8%	8.8%	8.6%	8.0%	4.2%	5.4%	2.4%	N/A
Natural Resources, Mining, and Construction	6.2%	5.1%	11.1%	30.2%	25.1%	20.1%	25.3%	19.2%	9.3%	N/A
Other Services	4.7%	2.5%	3.8%	5.2%	5.1%	8.0%	7.8%	6.3%	4.1%	N/A
Information	1.9%	4.1%	3.8%	6.6%	4.2%	2.8%	6.3%	6.8%	6.6%	N/A

Source: Population from www.census.gov; Unemployment rate by sector from www.bls.gov
All other from the University of Tennessee Economic Report to the Governor

Notes: N/A means not available

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE LAST CALENDAR YEAR
(expressed in percentage)

Monthly Unemployment Rate

Calendar Year 2015	
January	6.6%
February	6.0%
March	5.8%
April	5.4%
May	5.8%
June	6.2%
July	6.1%
August	5.7%
September	5.5%
October	5.3%
November	5.3%
December	5.3%

Source: https://www.jobs4tn.gov

Schedule 11

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION - EMPLOYMENT BY INDUSTRY
PRIOR YEAR AND NINE YEARS AGO

	2015			2006		
Industry	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment
Trade, Transportation, and Utilities	607,500	1	21.16%	607,400	1	21.82%
Government	425,600	2	14.83%	417,000	2	14.98%
Education and Health Services	409,800	3	14.27%	340,800	4	12.25%
Professional and Business Services	383,000	4	13.34%	319,200	5	11.47%
Manufacturing	331,500	5	11.55%	399,400	3	14.35%
Leisure and Hospitality	305,900	6	10.66%	270,100	6	9.71%
Financial Activities	144,800	7	5.04%	143,600	7	5.16%
Natural Resources, Mining, and Construction	114,500	8	3.99%	134,300	8	4.83%
Other Services	104,800	9	3.65%	101,700	9	3.65%
Information	43,400	10	1.51%	49,600	10	1.78%
Total	2,870,800		100.00%	2,783,100		100.00%
	Calendar Year 2015			Calendar Year 2006		
Total State Employment	2,886,080			2,852,800		

Source: An Economic Report to the Governor of the State of Tennessee January 2016
and the Tennessee Department of Labor and Workforce Development Website

Note: TCA 50-7-701 states, "Information thus obtained pursuant to the administration hereof shall be held confidential and shall not be published or be open to public inspection in any manner revealing the individual's or the employing unit's identity." This TCA prohibits the release of principal employer information from the Tennessee Department of Labor and Workforce Development. The above schedule is being presented as an alternative to the principal employer schedule.

Schedule 12

STATE OF TENNESSEE
OPERATING INFORMATION - FULL TIME EMPLOYEES BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government	4,964	5,040	4,947	4,866	4,786	4,705	4,703	4,327	4,299	4,348
Education	1,070	1,206	1,157	1,193	1,154	1,128	1,259	1,118	1,122	1,167
Health and social services	21,208	20,990	19,704	19,241	17,917	17,453	17,036	16,735	16,209	15,546
Law, justice and public safety	10,843	11,004	10,530	10,629	10,534	10,592	10,940	11,249	10,826	10,675
Recreation and resources development	3,885	3,901	3,698	3,640	3,564	3,515	3,458	3,431	3,441	3,377
Regulation of business and professions	776	754	708	717	714	706	711	724	716	688
Transportation	4,380	4,294	4,167	4,326	3,940	3,809	3,678	3,439	3,355	3,487
Total	47,126	47,189	44,911	44,612	42,609	41,908	41,785	41,023	39,968	39,288

Source: Department of Human Resources

Schedule 13

STATE OF TENNESSEE
OPERATING INFORMATION - CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government										
Motor pool vehicles	7,276	7,392	7,562	7,536	7,621	6,530	6,280	6,181 (1)	4,462	4,374
Buildings	107	107	107	107	109	110	110	97	81	78
Machinery and equipment	3,586	3,528	3,166	3,888	4,061	4,121	5,895	6,772	6,745	6,896
Education										
Number of residential schools	5	5	5	5	5	5	5	5	5	5
Machinery and equipment	209	240	242	260	249	307	229	222	187	211
Health and social services										
Buildings	339	329	320	320	316	314	330	346	340	346
Machinery and equipment	2,303	2,443	2,462	2,856	2,600	2,862	3,020	3,357	3,499	3,746
Law, justice and public safety										
Correctional facilities	19	19	19	19	19	19	20	20	20	19
Armories	86	83	83	83	83	83	83	83	82	82
Machinery and equipment	2,586	3,103	3,156	3,732	4,424	4,506	5,246	6,441	6,452	6,803
Recreation and resources development										
Acreage of state parks	164,537	165,486	173,878	163,032	173,382	191,563	184,521	188,573	189,102	190,941
Machinery and equipment	2,543	2,729	2,736	2,949	2,912	3,075	3,220	3,198	3,245	3,256
Regulation of business and professions										
Machinery and equipment	138	147	140	148	146	151	169	230	240	841
Transportation										
State highways (in miles)	13,835	13,887	13,882	13,871	13,867	13,877	13,884	13,898	13,884	13,877
Bridges, state and local highways	19,515	19,563	19,536	19,595	19,595	19,659	19,729	19,746	19,776	19,793
Facilities	122	122	122	122	122	122	122	122	122	122
Buildings	717	708	708	708	754	754	754	755	754	752

Note: (1) In previous years this number included equipment in addition to vehicles. Equipment should not be included.

Schedule 14

STATE OF TENNESSEE
OPERATING INFORMATION - OPERATING INDICATORS
FOR THE LAST TEN FISCAL YEARS

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government										
Tax returns processed (1)	2,502,248	2,802,574	2,802,137	3,005,798	3,538,518	3,670,716	3,914,540	4,682,702	4,519,309	5,068,829
New corporate charters registered	11,726	10,745	11,073	11,724	9,717	9,618	9,702	9,781	10,325	10,857
Investment return on total portfolio	5.30%	2.00%	0.40%	0.25%	0.12%	0.12%	0.11%	0.12%	0.25%	0.50%
Residential and commercial property reappraisals completed	336,050	255,250	511,050	677,720	525,516	185,965	1,495,789	640,264	338,538	547,191
Education										
Number of public schools (K-12)	1,714	1,718	1,736	1,736	1,736	1,784	1,797	1,823	1,811	N/A
Enrollment of public schools (K-12)	925,898	929,543	930,525	933,703	934,246	935,317	993,256	993,841	995,892	N/A
Number of high school graduates from public schools	54,191	57,486	60,371	62,526	62,147	62,157	62,019	61,838	62,632	N/A
Health and social services										
TennCare enrollees	1,191,233	1,208,871	1,233,208	1,199,611	1,208,527	1,213,521	1,187,082	1,271,151	1,429,411	1,550,066
Food stamp recipients	861,979	902,500	1,094,500	1,044,900	1,290,200	1,200,000	1,200,000	1,280,000	1,191,500	1,094,644
Percentage of population (4)	14.00%	14.52%	17.38%	16.60%	20.33%	18.74%	18.59%	19.70%	18.19%	16.59%
Temporary assistance recipients	64,684	60,000	60,000	58,000	61,500	57,000	57,000	57,000	37,041	29,889
Percentage of population (4)	1.05%	0.97%	0.95%	0.92%	0.97%	0.89%	0.88%	0.88%	0.57%	0.45%
Children in state custody (2)	9,048	8,149	7,202	7,336	7,870	8,533	8,960	8,552	8,558	8,436
Percentage of population (4)	0.15%	0.13%	0.11%	0.12%	0.12%	0.13%	0.14%	0.13%	0.13%	0.13%
Mental health institutes average daily census	808	780	688	575	538	517	480	479	493	488
Law, justice and public safety										
Correctional institutions average daily census	26,573	26,998	27,325	27,164	27,782	29,231	29,654	29,758	29,571	29,103
Department of Safety citations issued	403,363	380,586	358,104	347,571	301,394	340,575	381,588	419,122	414,310	432,832
Drivers licenses issued	1,632,164	1,600,000	1,625,939	1,486,722	1,409,342	1,714,905	1,734,205	1,741,379	1,732,106	1,793,921
Recreation and resources development										
Hunting/fishing licenses and boats registered	718,397 (est.)	690,313	707,000	689,935	547,660	586,839	538,971	569,447	577,577	537,412
Wetland acres acquired	891 (est.)	3,602	2,327	79	559	1,604	1,127	1,598	102,938	2,050
Number of visitors to state parks	29,408,099	30,672,700	28,410,067	28,404,662	30,282,836	31,036,603	29,881,059	32,063,100	33,452,320	34,004,609
Air pollution monitoring sites	86	78	89	93	32	32	41	40	33	36
Regulation of business and professions										
Fire safety inspections	34,976	39,518	34,241	37,920	34,539	27,058	25,601	27,724	16,508	14,037
Consumer affairs written complaints	5,420	5,797	5,481	6,240	5,818	5,541	5,407	5,447	4,654	3,821
Transportation										
Lane miles resurfaced (3)	2,408	1,968	2,893	2,261	2,317	2,298	2,596	2,447	2,239	2,219
HELP program services provided	128,006	130,062	108,460	112,438	116,865	130,941	118,773	124,823	113,429	135,058

Source: Tennessee fact book, various state agencies

Notes:
(1) Tennessee does not tax employment income.
(2) Children who are abused/dependent, neglected, delinquent, or unruly.
(3) Amounts are reported on a calendar year basis; the 2009 amount is through October 2009.
(4) Population figures used in calculating percentages are from schedule 10.
(5) N/A indicates that data is unavailable.

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 532,582	$ 471,730	$ 45	$ 26,652
2008	565,963	510,261	35	33,177
2009	599,973	476,333	35	43,577
2010	648,298	493,304	12	43,998
2011	685,003	548,787		51,079
2012	584,147	411,729		49,835
2013	619,399	432,636		52,859
2014	650,337	467,845		56,462
2015	700,757	475,416		70,543
2016	746,986	499,862		73,722

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 177,082	$ 116,006		$ 6,013
2008	188,462	123,719		6,280
2009	195,365	114,524		8,914
2010	214,426	122,480		8,914
2011	237,768	133,514		8,839
2012	259,510	97,773		8,589
2013	265,206	94,419		8,511
2014	183,140	91,398		8,469
2015	240,892	95,118		10,655
2016	190,286	102,249		10,626

Austin Peay State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 56,119	$ 34,977		$ 2,253
2008	57,821	36,371		2,581
2009	62,358	33,427		3,512
2010	70,128	39,157		3,512
2011	78,214	36,102		3,531
2012	85,043	26,502		3,330
2013	85,725	28,733		4,343
2014	74,084	34,272		6,014
2015	78,013	36,968		6,096
2016	76,777	40,320		6,329

Middle Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 158,641	$ 94,005		$ 7,875
2008	168,872	100,859		8,011
2009	182,576	92,908		12,962
2010	199,352	101,836		12,962
2011	180,529	100,110		14,928
2012	218,283	74,071		14,780
2013	232,344	77,254		17,575
2014	180,748	82,919		19,641
2015	199,239	85,855		19,122
2016	191,688	90,092		19,914

East Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 108,864	$ 90,643	$ 2,070	$ 2,895
2008	122,334	98,105	1,889	5,172
2009	137,173	91,775	1,699	9,489
2010	159,993	85,322	1,399	9,502
2011	169,479	97,996	1,399	9,229
2012	177,436	77,520	1,399	9,142
2013	192,055	79,860		9,926
2014	115,941	83,259		12,028
2015	139,579	87,764		11,439
2016	155,854	92,971		11,475

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 60,537	$ 39,913		$ 2,911
2008	85,505	41,775		3,506
2009	80,016	38,085		4,041
2010	85,831	44,400		4,041
2011	91,919	40,831		4,071
2012	97,171	28,782		4,056
2013	97,174	29,959		4,237
2014	75,307	38,271		4,241
2015	92,297	39,191		3,600
2016	87,608	39,101		3,793

(continued on next page)

(continued from previous page)

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Tennessee Technological University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 61,679	$ 46,012		$ 1,242
2008	70,801	48,812		1,273
2009	76,045	47,577		1,786
2010	81,475	48,133		1,786
2011	89,100	50,616		3,104
2012	100,915	35,747		3,102
2013	110,217	36,914		3,479
2014	93,241	38,454		4,079
2015	112,938	39,302		4,052
2016	99,705	41,897		4,077

Dyersburg State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 6,032	$ 7,118		$ 117
2008	6,141	7,612		116
2009	6,945	7,276		116
2010	9,027	7,758		116
2011	9,988	7,985		
2012	10,626	6,570		
2013	10,647	6,900		
2014	9,151	7,328		
2015	8,992	7,842		
2016	9,098	8,605		

Chattanooga State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 20,832	$ 23,697		$ 280
2008	22,190	25,074		489
2009	26,466	23,937		489
2010	29,512	24,926		489
2011	34,021	26,901		285
2012	36,319	20,643		285
2013	36,895	21,983		351
2014	32,676	26,000		374
2015	33,207	27,449		301
2016	34,152	29,269		279

Jackson State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 10,614	$ 12,383		$ 168
2008	11,512	13,147		166
2009	12,383	13,264		166
2010	14,749	11,710		166
2011	15,739	13,193		
2012	16,009	10,652		
2013	14,918	10,871		
2014	13,749	11,105		
2015	15,088	11,401		
2016	15,166	12,376		

Cleveland State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 6,422	$ 10,317		$ 169
2008	7,360	10,856		168
2009	8,336	10,379		213
2010	9,958	10,992		213
2011	10,979	11,432		45
2012	11,373	9,088		45
2013	11,377	8,887		45
2014	11,513	8,849		45
2015	11,264	9,336		44
2016	11,059	9,735		44

Columbia State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 10,077	$ 13,194		$ 17
2008	10,903	13,986		18
2009	11,755	13,824		14
2010	14,406	12,463		18
2011	15,413	14,098		18
2012	15,296	11,467		18
2013	15,792	11,326		112
2014	15,232	12,340		127
2015	16,058	12,842		127
2016	17,358	13,885		127

(continued on next page)

(continued from previous page)

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Motlow State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 8,661	$ 10,290		$ 171
2008	9,780	10,951		170
2009	11,148	12,890		170
2010	13,121	9,143		170
2011	13,983	11,023		
2012	14,494	9,774		
2013	14,062	10,359		
2014	14,036	10,643		
2015	15,314	11,007		
2016	17,814	11,724		

Nashville State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 15,828	$ 15,185		$ 13
2008	17,657	16,370		85
2009	19,900	15,619		70
2010	24,984	14,585		85
2011	30,011	16,451		85
2012	30,181	13,965		73
2013	30,199	14,592		73
2014	28,533	15,861		73
2015	30,694	16,936		73
2016	29,616	17,726		65

Roane State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 13,510	$ 17,892		$ 330
2008	14,478	18,976		323
2009	15,366	18,104		323
2010	18,411	16,997		323
2011	20,532	19,098		153
2012	21,580	15,571		153
2013	21,902	15,619		145
2014	21,902	17,384		141
2015	20,819	18,012		142
2016	20,689	18,920		142

Northeast State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 9,191	$ 12,256		$ 212
2008	9,423	13,199		209
2009	10,140	12,678		209
2010	10,798	13,247		209
2011	12,141	13,291		43
2012	13,934	12,069		43
2013	12,654	12,970		41
2014	17,593	13,237		40
2015	18,701	14,594		40
2016	22,271	16,028		40

Southwest Tennessee Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 22,042	$ 38,723		$ 174
2008	30,403	40,131		175
2009	36,691	38,230		389
2010	39,546	40,340		389
2011	42,093	40,168		390
2012	41,966	32,359		357
2013	39,705	31,281		357
2014	36,221	24,669		358
2015	37,400	25,279		363
2016	33,835	26,091		342

Pellissippi State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 20,801	$ 20,657		$ 293
2008	23,917	22,037		375
2009	25,530	20,983		376
2010	32,052	19,105		376
2011	35,757	22,100		179
2012	36,322	18,910		178
2013	44,992	20,887		178
2014	35,680	23,430		171
2015	18,775	25,599		172
2016	35,347	27,292		162

(continued on next page)

(continued from previous page)

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Volunteer State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 14,974	$ 17,995		$ 140
2008	16,565	19,245		139
2009	17,802	18,351		139
2010	22,240	18,944		139
2011	24,326	20,729		17
2012	26,812	15,650		17
2013	25,995	15,577		16
2014	25,256	16,230		
2015	26,223	17,198		
2016	31,988	18,643		

Walters State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2007	$ 14,097	$ 18,249		$ 294
2008	15,810	19,429		289
2009	17,859	19,601		289
2010	21,454	19,180		289
2011	21,821	19,986		102
2012	23,034	16,078		102
2013	23,157	17,227		97
2014	21,112	20,351		94
2015	22,796	20,968		94
2016	22,261	21,879		94

Source: Comptroller of the Treasury,
Division of State and Local Finance
Note: Prior year amounts do not reflect later adjustments made by the institutions.

STATE OF TENNESSEE
STUDENT FEES AND CHARGES
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Schedule 16

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 366	$ 12,087	$ 20,077	$ 3,788	$ 6,580
University of Tennessee- Chattanooga	300	8,544	24,662	3,200	5,900
University of Tennessee- Martin	380	8,783	30,188	3,194	4,570
Austin Peay State University	274	7,995	23,991	3,396	6,315
East Tennessee State University	350	8,526	26,622	3,350	4,602
Middle Tennessee State University	408	8,590	26,590	3,130	5,116
Tennessee State University	178	7,567	20,923	3,451	3,668
Tennessee Technological University	258	8,551	25,207	5,556	3,194
University of Memphis	490	9,497	21,209	3,662	5,491
Chattanooga State Community College		4,249	20,425		
Cleveland State Community College		4,229	20,405		
Columbia State Community College		4,201	20,377		
Dyersburg State Community College		4,229	20,405		
Jackson State Community College		4,215	20,391		
Motlow State Community College		4,237	20,413		
Nashville State Community College		4,155	20,331		
Northeast State Community College		4,241	20,417		
Pellissippi State Community College	30	4,253	20,429		
Roane State Community College		4,233	20,409		
Southwest Tennessee Community College		4,235	20,411		
Volunteer State Community College		4,223	20,399		
Walters State Community College		4,218	20,394		

Source: Comptroller of the Treasury,
Division of State and Local Finance

STATE OF TENNESSEE
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2016
(expressed in thousands)

Schedule 17

Institution	Second Program Bonds	Commercial Paper	Total Debt
University of Tennessee	$ 790,041	$ 17,648	$ 807,689
Austin Peay State University	89,534	5,705	95,239
East Tennessee State University	127,361	2,390	129,751
Middle Tennessee State University	195,219	14,300	209,519
Tennessee State University	27,182		27,182
Tennessee Technological University	36,600	18,983	55,583
University of Memphis	128,857	5,443	134,300
Chattanooga State Community College	2,397		2,397
Cleveland State Community College	214		214
Columbia State Community College	1,091		1,091
Nashville State Community College	352		352
Northeast State Community College	177		177
Pellissippi State Community College	850		850
Roane State Community College	623		623
Southwest Tennessee Community College	1,469		1,469
Walters State Community College	415	4,481	4,896
	$ 1,402,382	$ 68,950	$ 1,471,332

Source: Comptroller of the Treasury,
Division of State and Local Finance

NATIONAL FEDERATION OF MUNICIPAL ANALYSTS RECOMMENDED DISCLOSURES FOR STATE DEBT

In accordance with the *Recommended Best Practices in Disclosure for state Government General Obligation and Appropriation Debt*, the state makes the following voluntary additional debt disclosures not already presented in the Notes to the Financial statements.

1. General Disclosure Items

A. The state is committed to complying with U.S. Securities and Exchange Commission Rule 15c2-12(b)(5) as it relates to continuing disclosure undertakings and believes that it has complied with the rule in all material aspects except as acknowledged. The state has acknowledged the following material events with notices to the Municipal Securities Rulemaking Board.
   1. The state filed audited financial statements for the fiscal years ended June 30, 2009 and June 30, 2010 later than the time prescribed by previous continuing disclosure undertakings, as a result of the implementation of new accounting software
   2. The state failed to timely file notice with respect to the 2010 recalibration of the state's credit rating by Fitch

B. The state is considered to provide strong systemic support for counties and cities during times of extreme stress. If counties or cities are undergoing severe monetary stress, they have the option of applying for a loan from the state Comptroller, however, an amendment to state statutes specified that the state would no longer guarantee repayment of such loans issued after the 2014 legislative session. Furthermore, all cities, counties, and metropolitan governments having issued debt pursuant to the Local Government Public Obligations Act are now subject to oversight by the Office of Comptroller of the Treasury to adequately manage their respective budgets and debt service obligations. state statute does not specifically authorize local governments to file for bankruptcy.

C. Relative to other direct subsidy debt:
   1. The state has been subject to having the direct subsidy reimbursements, from the federal government, related to the Series 2010 Qualified School Construction Bonds (QSCBs) issuance offset by amounts due to the federal government. In general, the subsidy payment has been offset by taxes due from the state, civil penalties and federal sequestration. Other triggers that could result in the loss or reduction of subsidy payments are future federal sequestration or changes in use by the borrower.
   2. The Series 2010 QSCBs issuance shall be subject to redemption prior to their stated maturities, in whole or in part, at any time at the "Make-Whole Redemption Price". The Make-Whole Redemption Price is equal to the greater of (a) 100% of the principal amount of the series to be redeemed; or (b) the sum of the present value of the remaining scheduled payments of principal and interest on the 2010 bonds to be redeemed to the maturity date of such Series 2010 Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010 Bonds are to be redeemed, discounted to the date on which the Series 2010 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30 day months, at the United states Treasury Rate plus 25 basis points (0.25%); plus, in each case, accrued interest on the Series 2010 Bonds to be redeemed to the redemption date.
   3. The Series 2010 QSCBs issuance shall also be subject to extraordinary optional redemption prior to maturity, at the option of the TSSBA, upon the occurrence of an extraordinary event, in whole or in part, on any business day at the "Extraordinary make-Whole Redemption Price" The Extraordinary Make-Whole Redemption Price is equal to the greater of (a) 100% of the principal amount of the Series 2010 bonds to be redeemed; or (b) the sum of the present value of the remaining scheduled payments of principal of and interest on the Series 2010 Bonds to be

redeemed to the maturity date of such Series 2010 Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010 Bonds are to be redeemed, discounted to the date on which the Series 2010 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30 day months, at the United states Treasury Rate (defined above) plus 100 basis points (1.00%); plus, in each case, accrued interest on the Series 2010 Bonds to be redeemed to the redemption date

2. Demographics/Economy

A. The state Constitution allows the state to levy ad valorem taxes on all of the taxable property within the state for the payment of the principal and interest on the state's general obligation indebtedness; however, the state does not currently levy such a tax and has no current intent to do so.

B. The state currently contracts with The University of Tennessee Center for Business and Economic Research to prepare an annual economic report to the Governor containing short-term business cycle-sensitive forecasts as well as longer-term or trend forecasts for the year and to prepare quarterly updates throughout the year. The report "An Economic Report to the Governor of the state of Tennessee" as well as any updated information can be found at: http://cber.bus.utk.edu/tefslist.htm

C. See the chart below for sales and use tax information.

Tennessee Department of Revenue

Sales and Use Tax - Returns Filed and Tax by Classification

Fiscal Year Ended June 30, 2016

(Thousands of U.S. Dollars)

	Returns Filed	Total (%)	Tax Collections	Total (%)
Retail Trade and Services:				
Building Materials	24,519	2.33%	$430,312	5.23%
General Merchandise	32,051	3.05%	$889,297	10.81%
Food Stores	56,516	5.38%	$595,739	7.24%
Auto Dealers and Service Stations	80,932	7.70%	$1,123,746	13.66%
Apparel and Accessory Stores	34,635	3.30%	$238,993	2.90%
Furniture and Home Furnishings	38,491	3.66%	$268,657	3.27%
Eating and Drinking Places	138,142	13.15%	$809,367	9.84%
Miscellaneous Retail Stores	188,068	17.90%	$812,020	9.87%
Services	231,699	22.05%	$983,076	11.95%
All Other:				
Non-Retail, Non-Services	167,665	15.96%	$1,593,227	19.36%
County Clerk	1,133	0.11%	$172,515	2.10%
Consumer Use Tax	3,852	0.37%	$6,138	0.07%
Unclassified	53,028	5.05%	$305,095	3.71%
Total	**1,050,731**	**100.00%**	**$8,228,182**	**100.00%**

3. Financial statements

A. The Tennessee Interagency Cash Flow Committee was created by the General Assembly in 2011 for the purpose of establishing, compiling and maintaining an eighteen month forward rolling cash flow projection. Departmental and programmatic specific forecasting data is used to project cash flow and earnings information relative to various interest-bearing funds and accounts within the state's pooled investment fund. These projections enhance cash flows based on historical data alone, and help the state better plan and position itself for fluctuations in available cash balances. The current Interagency Cash Flow Projection Chart and Graph can be found at http://www.treasury.state.tn.us/lgip/lgipcashflow.html .

ACKNOWLEDGEMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION

Larry B. Martin, Commissioner
Eugene Neubert, Deputy Commissioner, F&A Operations
Mikel J. Corricelli, Chief of Accounts

The Comprehensive Annual Financial Report was prepared by the Administration and Financial Oversight sections of the Division of Accounts with assistance from the following other sections:

Accounts Payable
Asset Management
Cash Management/Clearing Accounts
Cash Management Improvement Act/Credit Cards
Centralized Accounting
Departmental Accounting
General Ledger
Payroll
Policy Development
Supplier File Maintenance

The Department of Finance and Administration would like to extend special appreciation to all fiscal and accounting personnel throughout the state who contributed the financial information for their agencies.